OMB APPROVAL
OMB Number: 3235-0060
Expires: January 31, 2008
Estimated average burden hours per response: 38

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

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): March 6, 2006

Timberline Resources Corporation

(Exact Name of Registrant as Specified in its Charter)

IDAHO	000-51549	82-0291227
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

36 West 16th Avenue, Spokane, Washington	99203
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(509) 747-5225**

N/A
(Former Name or Former Address if Changed Since Last Report)

Check the appropriate box below if the Form 8K fining is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17CFR230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SEC 873 (11-05) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

See discussion under Item 2.03.

ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS.

See discussion under Item 2.03.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AN OFF BALANCE SHEET ARRANGEMENT OF A REGISTRANT

On March 6, 2006, Timberline Resources Corporation (an Idaho corporation) (the "Registrant", "Company" or "TBLC"), completed its acquisition of all of the outstanding capital stock of Kettle Drilling, Inc. ("Kettle"), a privately held, Idaho corporation for a purchase price of $2,800,000 (comprised of a cash payment of $2,400,000 and two promissory notes in the total principal amount of $400,000) and 5,000,000 shares of convertible preferred stock (the "Acquisition"). In connection with the Acquisition, as of February 23, 2006, the parties entered into a Stock Purchase and Sale Agreement (the "Stock Purchase and Sale Agreement") a copy of which was attached as an exhibit to and the subject of the Registrant's Current Report on Form 8-K filed on March 1, 2006 (the "March 1, 2006 8-K"). The March 1, 2006 Form 8-K is incorporated by reference hereto and made a part hereof. The Acquisition was completed with the issuance of the convertible preferred stock (the "Preferred Stock") to the Kettle Shareholders on March 6, 2006.

Funds for the $2,400,000 cash payment of the purchase price derive from three sources. The Company received a loan in the amount of $400,000 on March 1, 2006 from its Chief Executive Officer, Chairman of the Board and principal shareholder, John Swallow, as detailed in "$400,000 March 1, 2006 Promissory Note" (the Swallow Note".) In addition, Cougar Valley LLC, an affiliate of John Swallow, exercised options to purchase 500,000 shares of the registrant's common stock at $0.40 per share for proceeds to the company of $200,000. The balance of the purchase was funded through the Company's current "best efforts" Private Placement Offering. See "Item 3.02 Unregistered Sales of Equity Securities" below. Proceeds to pay off the loan used to finance the Acquisition are expected to come from the completion of the Private Placement.

Kettle, formerly a closely-held company, provides drilling services to the mining and mineral exploration industries across North America and worldwide. Kettle recorded over $5 million in revenues for 2005 and has been profitable every year since its inception in 1996. Included in the Acquisition, are all of Kettle's assets and liabilities, including existing contracts and account's receivable and payable.

In connection with the March 6, 2006 Acquisition, the following summarized material definitive agreements were executed by the appropriate parties:

1. Amendment to Stock Purchase and Sale Agreement (the "Amendment")

The Amendment was entered into as of March 3, 2006 by and among the Registrant, Kettle Drilling, the two shareholders of Kettle Drilling (the "Kettle Shareholders" or "David Deeds and Margaret Deeds, husband and wife, and/or Doug Kettle") and the six Principal Shareholders of Registrant: John Swallow, Stephen Goss, Tom Gurkowski, Vance Thornsberry, Eric Klepfer and Paul Dircksen (the "Timberline Shareholders"). The Amendment revised the cash component of the purchase price contained in the Stock Purchase and Sale Agreement to allow the Registrant to deliver a cash payment in the amount of $2,400,000 and to issue two promissory notes in the total principal amount of $400,000 to the Kettle Shareholders.

2. $300,000 March 3, 2006 Promissory Note (Exhibit G-1 to the Amendment) (the "Kettle Note")

The Kettle Note was entered into as of March 3, 2006. The terms include the following:

- lender: Davis Kettle
- borrower: Registrant
- principal: $300,000
- annual interest rate: prime plus three percent
- payment: lump sum of interest and principal
- due date: September 1, 2006 (there is no prepayment penalty)

3. *$100,000 March 3, 2006 Promissory Note (Exhibit G-2 to the Amendment) (the "Deeds Note")*

The Deeds Note was entered into as of March 3, 2006. The terms include the following:

- lender: Doug Deeds
- borrower: Registrant
- principal: $100,000
- annual interest rate: prime plus three percent
- payment: lump sum of interest and principal
- due date: September 1, 2006 (there is no prepayment penalty)

4. *$400,000 March 1, 2006 Promissory Note (the "Swallow Note")*

The Swallow Note was entered into on March 1, 2006. The terms include the following:

- lender: John Swallow (the Registrant's Chief Executive Officer, Chairman of the Board, and principal shareholder)
- borrower: Registrant
- principal: $400,000
- annual interest rate: nine percent
- payments: monthly of interest only ($3,000) commencing April 1, 2006
- due date: March 1, 2007 (there is no prepayment penalty)

5. *Registration Rights Agreement (Exhibit C of the Stock Purchase and Sale Agreement, as amended)*

As of March 3, 2006, the Registrant and the Kettle Shareholders (individually and collectively) entered into a Registration Rights Agreement wherein the Kettle Shareholders were granted the right to have their shares of TBLC common stock included in subsequent registration statements filed with the Securities and Exchange Commission (the "Registrable Shares"). The Registrable Shares include the 100,000 shares of TBLC common stock issued Purchase and Sale Agreement to the Kettle Shareholders (75,000 shares – David Deeds; 25,000 shares – Doug Kettle) and the shares of common stock into which the Preferred Stock can be converted. See "Series A Preferred Stock Resolution of Timberline Resources Corporation", below, and the Registrant's Current Report on Form 8-K filed on December 19, 2005 which is incorporated by reference herein.

The Registration Rights Agreement provides for "piggyback registration rights" and "demand registration rights". The piggyback registration rights allow for the Registrable Shares (or any portion thereof) to be included in any registration statement that the Registrant files for its own account or for the account of third parties, subject to certain conditions, limitations and restrictions. The demand registration rights allow the Kettle Shareholders to demand that the Registrant include the Registrable Shares (or any portion thereof) in a Form S-3 registration statement, if and when the Registrant becomes eligible to use said registration form, subject to certain conditions, limitations and restrictions. The Registration Rights are assignable with the prior written consent of TBLC. The expenses related to the filing of any registration statements shall be the responsibility of the Registrant.

6. Employment Agreement (Exhibit D-1 of the Stock Purchase and Sale Agreement, as amended) ("Kettle Employment Agreement")

As of March 3, 2006, Doug Kettle and Kettle Drilling entered into a three year employment agreement. Pursuant to the terms of this agreement, Doug Kettle will function as and perform the customary duties of president and a member of the board of directors of Kettle Drilling. His compensation will include an annual salary of $162,000, fringe benefits including payment of medical and dental insurance coverage premiums of up to $12,000 per year, automobile benefits (encompassing two vehicles), a $1,500 per month non-accountable expense allowance, performance benefits and incentives. Mr. Kettle will not be required to devote more that 15 to 20 hours per week to the business affairs of Kettle Drilling.

7. Employment Agreement (Exhibit D-2 of the Stock Purchase and Sale Agreement, as amended) ("Deeds Employment Agreement")

As of March 3, 2006, David Deeds and Kettle Drilling entered into a three year employment agreement. Pursuant to the terms of this agreement, Doug Kettle will function as and perform the customary duties of vice president and member of the board of directors of Kettle Drilling. His compensation will include an annual salary of $162,000, fringe benefits including payment of medical and dental insurance coverage premiums of up to $12,000 per year, automobile benefits (encompassing two vehicles), a $1,500 per month non-accountable expense allowance, performance benefits and incentives. Mr. Deeds will not be required to devote more that 15 to 20 hours per week to the business affairs of Kettle Drilling.

8. Voting Trust Agreement (Exhibit E of the Stock Purchase and Sale Agreement, as amended)

As of March 3, 2006, the Registrant, the Kettle Shareholders (individually and collectively) and the Timberline Shareholders (individually and collectively) entered into a voting trust agreement that assures the appointment of the Kettle shareholders as advisory directors of the Registrant's Board of Directors and as directors of the Board of Directors of Kettle Drilling. Specifically, pursuant to the terms of this agreement, John Swallow was appointed as attorney and voting trustee of the Timberline Shareholders solely for the purposes of: (a) attending any and all meetings of stockholders of the Registrant and (b) solely with respect to the election of directors of the Registrant at any such meeting, to vote all of the shares of common stock of the Timberline Shareholders, and each of them, for the election of the Kettle Shareholders (or his or their respective designees, if they or either of them are unable or unwilling to serve) as advisory directors of the Registrant. Similarly, pursuant to the terms of this voting trust agreement, David Deeds was appointed as attorney and voting trustee of the Kettle Shareholders solely for the purposes of: (a) attending any and all meetings of stockholders of Kettle Drilling; (b) with respect to the election of directors of Kettle Drilling at such meeting, to vote all of the shares of common stock of the Registrant for the election of the Kettle Shareholders (or his or their respective designees, if they or either of them are unable or unwilling to serve) as a directors Kettle Drilling, in the same manner and with the same effect as if the Registrant were personally present; and (c) with respect to any other matter submitted to the stockholders of Kettle Drilling for approval or consent, including the election of other persons. The voting trust agreement shall terminate at the earlier of ten years or when the Kettle Shareholders do not own any shares of Preferred Stock, or, in the event that all of the Preferred Shares have been converted into the Registrant's common stock, when the Kettle Shareholders own less than 10% of their initial number of the Registrant's common stock after conversion of all the Preferred Stock.

In connection with the March 6, 2006 Acquisition, the February 26, 2006 Resolution of the Registrant's Board of Directors defining the attributes of the Preferred Stock has been attached and incorporated by reference to Stock Purchase and Sale Agreement, as amended, as an additional exhibit:

1. Series A Preferred Stock Resolution of Timberline Resources Corporation (Exhibit B of the Stock Purchase and Sale Agreement, as amended)

On February 26, 2006, the Registrant's Board of Directors adopted a resolution creating a series of Five Million Shares (5,000,000) shares of voting, convertible Preferred Stock designated as Series A Preferred Stock. The Preferred Stock was issued to the Kettle Shareholders as a part of the consideration delivered to them for the Acquisition in the following proportion: 1,250,000 shares to David Deeds and Margaret Deeds, husband and wife, and 3,750,000 shares to Doug Kettle. The relative rights, preferences, privileges and restrictions granted to or imposed upon the Preferred and the holders include:

- preferred dividend equal to $.032 per share; cumulative after December 31, 2006;
- participating on a pro rata basis in any declared common stock dividend on an "as converted to common stock basis";
- voting rights equal to the shares of common stock on an as converted basis;
- liquidation rights, subject to certain event adjustments, of $.55 per share;
- a formula for automatic conversion to common stock upon the occurrence of certain triggering events, currently determined to be at the rate of one share of common for one share of preferred, subject to anti-dilution protection and other possible adjustments;
- automatic redemption triggering provisions requiring the Registrant to purchase the Preferred Stock back (redeem them) from the holders at the liquidation price per share plus any accumulated dividend (the "Preferred Stock Redemption Price"); any Preferred Stock shares that have been converted to common stock are to be purchased are to be purchased back (redeemed) at a per share price determined by calculating trading price over a four calendar period immediately prior to the redemption (the "Common Stock Purchase Price");
- the right to have Kettle Drilling spun-off to the Kettle Shareholders in the event that Registrant cannot pay the Preferred Stock Redemption Purchase Price and/or the Common Stock Purchase Price; and
- Certain preemptive rights regarding new securities the Registrant may offer to third parties.

The creation of the aforementioned Series A Preferred Stock was effected by the March 6, 2006 filing with the Idaho Secretary of State's Office of a "Certificate and Articles of Amendment to Articles of Incorporation of Timberline Resources Corporation". The full text of the amended articles is attached hereto and incorporated by reference as Exhibit 3.4.

In connection with the March 6, 2006 Acquisition, the following other documents have been attached and incorporated by reference to Stock Purchase and Sale Agreement, as amended, as additional exhibits or attachments:

1. *Selling Stockholder Information* (Exhibit A to the Stock Purchase and Sale Agreement, as amended, that contains the names and addresses of the Kettle Shareholders and their Kettle Drilling share ownership positions and percentages)

2. *Form of Opinion of the Registrant's Counsel to the Kettle Shareholders executed on March 3, 2006* (Exhibit F-2 to the Stock Purchase and Sale Agreement, as amended, that addresses the validity and legality of the corporate actions taken by the Registrant in connection with the Acquisition.)

3. *Form of Opinion of the Kettle Shareholders' Counsel to the Registrant executed on March 3, 2006* (Exhibit F-1 to the Stock Purchase and Sale Agreement, as amended, that addresses the validity and legality of the corporate actions taken by Kettle Drilling in connection with the Acquisition.)

4. *Schedule of Exceptions* (Schedule A to Stock Purchase and Sale Agreement, as amended) that contains the exceptions to the warranties and representations made by the Kettle Shareholders and Kettle Drilling in the Stock Purchase and Sale Agreement, as amended.

5. *Schedule of Exceptions* (Schedule B to Stock Purchase and Sale Agreement, as amended) that contains the exceptions to the warranties and representations made by the Registrant and Timberline Shareholders in the Stock Purchase and Sale Agreement, as amended.

The foregoing descriptions of do not purport to be complete and are qualified in their entirety by the terms and provisions of each document filed as exhibits to this Current Report on Form 8-K and incorporated by reference herein.

In addition, the Registrant issued a press release press release announcing the completion of the Acquisition on March 10, 2006 which is attached hereto as Exhibit 99.1 and incorporated by reference herein.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

On December 19, 2006, the Registrant issued 100,000 shares of its common stock to the Kettle Shareholders (75,000 shares – David Deeds; 25,000 shares – Doug Kettle) in consideration for an option to purchase all of their shares of Kettle Drilling which are all of the issued and outstanding shares of Kettle Drilling. See the Registrant's Current Report on Form 8-K filed on December 19, 2005 which is incorporated by reference herein.

On January 18, 2006, the Registrant commenced its "best efforts only" Private Placement of its securities (8,000,000 units at $.55 per unit) for up to $4,400,000, to accredited investors only. Each unit is comprised of one share of common stock and one-half of a warrant; two warrants permit the purchase of an additional share of common stock at $1.00 per share. To date, the following units have been sold as indicated below:

	Investor Name	**Dollars Invested**	**Units**
1)	Hugh L. and Andrea L. Hendrick Trust	$5,500	10,000
2)	Tom L. Lawson, Jr.	$16,500	30,000
3)	James Marchione	$13,750	25,000
4)	Laurence A. Rudnicki	$13,750	25,000
5)	Roger J. Ciapara Trust	$27,500	50,000
6)	Paul and Susan Finney Revocable Trust	$22,000	40,000
7)	John L. Sheldon	$6,600	12,000
8)	Berta Holzinger Trust UTD Berta Holzinger and Linda Hagen, Trustees	$5,500	10,000
9)	Todd Kiesbuy	$15,000	27,272
10)	Gene Higdem	$33,000	60,000
11)	Aaron Robb	$85,000	154,545
12)	Robert E. Johnson	$22,000	40,000
13)	Jeffrey D. Hanna	$27,500	50,000
14)	Barbara E. Heldridge	$55,000	100,000
15)	Michael L. Mooney	$9,900	18,000
16)	Richard D. Hassenplug	$16,500	30,000
17)	Biff Dodson	$11,000	20,000
18)	Bret A. Dirks	$110,000	200,000
19)	Noren Family Trust	$192,500	350,000
20)	William Butcher, Jr.	$16,500	30,000
21)	James E. Kirkham, Jr.	$13,750	25,000
22)	Brian F. O'Shea	$13,750	25,000
23)	Wesley A. Pomeroy	$11,000	20,000
24)	Joseph N. Gerl	$11,000	20,000
25)	Roger A. VanVoorhees	$82,500	150,000
26)	Robert M. Blumen	$22,000	40,000
27)	Walter and Ofelia Holzinger Family Trust	$11,000	20,000
28)	Bruce E. Malcolm	$30,250	55,000
29)	Mountain Gold Exploration, Inc.	$13,750	25,000

Investor Name		Dollars Invested	Units
30)	Thomas K. Mancuso	$5,500	10,000
31)	Eugene E. Arensberg, Jr	$29,700	54,000
32)	Ronald and Nancy Brown	$13,750	25,000
33)	Glen R. Forsch	$5,500	10,000
34)	Peter B. Smith	$16,500	30,000
35)	Sean Rahkimov	$11,000	20,000
36)	Merlin R. and Beverly G. Gilbertson	$11,000	20,000
37)	Robert E. Cell	$22,000	40,000
38)	Tom Robb	$55,000	100,000
39)	Russell L. Abrams	$22,000	40,000
40)	Thomas J. Loucks	$5,500	10,000
41)	Larry Kornze and Lisa Kornze	$5,500	10,000
42)	Dante J. Gallinetti, Trustee	$55,000	100,000
43)	James J. Swab	$68,750	125,000
44)	Robert Heckler and Jane E. Heckler	$22,000	40,000
45)	Sharon F. Detjens	$5,500	10,000
46)	Rosco Eversole IRA NFS FBO Rosco Eversole	$27,500	50,000
47)	Jon Slizza	$12,650	23,000
48)	Joseph L. Trentacosta	$41,250	75,000
49)	Argentaurus Capital Limited	$20,900	38,000
50)	Robert Dumont	$250,000	454,546
51)	Cheryl L. Dumont IRA NFS/FMTC FBO Cheryl L. Dumont	$8,800	16,000
52)	Robert L. Dumont IRA NFS/FMTC FBO Robert L. Dumont	$27,500	50,000
53)	Erin E. Mullen	$11,000	20,000
54)	John G. Mullen	$11,000	20,000
55)	Chris Mullen	$11,000	20,000
56)	Vladimir Spina	$22,000	40,000
57)	Gold Seek LLC	$27,500	50,000
58)	KIT Financial	$33,000	60,000
59)	John A. Swallow* (Roth IRA)	$123,750	225,000
Total Invested as of March 10, 2006:		**$1,896,050**	

* Mr. Swallow is the Registrant's Chief Executive Officer, Chairman of the Board and a principal shareholder.

On March 6, 2006, the Registrant issued 5,000,000 share of the Preferred Stock to the Kettle Shareholders in connection with the Acquisition. 1,250,000 shares were issued to David Deeds and Margaret Deeds, husband and wife, and 3,750,000 shares were issued to Doug Kettle. See Items 1.01, 2.01 and 2.03, above.

On March 10, 2006, the Registrant issued 500,000 shares of its common stock to Cougar Valley LLC (an affiliate of its Chief Executive Officer and Chairman of the Board, John Swallow) for its February 24, 2006 exercise of 250,000 options at $.40 per share and its February 28, 2006 exercise of 250,000 options also at $.40 per share.

The Registrant used $2,000,000 of the proceeds from the Private Placement and the Cougar Valley LLC option exercise in the Acquisition.

All of the unregistered sales of securities referred to above were made in reliance upon the exemptions from registration provided under Section 4(2) of the Securities Act of 1933, as amended, including the regulations and rules promulgated thereunder.

ITEM 5.02 DEPARTURE OF DIRECTORS OR PRINCIPAL OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF PRINCIPAL OFFICERS.

As a result of the Acquisition, Kettle Drilling became a wholly owned subsidiary of the Registrant. Immediately thereafter, the Kettle Shareholders were appointed as officers and directors of Kettle Drilling and advisory directors of the Registrant. Specifically, Doug Kettle was appointed president of Kettle Drilling and David Deeds was appointed its vice president.

Doug Kettle is the president and a director of Kettle Drilling. Prior to the Acquisition on March 6, 2006, he was its president, director and an owner of Kettle Drilling since 1996. He has acquired a number of professional drilling related licenses including: Water Well Driller and Contractor license (Arizona), Water Well Driller license (Idaho and Washington State) and a trainer's license from the Mine Safety Hazard Administration.

There are no family relationships between Mr. Kettle and any other executive officers or directors of the Registrant. There have been no transactions during Registrant's last two fiscal years, or any currently proposed transaction, or series of similar transactions, to which Registrant was or is to be a party, in which the amount involved exceeds $60,000 and in which Mr. Kettle had or will have a direct or direct material interest, except for the Acquisition transactions described above.

David Deeds is the vice president and a director of Kettle Drilling. From 2000 until the Acquisition on March 6, 2006, he was Kettle Drilling's Controller. On January 1, 2005, he also became a member of its board of directors and it corporate secretary. Until 2003, he was also the owner operator of Microledger, Inc. an accounting –bookkeeping services company. He sold this business in 2003. Mr. Deeds has a B. S. Degree in Accounting from the University of Northern Colorado (1976).

There are no family relationships between Mr. Kettle and any other executive officers or directors of the Registrant. There have been no transactions during Registrant's last two fiscal years, or any currently proposed transaction, or series of similar transactions, to which Registrant was or is to be a party, in which the amount involved exceeds $60,000 and in which Mr. Kettle had or will have a direct or direct material interest, except for the Acquisition transactions described above.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Businesses Acquired

The financial statements required to be filed pursuant to Item 9.01(a) of Form 8-K will be filed by amendment as soon as practicable, but in no event later than 71 days after the date this Current Report on Form 8-K is required to be filed.

(b) Pro Forma Financial Information

The pro forma financial information required to be filed pursuant to Item 9.01(b) of Form 8-K will be filed by amendment as soon as practicable, but in no event later than 71 days after the date this Current Report on Form 8-K is required to be filed.

(c) Exhibits

3.4	Timberline Resources Corporation, Articles of Amendment of Articles of Incorporation, March 3, 2006 and February 26, 2006
10.17	Stock Purchase and Sale Agreement by and among Timberline Resources Corporation (an Idaho corporation), the Shareholders of Kettle Drilling, Inc. listed on the Signature Page hereof and the Shareholders of Timberline Resources Corporation listed on the Signature Page hereof dated as of February 23, 2006(1)
10.18	Amended Stock Purchase and Sale Agreement by and among Timberline Resources Corporation (an Idaho corporation), the Shareholders of Kettle Drilling, Inc. listed on the Signature Page hereof and the Shareholders of Timberline Resources Corporation listed on the Signature Page hereof dated as of March 3, 2006
10.19	Promissory Note between Timberline Resources Corporation and John Swallow
10.20	Promissory Note between Timberline Resources Corporation and Douglas Kettle, incorporated by reference to Exhibit 10.18, G-1
10.21	Promissory Note between Timberline Resources Corporation and David Deeds, incorporated by reference to Exhibit 10.18, G-2
10.22	Registration Rights Agreement, incorporated by reference to Exhibit 10.18., C
10.23	Employment Agreement, Douglas Kettle, incorporated by reference to Exhibit 10.18, D-1
10.24	Employment Agreement, David Deeds, incorporated by reference to Exhibit 10.18, D-2
10.25	Voting Trust Agreement, incorporated by reference to Exhibit 10.18, E
99.1	Press Release, March 10, 2006

---

(1) Incorporated by reference to the registrant's Form 8K filed February 23, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

TIMBERLINE RESOURCES CORPORATION
(Registrant)

Date: March 10, 2006

/s/ John Swallow

_____

John Swallow
(Chief Executive Officer, Principal Operating Officer and Chairman of the Board of Directors)

Exhibit 3.4

CERTIFICATE AND ARTICLES OF AMENDMENT TO ARTICLES OF INCORPORATION OF TIMBERLINE RESOURECES CORPORATION

Pursuant to the provisions of Section 30-1-602(3) of the Idaho General Business Corporation Act, the undersigned corporation hereby adopts the following certificate and articles of amendment to its articles of incorporation.

1. The name of the corporation is Timberline Resources Corporation (hereinafter referred to as the "Corporation").

2. Pursuant to the authority conferred upon the board of directors of the Corporation (the "Board") pursuant to the Corporation's articles of incorporation, as heretofore amended, the Board on February 26, 2006 adopted resolutions authorizing five million shares of preferred stock, designated as Series A Preferred Stock, par value $0.01 per share (the "Series A Stock"), and setting forth the powers, preferences and relative participating, optional and other special rights of the shares of such Series A Stock.

