

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/A  
(Amendment No. 1)**

**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)

<b>IDAHO</b> (State or other jurisdiction of incorporation)	<b>000-51549</b> (Commission File Number)	<b>82-0291227</b> (IRS Employer Identification No.)
<b>36 West 16th Avenue, Spokane, Washington</b> (Address of principal executive offices)		<b>99203</b> (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 filing 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))

## **Item 9.01 - Financial Statements and Exhibits.**

On March 10, 2006, Timberline Resources Corporation (an Idaho corporation) (Timberline”) filed a Current Report on Form 8-K to report that, pursuant to the Stock Purchase and Sale Agreement dated as of February 23, 2006, as amended as of March 3, 2006, by and among Timberline, the shareholders of Kettle Drilling, Inc. (an Idaho corporation) (“Kettle”) and certain shareholders of Timberline, Timberline completed its acquisition of Kettle (the “Acquisition”). This Current Report on Form 8-K/A is being filed to provide the financial statements and pro forma financial information.

### *(a) Financial Statements of Businesses Acquired*



1105 W. Francis, Suite A  
Spokane, Washington 99205

## Report of Independent Auditors

Board of Directors  
Kettle Drilling, Inc.

We have audited the accompanying balance sheet of Kettle Drilling, Inc. ("the Company") as of December 31, 2005. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not observe the taking of the physical inventory as of December 31, 2004 and 2003, since those dates were prior to our appointment as auditors for the Company, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of December 31, 2004 and 2003 enter into the determination of net income and cash flows for the years ended December 31, 2005 and 2004.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the financial position of Kettle Drilling as of December 31, 2004 nor the results of operations and cash flows for the years ended December 31, 2005 and 2004.

In our opinion, the balance sheet as of December 31, 2005 presents fairly, in all material respects, the financial position of Kettle Drilling as of December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

*DeCoria, Maichel + Teague P.S.*

DeCoria, Maichel & Teague P.S.

Spokane, Washington  
May 11, 2006

# **Kettle Drilling, Inc.**

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**Kettle Drilling, Inc.**  
**Balance Sheets**  
**December 31, 2005 and 2004**

	<b>ASSETS</b>	<b>2005</b>	<b>2004</b> <b>(unaudited)</b>
Current assets:			
Cash and cash equivalents		\$ 13,522	\$ 60,531
Accounts receivable, less allowance for doubtful accounts of \$29,199 in 2005		397,379	280,033
Supplies and parts inventories		493,904	201,796
Employee advances		2,390	680
Prepaid expenses			6,890
Deposits		<u>31,344</u>	<u>51,344</u>
Total current assets		<u>938,539</u>	<u>601,274</u>
Property and equipment, net		<u>1,396,365</u>	<u>713,763</u>
Total assets		<u>\$ 2,334,904</u>	<u>\$ 1,315,037</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:			
Bank line of credit		\$ 63,937	\$ 55,348
Accounts payable		649,800	331,537
Accrued payroll and payroll-related expenses		108,891	71,952
Related party payable, current portion		18,000	18,000
Long-term debt, current portion		128,594	140,532
Obligations under capital leases, current portion		<u>224,254</u>	<u>51,257</u>
Total current liabilities		<u>1,193,476</u>	<u>668,626</u>
Related party payable, less current portion		9,000	27,000
Long-term debt, less current portion		342,376	292,989
Obligations under capital leases, less current portion		<u>347,056</u>	<u>90,459</u>
		<u>698,432</u>	<u>410,448</u>
Total liabilities		<u>1,891,908</u>	<u>1,079,074</u>

**Commitments and contingencies (See Note 10)**

Stockholders' equity:			
Common stock; \$1.00 par value, 20,000 shares authorized; 102 shares issued and outstanding		102	102
Additional paid-in capital		(11,424)	(11,424)
Retained earnings		<u>454,318</u>	<u>247,285</u>
Total stockholders' equity		<u>442,996</u>	<u>235,963</u>
Total liabilities and stockholders' equity		<u>\$ 2,334,904</u>	<u>\$ 1,315,037</u>