3. The complete text of the resolutions authorizing the Series A Stock and setting forth such powers, preferences and relative participating, optional and other special rights is attached hereto as Exhibit A and is incorporated herein by reference, and together with this certificate and articles of amendment, constitutes an amendment to the articles of incorporation of the Corporation.

4. Such amendment to the existing articles of incorporation of the Corporation was duly adopted and approved by the Board in accordance with the provisions of Section 30-1-602 and Section 30-1-820 of the Idaho General Business Corporation Act.

DATED this 3rd day of March 2006.

TIMBERLINE RESOURCES CORPORATION,
an Idaho corporation

By _____
Stephen Goss,
its president

Exhibit A

SERIES A PREFERRED STOCK RESOLUTION
OF
TIMBERLINE RESOURCES CORPORATION

The following resolutions (the "Resolution") were duly adopted by the Board of Directors of Timberline Resources Corporation (the "Corporation"), an Idaho corporation, at a specially convened meeting of the Board of Directors held on February 26, 2006 at 10 a.m..

RESOLVED, that it is desirable and in the best interests of the Corporation to create a series of preferred stock, hereinafter called the Series A Preferred Stock (the "Series A Stock"), and to authorize 5,000,000 shares of Series A Stock for issuance pursuant to the Articles of Incorporation of the Corporation as heretofore restated and amended (the "Articles of Incorporation"); and be it further

RESOLVED, that the relative rights, preferences, privileges and restrictions granted to or imposed upon the Series A Stock and the holders thereof are as follows:

1. Dividends. The holders of record of Series A Stock (the "Series A Holders") shall be entitled to receive dividends out of funds legally available therefor, when, as and if declared by the Board of Directors of the Corporation (the "Board"), provided that:

(a) *Preferential Dividends*. The Series A Holders shall be entitled to receive preferential dividends (adjusted appropriately for stock splits and the like), of $0.032 per share per year.

(b) *Paid Ratably*. Such preferential dividends shall be paid ratably in proportion to the respective preference amounts of the Series A Holders and in preference and prior to any dividends paid in respect the Common Stock.

(c) *Noncumulative*. Until December 31, 2006, such preferential dividends shall be noncumulative and no right shall accrue to the Series A Holders by reason of the fact that such dividends are not declared in any period. After December 31, 2006, such preferential dividends shall be cumulative, and shall accrue ratably over each fiscal year.

(d) *Additional Dividends*. Any dividends paid in addition to the preferential dividends of the Series A Holders shall be paid ratably to the holders of record of Common Stock (the "Common Holders") and to the Series A Holders in proportion to the number of shares of Series A Stock held by the Series A Holders on an as converted basis pursuant to the Corporation's Articles of Incorporation and this Resolution.

2. Liquidation Preferences.

(a) *Liquidation*. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary:

(i) The Series A Holders shall be entitled to receive a liquidation preference of $0.55 per share of Series A Stock (adjusted appropriately for stock splits and the like) plus

any accumulated and unpaid dividends thereon.

(ii) If the assets to be distributed to the shareholders (the "Assets") are insufficient to permit the payment of such liquidation preference, then all of the Assets shall be distributed ratably among the Series A Holders in proportion to the full liquidation preferences the Series A Holders would otherwise be entitled to receive.

(iii) After payment of such full liquidation preferences, the Common Holders shall be entitled to receive ratably the entire remaining Assets, if any.

(iv) Notwithstanding the foregoing, in the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, any Series A Holder may elect to receive, in lieu of such Series A Holder's liquidation preference, the amount distributable to a Common Holder on an as converted basis.

(b) *Merger or Sale of Assets*. For purposes of this subsection 2, a "liquidation" shall include (i) a merger or consolidation in which the Corporation's outstanding shares are exchanged for other securities, property or cash, or any combination of securities, property or cash, and (ii) a sale of all or substantially all of the assets of the Corporation. Notwithstanding the foregoing, any Series A Holder may elect to receive, in lieu of the liquidation preference, the consideration received by a Common Holder in any such merger, consolidation or sale of assets, on an as converted basis.

3. Conversion. The Series A Holders shall have conversion rights as follows (the "Conversion Rights"):

(a) *Right to Convert; Automatic Conversion*.

(i) Subject to subsection 3(c), each share of Series A Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the offices of the Corporation or any transfer agent for such shares, into such number of fully paid and nonassessable shares of Common Stock determined as set forth below. Each share of Series A Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing $0.40 by the Series A Stock conversion price (the "Series A Conversion Price"), determined as hereafter provided, in effect at the time of conversion. The initial Series A Conversion Price shall be equal to $0.40; provided, however, that the Series A Conversion Price shall be subject to adjustment as set forth in subsection 3(c) below.

(ii) Each share of Series A Stock shall automatically be converted into shares of Common Stock at the Series A Conversion Price immediately upon the earliest to occur of:

(A) The effective date of a registration statement under the Securities Act of 1933, as amended, pursuant to an underwritten offering covering the offer and sale of Common Stock for the account of the Corporation to the public at a price per share (prior to underwriting commissions and expenses) of not less than $5.00 (as appropriately adjusted for stock splits and the like) and with aggregate gross proceeds not less than $10,000,000; or

(B) December 31, 2010.

(b) *Mechanics of Conversion*. Before any Series A Holder shall be entitled to convert the same into shares of Common Stock, he or she shall surrender the certificate or certificates therefor, duly endorsed, at the offices of the Corporation or of any transfer agent for such shares, and shall give written notice by mail, postage prepaid, to the Corporation at its principal corporate offices, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. (A Series A Holder may not effect a transfer of shares pursuant to a conversion unless all applicable restrictions on transfer are satisfied.) The Corporation shall, as soon as practicable thereafter, issue and deliver at such offices to such Series A Holder, or to the nominee or nominees of such Series A Holder, a certificate or certificates for the number of shares of Common Stock to which such Series A Holder shall be entitled as provided above. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the certificate or certificates representing the shares of Series A Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(c) *Conversion Price Adjustments*. The Series A Conversion Price shall be subject to adjustment from time to time as follows:

(i) (A) If the Corporation shall issue any Additional Stock (as defined below) for a consideration per share less than the Series A Conversion Price in effect immediately prior to the issuance of such Additional Stock, then the Series A Conversion Price in effect immediately prior to each such issuance shall (except as otherwise provided in this clause (i)) be the price per share at which such Additional Stock was issued:

(B) No adjustment of the Conversion Price for the Series A Stock shall be made in an amount less than one cent per share, provided that any adjustment that is not required to be made by reason of this sentence shall be carried forward and taken into account in any subsequent adjustment. Except to the limited extent provided for in subsections 3(c)(i)(E)(3), 3(c)(i)(E)(4) and 3(c)(iv), no adjustment of the Series A Conversion Price shall have the effect of increasing the Series A Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board.

(E) In the case of the issuance of options to purchase or rights to subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities (where the shares of Common Stock issuable upon exercise of such options or rights or upon conversion or exchange of

such securities are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 3(c)(i)(C) and 3(c)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights, plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby;

(2) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and the subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 3(c)(i)(C) and 3(c)(i)(D));

(3) In the event of any change in the number of shares of Common Stock deliverable upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Series A Conversion Price in effect at the time shall forthwith be readjusted to such Conversion Price as would have obtained had the adjustment that was made upon the issuance of such options, rights or securities not converted prior to such change, or the options or rights related to such securities not converted prior to such change been made upon the basis of such change, but no further adjustment shall be made for the actual issuance of Common Stock upon the exercise of any such options or rights or the conversion or exchange of such securities;

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Series A Conversion Price shall forthwith be readjusted to such Conversion Price as would have obtained had the adjustment which was made upon the issuance of such options, rights or securities, or options or rights related to such securities, been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities, or upon the

exercise of the options or rights related to such securities.

(ii) "Effective Date" with respect to the Series A Stock means the first date on which any shares of Series A Stock were issued. "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 3(c)(i)(E)) by the Corporation after the Effective Date other than:

(A) Common Stock issued pursuant to a transaction described in subsection 3(c)(iii); or

(B) Up to 297,500 shares of Common Stock issued or issuable to employees, directors or consultants of the Corporation for the purpose of an incentive or under any warrant, stock option, stock purchase or similar plan approved by the Board; or

(C) Common Stock issued or issuable upon conversion of the shares of Series A Stock.

(iii) In the event the Corporation should at any time or from time to time after the Effective Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Series A Conversion Price shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each such share shall be increased in proportion to such increase of outstanding shares determined by taking subsection 3(c)(i)(E) into account.

(iv) If the number of shares of Common Stock outstanding at any time after the Effective Date is decreased by a combination of the outstanding shares of Common Stock, then, as of the record date of such combination, the Series A Conversion Price shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each such share shall be decreased in proportion to such decrease in outstanding shares.

(d) *Other Distributions*. In the event the Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons, assets (excluding cash dividends), or options or rights not referred to in subsection 3(c)(iii), then, in each such case for the purpose of this subsection 3(d), the Series A Holders shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Series A Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

(e) *Recapitalizations*. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Resolution), provision shall be made (in form and substance satisfactory to the holders of 80 percent or more of the Series A Stock then outstanding) so that the Series A Holders shall thereafter be entitled to receive, upon conversion of the Series A Stock, such shares or other securities or property of the Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Resolution with respect to the rights of the Series A Holders after the recapitalization to the end that the provisions of this Resolution (including adjustment of the Series A Conversion Price then in effect and the number of shares that may be acquired upon conversion of shares of Series A Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) *No Impairment*. Except as provided in subsection 5(b), the Corporation will not, by amendment of either this Resolution or its Articles of Incorporation, or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Resolution and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Series A Holders against impairment.

(g) *No Fractional Shares and Certificate as to Adjustments*.

(i) No fractional shares shall be issued upon conversion of shares of Series A Stock. In lieu of fractional shares, the number of shares of Common Stock to be issued shall be rounded to the nearest whole number; provided, however, that such determination shall be made on the basis of the total number of shares of Series A Stock the Series A Holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment of the Series A Conversion Price pursuant to subsection 3(c) of this Resolution, the Corporation, at its expense, shall promptly compute such adjustment in accordance with the terms hereof and prepare and furnish to each Series A Holder a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based. The Corporation shall, upon the written request at any time of any Series A Holder, furnish or cause to be furnished to such Series A Holder a like certificate setting forth (A) such adjustment, (B) the Series A Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such holder's shares of Series A Stock.

(h) *Notices of Record Date*. In the event of any taking by the Corporation of a record of its shareholders for the purpose of determining shareholders who are entitled to receive payment of any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each Series A Holder, at least 20 days prior to the date

specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(i) *Reservation of Common Stock Issuable Upon Conversion*. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Series A Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) *Notices*. Any notice required by the provisions of this section to be given to the Series A Holders shall be deemed to be delivered when deposited in the United States mail, postage prepaid, registered or certified, and addressed to each Series A Holder of record at his address appearing on the stock transfer books of the Corporation.

4. Redemption of Series A Stock and Common Stock.

(a) *Redemption Events*. The Series A Stock of a holder thereof and any Common Stock issued upon the conversion of the Series A Stock (the "Converted Common Stock") of a holder thereof (a "Converted Common Holder") is subject to redemption at the written direction of such holder, at a redemption price equal to (i) in the case of Series A Stock, the liquidation preference set forth in subsection 2(a)(i) of this Resolution (which liquidation preference includes any accrued and unpaid dividends on the Series A Stock) and (ii) in the case of Converted Common Stock, at the average reported price of the Common Stock during the four calendar weeks immediately preceding the date notice of redemption is given pursuant to subsection 4(b) of this Resolution , if any one or more of the following events shall have occurred:

(i) If the Corporation shall not have obtained approval for the Common Stock to be listed and traded on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on or before December 31, 2008;

(ii) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act, the Common Stock is thereafter delisted from such exchange, or if trading in the Common Stock on such exchange is otherwise terminated or suspended;

(iii) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act, the average weekly reported volume of trading in the Common Stock on such exchange during the preceding four calendar weeks is less than 25 percent of the number

of shares of Common Stock into which the outstanding Series A Stock is then convertible;

(iv) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act, the average reported price of the Common Stock on such exchange during the preceding four calendar weeks is less than the liquidation preference of the Series A Stock set forth in subsection 2(a)(i) of this Resolution (which liquidation preference includes any accrued and unpaid dividends on the Series A Stock);

(v) If the Corporation shall become insolvent, make a transfer in fraud to or an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts as they become due;

(vi) If a receiver, custodian, liquidator or trustee shall be applied for by the Corporation or shall be appointed for all or substantially all of the assets of the Corporation, or if any such receiver, custodian, liquidator or trustee shall be appointed in any proceeding brought against the Corporation and such appointment is not contested or is not dismissed or discharged within 60 days after such appointment, or if the Corporation shall acquiesce in such appointment;

(vii) If the Corporation shall file a petition for relief under the federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state thereof, or if the Corporation shall seek to take advantage of any insolvency law;

(viii) If a petition against the Corporation shall be filed commencing an involuntary case under any present or future federal or state bankruptcy or similar law, and such petition shall not be dismissed or discharged within 60 days of filing; or

(ix) If the Corporation shall have failed to honor any of its covenants and indemnity obligations set forth in section 9 of that certain stock purchase and sale agreement, dated February 17, 2006, to which it is a party; or

(x) If the Corporation shall have failed to perform any of its obligations to the other parties thereto under that certain registration rights agreement or that certain voting trust agreement, each dated March __, 2006; or

(xi) If the Corporation shall at be the subject of a civil administrative or criminal proceeding or investigation, or civil suit, predicated on allegations that the Corporation or its controlling persons have violated the registration or antifraud provisions of federal or state securities law, and such proceeding, investigation or suit is not dismissed or terminated without material prejudice to the Corporation or its shareholders within 180 days of filing.

(b) *Notice of Redemption*. Unless waived by the Corporation, notice of redemption shall be given by the Series A Holders or Converted Common Holders requesting redemption (the "Requesting Holders") by mailing a copy of a redemption notice to the Corporation by first

class mail at least 30 days and not more than 60 days prior to the redemption date. The notices of redemption shall be signed and dated by the Requesting Holders, and shall state: the names and addresses of the Requesting Holders; the number of shares of Series A Stock and Converted Common Stock held by each Requesting Holder; a concise statement of the event or events specified in subsection 4(a) of this Resolution on which the redemption is predicated; and the redemption price and a concise statement setting forth the basis on which the redemption price was calculated.

(c) *Payment of Redemption Price*. Upon receipt of the notice of redemption, the Corporation shall promptly (and, in any event, within five business days of its receipt of such notice) notify the Requesting Holders of the time when certificates for the Series A Stock or Converted Common Stock are to be surrendered at the principal offices of the Corporation against payment of the redemption price. Unless waived in writing by the Requesting Holders, the time of payment shall be no later than 30 days from the date the Corporation first received the notice of redemption. Except as provided in subsection 4(d) of this Resolution, the redemption price shall be in paid in lawful currency of the United States against delivery of certificates for the redeemed shares of Series A Stock or Converted Common Stock, duly endorsed by the Requesting Holders for transfer to the Corporation.

(d) *Inability to Pay Redemption Price; Spin Off of Kettle Drilling*. In the event the Corporation fails or is unable for any reason to pay the Requesting Holders the full redemption price of the Series A Stock or Converted Common Stock in cash, then the following provisions shall apply:

(i) The Corporation's failure or inability to pay the full redemption price of the Series A Stock or Converted Common Stock in cash shall thereupon constitute an offer by the Corporation to sell all of the issued and outstanding shares of capital stock of Kettle Drilling, Inc., an Idaho corporation and a wholly-owned subsidiary of the Corporation ("Kettle Drilling") to the Requesting Holders.

(ii) The purchase price of all of the issued and outstanding shares of capital stock of Kettle Drilling (the "Kettle Drilling Purchase Price") shall be determined by multiplying the average reported price of the Common Stock during the four calendar weeks immediately preceding the date notice of redemption is given pursuant to subsection 4(b) of this Resolution by 5,000,000 (being the number of shares of Common Stock into which the Series A Stock is convertible as of the date of this Resolution).

(iii) The Requesting Holders shall thereafter have a period of 60 days within which to evaluate the Corporation's offer and notify the Corporation in writing whether they accept it or reject it. Should they accept the Corporation's offer, they shall pay the Kettle Drilling Purchase Price as follows:

(A) The Requesting Holders shall surrender such number of shares of Series A Stock and Converted Common Stock to the Corporation as are sufficient to satisfy the Kettle Drilling Purchase Price. Such shares shall be valued at their respective redemption prices set forth in subsection 4(a) of this Resolution.

(B) If the value of the shares of Series A Stock and Converted Common

Stock surrendered by the Requesting Holders is less than the Kettle Drilling Purchase Price, then the Requesting Holders shall pay the Corporation an amount equal to the difference between the Kettle Drilling Purchase Price and the value of such surrendered shares. The terms of payment shall be such as may be agreed upon by the Corporation and the Requesting Holders. In the event the Corporation and the Requesting Holders cannot agree upon terms, then the Requesting Holders shall pay the obligation to the Corporation as follows: not less than ten percent (10%) of the purchase price shall be payable in cash upon the closing of the transaction; and the balance of the purchase price shall be evidenced by a full recourse promissory note of standard form having a maturity of not more than five years, with the declining balance bearing interest at a rate equal to the prime rate as published in *The Wall Street Journal* on or most recently prior to the closing date of the transaction. The first monthly installment shall be due and payable on the first of the month next following the date that is one month after the closing date of the transaction. The note shall be subject to prepayment in whole or in part at any time and without penalty. In the event of default in payment of any installment of principal or interest when due and after the expiration of ten days from the date the Corporation gave written notice to the Requesting Holders of such default, the whole sum of principal and interest shall become immediately due and payable at the option of the Corporation. The note shall provide for the payment of attorney fees and costs of suit by the Requesting Holders should any legal action for collection be commenced.

(iv) Should the Requesting Holders accept the Corporation's offer, they and the Corporation shall schedule a closing date for the transaction, which shall be no more than 60 days from the date the Requesting Holders notify the Corporation of their acceptance. In conjunction with such closing, the Requesting Holders and the Corporation agree to use their best efforts to remove the Corporation from all contingent liability in connection with Kettle Drilling, including, but not limited to, guarantees on promissory notes, guarantees relating to bonding, and any other continuing guarantees relating or pertaining to Kettle Drilling and its operations that are binding upon the Corporation. In the event the Requesting Holders and the Corporation are unable to remove the Corporation from all such contingent liability, then the Requesting Holders shall jointly and severally indemnify and hold the Corporation harmless from any claim or cause of action which may arise as a result of any such contingent liability.

5. Voting Rights and Protective Provisions.

(a) *General*. Except as provided below and except as provided by law, the Common Holders and the Series A Holders shall at all times vote as a single class on an as-converted basis. Each Series A Holder shall be entitled to vote the number of shares of Common Stock into which the shares of Series A Stock may then be converted.

(b) *Protective Provisions*. So long as any shares of Series A Stock remain outstanding, the Corporation shall not, without the approval of the holders of 80 percent or more of the outstanding shares of the Series A Stock then outstanding:

(i) amend this Resolution, or amend the Articles of Incorporation or the bylaws

of the Corporation if such action would alter or change the rights, preferences or privileges of the Series A Stock;

(ii) declare or pay any dividends on, or make any distribution of any kind in regard to, the Common Stock;

(iii) create or authorize the creation or increase the authorized amount of any additional class or series of shares of stock, unless the same ranks junior to the Series A Stock as to dividends, redemption and the distribution of assets on the liquidation, dissolution or winding up of this corporation; increase the authorized amount of any additional class or series of shares of stock unless the same ranks junior to the Series A Stock as to dividends, redemption and the distribution of assets on the liquidation, dissolution or winding up of this corporation; or create or authorize any obligation or security convertible into shares of Series A Stock, regardless of whether any such creation, authorization or increase shall be by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise;

(iv) alter or amend the rights, preferences or privileges of the Series A Stock (whether by merger, consolidation, combination, reclassification or otherwise), increase or decrease the authorized number of shares of Series A Stock or Common Stock, or issue additional shares of Series A Stock;

(v) merge or consolidate with or into any other corporation or entity except in connection solely with a change of domicile;

(vi) create, incur, assume or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, or other charge or encumbrance (including the lien or security title of a conditional vendor) of any nature (other than in respect of ad valorem taxes) with a value exceeding $100,000, upon or with respect to the Corporation's or any of its subsidiaries' assets or properties, other than such mortgages, deeds of trust, pledges, liens, security interests, charges and encumbrances in existence as of the date of this Resolution;

(vii) enter into or renew any loan agreement or issue debt securities, in either case where the principal amount of the Corporation's financial obligations evidenced by such agreement or securities exceeds ten percent of the Corporation's prior book value as reasonably determined by the Board.

(viii) increase the number of shares to be reserved for issuance under any incentive, officer, consultant or employee option plan as same exists as of the date of this Resolution;

(ix) redeem or purchase any security issued by the Corporation other than as provided in section 4 of this Resolution.

(xi) merge Kettle Drilling with or into any corporation or entity (including the Corporation) or consolidate Kettle Drilling and the Corporation with or into any corporation or entity

(xi) sell all or substantially all of the assets of the Corporation or any subsidiary of the Corporation; or

(xii) acquire any other corporation by merger, or purchase all or substantially all of the assets of any other company, in either case where the consideration paid by the Corporation exceeds ten percent of the Corporation's prior book value as reasonably determined by the Board consistent with the terms of the acquisition transaction; or

6. Preemptive Right. In the event the Corporation shall offer for sale New Securities (as defined below), each Series A Holder shall be entitled to purchase its pro rata share of the New Securities, on the same terms and conditions and at the same price as that offered to third parties. The pro rata share of a Series A Holder for purposes of this section 6 is the ratio of the number of shares of Common Stock into which the shares of Series A Stock so held are then convertible to the sum of the total number of shares of Common Stock into which all shares of Series A Stock then outstanding are convertible plus the number of shares of Common Stock then outstanding. This preemptive right shall be subject to the following provisions:

(a) "*New Securities*" shall mean any shares of the Corporation's Common Stock or preferred stock (the "Preferred Stock") and rights, options or warrants to purchase such shares of Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible into such shares of Common Stock or Preferred Stock; provided that New Securities does not include:

(i) Common Stock issuable upon conversion of the Preferred Stock;

(ii) securities issued in an underwritten public offering, pursuant to an effective registration statement under the Securities Act of 1933, as amended;

(iii) securities issued pursuant to the acquisition of another corporation by merger, the purchase of all or substantially all of its assets, or other reorganization;

(iv) securities issued to employees, officers or directors of, or consultants to, the Corporation, pursuant to an arrangement approved by the Board, which arrangement is related directly to their services for the Corporation; or

(v) securities issued to effect any stock split or stock dividend by the Corporation.

(b) *Notice*. In the event the Corporation proposes to undertake an issuance of New Securities, it shall give each Series A Holder written notice of its intention, describing the type of New Securities and the price and terms upon which the Corporation proposes to issue the same. Each Series A Holder shall have 30 days from the date of receipt of any such notice to agree to purchase up to its pro rata share of such New Securities for the price and upon the terms specified in the notice by giving written notice to the Corporation and stating therein the quantity of New Securities to be purchased. In the event any Series A Holder elects not to exercise its preemptive

right, it shall so notify the other Series A Holders in writing, and the remaining Series A Holders, or any of them, shall thereafter have the right, exercisable within such 30-day period, to purchase the unexercised portion of such Series A Holder's pro rata share of the New Securities, for the price and upon the terms specified in the notice. The number of shares of the New Securities to be purchased by the remaining Series A Holders under such circumstances shall be determined in accordance with the pro rata share of such electing Series A Holder determined by the ratio of the number of shares of Common Stock into which the shares of Series A Stock of the electing holders are then convertible to the sum of the total number of shares of Common Stock into which all shares of Series A Stock of the electing holders are then convertible.

(c) *Sale*. The Corporation shall have 120 days thereafter to sell the New Securities respecting which the foregoing preemptive rights were not exercised or did not apply, at the price and upon terms no more favorable to the purchasers of such securities than specified in the Corporation's notice. In the event the Corporation has not sold the New Securities within such 120-day period, the Corporation shall not thereafter issue or sell any New Securities without first offering such securities to the Series A Holders in the manner provided above.

(d) *Termination*. All rights under this section 6 of this Resolution shall terminate when the Corporation's Common Stock first becomes approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act.

7. Filing with the Secretary of State. This Resolution, when executed on behalf of the Corporation, shall constitute an amendment to the Corporation's Articles of Incorporation. Once executed, the Corporation shall promptly cause a copy of this Resolution to be filed with the Secretary of State of the State of Idaho as an amendment to its Articles of Incorporation.

DATED: February 26, 2006

Stephen Goss, its president

Exhibit 10.18

AMENDMENT TO STOCK PURCHASE AND SALE AGREEMENT

This Amendment to Stock Purchase and Sale Agreement (the "Amendment") is made and entered into as of March 3, 2006 by and among: Timberline Resources Corporation, an Idaho corporation ("Timberline Resources"); the shareholders of Kettle Drilling, Inc., an Idaho corporation ("Kettle Drilling"), listed on the signature page hereof (collectively referred to as the "Selling Stockholders"); and the shareholders of Timberline Resources listed on the signature page hereof (collectively referred to as the "Timberline Inside Stockholders").

RECITALS:

WHEREAS, Timberline Resources, Kettle Drilling, the Selling Stockholders and the Timberline Inside Stockholders are parties to a Stock Purchase and Sale Agreement dated February 23, 2006 (the "Purchase and Sale Agreement"); and

WHEREAS, Timberline Resources is unable to pay the Selling Stockholders the full cash portion of the purchase price specified in the Purchase and Sale Agreement; and

WHEREAS, the Selling Stockholders are willing to accept promissory notes issued by Timberline Resources in lieu of the cash they are otherwise entitled to receive.

AGREEMENT:

NOW, THEREFORE, the parties hereto agree as follows:

1. **Certain Definitions.** Unless otherwise defined in this Amendment, capitalized terms shall have the same meanings that are ascribed to them in the Purchase and Sale Agreement.

2. **Amendments.**

2.1 Purchase Price of the Kettle Drilling Shares. Section 1.2 of the Purchase and Sale Agreement is hereby amended to read in its entirety as follows:

> 1.2 *Purchase Price of the Kettle Drilling Shares*. The aggregate purchase price of the Purchased Kettle Drilling Shares (the "Purchase Price") shall be $4,800,000 plus interest earned with respect to the promissory notes specified in subsection 1.2(b) below, which shall be payable to the Selling Stockholders as follows:
>
> (a) $2,400,000 of the Purchase Price shall be payable to the Selling Stockholders at Closing, in cash in immediately available funds. Such amount shall be allocated and paid to each Selling Stockholder according to such Selling Stockholder's ownership percentage of the Kettle Drilling Shares set forth in Exhibit A to this Agreement.

(b) $400,000 of the Purchase Price shall be payable to the Selling Stockholders at Closing by the execution and delivery to the Selling Stockholders of the promissory notes of Timberline Resources in the forms that are annexed hereto as Exhibit G (the "Promissory Notes").

(c) $2,000,000 of the Purchase Price shall be payable either (i) in cash, in immediately available funds, or (ii) if Timberline Resources so elects, at or prior to Closing, by delivery of shares of Series A Preferred Stock of Timberline Resources (the "Series A Stock") having the rights, preferences and limitations that are set forth in the Series A Preferred Stock Resolution (the "Resolution") that is annexed to and made a part of this Agreement as Exhibit B. The Series A Stock to be delivered to a Selling Stockholder, if he elects to receive such shares in payment of a portion of the Purchase Price, shall be valued at $0.40 per share, and the number of shares of such stock that shall be deliverable to a Selling Stockholder who elects to receive such shares shall be determined by multiplying 5,000,000 by such Selling Stockholder's ownership percentage of the Kettle Drilling Shares set forth in Exhibit A to this Agreement.

2.2 Closing Deliveries. Subsection 1.4(a) of the Purchase and Sale Agreement is hereby amended to read in its entirety as follows:

(a) At the Closing, Timberline Resources shall deliver each Selling Stockholder (i) a cashiers check or a certified check equal to the Selling Stockholder's allocable share of that portion of the Purchase Price that is payable in cash, (ii) the Promissory Notes, and (iii) if Timberline Resources has elected to issue shares of Series A Stock in payment of a portion of the Purchase Price, by delivery of a certificate or certificates for such shares.

2.3 Exhibit F-1. The form of opinion of Timberline Resources counsel that is annexed to the Purchase and Sale Agreement as Exhibit F-1 is hereby amended as follows:

(a) Numbered paragraph 5 of the opinion is amended to read in its entirety as follows:

5. The Purchase and Sale Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the Promissory Notes are each the legal, valid and binding obligation of Timberline Resources, enforceable against it in accordance with its terms.

(b) Numbered paragraph 6 of the opinion is amended to read in its entirety as follows:

6. The execution, delivery and performance by Timberline Resources of the Purchase and Sale Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the Promissory Notes do not conflict with, or constitute a default, violation or breach of, any applicable law or governmental rule or regulation, or, to our knowledge, any order, injunction or decree of any court of governmental instrumentality applicable to Timberline Resources, or any agreement or other instrument to which Timberline Resources is a party or is subject.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

TIMBERLINE RESOURCES: Timberline Resources Corporation, an Idaho corporation

By: _____
Name: John Swallow
Title: CEO

KETTLE DRILLING: Kettle Drilling, Inc., an Idaho corporation

By: _____
Name: Doug Kettle
Title: President

SELLING STOCKHOLDERS:

_____
Douglas Kettle, a married man dealing in his sole and separate property

_____
_____
David L. Deeds and Margaret E. Deeds, husband and wife, dealing in their community property

TIMBERLINE INSIDE STOCKHOLDERS:

_____
John Swallow

Stephen Goss

Tom Gurkowski

Vance Thornsberry

Eric Klepfer

Paul Dircksen

Schedule A to Stock Purchase and Sale Agreement
(Schedule of Exceptions)

This schedule of exceptions sets forth exceptions to the representations and warranties made by Kettle Drilling and the Selling Stockholders in Section 2 of the Agreement. Unless the context otherwise requires, all capitalized terms used herein shall have the same meanings that are ascribed to them in the Agreement. The Section numbers indicated refer to sections in the Agreement, however the exceptions set forth in this schedule shall apply to any of the representations and warranties made by Kettle Drilling and the Selling Stockholders where appropriate.

Section	Exception
2.4	Kettle Drilling and the Selling Stockholders (and Brenda Kettle) are parties to an Agreement to Redeem Stock and to Amend Option to Purchase Stock, dated June 22, 2004, pursuant to which Kettle Drilling is obligated to pay Brenda Kettle a specified additional sum as further consideration for the redemption of her shares of Kettle Drilling if, in addition to other events specified therein, either Douglas Kettle or David Deeds sold any of their respective shares of Kettle Drilling. Kettle Drilling, the Selling Stockholders and Brenda Kettle have since amended the agreement to terminate Kettle Drilling's obligation to pay Brenda Kettle such additional sum. The Selling Stockholders are also parties to a Shareholders Agreement dated February 20, 2006 that restricts their ability to sell their shares of Kettle Drilling and grants each of them a right of first refusal to purchase the shares of the other in the event one of them seeks to sell their shares or receives a bona fide offer to buy such shares. The Selling Stockholders have waived such provisions in conjunction with the proposed purchase of their shares of Kettle Drilling by Timberline Resources pursuant to the Agreement.
2.5	Kettle Drilling has one subsidiary, World Wide Exploration, S.A. de C.V., which is organized and existing under the laws of Mexico.
2.6	Kettle Drilling has the following liabilities: (a) Liabilities totaling $1,140,270.43, payable in respect of the following items or accounts, and in the following amounts:

Item or Account	Amount
Wells Fargo MC #8103	$ 3,105.02
Wells Fargo VISA #3541	4,039.28
Kubota Credit #7082	6,507.96
Diversified 98 Skytrack #2028	22,740.83
Atlas B20Y #5782	71,459.04

Item or Account	Amount
Atlas Copco B29 Power Pack	14,548.00
CNH Capital-New Holland #7761	24,644.16
Atlas Copco B20APC #	131,697.97
Atlas Copco U8APC #8505-1	201,173.06
Kubota Tractor and RTV Loan #2034	11,092.36
Wells Fargo Loan #0143272 T1000	140,000.00
Mountain West LOC #3529	64,452.59
Mountain West (Hagby) #47004231	26,804.01
Stock Redemption - Brenda Kettle	25,500.00
Borrego Springs #4010	124,920.98
Automobile Loan – Wells BMW	37,871.29
Automobile Loan – Jaguar	80,927.58
Wells Fargo – Cherokee #9001	11,990.03
04 Ford E350 Van Vin #5690	20,028.90
Ford Credit – E350 Van Vin #2840	17,506.14
Ford Credit – 04 F150 #4518	30,407.13
05 Ford Mustand #1048	22,132.39
05 Ford F250 #2577	20,811.49
Ford Credit – 05 F250 #2344	25,910.22
Total	$1,140,270.43

(b) Liabilities of $80,000 for management employee bonuses that were earned as of December 31, 2005 and are payable during the first quarter of 2006;

(c) Liabilities for the repayment of advances made and to be made to the Company by Doug Kettle and David Deeds during the first quarter of 2006 (it being acknowledged that Doug Kettle and David Deeds advanced the Company $180,000 and $75,000, respectively, as of February 10, 2006); and

(d) Liability for workmen's compensation and other insurance premiums, which are reasonably expected to range in amount from $30,000 to $90,000, depending on the results of insurance company audits.

2.7 During the course of its various drilling operations, Kettle Drilling is sometimes informed that one or more permits or municipal licenses necessary to such operations was not been obtained. Kettle Drilling promptly obtains the necessary permits when so apprised. It does not believe that its failure to obtain all of the necessary permits at the outset of any particular drilling operation has had or will have a material adverse effect on its business, properties, prospects, or financial condition.

2.10 Please see Kettle Drilling's and the Selling Stockholders response set forth in Section 2.6, above.

2.12(k) Please see Kettle Drilling's and the Selling Stockholders response set forth in Section 2.4, above.

2.13 Kettle Drilling does not own any patents, trademarks, service marks, trade names, copyrights or licenses. Kettle Drilling is not a party to any confidentiality agreement with its employees, consultants or agents to protect the unauthorized use or dissemination of its trade secret information.

2.19 Please see Kettle Drilling's and the Selling Stockholders response set forth in Section 2.4, above.

Schedule B to Stock Purchase and Sale Agreement
(Schedule of Exceptions)

This schedule of exceptions sets forth exceptions to the representations and warranties made by Timberline Resources and the Timberline Inside Stockholders in Section 3 of the Agreement. Unless the context otherwise requires, all capitalized terms used herein shall have the same meanings that are ascribed to them in the Agreement. The Section numbers indicated refer to sections in the Agreement, however the exceptions set forth in this schedule shall apply to any of the representations and warranties made by Timberline Resources and the Timberline Inside Stockholders where appropriate.

Section	Exception
3.5	*Capitalization*. Timberline does have in effect a number of property agreements. A description of the properties and agreements will be provided. It does not appear that any of these contracts will result in the issuance of additional shares prior to the closing; however, our agreement with Western Goldfields could result in the issuance of 390,000 shares of common stock after closing, if Timberline chooses to exercise, on April 1, 2006, its option to continue with the venture, as follows: 75,000 shares in 2006; 100,000 shares in 2007; and 215,000 shares in 2008. In addition, if Timberline does exercise said option, it is also required to issue to Western Goldfields, between 2006 and 2008, options to purchase 250,000 shares of Timberline's common stock at $.65 per share. Presently, Timberline does not have an intention to exercise said option. Cougar Valley, LLC – controlled by Timberline's CEO – has options for 500,000 shares @.40 expiring 6/7/06. Approximately 250,000 shares ($100,000) of this option will be exercised at or near the close of this transaction.
3.7.	*Contracts or Other Commitments*. As referenced in the Form 10SB filed with the SEC, there are two loans outstanding to Timberline from its CEO John Swallow. One loan is for $125,000 to be paid at 10% per annum convertible into shares at Timberline's option. The second loan is $100,000 to be paid at 10% per annum.

In addition, see the attached "Timberline Resources Property and Agreement Summary" (Attachment 1 To Timberline's Schedule of Exceptions) for listing of the future payments that are due under the various property agreements.

3.11 *Material Liabilities.* See loans from Timberline's CEO (3.7, above). Additionally, Timberline was predominantly an exploration based company and has a substantial tax loss carry-forward (in excess of $3 million) on its books. This is referenced in more detail in the Form 10SB.

3.13 (j) See loans from CEO referenced above in Item 3.07.

3.22 *Broker's or Finder's Fees.* Timberline is undertaking a private placement in connection with raising the funds to complete this transaction. Commissions and/or finder's fee will be paid as described in the offering memorandum. A copy of the offering memorandum has been provided to Kettle management with a final copy of the memorandum to be provided following this agreement.

In connection with this transaction, Mark Hartmann of Wallace was involved in a previous purchase arrangement for Kettle Drilling. The terms of that agreement were not met and subsequently Mr. Hartmann introduced Kettle Drilling to Timberline. Timberline had no previous arrangement or agreement in place with Mr. Hartmann or Kettle. A finder's fee and/or share/option award may or may not be offered to Mr. Hartmann – to be agreed to by both Timberline and Kettle management.

Attachment 1 To Timberline's Schedule of Exceptions

Timberline Resources Corporation – Property and Agreement Summary

Nevada Mineral Agreements:

Olympic Property:

Owner:	Sedi-Met, Inc.	
Agreement Date:	April 15, 2004; amended April 15, 2005	
Payments:	April 15, 2004	$15,000 + 10,000 shares of stock
	March 10, 2005	$20,000
	March 10, 2006	$25,000
	March 10, 2007	$30,000
	March 10, 2008	$35,000
	March 10, 2009 and yearly thereafter	$40,000
Royalty:	3% NSR	
Option to Purchase:	1% NSR prior to 10/09/07 for $500,000	
Work Commitment:	$50,000 prior to 3/09/06, including 5 RC drill holes totaling a minimum of 2,500 feet	
Property:	117 unpatented "OM" claims	
Summary at 10/03/05:	Payments to owner: $35,000 + 10,000 shares of stock Maintenance Payments to BLM in 2004: $6,300 Filing fees to expand claim group from 63 to 117: $6,750 Maintenance payments to BLM in 2005: $14,625 Total Property Expense: $62,675 Maintenance Payment to BLM due 8/31/06: $14,625	

Sun Property:

Owner:	Howard Adams, David Miller	
Agreement Date:	April 28, 2004; amended April 14, 2005	
Payments:	April 28, 2004	10,000 shares + $10,000
	March 30, 2005 and yearly thereafter	$10,000
Royalty:	3% NSR	
Option to Purchase:	$150,000 of work prior to 10/01/06 earns 1% NSR $150,000 cash payment purchases 1% NSR	
Work Commitment:	$50,000 annually (may pay cash in lieu of work)	
Property:	47 unpatented "Sun" claims Maintenance payment due BLM 8/31/06: $5,875	

Downeyville Prospect:

Owner:	Howard Adams and David Miller	
Agreement Date:	April 14, 2005	
Payments:	April 14, 2005	$12,000 + 8,000 shares
	April 1, 2006 and yearly thereafter	$10,000
Royalty:	3% NSR	
Option to Purchase:	$150,000 of work prior to 10/01/08 earns 1% NSR	
	$150,000 cash payment purchases 1% NSR	
Work Commitment:	April 15, 2005 – April 14, 2006	$20,000
	Annually thereafter	$50,000
	(Payment in lieu of work can be made)	
Property:	22 DOW unpatented claims	
	Maintenance payment due BLM 8/31/06: $2,750	

Cedar Mountain Properties (HD, ACE, PAC):

Owner:	Howard Adams, David Miller	
Agreement Date:	April 28, 2004; amended April 14, 2005	
Payments:	April 28, 2004	$12,000 + 10,000 shares
	April 14, 2005	$10,000 + 20,000 shares
	March 30, 2006	$15,000
	March 30, 2007	$20,000
	March 30, 2008 and yearly thereafter	$25,000
Royalty:	3% NSR	
Option to Purchase:	$250,000 in work prior to 10/01/07 earns 1% NSR	
	$150,000 cash payment purchases 1% NSR	
Work Commitment:	$30,000 annually (payment in lieu of work can be made)	
Property:	25 PAC, 23 HD and 17 ACE unpatented claims (65 total)	
	Claim groups can be dropped; payments are reduced	
	$2,500 for each group dropped from the agreement	
	Maintenance payment due BLM 8/31/06: $8,125	

Sanger Mine, Esmeralda County, Nevada:

Owner:	Renegade Exploration, Inc.	
Agreement date:	Letter of Intent dated 8/12/05	
Payments:	$1,000 on execution of the LOI	
	On signing of Mineral Lease	$5,000 and 10,000 shares
	1st anniversary of Mineral Lease	$ 5,000
	2nd anniversary of Mineral Lease	$10,000
	3rd anniversary and annually thereafter	$25,000
Royalty:	1% NSR	
Option to Purchase:	1% NSR royalty can be purchased for $500,000	
Property:	S-1-8 and S-11 unpatented claims	
Maintenance fee due BLM	August 31, 2006	$1,125

Montana Cu-Ag Properties, Lincoln and Sanders County, Montana:

Owner:	Timberline Resources
Lessee:	Sterling Mining Company
Agreement Date:	November 26, 2004
Payments:	$65,500 (debt repayment) + $19,600 (cash for expenses) Paid on execution - 11/26/04 June 1, 2007 $5,000 per claim group retained
Royalty:	1% NSR
Work Commitment:	None
Property:	4 groups of unpatented lode mining claims: Lucky Luke (LL); 20 claims – Sanders County Standard Creek (SC) 29 claims – Lincoln County Minton Pass (MCP) 20 claims – Sanders County East Bull (EB) 19 claims – Lincoln County Maintenance fees to BLM paid by Sterling Mining

Spencer Gold Prospect, Clark County, Idaho:

Owner:	State of Idaho/Jim Ebisch, lessee	
Sublease Agreement Date:	February 17, 2004	
Payments:	February 17, 2004	$2,830.30 +100,000shares to vendor
	March 1, 2005	$640.00 (to State of Idaho)
	and yearly thereafter	$640.00 (to State of Idaho)
Royalty:	5% of Gross Receipts (see State Lease for definition)	
Work Commitment:	None; annual report required	
Property:	640 acres – State of Idaho Mineral Lease 9347, dated 1/01/04; anniversary date 3/01 annually Section 16, Township 12 North, Range 37 East, B.M. Clark County, Idaho	

Snowstorm Area Agreements, Shoshone County, Idaho:

Owner:	Timberline Resources Corporation
Property:	Approximately 50 unpatented lode mining claims
Royalty:	4% NSR to Hecla
Payments:	BLM maintenance payment due 8/31/06: $6,250
Work Commitment:	None

Snowshoe Mining Company Agreement:

Owner:	Snowshoe Mining Company, Inc.	
Agreement date:	May 23, 2005	
Payments:	May 23, 2005	$8,000
	May 1, 2006	$8,000
	May 1, 2007	$10,000
	May 1, 2008	$10,000
	May 1, 2009 and yearly thereafter	$15,000
Royalty:	3% NSR to Snowshoe; 1% NSR to Hecla	
Work commitment:	$10,000 annually (fulfilled for next 5 years)	
	No maintenance payments due BLM	

Western Goldfields Agreement:

This agreement covers 16 unpatented lode mining claims; BLM maintenance obligations total $2,000 annually. The agreement provides for certain stock issuances beginning April 1, 2006. Timberline intends to renegotiate this agreement or terminate it prior to 4/1/06.

Hecla Agreement:

The Hecla Agreement provides for a retained 4% NSR royalty on any production from the Snowstorm area of interest. There are no payments or work commitments associated with this agreement.

Exhibit A to Stock Purchase and Sale Agreement

SELLING STOCKHOLDER INFORMATION

Name and Address	Number of Shares Owned	Percentage of Class
Douglas Kettle 5401 East Lancaster Hayden, Idaho 83835	76.5 shares	75 percent
David Deeds 5609 East Lancaster Hayden, Idaho 83835	25.5 shares	25 percent

SERIES A PREFERRED STOCK RESOLUTION
OF
TIMBERLINE RESOURCES CORPORATION

The following resolutions (the "Resolution") were duly adopted by the Board of Directors of Timberline Resources Corporation (the "Corporation"), an Idaho corporation, at a specially convened meeting of the Board of Directors held on February 26, 2006 at 10 a.m..

RESOLVED, that it is desirable and in the best interests of the Corporation to create a series of preferred stock, hereinafter called the Series A Preferred Stock (the "Series A Stock"), and to authorize 5,000,000 shares of Series A Stock for issuance pursuant to the Articles of Incorporation of the Corporation as heretofore restated and amended (the "Articles of Incorporation"); and be it further

RESOLVED, that the relative rights, preferences, privileges and restrictions granted to or imposed upon the Series A Stock and the holders thereof are as follows:

1. Dividends. The holders of record of Series A Stock (the "Series A Holders") shall be entitled to receive dividends out of funds legally available therefor, when, as and if declared by the Board of Directors of the Corporation (the "Board"), provided that:

(a) *Preferential Dividends*. The Series A Holders shall be entitled to receive preferential dividends (adjusted appropriately for stock splits and the like), of $0.032 per share per year.

(b) *Paid Ratably*. Such preferential dividends shall be paid ratably in proportion to the respective preference amounts of the Series A Holders and in preference and prior to any dividends paid in respect the Common Stock.

(c) *Noncumulative*. Until December 31, 2006, such preferential dividends shall be noncumulative and no right shall accrue to the Series A Holders by reason of the fact that such dividends are not declared in any period. After December 31, 2006, such preferential dividends shall be cumulative, and shall accrue ratably over each fiscal year.

(d) *Additional Dividends*. Any dividends paid in addition to the preferential dividends of the Series A Holders shall be paid ratably to the holders of record of Common Stock (the "Common Holders") and to the Series A Holders in proportion to the number of shares of Series A Stock held by the Series A Holders on an as converted basis pursuant to the Corporation's Articles of Incorporation and this Resolution.

2. Liquidation Preferences.

(a) *Liquidation*. In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary:

(i) The Series A Holders shall be entitled to receive a liquidation preference of $0.55 per share of Series A Stock (adjusted appropriately for stock splits and the like) plus any accumulated and unpaid dividends thereon.

(ii) If the assets to be distributed to the shareholders (the "Assets") are insufficient to permit the payment of such liquidation preference, then all of the Assets shall be distributed ratably among the Series A Holders in proportion to the full liquidation preferences the Series A Holders would otherwise be entitled to receive.

(iii) After payment of such full liquidation preferences, the Common Holders shall be entitled to receive ratably the entire remaining Assets, if any.

(iv) Notwithstanding the foregoing, in the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, any Series A Holder may elect to receive, in lieu of such Series A Holder's liquidation preference, the amount distributable to a Common Holder on an as converted basis.

(b) *Merger or Sale of Assets*. For purposes of this subsection 2, a "liquidation" shall include (i) a merger or consolidation in which the Corporation's outstanding shares are exchanged for other securities, property or cash, or any combination of securities, property or cash, and (ii) a sale of all or substantially all of the assets of the Corporation. Notwithstanding the foregoing, any Series A Holder may elect to receive, in lieu of the liquidation preference, the consideration received by a Common Holder in any such merger, consolidation or sale of assets, on an as converted basis.