*The accompanying notes are an integral part of these financial statements.*

**Kettle Drilling, Inc.**  
**Statements of Operations**  
**For the years ended December 31, 2005 and 2004 - Unaudited**

	<b>2005</b>	<b>2004</b>
Revenue:		
Drilling services	\$5,529,145	\$3,717,309
Costs and expenses:		
Drilling costs	2,888,369	2,014,813
Officer compensation	251,744	114,012
General and administrative expenses	1,372,170	792,783
Depreciation and amortization	<u>279,100</u>	<u>103,737</u>
Total costs and expenses	<u>4,791,383</u>	<u>3,025,345</u>
Other (income) expense:		
Interest expense	94,504	33,081
Interest income	(63)	(243)
Gain on sale of equipment	<u>(9,500)</u>	<u>          </u>
Total other expense	<u>84,941</u>	<u>32,838</u>
Net income	<u>\$ 652,821</u>	<u>\$ 659,126</u>

*The accompanying notes are an integral part of these financial statements.*

**Kettle Drilling, Inc.**  
**Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2005 and 2004 - Unaudited**

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Total Stockholders' Equity</b>
<b>Balances, December 31, 2003</b>	200	\$ 200	\$ 42,478	\$ 147,021	\$ 189,699
Stock redemption	(98)	(98)	(53,902)		(54,000)
Net income				659,126	659,126
Distributions to shareholders	_____	_____	_____	_____(558,862)	_____(558,862)
<b>Balances, December 31, 2004</b>	102	102	(11,424)	247,285	235,963
Net income				652,821	652,821
Distributions to shareholders	_____	_____	_____	_____(445,788)	_____(445,788)
<b>Balances, December 31, 2005</b>	<u>102</u>	<u>\$ 102</u>	<u>\$ (11,424)</u>	<u>\$ 454,318</u>	<u>\$ 442,996</u>

**Kettle Drilling, Inc.**  
**Statements of Cash Flows**  
**For the years ended December 31, 2005 and 2004 - Unaudited**

	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Net income	\$ 652,821	\$ 659,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	279,100	103,737
Gain on disposal of equipment		(9,500)
Change in:		
Accounts receivable	(117,346)	(234,641)
Employee advances	(1,710)	
Prepaid expenses	6,890	(6,890)
Supplies and parts inventories	(292,109)	(75,850)
Deposits	20,000	(19,750)
Accounts payable	318,264	278,370
Accrued expenses	<u>36,939</u>	<u>60,647</u>
Net cash provided by operating activities	<u>902,849</u>	<u>755,249</u>
Cash flows from investing activities:		
Proceeds from sale of equipment		9,500
Acquisition of property and equipment	<u>(47,980)</u>	<u>(96,481)</u>
Net cash used in investing activities	<u>(47,980)</u>	<u>(86,981)</u>
Cash flows from financing activities:		
Net advances from line of credit	8,589	30,795
Payments on related party payable	(18,000)	(9,000)
Net proceeds on long-term debt		36,000
Payments on long-term debt	(241,278)	(92,999)
Payments on capital leases	(205,401)	(44,465)
Distributions to shareholders	<u>(445,788)</u>	<u>(558,862)</u>
Net cash used by financing activities	<u>(901,878)</u>	<u>(638,531)</u>
Net change in cash	(47,009)	29,737
Cash, beginning of year	<u>60,531</u>	<u>30,794</u>
Cash, end of year	<u>\$ 13,522</u>	<u>\$ 60,531</u>
Supplemental disclosures of cash flow information:		
Interest paid in cash	<u>\$ 94,504</u>	<u>\$ 33,081</u>
Supplemental disclosures of non-cash investing and financing activities:		
Non-cash investing and financing activities:		
Stock redemption		<u>\$ 54,000</u>
Notes payable - equipment purchases	<u>\$ 278,726</u>	<u>\$ 277,151</u>
Capital leases - equipment purchases	<u>\$ 634,996</u>	<u>\$ 186,180</u>



## **Kettle Drilling, Inc.**

### **Notes to Financial Statements**

#### **1. Description of Business**

Kettle Drilling, Inc. (“the Company”) is a closely-held company, and was incorporated as an Idaho corporation on December 13, 1996. The Company provides drilling services to the mining and mineral exploration industry across North America and worldwide.