3. Conversion. The Series A Holders shall have conversion rights as follows (the "Conversion Rights"):

(a) *Right to Convert; Automatic Conversion*.

(i) Subject to subsection 3(c), each share of Series A Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the offices of the Corporation or any transfer agent for such shares, into such number of fully paid and nonassessable shares of Common Stock determined as set forth below. Each share of Series A Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is determined by dividing $0.40 by the Series A Stock conversion price (the "Series A Conversion Price"), determined as hereafter provided, in effect at the time of conversion. The initial Series A Conversion Price shall be equal to $0.40; provided, however, that the Series A Conversion Price shall be subject to adjustment as set forth in subsection 3(c) below.

(ii) Each share of Series A Stock shall automatically be converted into shares of Common Stock at the Series A Conversion Price immediately upon the earliest to occur of:

(A) The effective date of a registration statement under the Securities Act of 1933, as amended, pursuant to an underwritten offering covering the offer and sale of Common Stock for the account of the Corporation to the public at a price per share (prior to underwriting commissions and expenses) of not less than $5.00 (as appropriately adjusted for stock splits and the like) and with aggregate gross

proceeds not less than $10,000,000; or

(B) December 31, 2010.

(b) *Mechanics of Conversion*. Before any Series A Holder shall be entitled to convert the same into shares of Common Stock, he or she shall surrender the certificate or certificates therefor, duly endorsed, at the offices of the Corporation or of any transfer agent for such shares, and shall give written notice by mail, postage prepaid, to the Corporation at its principal corporate offices, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. (A Series A Holder may not effect a transfer of shares pursuant to a conversion unless all applicable restrictions on transfer are satisfied.) The Corporation shall, as soon as practicable thereafter, issue and deliver at such offices to such Series A Holder, or to the nominee or nominees of such Series A Holder, a certificate or certificates for the number of shares of Common Stock to which such Series A Holder shall be entitled as provided above. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the certificate or certificates representing the shares of Series A Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(c) *Conversion Price Adjustments*. The Series A Conversion Price shall be subject to adjustment from time to time as follows:

(i) (A) If the Corporation shall issue any Additional Stock (as defined below) for a consideration per share less than the Series A Conversion Price in effect immediately prior to the issuance of such Additional Stock, then the Series A Conversion Price in effect immediately prior to each such issuance shall (except as otherwise provided in this clause (i)) be the price per share at which such Additional Stock was issued:

(B) No adjustment of the Conversion Price for the Series A Stock shall be made in an amount less than one cent per share, provided that any adjustment that is not required to be made by reason of this sentence shall be carried forward and taken into account in any subsequent adjustment. Except to the limited extent provided for in subsections 3(c)(i)(E)(3), 3(c)(i)(E)(4) and 3(c)(iv), no adjustment of the Series A Conversion Price shall have the effect of increasing the Series A Conversion Price above the Conversion Price in effect immediately prior to such adjustment.

(C) In the case of the issuance of Common Stock for cash, the consideration shall be deemed to be the amount of cash paid therefor before deducting any reasonable discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(D) In the case of the issuance of Common Stock for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Board.

(E) In the case of the issuance of options to purchase or rights to

subscribe for Common Stock, securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities (where the shares of Common Stock issuable upon exercise of such options or rights or upon conversion or exchange of such securities are not excluded from the definition of Additional Stock), the following provisions shall apply:

(1) the aggregate maximum number of shares of Common Stock deliverable upon exercise of such options to purchase or rights to subscribe for Common Stock shall be deemed to have been issued at the time such options or rights were issued and for a consideration equal to the consideration (determined in the manner provided in subsections 3(c)(i)(C) and 3(c)(i)(D)), if any, received by the Corporation upon the issuance of such options or rights, plus the minimum purchase price provided in such options or rights for the Common Stock covered thereby;

(2) the aggregate maximum number of shares of Common Stock deliverable upon conversion of or in exchange for any such convertible or exchangeable securities or upon the exercise of options to purchase or rights to subscribe for such convertible or exchangeable securities and the subsequent conversion or exchange thereof shall be deemed to have been issued at the time such securities were issued or such options or rights were issued and for a consideration equal to the consideration, if any, received by the Corporation for any such securities and related options or rights (excluding any cash received on account of accrued interest or accrued dividends), plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange of such securities or the exercise of any related options or rights (the consideration in each case to be determined in the manner provided in subsections 3(c)(i)(C) and 3(c)(i)(D));

(3) In the event of any change in the number of shares of Common Stock deliverable upon exercise of such options or rights or upon conversion of or in exchange for such convertible or exchangeable securities, including, but not limited to, a change resulting from the antidilution provisions thereof, the Series A Conversion Price in effect at the time shall forthwith be readjusted to such Conversion Price as would have obtained had the adjustment that was made upon the issuance of such options, rights or securities not converted prior to such change, or the options or rights related to such securities not converted prior to such change been made upon the basis of such change, but no further adjustment shall be made for the actual issuance of Common Stock upon the exercise of any such options or rights or the conversion or exchange of such securities;

(4) Upon the expiration of any such options or rights, the termination of any such rights to convert or exchange or the expiration of any options or rights related to such convertible or exchangeable securities, the Series A Conversion Price shall forthwith be readjusted to such Conversion

Price as would have obtained had the adjustment which was made upon the issuance of such options, rights or securities, or options or rights related to such securities, been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options or rights, upon the conversion or exchange of such securities, or upon the exercise of the options or rights related to such securities.

(ii) "Effective Date" with respect to the Series A Stock means the first date on which any shares of Series A Stock were issued. "Additional Stock" shall mean any shares of Common Stock issued (or deemed to have been issued pursuant to subsection 3(c)(i)(E)) by the Corporation after the Effective Date other than:

(A) Common Stock issued pursuant to a transaction described in subsection 3(c)(iii); or

(B) Up to 297,500 shares of Common Stock issued or issuable to employees, directors or consultants of the Corporation for the purpose of an incentive or under any warrant, stock option, stock purchase or similar plan approved by the Board; or

(C) Common Stock issued or issuable upon conversion of the shares of Series A Stock.

(iii) In the event the Corporation should at any time or from time to time after the Effective Date fix a record date for the effectuation of a split or subdivision of the outstanding shares of Common Stock or the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into, or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon conversion or exercise thereof), then, as of such record date (or the date of such dividend distribution, split or subdivision if no record date is fixed), the Series A Conversion Price shall be appropriately decreased so that the number of shares of Common Stock issuable on conversion of each such share shall be increased in proportion to such increase of outstanding shares determined by taking subsection 3(c)(i)(E) into account.

(iv) If the number of shares of Common Stock outstanding at any time after the Effective Date is decreased by a combination of the outstanding shares of Common Stock, then, as of the record date of such combination, the Series A Conversion Price shall be appropriately increased so that the number of shares of Common Stock issuable on conversion of each such share shall be decreased in proportion to such decrease in outstanding shares.

(d) *Other Distributions*. In the event the Corporation shall declare a distribution payable in securities of other persons, evidences of indebtedness issued by this Corporation or other persons,

assets (excluding cash dividends), or options or rights not referred to in subsection 3(c)(iii), then, in each such case for the purpose of this subsection 3(d), the Series A Holders shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Series A Stock are convertible as of the record date fixed for the determination of the holders of Common Stock of the Corporation entitled to receive such distribution.

(e) *Recapitalizations*. If at any time or from time to time there shall be a recapitalization of the Common Stock (other than a subdivision, combination or merger or sale of assets transaction provided for elsewhere in this Resolution), provision shall be made (in form and substance satisfactory to the holders of 80 percent or more of the Series A Stock then outstanding) so that the Series A Holders shall thereafter be entitled to receive, upon conversion of the Series A Stock, such shares or other securities or property of the Corporation or otherwise, to which a holder of Common Stock deliverable upon conversion would have been entitled on such recapitalization. In any such case, appropriate adjustment shall be made in the application of the provisions of this Resolution with respect to the rights of the Series A Holders after the recapitalization to the end that the provisions of this Resolution (including adjustment of the Series A Conversion Price then in effect and the number of shares that may be acquired upon conversion of shares of Series A Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(f) *No Impairment*. Except as provided in subsection 5(b), the Corporation will not, by amendment of either this Resolution or its Articles of Incorporation, or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Resolution and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the Series A Holders against impairment.

(g) *No Fractional Shares and Certificate as to Adjustments*.

(i) No fractional shares shall be issued upon conversion of shares of Series A Stock. In lieu of fractional shares, the number of shares of Common Stock to be issued shall be rounded to the nearest whole number; provided, however, that such determination shall be made on the basis of the total number of shares of Series A Stock the Series A Holder is at the time converting into Common Stock and the number of shares of Common Stock issuable upon such aggregate conversion.

(ii) Upon the occurrence of each adjustment of the Series A Conversion Price pursuant to subsection 3(c) of this Resolution, the Corporation, at its expense, shall promptly compute such adjustment in accordance with the terms hereof and prepare and furnish to each Series A Holder a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based. The Corporation shall, upon the written request at any time of any Series A Holder, furnish or cause to be furnished to such Series A Holder a like certificate setting forth (A) such adjustment, (B) the Series A Conversion Price at the time in effect, and (C) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of such holder's

shares of Series A Stock.

(h) *Notices of Record Date*. In the event of any taking by the Corporation of a record of its shareholders for the purpose of determining shareholders who are entitled to receive payment of any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each Series A Holder, at least 20 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

(i) *Reservation of Common Stock Issuable Upon Conversion*. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of the shares of Series A Stock, such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(j) *Notices*. Any notice required by the provisions of this section to be given to the Series A Holders shall be deemed to be delivered when deposited in the United States mail, postage prepaid, registered or certified, and addressed to each Series A Holder of record at his address appearing on the stock transfer books of the Corporation.

4. Redemption of Series A Stock and Common Stock.

(a) Redemption Events. The Series A Stock of a holder thereof and any Common Stock issued upon the conversion of the Series A Stock (the "Converted Common Stock") of a holder thereof (a "Converted Common Holder") is subject to redemption at the written direction of such holder, at a redemption price equal to (i) in the case of Series A Stock, the liquidation preference set forth in subsection 2(a)(i) of this Resolution (which liquidation preference includes any accrued and unpaid dividends on the Series A Stock) and (ii) in the case of Converted Common Stock, at the average reported price of the Common Stock during the four calendar weeks immediately preceding the date notice of redemption is given pursuant to subsection 4(b) of this Resolution , if any one or more of the following events shall have occurred:

(i) If the Corporation shall not have obtained approval for the Common Stock to be listed and traded on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on or before December 31, 2008;

(ii) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange

Act, the Common Stock is thereafter delisted from such exchange, or if trading in the Common Stock on such exchange is otherwise terminated or suspended;

(iii) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act, the average weekly reported volume of trading in the Common Stock on such exchange during the preceding four calendar weeks is less than 25 percent of the number of shares of Common Stock into which the outstanding Series A Stock is then convertible;

(iv) If, after having been approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act, the average reported price of the Common Stock on such exchange during the preceding four calendar weeks is less than the liquidation preference of the Series A Stock set forth in subsection 2(a)(i) of this Resolution (which liquidation preference includes any accrued and unpaid dividends on the Series A Stock);

(v) If the Corporation shall become insolvent, make a transfer in fraud to or an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts as they become due;

(vi) If a receiver, custodian, liquidator or trustee shall be applied for by the Corporation or shall be appointed for all or substantially all of the assets of the Corporation, or if any such receiver, custodian, liquidator or trustee shall be appointed in any proceeding brought against the Corporation and such appointment is not contested or is not dismissed or discharged within 60 days after such appointment, or if the Corporation shall acquiesce in such appointment;

(vii) If the Corporation shall file a petition for relief under the federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state thereof, or if the Corporation shall seek to take advantage of any insolvency law;

(viii) If a petition against the Corporation shall be filed commencing an involuntary case under any present or future federal or state bankruptcy or similar law, and such petition shall not be dismissed or discharged within 60 days of filing; or

(ix) If the Corporation shall have failed to honor any of its covenants and indemnity obligations set forth in section 9 of that certain stock purchase and sale agreement, dated February 17, 2006, to which it is a party; or

(x) If the Corporation shall have failed to perform any of its obligations to the other parties thereto under that certain registration rights agreement or that certain voting trust agreement, each dated March __, 2006; or

(xi) If the Corporation shall at be the subject of a civil administrative or criminal proceeding or investigation, or civil suit, predicated on allegations that the

Corporation or its controlling persons have violated the registration or antifraud provisions of federal or state securities law, and such proceeding, investigation or suit is not dismissed or terminated without material prejudice to the Corporation or its shareholders within 180 days of filing.

(b) *Notice of Redemption*. Unless waived by the Corporation, notice of redemption shall be given by the Series A Holders or Converted Common Holders requesting redemption (the "Requesting Holders") by mailing a copy of a redemption notice to the Corporation by first class mail at least 30 days and not more than 60 days prior to the redemption date. The notices of redemption shall be signed and dated by the Requesting Holders, and shall state: the names and addresses of the Requesting Holders; the number of shares of Series A Stock and Converted Common Stock held by each Requesting Holder; a concise statement of the event or events specified in subsection 4(a) of this Resolution on which the redemption is predicated; and the redemption price and a concise statement setting forth the basis on which the redemption price was calculated.

(c) *Payment of Redemption Price*. Upon receipt of the notice of redemption, the Corporation shall promptly (and, in any event, within five business days of its receipt of such notice) notify the Requesting Holders of the time when certificates for the Series A Stock or Converted Common Stock are to be surrendered at the principal offices of the Corporation against payment of the redemption price. Unless waived in writing by the Requesting Holders, the time of payment shall be no later than 30 days from the date the Corporation first received the notice of redemption. Except as provided in subsection 4(d) of this Resolution, the redemption price shall be in paid in lawful currency of the United States against delivery of certificates for the redeemed shares of Series A Stock or Converted Common Stock, duly endorsed by the Requesting Holders for transfer to the Corporation.

(d) *Inability to Pay Redemption Price; Spin Off of Kettle Drilling*. In the event the Corporation fails or is unable for any reason to pay the Requesting Holders the full redemption price of the Series A Stock or Converted Common Stock in cash, then the following provisions shall apply:

(i) The Corporation's failure or inability to pay the full redemption price of the Series A Stock or Converted Common Stock in cash shall thereupon constitute an offer by the Corporation to sell all of the issued and outstanding shares of capital stock of Kettle Drilling, Inc., an Idaho corporation and a wholly-owned subsidiary of the Corporation ("Kettle Drilling") to the Requesting Holders.

(ii) The purchase price of all of the issued and outstanding shares of capital stock of Kettle Drilling (the "Kettle Drilling Purchase Price") shall be determined by multiplying the average reported price of the Common Stock during the four calendar weeks immediately preceding the date notice of redemption is given pursuant to subsection 4(b) of this Resolution by 5,000,000 (being the number of shares of Common Stock into which the Series A Stock is convertible as of the date of this Resolution).

(iii) The Requesting Holders shall thereafter have a period of 60 days within which to evaluate the Corporation's offer and notify the Corporation in writing whether they

accept it or reject it. Should they accept the Corporation's offer, they shall pay the Kettle Drilling Purchase Price as follows:

(A) The Requesting Holders shall surrender such number of shares of Series A Stock and Converted Common Stock to the Corporation as are sufficient to satisfy the Kettle Drilling Purchase Price. Such shares shall be valued at their respective redemption prices set forth in subsection 4(a) of this Resolution.

(B) If the value of the shares of Series A Stock and Converted Common Stock surrendered by the Requesting Holders is less than the Kettle Drilling Purchase Price, then the Requesting Holders shall pay the Corporation an amount equal to the difference between the Kettle Drilling Purchase Price and the value of such surrendered shares. The terms of payment shall be such as may be agreed upon by the Corporation and the Requesting Holders. In the event the Corporation and the Requesting Holders cannot agree upon terms, then the Requesting Holders shall pay the obligation to the Corporation as follows: not less than ten percent (10%) of the purchase price shall be payable in cash upon the closing of the transaction; and the balance of the purchase price shall be evidenced by a full recourse promissory note of standard form having a maturity of not more than five years, with the declining balance bearing interest at a rate equal to the prime rate as published in *The Wall Street Journal* on or most recently prior to the closing date of the transaction. The first monthly installment shall be due and payable on the first of the month next following the date that is one month after the closing date of the transaction. The note shall be subject to prepayment in whole or in part at any time and without penalty. In the event of default in payment of any installment of principal or interest when due and after the expiration of ten days from the date the Corporation gave written notice to the Requesting Holders of such default, the whole sum of principal and interest shall become immediately due and payable at the option of the Corporation. The note shall provide for the payment of attorney fees and costs of suit by the Requesting Holders should any legal action for collection be commenced.

(iv) Should the Requesting Holders accept the Corporation's offer, they and the Corporation shall schedule a closing date for the transaction, which shall be no more than 60 days from the date the Requesting Holders notify the Corporation of their acceptance. In conjunction with such closing, the Requesting Holders and the Corporation agree to use their best efforts to remove the Corporation from all contingent liability in connection with Kettle Drilling, including, but not limited to, guarantees on promissory notes, guarantees relating to bonding, and any other continuing guarantees relating or pertaining to Kettle Drilling and its operations that are binding upon the Corporation. In the event the Requesting Holders and the Corporation are unable to remove the Corporation from all such contingent liability, then the Requesting Holders shall jointly and severally indemnify and hold the Corporation harmless from any claim or cause of action which may arise as a result of any such contingent liability.

5. Voting Rights and Protective Provisions.

(a) *General*. Except as provided below and except as provided by law, the Common Holders and the Series A Holders shall at all times vote as a single class on an as-converted basis. Each Series A Holder shall be entitled to vote the number of shares of Common Stock into which the shares of Series A Stock may then be converted.

(b) *Protective Provisions*. So long as any shares of Series A Stock remain outstanding, the Corporation shall not, without the approval of the holders of 80 percent or more of the outstanding shares of the Series A Stock then outstanding:

(i) amend this Resolution, or amend the Articles of Incorporation or the bylaws of the Corporation if such action would alter or change the rights, preferences or privileges of the Series A Stock;

(ii) declare or pay any dividends on, or make any distribution of any kind in regard to, the Common Stock;

(iii) create or authorize the creation or increase the authorized amount of any additional class or series of shares of stock, unless the same ranks junior to the Series A Stock as to dividends, redemption and the distribution of assets on the liquidation, dissolution or winding up of this corporation; increase the authorized amount of any additional class or series of shares of stock unless the same ranks junior to the Series A Stock as to dividends, redemption and the distribution of assets on the liquidation, dissolution or winding up of this corporation; or create or authorize any obligation or security convertible into shares of Series A Stock, regardless of whether any such creation, authorization or increase shall be by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise;

(iv) alter or amend the rights, preferences or privileges of the Series A Stock (whether by merger, consolidation, combination, reclassification or otherwise), increase or decrease the authorized number of shares of Series A Stock or Common Stock, or issue additional shares of Series A Stock;

(v) merge or consolidate with or into any other corporation or entity except in connection solely with a change of domicile;

(vi) create, incur, assume or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, or other charge or encumbrance (including the lien or security title of a conditional vendor) of any nature (other than in respect of ad valorem taxes) with a value exceeding $100,000, upon or with respect to the Corporation's or any of its subsidiaries' assets or properties, other than such mortgages, deeds of trust, pledges, liens, security interests, charges and encumbrances in existence as of the date of this Resolution;

(vii) enter into or renew any loan agreement or issue debt securities, in either case where the principal amount of the Corporation's financial obligations evidenced by such agreement or securities exceeds ten percent of the Corporation's prior book value as reasonably determined by the Board.

(viii) increase the number of shares to be reserved for issuance under any incentive, officer, consultant or employee option plan as same exists as of the date of this Resolution;

(ix) redeem or purchase any security issued by the Corporation other than as provided in section 4 of this Resolution.

(xi) merge Kettle Drilling with or into any corporation or entity (including the Corporation) or consolidate Kettle Drilling and the Corporation with or into any corporation or entity

(xi) sell all or substantially all of the assets of the Corporation or any subsidiary of the Corporation; or

(xii) acquire any other corporation by merger, or purchase all or substantially all of the assets of any other company, in either case where the consideration paid by the Corporation exceeds ten percent of the Corporation's prior book value as reasonably determined by the Board consistent with the terms of the acquisition transaction; or

6. Preemptive Right. In the event the Corporation shall offer for sale New Securities (as defined below), each Series A Holder shall be entitled to purchase its pro rata share of the New Securities, on the same terms and conditions and at the same price as that offered to third parties. The pro rata share of a Series A Holder for purposes of this section 6 is the ratio of the number of shares of Common Stock into which the shares of Series A Stock so held are then convertible to the sum of the total number of shares of Common Stock into which all shares of Series A Stock then outstanding are convertible plus the number of shares of Common Stock then outstanding. This preemptive right shall be subject to the following provisions:

(a) "*New Securities*" shall mean any shares of the Corporation's Common Stock or preferred stock (the "Preferred Stock") and rights, options or warrants to purchase such shares of Common Stock or Preferred Stock, and securities of any type whatsoever that are, or may become, convertible into such shares of Common Stock or Preferred Stock; provided that New Securities does not include:

(i) Common Stock issuable upon conversion of the Preferred Stock;

(ii) securities issued in an underwritten public offering, pursuant to an effective registration statement under the Securities Act of 1933, as amended;

(iii) securities issued pursuant to the acquisition of another corporation by merger, the purchase of all or substantially all of its assets, or other reorganization;

(iv) securities issued to employees, officers or directors of, or consultants to, the Corporation, pursuant to an arrangement approved by the Board, which arrangement is

related directly to their services for the Corporation; or

(v) securities issued to effect any stock split or stock dividend by the Corporation.

(b) *Notice*. In the event the Corporation proposes to undertake an issuance of New Securities, it shall give each Series A Holder written notice of its intention, describing the type of New Securities and the price and terms upon which the Corporation proposes to issue the same. Each Series A Holder shall have 30 days from the date of receipt of any such notice to agree to purchase up to its pro rata share of such New Securities for the price and upon the terms specified in the notice by giving written notice to the Corporation and stating therein the quantity of New Securities to be purchased. In the event any Series A Holder elects not to exercise its preemptive right, it shall so notify the other Series A Holders in writing, and the remaining Series A Holders, or any of them, shall thereafter have the right, exercisable within such 30-day period, to purchase the unexercised portion of such Series A Holder's pro rata share of the New Securities, for the price and upon the terms specified in the notice. The number of shares of the New Securities to be purchased by the remaining Series A Holders under such circumstances shall be determined in accordance with the pro rata share of such electing Series A Holder determined by the ratio of the number of shares of Common Stock into which the shares of Series A Stock of the electing holders are then convertible to the sum of the total number of shares of Common Stock into which all shares of Series A Stock of the electing holders are then convertible.

(c) *Sale*. The Corporation shall have 120 days thereafter to sell the New Securities respecting which the foregoing preemptive rights were not exercised or did not apply, at the price and upon terms no more favorable to the purchasers of such securities than specified in the Corporation's notice. In the event the Corporation has not sold the New Securities within such 120-day period, the Corporation shall not thereafter issue or sell any New Securities without first offering such securities to the Series A Holders in the manner provided above.

(d) *Termination*. All rights under this section 6 of this Resolution shall terminate when the Corporation's Common Stock first becomes approved for listing and trading on an exchange that is registered as a "national securities exchange" pursuant to Section 6 of the Exchange Act.

7. Filing with the Secretary of State. This Resolution, when executed on behalf of the Corporation, shall constitute an amendment to the Corporation's Articles of Incorporation. Once executed, the Corporation shall promptly cause a copy of this Resolution to be filed with the Secretary of State of the State of Idaho as an amendment to its Articles of Incorporation.