#### **2. Summary of Significant Accounting Policies**

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### Revenue Recognition

Generally, the Company recognizes drilling service revenues as the drilling services are provided to the customer. In some cases, the customer is responsible for mobilization and “stand by” costs when the Company deploys its personnel and equipment to a specific drilling site, but for reasons beyond the Company’s control, drilling activities are not able to take place. Usually, the specific terms of each drilling job are agreed to by the customer and the Company prior to the commencement of drilling.

##### Income Taxes

The Company has elected to be taxed as a small business corporation pursuant to Subchapter S of the Internal Revenue Code. Accordingly, in lieu of current federal income taxes arising at the company level, the shareholders are taxed on their proportionate share of the Company’s taxable income. As such, no provision or benefit for income taxes has been recorded in the financial statements.

##### Accounts Receivable

The Company’s accounts receivable are not subject to discounts and are generally due within 15 to 20 days of invoicing. The Company records an allowance for doubtful accounts based on specifically identified amounts that the Company believes to be uncollectible and for those accounts that are past due beyond a certain date. If actual collections experience changes, revisions to the allowance may be required. If all attempts to collect a receivable fail, the receivable is written off against the allowance.

##### Inventories

The Company values inventories at the lower of average cost or market. Allowances are recorded for inventory considered to be in excess or obsolete. Inventories consist primarily of parts and supplies.

**Kettle Drilling, Inc.**  
**Notes to Financial Statements**

**2. Summary of Significant Accounting Policies, Continued:**

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally five to seven years. Equipment under capital leases and leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations.

Fair Values of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, trade accounts receivables, accounts payable, and accrued payroll and payroll-related expenses approximated their fair values as of December 31, 2005 and 2004. Line of credit balances and equipment notes payable are generally stated at their fair value based upon the terms of the debt.

Cash Equivalents

The Company considers cash in banks and other deposits with an original maturity of three months or less, that can be liquidated without prior notice or penalty, to be cash and cash equivalents.

**3. Supplies and Parts Inventories**

The Company's supplies and parts inventories are valued at the lower of average cost or market. At December 31, 2005 and 2004, the Company did not take physical counts of its supplies and parts inventories. The Company has estimated the value of its supplies and parts inventories based upon management's physical inventory records and available inventory cost information. In addition, management has reviewed the unit cost of its supplies and parts inventories to ensure that the costs are stated at the lower of cost or market value. At December 31, 2005 and 2004, the Company had materials and supplies inventories of \$493,904 and \$201,796, respectively.

**4. Property and Equipment**

Property and equipment at December 31, 2005 and 2004, consisted of the following:

	<b>2005</b>	<b>2004</b>
Office equipment	\$ 14,250	\$ 12,258
Equipment and vehicles	1,920,958	1,023,852
Leasehold improvements	<u>107,297</u>	<u>93,844</u>
Total property and equipment	2,042,505	1,129,954
Less accumulated depreciation	<u>(646,140)</u>	<u>(416,191)</u>
Property and equipment, net	<u>\$ 1,396,365</u>	<u>\$ 713,763</u>

**Kettle Drilling, Inc.**  
**Notes to Financial Statements**

**4. Property and Equipment, Continued:**

At December 31, 2005 and 2004, equipment and vehicles included assets under capital leases amounting to \$819,676 and \$184,680, respectively. The leases are amortized over their respective terms. At December 31, 2005 and 2004, the accumulated depreciation related to these assets under capital leases amounted to \$129,511 and \$14,547, respectively.

**5. Bank Line of Credit**

The Company has a bank line of credit available at December 31, 2005 and 2004 of \$65,000 at prime plus 2.75%. This line of credit is personally guaranteed by the majority shareholder. At December 31, 2005 and 2004, the prime interest rate was 7.25% and 5.25%, respectively. At December 31, 2005 and 2004, the outstanding balance on the line of credit was \$63,937 and \$55,348, respectively.

**6. Obligations Under Capital Leases**

The lease obligations as of December 31, 2005 and 2004 were \$571,310 and \$141,716, respectively. Future minimum lease payments at December 31, 2005, for the related obligations under capital leases were:

Year Ending December 31,	
2006	\$ 260,602
2007	236,255
2008	96,514
2009	37,368
2010	<u>6,227</u>
Total minimum lease payments	636,966
Less amount representing interest	<u>(65,656)</u>
Present value of minimum lease payments	571,310
Less obligations due within one year	<u>(224,254)</u>
Obligations under capital leases, due after one year	<u><u>\$ 347,056</u></u>

**Kettle Drilling, Inc.**  
**Notes to Financial Statements**

**7. Long-Term Debt**

Long-term debt at December 31, 2005 and 2004 consisted of the following:

	2005	2004
Note payable to Borrego Springs Bank, National Association-Small Business Administrations ("SBA") Loan Center; payable in monthly installments of \$1,992 at a rate of prime plus 2.75%. The note is collateralized by certain equipment and a deed of trust for real property owned by Douglas D. and Brenda L. Kettle, located in Kootenai County, Idaho and is also personally guaranteed by Douglas D. and Brenda L. Kettle.	\$ 124,921	\$ 136,745
Note payable to Mountain West Bank-SBA Department; payable in monthly payments of \$5,373 at a rate of prime plus 2.25%. The note is personally guaranteed by Douglas D. Kettle and Brenda L. Kettle.	86,555	26,804
Notes payable to various lenders for vehicles and equipment, in monthly payments totaling \$9,023 per month, at rates ranging from 0.9% to 9.5%, with a weighted average interest rate of approximately 7%. The notes are collateralized by the vehicles and equipment that they represent.	259,494	269,972
Note payable to Brenda Kettle, a related party (See Note 8) payable in monthly installments of \$1,500. The note does not bear interest.	27,000	45,000
	<u>497,970</u>	<u>478,521</u>
Less current portion	(146,594)	(158,532)
	<u>\$ 351,376</u>	<u>\$ 319,989</u>

As of December 31, 2005, debt outstanding will mature as follows:

2006	\$ 146,594
2007	117,627
2008	81,003
2009	69,475
2010	35,006
Thereafter	48,265
	<u>\$ 497,970</u>

**Kettle Drilling, Inc.**  
**Notes to Financial Statements**

**8. Related Party Transactions**

During 2004, the Company redeemed 98 shares of common stock for \$54,000 from Brenda Kettle. Brenda is the wife of Doug Kettle, President and majority shareholder of the Company. The redemption was recorded as a related party payable (See Note 7), with payment terms of \$1,500 per month. The note is not interest-bearing.

In 2004, the Company paid for shop improvements totaling \$17,723 on real property owned by Doug Kettle, President and majority shareholder of the Company.

The Company periodically rents equipment from Hard Rock Drilling, Inc., a company owned by Doug Kettle, President and majority shareholder of the Company. Total lease payments for the years ended December 31, 2005 and 2004 were \$144,000 and \$41,200, respectively. In addition, during 2004, \$88,500 was paid to Hard Rock Drilling, Inc. for consulting services rendered.

**9. Stockholders' Equity**

The Company has 20,000 shares authorized of \$1.00 par value common stock. At December 31, 2005 and 2004, the Company had 102 shares issued and outstanding.

**10. Commitments and Contingencies**

Real Estate Lease Commitments

The Company has real estate lease commitments related to its corporate headquarters in Coeur d'Alene, Idaho, a storage shop in Rathdrum, Idaho, and its operational facility in Winnemucca, Nevada.

Annual lease obligations until the termination of the leases are as follows:

2006	\$ 29,200
2007	\$ 15,400

Letter of Intent

On December 19, 2005, the Company signed a letter of intent ("LOI") to be acquired by Timberline Resources Corporation ("Timberline"), a public corporation. Under the terms of the LOI, the shareholders of the Company received \$2,800,000 earnest money and 100,000 non-refundable common shares of Timberline in exchange for a 75-day option by Timberline to acquire a 60% stake in the Company.