DATED: February 26, 2006

Stephen Goss, its president

Exhibit C to Stock Purchase and Sale Agreement

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (the "Agreement") is made and entered into as of March 3, 2006 by and among Timberline Resources Corporation (“Timberline Resources”), an Idaho corporation, and Douglas Kettle and David Deeds (individually a “Selling Stockholder“ and collectively the “Selling Stockholders”).

RECITALS:

WHEREAS, Timberline Resources, Kettle Drilling, the Selling Stockholders and others are parties to a Stock Purchase and Sale Agreement dated February 23, 2006 (the “Purchase and Sale Agreement"); and

WHEREAS, certain of Timberline Resources’, Kettle Drillings’ and the Selling Stockholders’ obligations under the Purchase and Sale Agreement are conditioned upon the execution and delivery of this Agreement.

AGREEMENT:

NOW, THEREFORE, the parties hereto agree as follows:

1. **Certain Definitions.**

Unless otherwise defined in this Agreement, capitalized terms shall have the meaning set forth in the Purchase and Sale Agreement. As used in this Agreement, the following terms shall have the meanings set forth below:

1.1 *Commission* shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

1.2 *Exchange Act* shall mean the Securities Exchange Act of 1934, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

1.3 *Holder* shall mean the Selling Stockholders, and any holder of Registrable Securities to whom the registration rights conferred by this Agreement have been transferred in compliance with the terms hereof.

1.4 *Other Stockholders* shall mean persons other than Holders who, by virtue of agreements with Timberline Resources, are entitled to include their securities in certain registrations hereunder.

1.5 *Registrable Securities* shall mean (i) the 100,000 shares of Common Stock issued to Kettle Drilling pursuant to the terms of that certain letter of intent dated December 15, 2005 among Timberline Resources, Kettle Drilling and the Selling Stockholders, (ii) the shares of Common Stock issuable upon conversion of the Series A Stock (assuming Series A Stock is issued by Timberline Resources) and (iii) any shares of Common Stock issued as a dividend or other distribution with respect to or in exchange for or in replacement of the shares referenced in (i) or (ii) above, *provided, however*, that Registrable Securities shall not include (A) any shares of Common Stock which have previously been registered or have been sold to the public either pursuant to a registration statement or pursuant to Rule 144, or (B) any shares held by a Holder of Registrable Securities which would be permitted to be sold by such Holder under Rule 144(k) or within the volume limitations of Rule 144 during any 90-day period, as applicable, or (C) any shares held by a Holder of Registrable Securities which have been sold in a private transaction in which the transferor's rights under this Agreement are not assigned.

1.6 The terms *register*, *registered* and *registration* shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

1.7 *Registration Expenses* shall mean all expenses incurred in effecting any registration pursuant to this Agreement, including, without limitation, all registration, qualification, and filing fees, printing expenses, escrow fees, fees and disbursements of counsel for Timberline Resources and one counsel for the Holders, blue sky fees and expenses, and expenses of any special audits incident to or required by any such registration, but shall not include Selling Expenses.

1.8 *Restricted Securities* shall mean any Registrable Securities required to bear the legend set forth in subsection 1.2(b) hereof.

1.9 *Rule 144* shall mean Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that may be promulgated by the Commission.

1.10 *Rule 145* shall mean Rule 145 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any' similar successor rule that may be promulgated by the Commission.

1.11 *Securities Act* shall mean the Securities Act of 1933, as amended, or any similar successor federal statute and the rules and regulations thereunder, all as the same shall be in effect from time to time.

1.12 *Selling Expenses* shall mean all underwriting discounts, selling commissions and stock transfer taxes applicable to the sale of Registrable Securities and fees and disbursements of counsel for any Holder (other than the fees and disbursements of counsel included in Registration Expenses).

2. **Restrictions on Transfer.**

2.1 *Compliance with Securities Act Registration Requirements*. Each Holder agrees not to make any disposition of all or any portion of the Registrable Securities unless and until the transferee has agreed in writing for the benefit of Timberline Resources to be bound by this Section 2, provided and to the extent such Section is then applicable, and:

(a) There is then in effect a registration statement under the Securities Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

(b) Such Holder shall have notified Timberline Resources of the proposed disposition and shall have furnished Timberline Resources with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by Timberline Resources, such Holder shall have furnished Timberline Resources with an opinion of counsel, reasonably satisfactory to Timberline Resources, that such disposition will not require registration of such shares under the Securities Act.

(c) Notwithstanding the provisions of subparagraphs 2.1(a) and 2.1(b) above or any provision to the contrary in the Purchase and Sale Agreement, no such registration statement or opinion of counsel or any consent shall be necessary for a transfer by a Holder to the Holder's family member or trust for the benefit of an individual Holder unless Timberline Resources' transfer agent reasonably requests one, provided the transferee will be subject to the terms of this Section 2 to the same extent as if such transferee were an original Holder hereunder.

2.2 *Restrictive Legend*. Each certificate representing Registrable Securities shall (unless otherwise permitted by the provisions of this Agreement) be stamped or otherwise imprinted with the following legend:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACTS OF THOSE STATES IN WHICH OFFERS AND SALES OF THE SECURITIES WERE MADE. THE SECURITIES WERE ACQUIRED FOR INVESTMENT ONLY AND MAY NOT BE SOLD OR TRANSFERRED FOR VALUE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION UNDER SUCH ACTS OR AN EXEMPTION THEREFROM.

2.3 *Issuance of Unlegended Certificates*. Timberline Resources shall be obligated to reissue unlegended certificates promptly at the request of any Holder thereof if the Holder shall have obtained an opinion of counsel at such Holder's expense (which counsel may be counsel to Timberline Resources) reasonably acceptable to Timberline Resources to the effect that the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend.

2.4 *Blue Sky Legends*. Any legend endorsed on an instrument pursuant to applicable state securities laws and the stop-transfer instructions with respect to such securities shall be removed upon receipt by Timberline Resources of an order of the appropriate blue sky authority authorizing such removal.

3. **Piggy Back Registration Rights.**

3.1 *Notice of Proposed Registration; Best Efforts Inclusion*. If Timberline Resources shall determine to register any of its securities either for its own account or the account of a security holder or holders exercising their respective demand registration rights (other than pursuant to Section 4 hereof), other than a registration relating solely to employee benefit plans, or a registration relating to a corporate reorganization or other transaction on Form S-4, or a registration on any registration form that does not permit secondary sales, then Timberline Resources will:

(a) promptly give to each Holder written notice thereof; and

(b) use its best efforts to include in such registration (and any related qualification under blue sky laws or other compliance), except as set forth in subsection 3.2 below, and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made by any Holder and received by Timberline Resources within fifteen days after the written notice from Timberline Resources described in subsection 3.1(a) above is mailed or delivered by Timberline Resources. Such written request may specify all or a part of a Holder's Registrable Securities.

3.2 *Underwriting.* If the registration of which Timberline Resources gives notice is for a registered public offering involving an underwriting, then Timberline Resources shall so advise the Holders as a part of the written notice given pursuant to subsection 3.1(a). In such event, the right of any Holder to registration pursuant to this Section 3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with Timberline Resources and the Other Stockholders of securities of Timberline Resources with registration rights to participate therein distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the representative of the underwriter or underwriters selected by Timberline Resources.

3.3 *Limitation on Underwritten Shares*. Notwithstanding any other provision of this Section 3, if the representative of the underwriters advises Timberline Resources in writing that marketing factors require a limitation on the number of shares to be underwritten, the representative may (subject to the limitations set forth below) exclude all Registrable Securities from, or limit the number of Registrable Securities to be included in, the registration and underwriting. Timberline Resources shall so advise all holders of securities requesting registration, and the number of shares of securities that are entitled to be included in the registration and underwriting shall be allocated first to Timberline Resources for securities being

sold for its own account and thereafter as set forth in Section 13. If any person does not agree to the terms of any such underwriting, he shall be excluded therefrom by written notice from Timberline Resources or the underwriter. Any Registrable Securities or other securities excluded or withdrawn from such underwriting shall be withdrawn from such registration. If shares are so withdrawn from the registration and if the number of shares of Registrable Securities to be included in such registration was previously reduced as a result of marketing factors, then Timberline Resources shall then offer to all persons who have retained the right to include securities in the registration the right to include additional securities in the registration in an aggregate amount equal to the number of shares so withdrawn, with such shares to be allocated among the persons requesting additional inclusion in accordance with Section 13 hereof.

4. **Demand Registration Rights.** After Timberline Resources has qualified for the use of Form S-3, in addition to the rights contained in Section 3, Holders holding in the aggregate not less than 25 percent of the outstanding Registrable Securities shall have the right to request registration on Form S-3 (such requests shall be in writing and shall state the number of shares of Registrable Securities to be disposed of and the intended methods of disposition of such shares by such Holder or Holders), *provided, however*, that Timberline Resources shall not be obligated to effect any such registration under the following circumstances: (a) if the Holders, together with the holders of any other securities of Timberline Resources entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) on Form S-3 to the public with aggregate proceeds of less than $100,000 or more than $2,000,000; or (b) if the Registrable Securities to be sold constitute less than an aggregate of 20 percent of all the Holders' Registrable Securities; or (c) if Timberline Resources has previously effected any such registration.

5. **Expenses of Registration.** All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Agreement shall be borne by Timberline Resources. All Selling Expenses relating to securities registered under this Agreement shall be borne by the Holders of such securities pro rata on the basis of the number of shares of securities so registered on their behalf, as shall any other expenses in connection with the registration required to be borne by the Holders of such securities.

6. **Registration Procedures.** In the case of each registration effected by Timberline Resources pursuant to this Agreement, Timberline Resources will keep each Holder advised in writing as to the initiation of each registration and as to the completion thereof. Timberline Resources will use its best efforts to:

6.1 *Duration of Effectiveness*. Keep such registration effective for a period of 120 days or until the Holder or Holders have completed the distribution described in the registration statement relating thereto, whichever first occurs; *provided, however*, that (a) such 120-day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of Common Stock (or other securities) of Timberline Resources; and (b) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, such

120-day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities covered by such registration on Form S-3 are sold, but in no event longer than nine months from the effective date of the registration statement.

6.2 *Preparation and Filing of Amendments*. Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement;

6.3 *Copies of Prospectus*. Furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus, as a Holder from time to time may reasonably request;

6.4 *Exchange Listing*. Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by Timberline Resources are then listed;

6.5 *Transfer Agent, Registrar and CUSIP Number*. Provide a transfer agent and registrar for all Registrable Securities registered pursuant to such registration statement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

7. **Indemnification.**

7.1 *Indemnification by Timberline Resources*. Timberline Resources will indemnify each Holder, each of its officers, directors and partners, legal counsel, and accountants and each person controlling such Holder within the meaning of Section 15 of the Securities Act, with respect to which registration, qualification, or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls within the meaning of Section 15 of the Securities Act any underwriter, against all expenses, claims, losses, damages, and liabilities (or actions, proceedings, or settlements in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular, or other document (including any related registration statement, notification, or the like) incident to any such registration, qualification, or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by Timberline Resources of the Securities Act or any rule or regulation thereunder applicable to Timberline Resources and relating to action or inaction required of Timberline Resources in connection with any such registration, qualification, or compliance, and will reimburse each such Holder, each of its officers, directors, partners, legal counsel, and accountants and each person controlling such Holder, each such underwriter, and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending or settling any such claim, loss, damage, liability, or action, provided that Timberline Resources will not be liable in any such case to the extent that any such claim, loss, damage, liability, or expense arises out of or is based on any untrue statement or omission based upon written

information furnished to Timberline Resources by such Holder or underwriter and stated to be for use therein. It is agreed that the indemnity agreement contained in this Section 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the prior written consent of Timberline Resources (which consent shall not be unreasonably withheld).

7.2 *Indemnification by Holders*. Each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration, qualification, or compliance is being effected, indemnify Timberline Resources, each of its directors, officers, partners, legal counsel, and accountants and each underwriter, if any, of Timberline Resources' securities covered by such a registration statement, each person who controls Timberline Resources or such underwriter within the meaning of Section 15 of the Securities Act, each other such Holder and Other Stockholder, and each of their officers, directors, and partners, and each person controlling such Holder or Other Stockholder, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular, or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse Timberline Resources and such Holders, Other Stockholders, directors, officers, partners, legal counsel, and accountants, persons, underwriters, or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability, or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular, or other document in reliance upon and in conformity with written information furnished to Timberline Resources by such Holder and stated to be for use therein provided, however, that the obligations of such Holder hereunder shall not apply to amounts paid in settlement of any such claims, losses, damages, or liabilities (or actions in respect thereof) if such settlement is effected without the prior written consent of such Holder (which consent shall not be unreasonably withheld).

7.3 *Notice of Indemnified Claims*. Each party entitled to indemnification under this Section 7 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at the Indemnified Party’s expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under Section 1, to the extent such failure is not prejudicial. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such

information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

7.4 *Right of Contribution*. If the indemnification provided for in this Section 7 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any loss, liability, claim, damage, or expense referred to therein, then the Indemnifying Party, in lieu of indemnifying such Indemnified Party hereunder, shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

7.5 *Underwriting Agreement Controlling*. Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

8. **Information by Holder.** Each Holder of Registrable Securities shall furnish to Timberline Resources such information regarding such Holder and the distribution proposed by such Holder as Timberline Resources may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification, or compliance referred to in this Section 1.

9. **Limitations on Subsequent Registration Rights.** From and after the date of this Agreement, Timberline Resources shall not, without the prior written consent of a majority in interest of the Holders, enter into any agreement with any holder or prospective holder of any securities of Timberline Resources giving such holder or prospective holder any registration rights the terms of which are more favorable than the registration rights granted to the Holders hereunder.

10. **Rule 144 Reporting.** With a view to making available the benefits of certain rules and regulations of the Commission that may permit the sale of the Restricted Securities to the public without registration, Timberline Resources agrees to use its best efforts to:

10.1 *Current Public Information*. Make and keep public information regarding Timberline Resources available as those terms are understood and defined in Rule 144 under the Securities Act, at all times from and after 90 days following the earlier of (a) the effective date of

Timberline Resources' registration statement on Form 10-SB filed under the Exchange Act or (b) the first registration under the Securities Act filed by Timberline Resources for an offering of its securities to the general public;

10.2 *Periodic Reports*. File with the Commission in a timely manner all reports and other documents required of Timberline Resources under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements;

10.3 *Statements of Compliance*. So long as a Holder owns any Restricted Securities, furnish to the Holder forthwith upon written request (a) a written statement by Timberline Resources as to its compliance with the reporting requirements of Rule 144 (at any time from and after 90 days following the earlier of the effective date of Timberline Resources' registration statement on Form 10-SB filed under the Exchange Act or the first registration under the Securities Act filed by Timberline Resources for an offering of its securities to the general public), (b) a copy of the most recent annual or quarterly report of Timberline Resources, and (c) such other reports and documents so filed as a Holder may reasonably request in availing itself of any rule or regulation of the Commission allowing a Holder to sell any such securities without registration.

11. **Transfer or Assignment of Registration Rights.** The rights to cause Timberline Resources to register securities granted to a Holder by Timberline Resources under this Agreement may be transferred or assigned by a Holder to any transferee or assignee of the Registrable Securities held by such Holder only with the prior written consent of Timberline Resources. The transferee or assignee of such rights shall assume in writing the obligations of such Holder under this Agreement as a condition to any such transfer or assignment.

12. **"Market Stand-Off" Agreement.** If requested by Timberline Resources and an underwriter of Common Stock (or other securities) of Timberline Resources, a Holder shall not sell or otherwise transfer or dispose of any Common Stock (or other securities) of Timberline Resources held by such Holder (other than those included in the registration) during the 180-day period following the effective date of a registration statement of Timberline Resources filed under the Securities Act, *provided* that such agreement shall only apply to the first such registration statement of Timberline Resources that includes securities to be sold on its behalf to the public in an underwritten offering. The obligations described in this Section 12 shall not apply to a registration relating solely to employee benefit plans on Form S-l or Form S-8 or similar forms that may be promulgated in the future, or a registration relating solely to a transaction on Form S-4 or similar forms that may be promulgated in the future. Timberline Resources may impose stop-transfer instructions with respect to the shares of Common Stock (or other securities) subject to the foregoing restriction until the end of such 180-day period.

13. **Allocation of Registration Opportunities.** In any circumstance in which all of the Registrable Securities and other shares of Common Stock of Timberline Resources with registration rights (the "Other Shares") requested to be included in a registration on behalf of the Holders or other selling stockholders cannot be so included as a result of limitations of the aggregate number of shares of Registrable Securities and Other Shares that may be so included, the number of shares of Registrable Securities and Other Shares that may be so included shall be

allocated among the Holders and other selling stockholders requesting inclusion of shares pro rata on the basis of the number of shares of Registrable Securities and Other Shares that would be held by such Holders and other selling stockholders, assuming conversion; *provided, however*, that such allocation shall not operate to reduce the aggregate number of Registrable Securities and Other Shares to be included in such registration, if any Holder or other selling stockholder does not request inclusion of the maximum number of shares of Registrable Securities and Other Shares allocated to him pursuant to the above-described procedure, in which case the remaining portion of his allocation shall be reallocated among those requesting Holders and other selling stockholders whose allocations did not satisfy their requests pro rata on the basis of the number of shares of Registrable Securities and Other Shares which would be held by such Holders and other selling stockholders, assuming conversion, and this procedure shall be repeated until all of the shares of Registrable Securities and Other Shares which may be included in the registration on behalf of the Holders and other selling stockholders have been so allocated. Timberline Resources shall not limit the number of Registrable Securities to be included in a registration pursuant to this Agreement in order (a) to include shares held by stockholders with no registration rights, (b) to include shares of stock issued to employees, officers, directors, or consultants of Timberline Resources, or (c) in the case of registrations under Section 4 hereof, to include in such registration securities registered for Timberline Resources's own account; *provided further* that in the case of a registration under Section 2, the number of shares of Registrable Securities to be included in such registration pursuant to this Agreement shall not be limited without concurrent limitation of the number of Other Shares with similar registration rights to be included in such registration and instead the number of shares and Other Shares to be included in such registration shall be determined based upon the allocation provisions set forth above in this Section 13.

14. **Miscellaneous Provisions.**

14.1 *Entire Agreement*. This Agreement and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

14.2 *Successors and Assigns*. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

14.3 *Governing Law*. This Agreement shall be governed by and construed under the laws of the State of Idaho as applied to agreements among Idaho residents and corporations organized or domiciled in such state that are entered into and are to be performed entirely within Idaho.

14.4 *Arbitration*. Any dispute regarding the interpretation of this Agreement or the performance by any party hereto of their respective obligations shall be submitted to and determined by the decision of a board of arbitration consisting of three members ("Board of Arbitration") selected as hereinafter provided. Timberline Resources shall select an arbitrator and Kettle Drilling and the Selling Stockholders shall select an arbitrator, each of whom shall be a member of the Board of Arbitration who is independent of the parties. A third Board of Arbitration member, independent of the parties, shall be selected by mutual agreement of the other two Board of Arbitration members. If the other two Board of Arbitration members fail to reach agreement on such third member within 20 days after their selection, such third member shall thereafter be selected by the American Arbitration Association upon application made to it for such purpose by any party to the arbitration. The Board of Arbitration shall meet in Spokane, Washington, and shall reach and render a decision in writing (which shall state the reasons for its decisions in writing and shall make such decisions entirely on the basis of the substantive law governing the Agreement and which shall be concurred in by a majority of the members of the Board of Arbitration) with respect to the items in dispute. In connection with rendering its decisions, the Board of Arbitration shall adopt and follow the Commercial Rules of Arbitration of the American Arbitration Association. To the extent practical, decisions of the Board of Arbitration shall be rendered no more than 30 calendar days following commencement of proceedings with respect thereto. The Board of Arbitration shall cause its written decision to be delivered to Timberline Resources, Kettle Drilling and the Selling Stockholders. Any decision made by the Board of Arbitration (either prior to or after the expiration of such 30 calendar day period) shall be final, binding and conclusive on the parties to this Agreement and each party to the arbitration shall be entitled to enforce such decision to the fullest extent permitted by law and entered in any court of competent jurisdiction. The fees and expenses of the Board of Arbitration and the reasonable fees and expenses of legal counsel and consultants of the parties shall be allocated among the parties in the same proportion that the aggregate amount of the disputed items so submitted to the Board of Arbitration that is unsuccessfully submitted by each of them (as finally determined by the Board of Arbitration) bears to the total amount of items so submitted.

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

14.6 *Titles and Subtitles*. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

14.7 *Notices*. Any notices or other communications required or permitted hereunder shall be sufficiently given if sent by registered or certified mail, postage prepaid, by hand or by a reputable nationwide overnight express service, addressed, as follows:

If to Timberline Resources:

Timberline Resources Corporation
36 West 16th Avenue
Spokane, Washington 99203
Attention: John Swallow
Telefacsmile: (509) 747-5250

with a copy to:

Thomas E. Boccieri
561 Schaefer Avenue
Oradell, New Jersey 07649-2517
Telefacsimle: (201) 265-6069

If to the Selling Stockholders:

Douglas Kettle and David Deeds
Kettle Drilling, Inc.
2775 North Howard Street, Suite 2
Coeur d'Alene, Idaho 83815
Attention: David Deeds
Telefacsimile: (208) 664-6311

with a copy to:

Randall & Danskin, P.S.
1500 Bank of America Financial Center
601 West Riverside Avenue, Suite 1500
Spokane, Washington 99201-0653
Attention: Douglas Siddoway
Telefacsimile: (509) 624-2258

14.8 *Expenses*. Each party hereto shall pay its costs and expenses that it incurs with respect to the negotiation, execution, delivery, and performance of this Agreement.

14.9 *Severability*. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

14.10 *Delays or Omissions.* No delay or omission to exercise any applicable right, power or remedy accruing to any Holder shall impair any such right, power or remedy of such Holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default therefore or thereafter

occurring. Any waiver, permit, consent or approval of any kind or character on the part of any Holder of any breach or default under this Agreement or any waiver on the part of any Holder of any applicable provisions or conditions of this Agreement must be made in writing and shall be effective only to the extent specifically set forth in such writing. All applicable remedies either under this Agreement or by law or otherwise afforded to any Holder shall be cumulative and not alternative.

14.11 *Rights; Sevarability.* Unless otherwise expressly provided herein, a Holder's rights hereunder are several rights, not rights jointly held with any of the other respective Holders. In case any provision of the Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Registration Rights Agreement effective as of the day and year first above written.

TIMBERLINE RESOURCES:

Timberline Resources Corporation,
an Idaho corporation

By: _____
Name: John Swallow
Title: CEO

SELLING STOCKHOLDERS:

_____
Douglas Kettle

_____
David Deeds

Exhibit D-1 to Stock Purchase and Sale Agreement

EMPLOYMENT AGREEMENT

The PARTIES to this Employment Agreement are:

1. **KETTLE DRILLING, INC.**, an Idaho corporation, whose address is 2775 South Howard Street, Suite 2, Coeur d'Alene, Idaho 83815 (the "Company"); and

2. **DOUGLAS KETTLE**, whose address is 5401 East Lancaster, Hayden, Idaho 83835 ("Employee").

The TERMS of this Employment Agreement are as follows:

1. **Definitions.**

1.1 *Cause* shall mean any one or more of the following:

(a) Disobedience of orders or directives of the board of directors of the Company or interference with the performance by other employees of their duties, if such disobedience or interference is either (i) of such a nature that no reasonable doubt can exist as to its material adverse effect on the Company, or (ii) continues after specific instructions relating thereto have been given by the board of directors of the Company; or

(b) Material acts of dishonesty, disloyalty or competition related to the business of the Company or its relationships with employees, suppliers, customers or those with whom the Company does business; or

(c) Refusal or failure to furnish significant information concerning the Company's affairs as reasonably requested by the board of directors of the Company, or material falsification of such information; or

(d) Any other action or course of conduct (specifically including, by way of illustration and not limitation, the breach of any material term of this Employment Agreement) which has or reasonably may be expected to have a material adverse effect on the Company or its business or financial position, if such action or course of conduct is either (i) of such a nature that no reasonable doubt can exist as to its material adverse effect on the Company, or (ii) continues after specific instructions relating thereto have been given by or under the authority of the board of directors of the Company; or

(e) Conviction of a crime involving acts of Employee constituting fraud, moral turpitude, intentional dishonesty, or similar conduct.