On March 6, 2006, Timberline completed its acquisition of 100% of the outstanding shares of the Company, for the purchase price of \$2,800,000 and 5,000,000 shares of convertible preferred stock to the shareholders of the Company.

*(b) Pro Forma Financial Information*

The required proforma financial information is appended below. The Kettle proforma statements of operations are presented for the year ended December 31, 2005. The Timberline proforma statements of operations are presented for the year ended September 30, 2005. The proforma balance sheet is presented at December 31, 2005 for Kettle and at September 30, 2005 for Timberline.

**TIMBERLINE RESOURCES CORPORATION**
**PROFORMA BALANCE SHEETS**

	Timberline Resources Corp Year End September 30, 2005	Kettle Drilling Inc Year End December 31, 2005	Eliminations	Proforma Combined Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 174,270	\$ 13,522	\$ -	\$ 187,792
Accounts and contracts receivable	-	397,379	-	397,379
Inventory - supplies	-	493,904	684,811	1,178,715
Other current assets	-	33,734	-	33,734
Total Current Assets	174,270	938,539	684,811	1,797,620
<b>PROPERTY AND EQUIPMENT</b>				
Equipment, net of depreciation	457	1,396,365	2,377,427	3,774,249
<b>OTHER ASSETS</b>				
Contracts in place	-	-	856,800	856,800
Work force in place	-	-	248,068	248,068
Covenant not to compete	-	-	243,000	243,000
Total Other Assets	-	-	1,347,868	1,347,868
<b>TOTAL ASSETS</b>	\$ 174,727	\$ 2,334,904	\$ 4,410,106	\$ 6,919,737

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**
**CURRENT LIABILITIES**

Accounts payable	\$ 38,896	\$ 649,800	\$	\$ 688,696
Accrued expenses	-	108,891	2,400,000	2,508,891
Related party payables	16,454	18,000		34,454
Bank line of credit		63,937		63,937
Notes payable - related party, net	-	-		-
Deferred lease income	56,302	-		56,302
Current portion of long-term debt and capital lease obligations	-	352,848	400,000	752,848
<b>TOTAL CURRENT LIABILITIES</b>	<u>111,652</u>	<u>1,193,476</u>	<u>2,800,000</u>	<u>4,105,128</u>
<b>LONG-TERM LIABILITIES</b>				
Convertible notes payable - related party, net	23,004	9,000	-	32,004
Derivative from convertible debt	112,085	-	-	112,085
Long-term debt and capital lease obligations	-	689,432	-	689,432
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>135,089</u>	<u>698,432</u>	<u>-</u>	<u>833,521</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>				
Preferred stock	7,266	102	(102)	7,266
Additional paid-in capital	2,984,217	(11,424)	2,064,526	5,037,319
Accumulated deficit	(3,063,497)	454,318	(454,318)	(3,063,497)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<u>(72,014)</u>	<u>442,996</u>	<u>1,610,106</u>	<u>1,981,088</u>
<b>TOTAL LIABILITIES AND</b>				
<b>STOCKHOLDERS' EQUITY</b>	<u>\$ 174,727</u>	<u>\$ 2,334,904</u>	<u>\$ 4,410,106</u>	<u>\$ 6,919,737</u>



**TIMBERLINE RESOURCES CORPORATION**  
**PROFORMA STATEMENTS OF OPERATIONS**

	Timberline Resources Corp Year Ended September 30, 2005	Kettle Drilling Inc Year Ended December 31, 2005	Eliminations	Proforma Combined Total
<b>REVENUES</b>	\$ -	\$ 5,529,145	\$ -	\$ 5,529,145
<b>COST OF REVENUES</b>	-	2,888,369	-	2,888,369
<b>GROSS PROFIT</b>	-	2,640,776	-	2,640,776
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Mineral exploration expenses	389,321	-	-	389,321
Other general and administrative expenses	160,741	1,903,014	-	2,063,755
<b>TOTAL EXPENSES</b>	550,062	1,903,014	-	2,453,076
<b>LOSS FROM OPERATIONS</b>	(550,062)	737,762	-	187,700
<b>OTHER INCOME (EXPENSE)</b>				
Lease income	30,966	-	-	30,966
Interest Income	-	63	-	63
Change in fair value of derivatives	(9,395)	-	-	(9,395)
Amortization of discount on note payable	(694)	-	-	(694)
Interest expense	(1,788)	(94,504)	-	(96,292)
Gain on sale of equipment	-	9,500	-	9,500

TOTAL OTHER INCOME (EXPENSE)	19,089	(84,941)	-	(65,852)
LOSS BEFORE TAXES	<u>(530,973)</u>	<u>652,821</u>	<u>-</u>	<u>121,848</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET INCOME (LOSS)</b>	<b>\$ <u>(530,973)</u></b>	<b>\$ <u>652,821</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>121,848</u></b>
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	<b>\$ <u>(0.08)</u></b>	<b>\$ <u>6,498</u></b>	<b>\$ <u>N/A</u></b>	<b>\$ <u>0.01</u></b>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>6,403,919</u>	<u>102</u>	<u>2,099,898</u>	<u>8,503,919</u>

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**

**PROFORMA STATEMENTS OF OPERATIONS**

	Timberline Resources Corp Six Months Ended March 31, 2006	Kettle Drilling Inc Three Months Ended March 31, 2006	Eliminations	Proforma Combined Total
<b>REVENUES</b>	\$ 552,094	\$ 1,768,457	\$ (506,702)	\$ 1,813,849
<b>COST OF REVENUES</b>	344,945	831,944	(344,945)	831,944
<b>GROSS PROFIT</b>	207,149	936,513	(161,757)	981,905
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Mineral exploration expenses	267,088	-	-	267,088
Other general and administrative expenses	425,348	692,060	(277,101)	840,307
<b>TOTAL EXPENSES</b>	692,436	692,060	(277,101)	1,107,395
<b>LOSS FROM OPERATIONS</b>	(485,287)	244,453	115,344	(125,490)
<b>OTHER INCOME (EXPENSE)</b>				
Lease income	16,891	-	-	16,891
Change in fair value of derivatives	25,453	-	-	25,453
Amortization of discount on note payable	(15,365)	-	-	(15,365)
Interest expense	(14,125)	-	-	(14,125)

TOTAL OTHER INCOME (EXPENSE)	12,854	-	-	12,854
LOSS BEFORE TAXES	<u>(472,433)</u>	<u>244,453</u>	<u>115,344</u>	<u>(112,636)</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	<b>\$ <u>(472,433)</u></b>	<b>\$ <u>244,453</u></b>	<b>\$ <u>115,344</u></b>	<b>\$ <u>(112,636)</u></b>
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	<b>\$ <u>(0.05)</u></b>			
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>10,473,700</u>			

**TIMBERLINE RESOURCES CORPORATION**  
**NOTES TO PROFORMA FINANCIAL STATEMENTS**

On March 1, 2006, Timberline Resources Corporation (hereinafter “the Company” or “Timberline” effectively completed the acquisition of 100% of the net assets of Kettle Drilling, nc. (hereinafter “Kettle”) in consideration of cash of \$2,400,000, 100,000 shares of common stock valued at \$53,000, 5,000,000 shares of preferred stock valued at \$2,000,000, and notes totaling \$400,000, to the selling shareholders pursuant to the agreement.

The accompanying proforma financial statements contain adjustments to characterize the transactions of Kettle as those of Timberline for the periods presented. The Kettle proforma statements of operations are presented for the year ended December 31, 2005. The Timberline proforma statements of operations are presented for the year ended September 30, 2005. The proforma balance sheet is presented at December 31, 2005 for Kettle and at September 30, 2005 for Timberline.

There are no required adjustments to the Proforma statements of operating and the adjustments to the proforma balance sheets are as follows:

Inventory, property and equipment were increased by \$684,811 and \$2,377,427, respectively based upon appraisals. Intangible assets were identified to be the value of contracts and workforce in place of \$856,800 and \$248,068, respectively. Covenants not to compete were established with the two principal corporate officers of Kettle Drilling and were valued in total to be \$243,000.

## **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: May 22, 2006

/s/ John Swallow

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