1.2 *Company* means Kettle Drilling, Inc., an Idaho corporation, and its successors.

1.3 *Disability* means that Employee is unable to actively perform his duties under this Employment Agreement by reason of a medically determinable physical or mental impairment. In the event that there is a dispute as to whether or not Employee is disabled, such dispute shall be submitted to arbitration. The Company and the Employee shall each promptly appoint an arbitrator in writing, and the two arbitrators so appointed shall appoint a third arbitrator. The good faith decision of a majority of the arbitrators shall be binding upon the parties. If, for any reason, after demand, no arbitrator is appointed, the arbitrator or arbitrators shall be appointed by a judge of the District Court of Kootenai County, Idaho upon proper application made by an interested party. The determination by the arbitrators shall be in writing. The arbitrator or arbitrators chosen to resolve a dispute under this section shall all be physicians licensed in the State of Idaho as medical doctors.

1.4 *Effective Date* means March 1, 2006.

1.5 *Notice* shall mean a communication in writing. Any notice shall be deemed to have been given and served as of the date of the personal delivery thereof or, in the event that such notice is mailed, as of the date of receipt thereof.

1.6 *Retirement* shall mean that Employee has reached retirement age and has retired from the employment of the Company, whether such retirement is voluntary or mandatory. The retirement age shall be the age of sixty-five (65) years, or such lesser or greater age as the board of directors of the Company may from time-to-time or at any time establish.

1.7 *Voluntary Resignation* shall mean termination by Employee of his employment with the Company that is effected voluntarily for any reason other than disability or retirement.

2. **Prior Agreements.**

All agreements previously entered into by and between Employee and the Company relating to the employment of Employee are hereby revoked and shall be of no further force or effect, and the provisions of this Employment Agreement alone shall govern the Employee's employment.

3. **Employment.**

The Company hereby employs Employee to perform the duties generally described in this Employment Agreement, and Employee hereby accepts and agrees to such employment on the terms and conditions hereinafter set forth.

3.1 *Term*. Employee's employment shall be deemed to have commenced on the Effective Date and shall continue thereafter for a period of three years unless earlier terminated as herein provided.

3.2 *Duties*. Employee shall have the title of president, shall be a member of the board of directors of the Company, and shall be primarily responsible for all aspects of the Company's business. Despite such titles and responsibility, Employee shall not be obligated to devote more than three to four hours of working time per day to the business of the Company. Further, Employee may engage in other substantial business activities during the term of this Employment Agreement provided such activities do not materially interfere or conflict with the performance of his duties hereunder and do not violate the covenant not to compete set forth in Section 7 hereof.

4. **Compensation.**

As compensation for all services rendered to the Company during the term of this Employment Agreement, in whatever capacity rendered, Employee shall have and receive the following compensation:

4.1 *Salary*. The Company shall pay Employee an annual salary of $162,000 during each full year of his employment pursuant to this Employment Agreement, which salary shall be payable in equal monthly payments of $13,500 on or after the fifth day of each month but before the twentieth day of each month.

4.2 *Fringe Benefits*. The Company shall pay for (or reimburse Employee for the cost of) medical and dental insurance for Employee and Employee's spouse for so long as Employee is employed by the Company. In addition, the Company shall pay for medical and dental insurance for Employee and Employee's spouse following the termination of Employee's employment by the Company (irrespective of whether Employee is then living), unless such termination is for Cause, as provided in Section 8.5 of this Employment Agreement, subject, however, to the following limitations and conditions: (a) the Company shall not be obligated to pay more than $12,000 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 five years plus one additional year for each full year that Employee is employed by the Company. The Company shall also pay Employee a non-accountable expense allowance of $1,500 per month, which Employee shall expend to further the Company's business and its business relationships.

4.3 *Performance Bonuses and Incentive Compensation*. In addition to salary and fringe benefits, Employee shall be entitled to receive performance bonuses and other incentive compensation on the terms and subject to the conditions set forth in Exhibit A to this Employment Agreement.

4.4 *Automobiles*. In addition to salary and fringe benefits, the Company shall provide Employee a Company truck for Employee's use in furtherance of the Company's business. The Company shall also pay (or reimburse Employee for) all reasonable gasoline, maintenance and insurance charges and expenses relating to such vehicle.

4.5 *Ratification of Prior Bonus and Transfer of Title to Other Vehicle*. The Company hereby ratifies its 2004 bonus to Employee to repay the existing indebtedness relating to the following described vehicle, and to transfer title to such vehicle to Employee during calendar year 2006.

Make:	Jaguar
Model:	XKR
Year:	2006
VIN:	SADJA42B263A540B

4.6 *Payment of Tax Liability for Deemed Distributions*. The Company agrees that it will pay or reimburse Employee for any federal or state income taxes that are paid or payable by Employee with respect to any pass-through income that Employee is deemed to have been received (but does not actually receive) during (a) the tax year ended December 31, 2005 and (b) the period commencing January 1, 2006 and ending the effective date of the Company's election not to be taxed as an S corporation for federal income tax purposes.

5. **Vacations.**

Employee shall be entitled to six weeks of paid vacation each calendar year during the term of this Employment Agreement. Should Employee have any earned but unused vacation time at the expiration of the calendar year in which it was earned, he shall be entitled to carry a maximum of six weeks (or such lesser amount as was earned and is unused) into the next calendar year.

6. **Continuation of Salary during Disability.**

In the event becomes disabled and his employment is terminated because of disability, his base monthly compensation shall be continued for a period of time equal to the lesser of (a) the period of disability or (b) six months from the date Employee becomes disabled or his employment was terminated because of disability. The amount of any salary payments shall be reduced by the amount of any disability insurance benefits from policies paid for by the Company or Social Security benefits receivable by Employee that are attributable to his disability. Nothing in this section shall be deemed to compel the Company to acquire insurance to fund its obligations hereunder, but it may, in its discretion, do so.

7. **Covenant Not to Compete.**

Employee, while an employee and following termination, agrees to abide by the following covenant not to compete:

7.1 Employee recognizes that while an employee he may develop or be exposed to unique, valuable and special confidential information, know-how, customer lists and trade secrets that are the property of the Company or its customers. Employee agrees that so long as such confidential information, know-how, customer lists, and trade secrets remain protectable, he will not use or divulge them except as required to meet his

obligations to the Company and will not undertake any employment or other position competitive with the Company wherein the complete fulfillment of the duties of such competitive position would inherently call upon him to reveal, base judgments upon, or otherwise use any such confidential information, know-how, customer lists, or trade secrets.

7.2 Employee agrees that reports, customer lists, customer prospect files, rate and billing information, technical information, and other materials integral to the Company's business used or produced by him or coming into his possession by or through his status as an employee of the Company are the property of the Company and shall be surrendered upon withdrawal without retaining any copies, extracts or notes thereof.

7.3 Employee agrees that while an employee, and for a period of three years following termination of employment, he will not directly or indirectly solicit or attempt to solicit business or sell, write or do business with any customer with whom the Company was doing business as of the date of Employee's termination.

7.4 Employee agrees that while an employee, and for a period of three years following termination of his employment, he will not directly or indirectly engage in a business competitive with that of the Company. Employee further agrees that for a period of three years following termination, he will not induce or attempt to induce any person to leave employment with the Company, or hire or employ any person employed by the Company as of the date of Employee's termination.

7.5 The Company shall have the right to seek and secure an injunction to enforce the provisions of the covenant, but that remedy shall not be exclusive.

8. **Termination.**

This Employment Agreement and Employee's employment hereunder shall continue as provided in Section 3.1 until terminated as hereinafter provided. Notwithstanding the termination of this Employment Agreement, the parties shall be required to carry out any provisions hereof which contemplate performance by them subsequent to such termination, and such termination shall not affect any liability or other obligation which shall have accrued prior to such termination, including, but not limited to, any liability for loss or damage on account of default or any obligation arising under the covenant not to compete. This Employment Agreement shall terminate upon the occurrence of any of the following events:

8.1 *Death of Employee*. This Employment Agreement shall automatically terminate without notice upon the death of Employee. The Company shall pay the monthly base salary of Employee to the estate of Employee for the full month in which such death occurs and for an additional two months thereafter.

8.2 *Retirement and Retirement Benefit*. Employee may retire at any time after Employee has reached retirement age, as herein defined, 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 Employee 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. Employee acknowledges and understands that the Company is under no obligation to devise or implement such a plan. Employee 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.

8.3 *Disability*. This Employment Agreement may be terminated unilaterally by the board of directors of the Company in the event of disability of Employee, as herein defined, which shall have continued for a period of more than three months.

8.4 *Voluntary Resignation.* Employee may voluntarily resign at any time during the term of his employment by the Company, provided that he gives the Company not less than six months written notice of his intention to resign, specifying the effective date of such resignation.

8.5 *Termination of Employment for Cause*. The Company may terminate the employment of Employee for Cause, as herein defined, without notice.

8.6 *Termination of Employment other than for Cause*. The Company may terminate the employment of Employee without Cause upon three months' written notice. If the Company shall terminate the employment of Employee other than for Cause, then it shall (a) pay Employee (or Employee's spouse, should Employee die), a severance benefit equal to three years' salary based on Employee's base monthly salary immediately preceding his termination and (b) pay for (or reimburse Employee for the cost of) such medical and dental insurance as Company is then obligated to pay Employee pursuant to Section 4.3 of this Employment Agreement.

8.7 *Termination of Employment for Breach*. The employment of Employee may be terminated by Employee upon breach of a material term of this Employment Agreement by the Company, provided that Employee shall give the Company not less than sixty days written notice of the intent to terminate for breach, specifying the nature of the breach. In the event that the Company cures such breach prior to the passage of such sixty-day period, Employee's right to terminate for such breach shall cease.

8.8 *Termination upon Cessation of Business*. In the event the Company shall cease the active conduct of its business, the employment of Employee shall be deemed terminated.

9. **Insurance.**

The Company reserves the right to acquire insurance on the life or health of Employee, naming itself as the beneficiary thereof. The Company shall be the sole owner of all such policies taken out by it and may exercise all rights under such policies.

10. **Notices.**

Any notice transmitted by either party to this Employment Agreement to any other party hereto may be served personally upon such other party or mailed to such other party, in the case of the Company, to its registered office; and in the case of Employee, to the address of Employee appearing on the books of the Company or such other address as may be designated in writing by Employee.

11. **Termination of Corporate Office.**

In the event that the employment of Employee hereunder is terminated for any reason and Employee shall hold office as an officer of the Company, such office shall terminate and Employee shall be deemed to have resigned the same automatically and without notice as of the effective date of termination of employment.

12. **General Provisions.**

12.1 *Venue and Governing Law*. This Employment Agreement is made in accordance with and shall be interpreted and governed by the laws of the State of Idaho. If any action or other proceeding shall be brought on or in connection with this Employment Agreement, the venue of such action shall be in Kootenai County, Idaho.

12.2 *Attorney's Fees*. 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 attorney's fees and all costs incurred in connection therewith, including the costs of any appeal.

12.3 *Assignments*. This Employment Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of the rights or obligations hereunder without first obtaining the written consent of the other party. No assignment or assumption of any obligation hereunder shall relieve either party hereto from liability for any obligation hereunder.

12.4 *Amendment*. No amendment, waiver or modification of this Employment Agreement or of any term or condition hereof shall be valid or effective unless in writing and approved by the Company and Employee.

12.5 *Arbitration*. All disputes arising under this Employment Agreement shall be resolved through arbitration. The arbitration of any dispute hereunder shall be conducted in accordance with the Idaho Uniform Arbitration Act. Except as provided at paragraph 12.2, the cost of any such arbitration shall be borne equally by Employee and the Company.

12.6 *Merger Clause*. This Employment Agreement expresses the full and final purpose and agreement of the parties relating to employment of Employee.

12.7 *Severability*. Each provision of this Employment Agreement shall be considered severable and if, for any reason, any provision hereof or remedy herein provided is determined to be invalid, such invalidity shall not impair the operation or effect of the remaining provisions hereof which are valid.

12.8 *Successors*. Except as expressly provided otherwise herein, all of the rights of the parties hereunder shall inure to the benefit of and all obligations of the parties hereunder shall bind the parties' heirs, personal representatives, successors and assigns.

12.9 *Execution of Documents*. Each of the parties agrees to execute all documents necessary to implement the provisions of this Employment Agreement.

12.10 *No Trust Relationship*. Nothing contained in this Employment Agreement and no action taken pursuant to the provisions of this Employment Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and Employee. Any amounts or assets referred to under the provisions of this Employment Agreement shall continue for all purposes to be a part of the general funds of the Company, and no person other than the Company shall by virtue of the provisions of this Employment Agreement have any interest in such funds. To the extent that any person acquires a right to receive payments from the Company under this Employment Agreement, such rights shall be no greater than the right of any unsecured creditor of the Company.

12.11 *Descriptive Headings*. Titles to the paragraphs hereof are for information purposes only.

EXECUTED this 3rd day of March 2006, but effective as of the Effective Date.

COMPANY:

Kettle Drilling, Inc.,
an Idaho corporation

By: _____
_____, its authorized signatory

EMPLOYEE:

_____
Douglas Kettle

Schedule A to Employment Agreement

Bonus and Incentive Compensation

In addition to salary and fringe benefits, the Company agrees to pay Employee the following bonus and incentive compensation:

A. *Revenue-Based Cash Bonus*. The Company shall pay Employee a bonus for the fiscal year ending December 31, 2006 if the Company's gross revenue for such fiscal year is greater than $4,800,000. For each year thereafter during the term of this Agreement, the Company shall pay Employee a bonus if the Company's gross revenue for such fiscal year increased over the Company's gross revenue for the prior fiscal year. The amount of such bonus shall be equal to two percent of any such increase in gross revenue, and shall be paid to Employee within 45 days of the end of the fiscal year in which it was earned.

B. *Net Revenue-Based Cash Bonus*. In addition to the bonus specified in paragraph A, above, the Company shall pay Employee a bonus for the fiscal year ending December 31, 2006 if the Company's net revenue for such fiscal year before deduction of taxes, depreciation and amortization (hereinafter referred to as "Company Net Revenue") is greater than $760,000. For each year thereafter during the term of this Agreement, the Company shall pay Employee a bonus if Company Net Revenue for such fiscal year increased over Company Net Revenue for the prior fiscal year. The amount of such bonus shall be equal to five percent of any such increase in Company Net Revenue, and shall be paid to Employee within 45 days of the end of the fiscal year in which it was earned.

C. *Acquisition-Based Stock Options Bonus*. In addition to the cash bonuses specified in paragraphs A and B, above, the Company shall pay Employee a bonus in the event the Company acquires another hard rock drilling business by merger (provided the Company is the surviving corporation), consolidation, or the purchase of all or substantially all of the assets of such business. The amount of such bonus shall be equal to the greater of (i) five percent of the total assets of the acquired business or (ii) five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition.

The bonus shall be paid to Employee within 45 days of the closing date of the acquisition transaction either by (a) the issuance and delivery to Employee of shares of common stock of the Company or (b) by the issuance and delivery to Employee of ten-year options to purchase common stock of the Company, whichever Employee shall elect to receive.

Should Employee elect to receive shares of common stock of the Company in payment of the bonus, the number of shares issuable and deliverable to him shall be determined by dividing the amount of the bonus (namely, the greater of five percent of the total assets of the acquired business or five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition) by the market value of the Company's common stock as of the end of the fiscal quarter immediately preceding the date the Company publicly

announces the acquisition upon which the bonus is predicated.

Should employee elect to receive stock options in payment of the bonus, such options shall be exercisable at any time during such ten-year period at a price per share equal to the market price of the Company's common stock as of the end of the fiscal quarter immediately preceding the date the Company publicly announces the acquisition upon which the bonus is predicated. The number of stock options to be granted to Employee shall be determined by dividing the amount of the bonus (namely, the greater of five percent of the total assets of the acquired business or five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition) by the value of each option as of as of the date of grant. The value of such option shall be the same value that the Company ascribes to such option as compensation expense, determined in accordance with Financial Accounting Standard 123(R), *Accounting for Stock-Based Compensation*.

Exhibit D-2 to Stock Purchase and Sale Agreement

EMPLOYMENT AGREEMENT

The PARTIES to this Employment Agreement are:

1. **KETTLE DRILLING, INC.**, an Idaho corporation, whose address is 2775 South Howard Street, Suite 2, Coeur d'Alene, Idaho 83815 (the "Company"); and

2. **DAVID DEEDS**, whose address is 5609 East Lancaster, Hayden, Idaho 83835 ("Employee").

The TERMS of this Employment Agreement are as follows:

1. **Definitions.**

1.1 *Cause* shall mean any one or more of the following:

(a) Disobedience of orders or directives of the board of directors of the Company or interference with the performance by other employees of their duties, if such disobedience or interference is either (i) of such a nature that no reasonable doubt can exist as to its material adverse effect on the Company, or (ii) continues after specific instructions relating thereto have been given by the board of directors of the Company; or

(b) Material acts of dishonesty, disloyalty or competition related to the business of the Company or its relationships with employees, suppliers, customers or those with whom the Company does business; or

(c) Refusal or failure to furnish significant information concerning the Company's affairs as reasonably requested by the board of directors of the Company, or material falsification of such information; or

(d) Any other action or course of conduct (specifically including, by way of illustration and not limitation, the breach of any material term of this Employment Agreement) which has or reasonably may be expected to have a material adverse effect on the Company or its business or financial position, if such action or course of conduct is either (i) of such a nature that no reasonable doubt can exist as to its material adverse effect on the Company, or (ii) continues after specific instructions relating thereto have been given by or under the authority of the board of directors of the Company; or

(e) Conviction of a crime involving acts of Employee constituting fraud, moral turpitude, intentional dishonesty, or similar conduct.

1.2 *Company* means Kettle Drilling, Inc., an Idaho corporation, and its successors.

1.3 *Disability* means that Employee is unable to actively perform his duties under this Employment Agreement by reason of a medically determinable physical or mental impairment. In the event that there is a dispute as to whether or not Employee is disabled, such dispute shall be submitted to arbitration. The Company and the Employee shall each promptly appoint an arbitrator in writing, and the two arbitrators so appointed shall appoint a third arbitrator. The good faith decision of a majority of the arbitrators shall be binding upon the parties. If, for any reason, after demand, no arbitrator is appointed, the arbitrator or arbitrators shall be appointed by a judge of the District Court of Kootenai County, Idaho upon proper application made by an interested party. The determination by the arbitrators shall be in writing. The arbitrator or arbitrators chosen to resolve a dispute under this section shall all be physicians licensed in the State of Idaho as medical doctors.

1.4 *Effective Date* means March 1, 2006.

1.5 *Notice* shall mean a communication in writing. Any notice shall be deemed to have been given and served as of the date of the personal delivery thereof or, in the event that such notice is mailed, as of the date of receipt thereof.

1.6 *Retirement* shall mean that Employee has reached retirement age and has retired from the employment of the Company, whether such retirement is voluntary or mandatory. The retirement age shall be the age of sixty-five (65) years, or such lesser or greater age as the board of directors of the Company may from time-to-time or at any time establish.

1.7 *Voluntary Resignation* shall mean termination by Employee of his employment with the Company that is effected voluntarily for any reason other than disability or retirement.

2. **Prior Agreements.**

All agreements previously entered into by and between Employee and the Company relating to the employment of Employee are hereby revoked and shall be of no further force or effect, and the provisions of this Employment Agreement alone shall govern the Employee's employment.

3. **Employment.**

The Company hereby employs Employee to perform the duties generally described in this Employment Agreement, and Employee hereby accepts and agrees to such employment on the terms and conditions hereinafter set forth.

3.1 *Term*. Employee's employment shall be deemed to have commenced on the Effective Date and shall continue thereafter for a period of three years unless earlier terminated as herein provided.

3.2 *Duties*. Employee shall have the title of vice president, shall be a member of the board of directors of the Company, and shall be primarily responsible for all aspects of the Company's business. Despite such titles and responsibility, Employee shall not be obligated to devote more than three to four hours of working time per day to the business of the Company. Further, Employee may engage in other substantial business activities during the term of this Employment Agreement provided such activities do not materially interfere or conflict with the performance of his duties hereunder and do not violate the covenant not to compete set forth in Section 7 hereof.

4. **Compensation.**

As compensation for all services rendered to the Company during the term of this Employment Agreement, in whatever capacity rendered, Employee shall have and receive the following compensation:

4.1 *Salary*. The Company shall pay Employee an annual salary of $162,000 during each full year of his employment pursuant to this Employment Agreement, which salary shall be payable in equal monthly payments of $13,500 on or after the fifth day of each month but before the twentieth day of each month.

4.2 *Fringe Benefits*. The Company shall pay for (or reimburse Employee for the cost of) medical and dental insurance for Employee and Employee's spouse for so long as Employee is employed by the Company. In addition, the Company shall pay for medical and dental insurance for Employee and Employee's spouse following the termination of Employee's employment by the Company (irrespective of whether Employee is then living), unless such termination is for Cause, as provided in Section 8.5 of this Employment Agreement, subject, however, to the following limitations and conditions: (a) the Company shall not be obligated to pay more than $12,000 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 five years plus one additional year for each full year that Employee is employed by the Company. The Company shall also pay Employee a non-accountable expense allowance of $1,500 per month, which Employee shall expend to further the Company's business and its business relationships.

4.3 *Performance Bonuses and Incentive Compensation*. In addition to salary and fringe benefits, Employee shall be entitled to receive performance bonuses and other incentive compensation on the terms and subject to the conditions set forth in Exhibit A to this Employment Agreement.

4.4 *Automobiles*. In addition to salary and fringe benefits, the Company shall provide Employee a Company truck for Employee's use in furtherance of the Company's business. The Company shall also pay (or reimburse Employee for) all reasonable gasoline, maintenance and insurance charges and expenses relating to such vehicle.

4.5 *Ratification of Prior Bonus and Transfer of Title to Other Vehicle*. The Company hereby ratifies its 2004 bonus to Employee to repay the existing indebtedness relating to the following described vehicle, and to transfer title to such vehicle to Employee during calendar year 2006.

Make:	BMW
Model:	M3
Year:	2004
VIN:	UBSBL93434PN59163

4.6 *Tax Liability for Deemed Distributions*. The Company agrees that it will pay or reimburse Employee for any federal or state income taxes that are paid or payable by Employee with respect to any pass-through income that Employee is deemed to have been received (but does not actually receive) during (a) the tax year ended December 31, 2005 and (b) the period commencing January 1, 2006 and ending the effective date of the Company's election not to be taxed as an S corporation for federal income tax purposes.

5. **Vacations.**

Employee shall be entitled to six weeks of paid vacation each calendar year during the term of this Employment Agreement. Should Employee have any earned but unused vacation time at the expiration of the calendar year in which it was earned, he shall be entitled to carry a maximum of six weeks (or such lesser amount as was earned and is unused) into the next calendar year.

6. **Continuation of Salary during Disability.**

In the event becomes disabled and his employment is terminated because of disability, his base monthly compensation shall be continued for a period of time equal to the lesser of (a) the period of disability or (b) six months from the date Employee becomes disabled or his employment was terminated because of disability. The amount of any salary payments shall be reduced by the amount of any disability insurance benefits from policies paid for by the Company or Social Security benefits receivable by Employee that are attributable to his disability. Nothing in this section shall be deemed to compel the Company to acquire insurance to fund its obligations hereunder, but it may, in its discretion, do so.

7. **Covenant Not to Compete.**

Employee, while an employee and following termination, agrees to abide by the following covenant not to compete:

7.1 Employee recognizes that while an employee he may develop or be exposed to unique, valuable and special confidential information, know-how, customer lists and trade secrets that are the property of the Company or its customers. Employee agrees that so long as such confidential information, know-how, customer lists, and trade secrets remain protectable, he will not use or divulge them except as required to meet his

obligations to the Company and will not undertake any employment or other position competitive with the Company wherein the complete fulfillment of the duties of such competitive position would inherently call upon him to reveal, base judgments upon, or otherwise use any such confidential information, know-how, customer lists, or trade secrets.

7.2 Employee agrees that reports, customer lists, customer prospect files, rate and billing information, technical information, and other materials integral to the Company's business used or produced by him or coming into his possession by or through his status as an employee of the Company are the property of the Company and shall be surrendered upon withdrawal without retaining any copies, extracts or notes thereof.

7.3 Employee agrees that while an employee, and for a period of three years following termination of employment, he will not directly or indirectly solicit or attempt to solicit business or sell, write or do business with any customer with whom the Company was doing business as of the date of Employee's termination.

7.4 Employee agrees that while an employee, and for a period of three years following termination of his employment, he will not directly or indirectly engage in a business competitive with that of the Company. Employee further agrees that for a period of three years following termination, he will not induce or attempt to induce any person to leave employment with the Company, or hire or employ any person employed by the Company as of the date of Employee's termination.

7.5 The Company shall have the right to seek and secure an injunction to enforce the provisions of the covenant, but that remedy shall not be exclusive.

8. **Termination.**

This Employment Agreement and Employee's employment hereunder shall continue as provided in Section 3.1 until terminated as hereinafter provided. Notwithstanding the termination of this Employment Agreement, the parties shall be required to carry out any provisions hereof which contemplate performance by them subsequent to such termination, and such termination shall not affect any liability or other obligation which shall have accrued prior to such termination, including, but not limited to, any liability for loss or damage on account of default or any obligation arising under the covenant not to compete. This Employment Agreement shall terminate upon the occurrence of any of the following events:

8.1 *Death of Employee*. This Employment Agreement shall automatically terminate without notice upon the death of Employee. The Company shall pay the monthly base salary of Employee to the estate of Employee for the full month in which such death occurs and for an additional two months thereafter.

8.2 *Retirement and Retirement Benefit*. Employee may retire at any time after Employee has reached retirement age, as herein defined, 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 Employee 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. Employee acknowledges and understands that the Company is under no obligation to devise or implement such a plan. Employee 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.

8.3 *Disability*. This Employment Agreement may be terminated unilaterally by the board of directors of the Company in the event of disability of Employee, as herein defined, which shall have continued for a period of more than three months.

8.4 *Voluntary Resignation.* Employee may voluntarily resign at any time during the term of his employment by the Company, provided that he gives the Company not less than six months written notice of his intention to resign, specifying the effective date of such resignation.

8.5 *Termination of Employment for Cause*. The Company may terminate the employment of Employee for Cause, as herein defined, without notice.

8.6 *Termination of Employment other than for Cause*. The Company may terminate the employment of Employee without Cause upon three months' written notice. If the Company shall terminate the employment of Employee other than for Cause, then it shall (a) pay Employee (or Employee's spouse, should Employee die), a severance benefit equal to three years' salary based on Employee's base monthly salary immediately preceding his termination and (b) pay for (or reimburse Employee for the cost of) such medical and dental insurance as Company is then obligated to pay Employee pursuant to Section 4.3 of this Employment Agreement.

8.7 *Termination of Employment for Breach*. The employment of Employee may be terminated by Employee upon breach of a material term of this Employment Agreement by the Company, provided that Employee shall give the Company not less than sixty days written notice of the intent to terminate for breach, specifying the nature of the breach. In the event that the Company cures such breach prior to the passage of such sixty-day period, Employee's right to terminate for such breach shall cease.

8.8 *Termination upon Cessation of Business*. In the event the Company shall cease the active conduct of its business, the employment of Employee shall be deemed terminated.

9. **Insurance.**

The Company reserves the right to acquire insurance on the life or health of Employee, naming itself as the beneficiary thereof. The Company shall be the sole owner of all such

policies taken out by it and may exercise all rights under such policies.

10. **Notices.**

Any notice transmitted by either party to this Employment Agreement to any other party hereto may be served personally upon such other party or mailed to such other party, in the case of the Company, to its registered office; and in the case of Employee, to the address of Employee appearing on the books of the Company or such other address as may be designated in writing by Employee.

11. **Termination of Corporate Office.**

In the event that the employment of Employee hereunder is terminated for any reason and Employee shall hold office as an officer of the Company, such office shall terminate and Employee shall be deemed to have resigned the same automatically and without notice as of the effective date of termination of employment.

12. **General Provisions.**

12.1 *Venue and Governing Law*. This Employment Agreement is made in accordance with and shall be interpreted and governed by the laws of the State of Idaho. If any action or other proceeding shall be brought on or in connection with this Employment Agreement, the venue of such action shall be in Kootenai County, Idaho.

12.2 *Attorney's Fees*. 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 attorney's fees and all costs incurred in connection therewith, including the costs of any appeal.

12.3 *Assignments*. This Employment Agreement is personal to each of the parties hereto, and neither party may assign or delegate any of the rights or obligations hereunder without first obtaining the written consent of the other party. No assignment or assumption of any obligation hereunder shall relieve either party hereto from liability for any obligation hereunder.

12.4 *Amendment*. No amendment, waiver or modification of this Employment Agreement or of any term or condition hereof shall be valid or effective unless in writing and approved by the Company and Employee.

12.5 *Arbitration*. All disputes arising under this Employment Agreement shall be resolved through arbitration. The arbitration of any dispute hereunder shall be conducted in accordance with the Idaho Uniform Arbitration Act. Except as provided at paragraph 12.2, the cost of any such arbitration shall be borne equally by Employee and the Company.

12.6 *Merger Clause*. This Employment Agreement expresses the full and final purpose and agreement of the parties relating to employment of Employee.

12.7 *Severability*. Each provision of this Employment Agreement shall be considered severable and if, for any reason, any provision hereof or remedy herein provided is determined to be invalid, such invalidity shall not impair the operation or effect of the remaining provisions hereof which are valid.

12.8 *Successors*. Except as expressly provided otherwise herein, all of the rights of the parties hereunder shall inure to the benefit of and all obligations of the parties hereunder shall bind the parties' heirs, personal representatives, successors and assigns.

12.9 *Execution of Documents*. Each of the parties agrees to execute all documents necessary to implement the provisions of this Employment Agreement.

12.10 *No Trust Relationship*. Nothing contained in this Employment Agreement and no action taken pursuant to the provisions of this Employment Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and Employee. Any amounts or assets referred to under the provisions of this Employment Agreement shall continue for all purposes to be a part of the general funds of the Company, and no person other than the Company shall by virtue of the provisions of this Employment Agreement have any interest in such funds. To the extent that any person acquires a right to receive payments from the Company under this Employment Agreement, such rights shall be no greater than the right of any unsecured creditor of the Company.

12.11 *Descriptive Headings*. Titles to the paragraphs hereof are for information purposes only.

EXECUTED this 3rd day of March 2006, but effective as of the Effective Date.

COMPANY:

Kettle Drilling, Inc.,
an Idaho corporation

By: _____
_____, its authorized signatory

EMPLOYEE:

_____
David Deeds

Schedule A to Employment Agreement

Bonus and Incentive Compensation

In addition to salary and fringe benefits, the Company agrees to pay Employee the following bonus and incentive compensation:

A. *Revenue-Based Cash Bonus*. The Company shall pay Employee a bonus for the fiscal year ending December 31, 2006 if the Company's gross revenue for such fiscal year is greater than $4,800,000. For each year thereafter during the term of this Agreement, the Company shall pay Employee a bonus if the Company's gross revenue for such fiscal year increased over the Company's gross revenue for the prior fiscal year. The amount of such bonus shall be equal to two percent of any such increase in gross revenue, and shall be paid to Employee within 45 days of the end of the fiscal year in which it was earned.

B. *Net Revenue-Based Cash Bonus*. In addition to the bonus specified in paragraph A, above, the Company shall pay Employee a bonus for the fiscal year ending December 31, 2006 if the Company's net revenue for such fiscal year before deduction of taxes, depreciation and amortization (hereinafter referred to as "Company Net Revenue") is greater than $760,000. For each year thereafter during the term of this Agreement, the Company shall pay Employee a bonus if Company Net Revenue for such fiscal year increased over Company Net Revenue for the prior fiscal year. The amount of such bonus shall be equal to five percent of any such increase in Company Net Revenue, and shall be paid to Employee within 45 days of the end of the fiscal year in which it was earned.

C. *Acquisition-Based Stock Options Bonus*. In addition to the cash bonuses specified in paragraphs A and B, above, the Company shall pay Employee a bonus in the event the Company acquires another hard rock drilling business by merger (provided the Company is the surviving corporation), consolidation, or the purchase of all or substantially all of the assets of such business. The amount of such bonus shall be equal to the greater of (i) five percent of the total assets of the acquired business or (ii) five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition.

The bonus shall be paid to Employee within 45 days of the closing date of the acquisition transaction either by (a) the issuance and delivery to Employee of shares of common stock of the Company or (b) by the issuance and delivery to Employee of ten-year options to purchase common stock of the Company, whichever Employee shall elect to receive.

Should Employee elect to receive shares of common stock of the Company in payment of the bonus, the number of shares issuable and deliverable to him shall be determined by dividing the amount of the bonus (namely, the greater of five percent of the total assets of the acquired business or five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition) by the market value of the Company's common stock as of the end of the fiscal quarter immediately preceding the date the Company publicly

announces the acquisition upon which the bonus is predicated.

Should employee elect to receive stock options in payment of the bonus, such options shall be exercisable at any time during such ten-year period at a price per share equal to the market price of the Company's common stock as of the end of the fiscal quarter immediately preceding the date the Company publicly announces the acquisition upon which the bonus is predicated. The number of stock options to be granted to Employee shall be determined by dividing the amount of the bonus (namely, the greater of five percent of the total assets of the acquired business or five percent of the gross revenue of the acquired business for the fiscal year immediately preceding the date of acquisition) by the value of each option as of the date of grant. The value of such option shall be the same value that the Company ascribes to such option as compensation expense, determined in accordance with Financial Accounting Standard 123(R), *Accounting for Stock-Based Compensation*.

Exhibit E to Stock Purchase and Sale Agreement

VOTING TRUST AGREEMENT

This Voting Trust Agreement (the "Agreement") is made and entered into as of March 3, 2006 by and among Douglas Kettle and David Deeds (individually a “Selling Stockholder“ and collectively the “Selling Stockholders”); Timberline Resources Corporation (“Timberline Resources”), an Idaho corporation; and John Swallow, Stephen Goss, Tom Gurkowski, Vance Thornsberry, Eric Klepfer and Paul Dircksen (individually a “Timberline Inside Stockholder” and collectively the “Timberline Inside Stockholders”).

RECITALS:

WHEREAS, Timberline Resources, Kettle Drilling, the Selling Stockholders and the Timberline Inside Stockholders are parties to a Stock Purchase and Sale Agreement dated February 23, 2006 (the “Purchase and Sale Agreement"); and

WHEREAS, certain of Timberline Resources’, Kettle Drillings’ and the Selling Stockholders’ obligations under the Purchase and Sale Agreement are conditioned upon the execution and delivery of this Agreement.

AGREEMENT:

NOW, THEREFORE, the parties hereto agree as follows:

1. **Appointment of Voting Trustee for Timberline Inside Stockholders.** The Timberline Inside Stockholders each hereby irrevocably appoint John Swallow (the “Timberline Inside Stockholders Voting Trustee”) as attorney and voting trustee of the Timberline Inside Stockholders, and each of them, solely for the purposes of: (a) attending any and all meetings of stockholders of Timberline Resources and (b) solely with respect to the election of directors of Timberline Resources at any such meeting, to vote all of the shares of common stock of the Timberline Inside Stockholders, and each of them, for the election of the Selling Stockholders (or his or their respective designees, if the Selling Stockholders or either of them are unable or unwilling to serve) as advisory directors of Timberline Resources, in the same manner and with the same effect as if the Timberline Inside Stockholders were personally present. It is specifically understood and agreed that, with respect to any other matter submitted to the stockholders of Timberline Resources for approval or consent, including the election of persons to serve as directors of Timberline Resources, the Timberline Inside Stockholders Voting Trustee shall vote all of the shares of common stock of the Timberline Inside Stockholders strictly in accordance with the express written or oral instructions of such holders.

2. **Appointment of Voting Trustee for Timberline Resources.** Timberline Resources hereby irrevocably appoints David Deeds, with full power of substitution (the “Timberline Resources Voting Trustee”) as attorney and voting trustee of Timberline

Resources solely for the purposes of: (a) attending any and all meetings of stockholders of Kettle Drilling; (b) with respect to the election of directors of Kettle Drilling at such meeting, to vote all of the shares of common stock of Timberline Resources for the election of the Selling Stockholders (or his or their respective designees, if the Selling Stockholders or either of them are unable or unwilling to serve) as a directors Kettle Drilling, in the same manner and with the same effect as if the Timberline Resources were personally present; and (c) with respect to any other matter submitted to the stockholders of Kettle Drilling for approval or consent, including the election of other persons, if any, to Kettle Drilling's board of directors, the Timberline Resources Voting Trustee shall either (i) vote all of the shares of common stock of Timberline Resources strictly in accordance with the express written or oral instructions of the Selling Stockholders (or any surviving Selling Stockholder, if less than all of the Selling Stockholders are then living) or (ii) with the prior written approval of the Selling Stockholders (or any surviving Selling Stockholder, if less than all of the Selling Stockholders are then living), cede the right to vote all of the shares of common stock of Timberline Resources to Timberline Resources for such purpose or purposes.

3. **Duration.** The rights granted to the Timberline Inside Stockholders Voting Trustee and the Timberline Resources Voting Trustee hereunder are irrevocable and shall continue in full force and effect until the later of: (a) such time as the Selling Stockholders (or their heirs and successors) cease to own any shares of Series A Preferred Stock of Timberline Resources; or (ii) if the Series A Preferred Stock has theretofore been converted into shares of Timberline Resources common stock, such time as the Selling Stockholders (or their heirs and successors) cease to own less than ten percent of the number of such shares of Timberline Resources common stock into which the Series A Stock was initially converted; provided, however, that in no event shall the rights granted to the Timberline Inside Stockholders Voting Trustee and the Timberline Resources Voting Trustee hereunder continue in effect beyond March __, 2016, being ten years from the date of this Agreement.

[The balance of this page has been left blank intentionally.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

TIMBERLINE RESOURCES: Timberline Resources Corporation, an Idaho corporation

By: _____
Name: John Swallow
Title: COO

SELLING STOCKHOLDERS:

_____
Douglas Kettle

_____
David Deeds

TIMBERLINE INSIDE STOCKHOLDERS:

_____
John Swallow

_____
Stephen Goss

_____
Tom Gurkowski

_____
Vance Thornsberry

_____
Eric Klepfer

_____
Paul Dircksen

RANDALL & DANSKIN, P.S.
ATTORNEYS AND COUNSELORS
1500 BANK OF AMERICA FINANCIAL CENTER
601 WEST RIVERSIDE AVENUE
SPOKANE, WASHINGTON 99201-0653
TELEPHONE (509) 747-2052
TELECOPIER (509) 624-2528

KEITH D. BROWN (WA, ID)
ANTHONY E. GRABICKI (WA, ID)
PETER J. GRABICKI (WA, ID, TX)
DAVID J. GROESBECK (WA)
ROBERT P. HAILEY (WA, ID, CA)
T. ANDREW HASTINGS (WA)
ANGELA M. HAYES (WA)
DAVID A. KULISCH (WA, CA)
MICHAEL J. MYERS (WA, ID)
JILLIAN A. POLLOCK (WA)
DONALD K. QUERNA (WA, ID)
CAROLE L. ROLANDO (WA)
DOUGLAS J. SIDDOWAY (WA, ID, NY)
LAUREL H. SIDDOWAY (WA, ID, NY)
EMMA C. THOMPSON (WA, OR)
MICHAEL L. WOLFE (WA, ID, CA)

ROBERT T. CARTER (WA, ID, OR)
OF COUNSEL

C.D. RANDALL (1885-1967)
F.B. DANSKIN (1889-1971)
A.A. LUNDIN (1914-1976)
G.L. KIMER (1918-1988)

March 6, 2006

Timberline Resources Corporation
36 West 16th Avenue
Spokane, Washington 99203

Dear Sirs:

Reference is made to the Stock Purchase and Sale Agreement dated February 23, 2006, as amended March 3, 2006 (the "Purchase and Sale Agreement") among Timberline Resources Corporation ("Timberline Resources"), an Idaho corporation, Kettle Drilling, Inc. ("Kettle Drilling"), an Idaho corporation, Douglas Kettle and David Deeds (individually a "Selling Stockholder" and collectively the "Selling Stockholders"), and the affiliate stockholders of Timberline Resources named therein (the "Timberline Inside Stockholders"), which Purchase and Sale Agreement provides for the sale by the Selling Stockholders of all of the issued and outstanding capital stock of Kettle Drilling (defined therein as the "Kettle Drilling Shares" to Timberline Resources upon the terms and subject to the conditions stated therein. This opinion is rendered to you pursuant to Section 5.9 of the Purchase and Sale Agreement. All of the capitalized terms used herein shall have the meanings set forth in the Purchase and Sale Agreement unless otherwise defined herein.

We have acted as counsel to Kettle Drilling and the Selling Stockholders in connection with the transaction specified in the Purchase and Sale Agreement. In connection with this opinion, we have examined the following documents:

1. The certificate and articles of incorporation of Kettle Drilling as amended or restated to the date of this opinion;

2. The bylaws of Kettle Drilling as amended or restated to the date of this opinion;

3. The Purchase and Sale Agreement;

4. The Registration Rights Agreement that is annexed to the Purchase and Sale Agreement as Exhibit C;

5. The Voting Trust Agreement that is annexed to the Purchase and Sale Agreement as Exhibit E; and

4. Resolutions of the board of directors of Kettle Drilling dated February 23, 2006.

The opinions hereinafter expressed are subject to the following qualifications:

(a) No opinion is given as to the laws of any jurisdiction other than the State of Idaho and the United States of America that may be applicable to the transaction specified in the Purchase and Sale Agreement.

(b) No opinion is given as to the effect of any of the following: applicable laws relating to bankruptcy, insolvency, reorganization or moratorium, by other similar laws affecting creditors' rights generally; the exercise of judicial discretion in accordance with principles of equity; and the fraudulent conveyance and transfer provisions of applicable state and federal laws.

(c) No opinion is given with respect to whether Kettle Drilling has made any untrue statements of material fact or omitted to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. To the best of our knowledge, we are not aware that Kettle Drilling has made any such untrue statements of material fact or omitted to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. (As used herein the phrase "to our knowledge" or similar language means that, during the course of our representation of Kettle Drilling in connection with the transaction specified in the Purchase and Sale Agreement, no information has come to our attention that has given us actual knowledge that any such opinions or matters are not accurate or that any of the documents, certificates, records and information on which we have relied is not accurate and complete. Except as otherwise stated herein, we have undertaken no independent investigation or verification of such matters, and any limited inquiry undertaken by us during the preparation of this opinion should not be regarded as such an investigation. No inference as to our knowledge of the existence or absence of such facts should be drawn from the fact of our representation of Kettle Drilling.)

(d) The opinions are rendered as of the date hereof, and we assume no obligation to update you with respect to any matters that may hereafter be brought to our attention.

Based upon and subject to the foregoing and to the comments and qualifications set forth below, and having considered such questions of law as we deemed necessary as a basis for the opinions expressed below, we are of the opinion that:

1. Kettle Drilling is a corporation duly organized, validly existing and in good standing under the laws of the State of Idaho. Kettle Drilling has all requisite power to own and operate its properties and assets, and to carry on its business as presently conducted and as proposed to be conducted. Kettle Drilling is qualified to do business as a foreign corporation in every jurisdiction where the failure to so qualify would have a material adverse effect on its business or it financial condition..

2. Kettle Drilling and the Selling Stockholders each have full power and authority to execute and deliver the Purchase and Sale Agreement and the Voting Trust Agreement, and to carry out and perform their respective obligations under the Purchase and Sale Agreement and the Voting Trust Agreement.

3. The Selling Stockholders each have full power and authority to execute and deliver the Registration Rights Agreement and to carry out and perform their obligations under the Registration Rights Agreement.

4. The Purchase and Sale Agreement, the Registration Rights Agreement and the Voting Trust Agreement are a legal, valid and binding obligation of Kettle Drilling and the Selling Stockholders (to the extent they are parties thereto), enforceable against them in accordance with its terms.

5. The execution, delivery and performance by Kettle Drilling and the Selling Stockholders of the Purchase and Sale Agreement, the Registration Rights Agreement and the Voting Trust Agreement do not conflict with, or constitute a default, violation or breach of, any applicable law or governmental rule or regulation, or, to our knowledge, any order, injunction or decree of any court of governmental instrumentality applicable to Kettle Drilling or the Selling Stockholders, or any agreement or other instrument to which Kettle Drilling or the Selling Stockholders is a party or is subject.

This opinion is being provided to Timberline Resources at the request of Kettle Drilling and the Selling Stockholders, solely in connection with the Purchase and Sale Agreement and the consummation of the transaction specified therein and in the exhibits thereto. This opinion is solely for Timberline Resources' benefit and may not be relied upon by any other person or entity in any manner or for any purpose whatsoever, or used or referred to by any other person, without our prior written consent.

Very truly yours,

RANDALL & DANSKIN, P.S.

Douglas Siddoway

THOMAS E. BOCCIERI, ESQ.
561 Schaefer Avenue
Oradell, New Jersey 07649
(Office) 201-983-2024/(Fax) 201-265-6069

*Thomas E. Boccieri**
**Admitted to Practice in NJ only*

March 6, 2006

Kettle Drilling, Inc.
2775 North Howard Street, Suite 2
Coeur d'Alene, Idaho 83815

Douglas Kettle
David Deeds
2775 North Howard Street, Suite 2
Coeur d'Alene, Idaho 83815

Gentlemen:

Reference is made to the Stock Purchase and Sale Agreement dated February 23, 2006, as amended on March 6, 2006 (the "Purchase and Sale Agreement"), among Timberline Resources Corporation ("Timberline Resources"), an Idaho corporation, Kettle Drilling, Inc. ("Kettle Drilling"), an Idaho corporation, Douglas Kettle and David Deeds (individually a "Selling Stockholder" and collectively the "Selling Stockholders"), and the affiliate stockholders of Timberline Resources named therein (the "Timberline Inside Stockholders"), which Purchase and Sale Agreement provides for the sale by the Selling Stockholders of all of the issued and outstanding capital stock of Kettle Drilling (defined therein as the "Kettle Drilling Shares" to Timberline Resources upon the terms and subject to the conditions stated therein. This opinion is rendered to you pursuant to Section 6.10 of the Purchase and Sale Agreement. All of the capitalized terms used herein shall have the meanings set forth in the Purchase and Sale Agreement unless otherwise defined herein.

I have acted as counsel to Timberline Resources in connection with the transaction specified in the Purchase and Sale Agreement. In connection with this opinion, I have examined the following documents:

1. The certificate and articles of incorporation of Timberline Resources as amended or restated to the date of this opinion;

2. The bylaws of Timberline Resources as amended or restated to the date of this opinion;

3. The Purchase and Sale Agreement;

4. The Series A Preferred Stock Resolution that is annexed to the Purchase and Sale Agreement as Exhibit B (the "Resolution");

5. The Registration Rights Agreement that is annexed to the Purchase and Sale Agreement as Exhibit C;

6. The Voting Trust Agreement that is annexed to the Purchase and Sale Agreement as Exhibit E;

7. The Promissory Notes that are annexed to the Purchase and Sale Agreement as Exhibits G-1 and G-2; and

8. Resolutions of the board of directors of Timberline Resources dated January 15, 2006 and February 26, 2006.

The opinions hereinafter expressed are subject to the following qualifications:

(a) Although I am not licensed to practice law in the State of Idaho, I am generally familiar with the laws of such state, including the Idaho General Business Corporation Act, and have conducted such investigations of these laws as I have deemed necessary or appropriate for purposes of expressing the opinions herein.

(b) No opinion is given as to the effect of any of the following: applicable laws relating to bankruptcy, insolvency, reorganization or moratorium, by other similar laws affecting creditors' rights generally; the exercise of judicial discretion in accordance with principles of equity; and the fraudulent conveyance and transfer provisions of applicable state and federal laws.

(c) No opinion is given with respect to whether Timberline Resources has made any untrue statements of material fact or omitted to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. To the best of my knowledge, I am not aware that Timberline Resources has made any such untrue statements of material fact or omitted to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. (As used herein the phrase "to my knowledge" or similar language means that, during the course of my representation of Timberline Resources in connection with the transaction specified in the Purchase and Sale Agreement, no information has come to my attention that has given me actual knowledge that any such opinions or matters are not accurate or that any of the documents, certificates, records and information on which I have relied is not accurate and complete. Except as otherwise stated herein, I have undertaken no independent investigation or verification of such matters, and any limited inquiry undertaken by me during the preparation of this opinion should not be regarded as such an investigation. No inference as to my knowledge of the existence or absence of such facts should be drawn from the fact of my representation of Timberline Resources.)

(d) The opinions are rendered as of the date hereof, and I assume no obligation to update you with respect to any matters that may hereafter be brought to my attention.

Based upon and subject to the foregoing and to the comments and qualifications set forth below, and having considered such questions of law as I deemed necessary as a basis for the opinions expressed below, I am of the opinion that:

1. Timberline Resources is a corporation duly organized, validly existing and in good standing under the laws of the State of Idaho. Timberline Resources has all requisite power to own and operate its properties and assets, and

to carry on its business as presently conducted and as proposed to be conducted. Timberline Resources is not qualified to do business as a foreign corporation in any jurisdiction.

2. Timberline Resources has full power and authority to execute and deliver the Purchase and Sale Agreement, the Registration Rights Agreement and the Voting Trust Agreement, to purchase the Kettle Drilling Shares, and to carry out and perform its obligations under the Purchase and Sale Agreement, the Registration Rights Agreement and the Voting Trust Agreement.

3. Timberline Resources has full power and authority to adopt the Resolution by action of its board of directors, without stockholder approval, and the Resolution has been so adopted. The Resolution constitutes an amendment to Timberline Resources' articles of incorporation, and Timberline Resources has full power and authority to issue the Series A Stock and to issue shares of its common stock upon conversion of the Series A Stock as provided in the Resolution.

4. The Resolution does not conflict with, or constitute a default, violation or breach of, any applicable law or governmental rule or regulation, or, to my knowledge, any order, injunction or decree of any court of governmental instrumentality applicable to Timberline Resources, or any agreement or other instrument to which Timberline Resources is a party or is subject.

5. The Purchase and Sale Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the Promissory Notes are each the legal, valid and binding obligation of Timberline Resources, enforceable against it in accordance with its terms.

6. The execution, delivery and performance by Timberline Resources of the Purchase and Sale Agreement, the Registration Rights Agreement, the Voting Trust Agreement and the Promissory Notes do not conflict with, or constitute a default, violation or breach of, any applicable law or governmental rule or regulation, or, to our knowledge, any order, injunction or decree of any court of governmental instrumentality applicable to Timberline Resources, or any agreement or other instrument to which Timberline Resources is a party or is subject.

This opinion is being provided to Kettle Drilling and the Selling Stockholders at the request of Timberline Resources, solely in connection with the Purchase and Sale Agreement and the consummation of the transaction specified therein and in the exhibits thereto. This opinion is solely for Kettle Drilling's and the Selling Stockholders' benefit and may not be relied upon by any other person or entity, other than an assignee of a Selling Stockholder's entire, right and interest in the Purchase and Sale Agreement, in any manner or for any purpose whatsoever, or used or referred to by any other person, without my prior written consent.

Very truly yours,

Thomas E. Boccieri

Exhibit G-1 to Amendment

PROMISSORY NOTE

$300,000 March 3, 2006
Spokane, Washington

Timberline Resources Corporation, an Idaho corporation having its principal offices at 36 West 16th Avenue, Spokane, Washington 99203 (hereinafter referred to as "Maker") promises to pay to Douglas Kettle, whose address is 5401 East Lancaster, Hayden, Idaho 83835, or his assigns (hereinafter referred to as "Holder") the principal sum of $300,000 upon the terms and subject to the conditions of this promissory note ("Note"):

1. **Interest.** All sums owing on this Note shall bear interest from the date set forth above until paid, at a rate of interest equal to the prime rate of interest from time-to-time published in the *Wall Street Journal* plus three percent, such rate to be adjusted as of the date any change in such prime rate is announced. As of the date of this Note, such rate of interest, as hereinabove determined, is ten and one-half percent. Upon the occurrence of an Event of Default and expiration of the applicable Cure Period, all sums owing on this Note shall bear interest at the rate of interest otherwise payable on this Note plus four percent (the "Default Rate") for so long as the Event of Default continues. All computations of interest shall be based on a 360-day year for the actual number of days elapsed.

2. **Payment.** Maker shall pay Holder the principal of, and interest on, this Note in one single installment on or before September 1, 2006.

3. **Acceleration in the Event of Sale of Business.** The provisions of Section 2 notwithstanding, all amounts payable under this Note shall become immediately due and payable, at Holder's election, in the event all or substantially all of the assets of Maker are sold other than in the ordinary course of business, or in the event Maker merges or consolidates with or into another business entity in which Maker is not the surviving entity.

4. **Notice of Event of Default; Cure.** Upon the occurrence of an Event of Default, Holder shall give Notice of the Event of Default to Maker, and Maker shall have the right to cure such Event of Default within the applicable Cure Period. If Maker fails to cure the Event of Default within the applicable Cure Period, or is prohibited from doing so, then Holder may accelerate all amounts owing on this Note. Such accelerated amounts shall become immediately due and payable. If Holder accelerates the amounts due under this Note, Holder shall have the right to pursue any or all of the remedies available to it, including, but not limited to, the right to bring suit on this Note.

As used herein, the term “Event of Default” means:

(a) if any payment due under the Note is not paid within five (5) days of the date upon which such payment was due.

(b) if any of the following shall occur:

(i) Maker becomes insolvent, makes a transfer in fraud to or an assignment for the benefit of creditors, or admits in writing his inability to pay their debts as they become due;

(ii) A receiver, custodian, liquidator or trustee is applied for by Maker, or is appointed for all or substantially all of the assets of Maker, or any such receiver, custodian, liquidator or trustee is appointed in any proceeding brought against Maker, and such appointment is not contested or is not dismissed or discharged within 60 days after such appointment, or Maker acquiesces in such appointment;

(iii) Maker files a petition for relief under the federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state thereof, or Maker seeks to take advantage of any insolvency law;

(iv) A petition against Maker is filed commencing an involuntary case under any present or future federal or state bankruptcy or similar law, and such petition is not dismissed or discharged within 60 days of filing; or

(v) Substantially all of the assets of Maker are sold or otherwise transferred.

As used herein, the term “Cure Period” means the period of time Maker shall have to cure an Event of Default. If the Event of Default is a monetary default, the Cure Period shall be five (5) days from the date Maker first receives notice of such Event of Default. If the Event of Default is other than a monetary default, the Cure Period shall be ten (10) days from the date Borrower first receives such notice. As used herein, a "monetary default" means a failure by Borrower to make any payment required of it by the Note. If a default other than a monetary default is capable of being cured and the cure cannot reasonably be completed within the ten (10) day Cure Period, the Cure Period shall be extended to up to fifteen (15) days so long as Maker has commenced action to cure within such initial ten (10) day period and, in Holder's judgment, Maker is proceeding to cure the default with due diligence. The foregoing shall not be construed to obligate Lender to forebear in any other manner from exercising its remedies.

5. **Remedies.** Upon the occurrence of an Event of Default and expiration of the applicable Cure Period, Holder shall have all rights available to it at law or in equity, including all rights available to it under the Idaho Uniform Commercial Code. Any

unpaid balance outstanding at such time, and any costs or other expenses incurred by Holder in realizing on this Note, shall bear interest at the Default Rate for so long as the Event of Default has not been cured and is continuing. All rights and remedies granted under this Note shall be deemed cumulative and not exclusive of any other right or remedy available to Holder.

6. **Attorneys' Fees, Costs, and Other Expenses.** Maker agrees to pay all costs and expenses which Holder may incur by reason of any Event of Default, including, but not limited to, reasonable attorneys' fees, expenses, and costs incurred in any action undertaken with respect to this Note, or the appeal of any such action. Any judgment recovered by Holder shall bear interest at the statutory rate of interest then in effect.

7. **Transfer; Obligations Binding on Successors.** Maker may not transfer any of its rights, duties or obligations under this Note without the prior written consent of Holder. This Note, and the duties set forth in the Note, shall bind Maker and his heirs and successors. All rights and powers established in this Note shall benefit Holder and his heirs and successors.

8. **Notices.** Any notice, consent or other communication required or permitted under this Note shall be in writing and shall be deemed to have been duly given or made either (a) when delivered personally to the party to whom it is directed (or any officer or agent of such party) or (b) three days after being deposited in the United States' certified or registered mail, postage prepaid, return receipt requested, and properly addressed to Maker or to Holder, at their respective addresses set forth above or at such other address as Maker or Holder shall have provided to the other.

9. **Governing Law.** This Note will be construed and the rights, duties, and obligations of the parties will be determined in accordance with the laws of the state of Idaho and the federal laws of the United States of America.

10. **Headings.** Headings used in this Note have been included for convenience and ease of reference only, and will not in any manner influence the construction or interpretation of any provision of this Note.

11. **Waiver.** No right or obligation under this Note will be deemed to have been waived unless evidenced by a writing signed by the party against whom the waiver is asserted, or by its duly authorized representative. Any waiver will be effective only with respect to the specific instance involved, and will not impair or limit the right of the waiving party to insist upon strict performance of the right or obligation on any other instance, in any other respect, or at any other time. No failure on the part of Holder to exercise, and no delay in exercising, any right or obligation under this Note shall operate as a waiver thereof.

12. **Severability.** The parties intend that this Note be enforced to the greatest extent permitted by applicable law. If any provision of this Note, on its face or as applied to any person or circumstances, is or becomes unenforceable to any extent, the remainder of this Note and the application of that provision to other persons, circumstances or extent, will not be impaired.

13. **References.** Except as otherwise specifically indicated, all references in this Note to numbered or lettered sections or subsections refer to sections or subsections of this Note. All references to this Note include any subsequent amendments to the Note.

14. **Venue.** Maker agrees that any action on this Note action may, in the discretion of Holder, be brought in Kootenai County, Idaho. Maker hereby consents to the exclusive personal jurisdiction of the District Court of Kootenai County and the United States District Court for the District of Idaho.

17. **Maximum Interest.** Notwithstanding any other provisions of this Note, any interest, fees, or charges payable by reason of the indebtedness evidenced by this Note shall not exceed the maximum permitted by law.

MAKER: Timberline Resources Corporation,
an Idaho corporation

By: _____
John Swallow, its duly authorized signatory

Attest: _____

Exhibit G-2 to Amendment

PROMISSORY NOTE

$100,000 March 3, 2006
Spokane, Washington

Timberline Resources Corporation, an Idaho corporation having its principal offices at 36 West 16th Avenue, Spokane, Washington 99203 (hereinafter referred to as "Maker") promises to pay to David Deeds and Margaret Deeds, husband and wife, whose address is 5609 East Lancaster, Hayden, Idaho 83835, or their assigns (hereinafter referred to as "Holder") the principal sum of $100,000 upon the terms and subject to the conditions of this promissory note ("Note"):

1. **Interest.** All sums owing on this Note shall bear interest from the date set forth above until paid, at a rate of interest equal to the prime rate of interest from time-to-time published in the *Wall Street Journal* plus three percent, such rate to be adjusted as of the date any change in such prime rate is announced. As of the date of this Note, such rate of interest, as hereinabove determined, is ten and one-half percent. Upon the occurrence of an Event of Default and expiration of the applicable Cure Period, all sums owing on this Note shall bear interest at the rate of interest otherwise payable on this Note plus four percent (the "Default Rate") for so long as the Event of Default continues. All computations of interest shall be based on a 360-day year for the actual number of days elapsed.

2. **Payment.** Maker shall pay Holder the principal of, and interest on, this Note in one single installment on or before September 1, 2006.

3. **Acceleration in the Event of Sale of Business.** The provisions of Section 2 notwithstanding, all amounts payable under this Note shall become immediately due and payable, at Holder's election, in the event all or substantially all of the assets of Maker are sold other than in the ordinary course of business, or in the event Maker merges or consolidates with or into another business entity in which Maker is not the surviving entity.

4. **Notice of Event of Default; Cure.** Upon the occurrence of an Event of Default, Holder shall give Notice of the Event of Default to Maker, and Maker shall have the right to cure such Event of Default within the applicable Cure Period. If Maker fails to cure the Event of Default within the applicable Cure Period, or is prohibited from doing so, then Holder may accelerate all amounts owing on this Note. Such accelerated amounts shall become immediately due and payable. If Holder accelerates the amounts due under this Note, Holder shall have the right to pursue any or all of the remedies available to it, including, but not limited to, the right to bring suit on this Note.

As used herein, the term “Event of Default” means:

(a) if any payment due under the Note is not paid within five (5) days of the date upon which such payment was due.

(b) if any of the following shall occur:

(i) Maker becomes insolvent, makes a transfer in fraud to or an assignment for the benefit of creditors, or admits in writing his inability to pay their debts as they become due;

(ii) A receiver, custodian, liquidator or trustee is applied for by Maker, or is appointed for all or substantially all of the assets of Maker, or any such receiver, custodian, liquidator or trustee is appointed in any proceeding brought against Maker, and such appointment is not contested or is not dismissed or discharged within 60 days after such appointment, or Maker acquiesces in such appointment;

(iii) Maker files a petition for relief under the federal Bankruptcy Code, as amended, or under any similar law or statute of the United States or any state thereof, or Maker seeks to take advantage of any insolvency law;

(iv) A petition against Maker is filed commencing an involuntary case under any present or future federal or state bankruptcy or similar law, and such petition is not dismissed or discharged within 60 days of filing; or

(v) Substantially all of the assets of Maker are sold or otherwise transferred.

As used herein, the term “Cure Period” means the period of time Maker shall have to cure an Event of Default. If the Event of Default is a monetary default, the Cure Period shall be five (5) days from the date Maker first receives notice of such Event of Default. If the Event of Default is other than a monetary default, the Cure Period shall be ten (10) days from the date Borrower first receives such notice. As used herein, a "monetary default" means a failure by Borrower to make any payment required of it by the Note. If a default other than a monetary default is capable of being cured and the cure cannot reasonably be completed within the ten (10) day Cure Period, the Cure Period shall be extended to up to fifteen (15) days so long as Maker has commenced action to cure within such initial ten (10) day period and, in Holder's judgment, Maker is proceeding to cure the default with due diligence. The foregoing shall not be construed to obligate Lender to forebear in any other manner from exercising its remedies.

5. **Remedies.** Upon the occurrence of an Event of Default and expiration of the applicable Cure Period, Holder shall have all rights available to it at law or in equity, including all rights available to it under the Idaho Uniform Commercial Code. Any

unpaid balance outstanding at such time, and any costs or other expenses incurred by Holder in realizing on this Note, shall bear interest at the Default Rate for so long as the Event of Default has not been cured and is continuing. All rights and remedies granted under this Note shall be deemed cumulative and not exclusive of any other right or remedy available to Holder.

6. **Attorneys' Fees, Costs, and Other Expenses.** Maker agrees to pay all costs and expenses which Holder may incur by reason of any Event of Default, including, but not limited to, reasonable attorneys' fees, expenses, and costs incurred in any action undertaken with respect to this Note, or the appeal of any such action. Any judgment recovered by Holder shall bear interest at the statutory rate of interest then in effect.

7. **Transfer; Obligations Binding on Successors.** Maker may not transfer any of its rights, duties or obligations under this Note without the prior written consent of Holder. This Note, and the duties set forth in the Note, shall bind Maker and his heirs and successors. All rights and powers established in this Note shall benefit Holder and his heirs and successors.

8. **Notices.** Any notice, consent or other communication required or permitted under this Note shall be in writing and shall be deemed to have been duly given or made either (a) when delivered personally to the party to whom it is directed (or any officer or agent of such party) or (b) three days after being deposited in the United States' certified or registered mail, postage prepaid, return receipt requested, and properly addressed to Maker or to Holder, at their respective addresses set forth above or at such other address as Maker or Holder shall have provided to the other.

9. **Governing Law.** This Note will be construed and the rights, duties, and obligations of the parties will be determined in accordance with the laws of the state of Idaho and the federal laws of the United States of America.

10. **Headings.** Headings used in this Note have been included for convenience and ease of reference only, and will not in any manner influence the construction or interpretation of any provision of this Note.

11. **Waiver.** No right or obligation under this Note will be deemed to have been waived unless evidenced by a writing signed by the party against whom the waiver is asserted, or by its duly authorized representative. Any waiver will be effective only with respect to the specific instance involved, and will not impair or limit the right of the waiving party to insist upon strict performance of the right or obligation on any other instance, in any other respect, or at any other time. No failure on the part of Holder to exercise, and no delay in exercising, any right or obligation under this Note shall operate as a waiver thereof.

12. **Severability.** The parties intend that this Note be enforced to the greatest extent permitted by applicable law. If any provision of this Note, on its face or as applied to any person or circumstances, is or becomes unenforceable to any extent, the remainder of this Note and the application of that provision to other persons, circumstances or extent, will not be impaired.

13. **References.** Except as otherwise specifically indicated, all references in this Note to numbered or lettered sections or subsections refer to sections or subsections of this Note. All references to this Note include any subsequent amendments to the Note.

14. **Venue.** Maker agrees that any action on this Note action may, in the discretion of Holder, be brought in Kootenai County, Idaho. Maker hereby consents to the exclusive personal jurisdiction of the District Court of Kootenai County and the United States District Court for the District of Idaho.

17. **Maximum Interest.** Notwithstanding any other provisions of this Note, any interest, fees, or charges payable by reason of the indebtedness evidenced by this Note shall not exceed the maximum permitted by law.

MAKER: Timberline Resources Corporation,
an Idaho corporation

By: _____
John Swallow, its duly authorized signatory

Attest: _____

Exhibit 10.19

Promissory Note

On this date of March 1, 2006, in return for valuable consideration received, the undersigned borrower(s) jointly and severally promise to pay to John A. Swallow, the "Lender", the sum of $400,000 (four hundred thousand dollars).

Terms of Repayment: Starting on April 1, 2006, and continuing thereafter from month to month until the date of March 1, 2007, borrowers shall make payments of interest only (9% per anum) in the amount of $3,000.00.

Late Fees: In the event that a payment due under this Note is not made within ten (10) days of the time set forth herein, the Borrower shall pay an additional late fee in the amount of $100.

Prepayment: There is no prepayment penalty. This Note may be paid in part or full in cash at any time prior to end of the loan period without penalty.

Place of Payment: All payments due under this Note shall be made to John A. Swallow, 905 South Jarvis Road, Coeur d'Alene, Id. 83814.

Default: In the event of default, the borrower(s) agree to pay all costs and expenses incurred by the Lender, including all reasonable attorney fees (including both hourly and contingent attorney fees as permitted by law) for the collection of this Note upon default, and including reasonable collection charges (including, where consistent with industry practices, a collection charge set as a percentage of the outstanding balance of the Note) should collection be referred to a collection agency.

Acceleration of Debt: If Timberline Resources is merged, reverse-merged, taken over, purchased, or any other change of leadership and/or management occurs, this Note will become due payable in cash or in terms agreed to by both parties. If both parties not in agreement, loan becomes due and payable in cash immediately.

Furthermore, in the event that the borrower(s) fail to make any payment due under the terms of this Note, or breach any condition relating to any security, security agreement, note, mortgage or lien granted as collateral security for this Note, seeks relief under the Bankruptcy Code, or suffers an involuntary petition in bankruptcy or receivership not vacated within thirty (30) days, the entire balance of this Note and any interest accrued thereon shall be immediately due and payable to the holder of this note.

Definition of "Market Price": "Market price" is to be the bid price of the shares at the time Note is due (if applicable).

Joint and Several Liability: All borrower(s) identified in this Note shall be jointly and severally liable for any debts secured by this Note.

Modification: No modification or waiver of any of the terms of this Agreement shall be allowed unless by written agreement signed by both parties. No waiver of any breach or default hereunder shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

Transfer of the Note: The borrowers hereby waive any notice of the transfer of the Note by the Lender or by any subsequent holder of this Note, agree to remain bound by the terms of this Note subsequent to any transfer, and agree that the terms of this Note may be fully enforced by any subsequent holder of this Note.

Severability of Provisions: In the even that any portion of this Note is deemed unenforceable, all other provisions of this Note remain in full force and effect.

Choice of Law: All terms and conditions of this Note shall be interpreted under the laws of the State of Idaho.

Signed Under Penalty of perjury, this 1st day of March, 2006.

Stephen Goss

Borrower - Timberline Resources
Stephen Goss - President

Lender – John A. Swallow
CEO – Timberline Resources

Witness – Paul Dircksen, Director
Timberline Resources

Exhibit 99.1

PRESS RELEASE

Timberline RESOURCES CORPORATION

Timberline Acquires 100-Percent Ownership of Kettle Drilling, Inc.

March 10, 2006 – Spokane – Timberline Resources Corporation (OTC:TBLC) announced today that it has closed its acquisition of Kettle Drilling, Inc. ("Kettle") of Coeur d'Alene, Idaho. Kettle provides drilling services to the mining and mineral exploration industries, combining state of the art equipment, world-class technical expertise, innovative thinking, and an impeccable safety record to companies within the mining industry across North America and worldwide. Kettle recorded over $5-million in revenue for 2005 with significant growth projected in coming years, driven by a substantial backlog of domestic work along with ongoing expansion into Mexico.

Timberline Chairman and CEO John Swallow stated, "Kettle is now a wholly-owned subsidiary of Timberline and will retain its autonomy as an independent business unit. It will continue to be operated by its principals, Doug Kettle and Dave Deeds, and will maintain separate corporate offices from Timberline and its exploration unit. The cohesiveness and operating skill of Kettle's management and employees attracted us initially and we have no intention of tampering with their proven formula for success."

Swallow continued, "We believe that a powerful, multi-year commodities bull market is underway and that this transaction will provide our shareholders with superior leverage as it continues to unfold. The acquisition of Kettle has transformed Timberline into a unique entity among resource juniors, coupling Kettle's steady cash flow and outstanding growth potential with the 'blue-sky' upside of our highly-experienced exploration team."

In exchange for 100-percent of Kettle, Timberline paid a total purchase price of $4.8 million comprised of $2.4 million in cash and 5 million shares of preferred Timberline stock, convertible into common stock, valued at 40 cents per share, and a total of $400,000 through the issuance of two promissory notes to the two principals of Kettle. Principal and interest on these notes are due in 180 days. To make the cash portion of the purchase price, Timberline also borrowed $400,000 from its Chairman and CEO, due in one year and requiring monthly payments of interest only.

Timberline Resources Corporation is a unique, growth-oriented company that combines positive cash flow from its ownership of Kettle Drilling, Inc. with the "blue sky" upside of its experienced mineral exploration team. Timberline is a fully-reporting company with fewer than 17 million shares outstanding. Its common stock is quoted on the OTC Market under the symbol "TBLC".

Certain statements contained in this press release are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on beliefs of management as well as assumptions made by and information currently available to management. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Contact Information:
John Swallow
Chairman & CEO
Phone: (208) 661-2518
www.timberline-resources.com