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

**FORM 10-QSB/A**  
**Amendment No. 1**

(Mark One)

**☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended December 31, 2005**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**TIMBERLINE RESOURCES CORPORATION**

(Exact Name of Small Business Registrant as Specified in its Charter)

**IDAHO**

(State or other jurisdiction of incorporation)

**000-51549**

(Commission File Number)

**82-0291227**

(IRS Employer Identification No.)

**36 West 16th Avenue Spokane, Washington**

(Address of principal executive offices)

**99203**

(Zip Code)

**Issuer's Telephone Number: (509) 747-5225**

**Copies of Communications to:**

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Check whether the issuer (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings for the past 90 days. **YES ☒ NO ☐**

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of February 21, 2006 the number of the Company's shares of par value \$0.001 common stock outstanding was 7,366,125.

Transitional Small Business Disclosure format (check one): Yes ☐ No ☒

SEC 2334 (9-05) **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.**

**Timberline Resources Corporation**  
**Form 10-QSB**

**Table of Contents**

**Part I – Financial Information**

**Item 1. Financial Statements (Unaudited)**

Balance Sheet at December 31, 2005 (Unaudited)	3
Statements of Operations For the Three Month Periods Ended December 31, 2005 and 2004 (Unaudited)	4
Statements of Cash Flows For the Three Month Periods Ended December 31, 2005 and 2004 (Unaudited)	5
Notes to Financial Statements (Unaudited)	8

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations** 15

**Item 3. Controls and Procedures** 17

**Part II – Other Information**

**Item 1. Legal Proceedings** 18

**Item 2. Changes in Securities and Use of Proceeds** 18

**Item 3. Defaults Upon Senior Securities** 18

**Item 4. Submission of Matters to a Vote of Security Holders** 18

**Item 5. Other Information** 18

**Item 6. Exhibits** 18

**Signature Page** 19

## EXPLANATORY NOTE

This Amendment to the Quarterly Report on Form 10QSB of Timberline Resources Corporation for the three month period ended December 31, 2005 (File Number 000-51549) is being filed for the following two reasons:

1. It contains amended financial statements for the period ended December 31, 2005 that are consistent with the sum of changes to the amended financial statements that have been included in the Issuer's Registration Statements on Form 10SB/A as filed between February 22 and May 11, 2006; and
2. It contains changes and corrections in its text to be consistent with those changes and corrections to the text of said amendment to the aforementioned Registration Statement.

**PART I - FINANCIAL INFORMATION**

**ITEM 1: FINANCIAL STATEMENTS**

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

**FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIOD ENDED  
December 31, 2005  
(Unaudited)**

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

	December 31. 2005 (Unaudited) (Restated)	September 30, 2005 (Restated)
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 6,864	\$ 174,270
PROPERTY AND EQUIPMENT		
Equipment, net of depreciation	425	457
TOTAL PROPERTY AND EQUIPMENT	425	457
OTHER ASSETS		
Deferred acquisition costs	53,000	-
TOTAL OTHER ASSETS	53,000	-
<b>TOTAL ASSETS</b>	<b>\$ 60,289</b>	<b>\$ 174,727</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
CURRENT LIABILITIES		
Accounts payable	\$ 8,153	\$ 38,897
Related party payables	1,225	16,454
Deferred lease income	47,857	56,302
TOTAL CURRENT LIABILITIES	57,235	111,653
LONG-TERM LIABILITIES		
Convertible notes payable - related party, net	25,249	23,004
Derivative from convertible debt	248,970	112,085
TOTAL LONG-TERM LIABILITIES	274,219	135,089
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized, 7,366,125 and 7,266,125 shares issued and outstanding	7,366	7,266
Additional paid-in capital	3,050,672	3,069,217
Accumulated deficit prior to exploration stage	(2,015,258)	(2,015,258)
Accumulated deficit during exploration stage	(1,313,945)	(1,048,239)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(271,165)	(72,014)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ (60,289)</b>	<b>\$ 174,717</b>

See accompanying condensed notes to interim financial statements.

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

	Three Months Ended		Period from
	December 31,	December 31,	January 15, 2004
	2005	2004	(Inception of
	(Unaudited)		Exploration Stage)
	(Restated)	(Unaudited)	to
			December 31, 2005
			(Unaudited)
			(Restated)
<b>REVENUES</b>	\$ -	\$ -	\$ -
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Mineral exploration expenses	203,458	45,033	957,099
Other general and administrative expenses	28,439	18,387	340,204
<b>TOTAL EXPENSES</b>	<u>231,897</u>	<u>63,420</u>	<u>1,297,303</u>
<b>LOSS FROM OPERATIONS</b>	<u>(231,897)</u>	<u>(63,420)</u>	<u>(1,297,303)</u>
<b>OTHER INCOME (EXPENSE)</b>			
Lease income	8,446	5,630	39,412
Change in fair value of derivatives	(23,765)	-	(33,160)
Amortization of discount on note payable	(15,365)	-	(16,059)
Interest expense	(3,125)	-	(6,835)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(33,809)</u>	<u>5,630</u>	<u>(16,642)</u>
<b>LOSS BEFORE TAXES</b>	<u>(265,706)</u>	<u>(57,790)</u>	<u>(1,313,945)</u>
<b>INCOME TAX EXPENSE</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET LOSS</b>	<u>\$ (265,706)</u>	<u>\$ (57,790)</u>	<u>\$ (1,313,945)</u>
<b>NET LOSS PER COMMON SHARE,</b>			
<b>BASIC AND DILUTED</b>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	
<b>WEIGHTED AVERAGE NUMBER</b>			
<b>OF COMMON SHARES OUTSTANDING,</b>			
<b>BASIC AND DILUTED</b>	<u>7,279,312</u>	<u>5,783,125</u>	

See accompanying condensed notes to interim financial statements.

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

	Three Months Ended		Period from January 15, 2004 (Inception of Exploration Stage) to December 31, 2005 (Unaudited) (Restated)
	December 31, 2005 (Unaudited) (Restated)	December 31, 2004 (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (265,706)	\$ (57,790)	\$ (1,313,945)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation and amortization	32	32	218
Amortization of discount on notes payable	15,365	-	16,509
Change in fair value of derivatives	23,765	-	33,160
Common stock issued for services	-	-	144,000
Common stock issued for mineral agreement and leases	-	-	51,900
Stock options granted for consulting	13,554	-	48,404
Non-cash lease income	-	(65,000)	(65,000)
Changes in assets and liabilities:			
Accounts payable	(30,743)	(35,232)	8,154
Related party payable	(15,229)	(8,677)	1,225
Accrued interest, notes payable	-	(1,922)	-
Deferred lease income	(8,445)	81,639	47,857
Net cash used by operating activities	<u>(267,406)</u>	<u>(86,950)</u>	<u>(1,027,968)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:</b>			
Purchase of equipment	-	-	(643)
Net cash used by investing activities	<u>-</u>	<u>-</u>	<u>(643)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>			
Proceeds from related party notes payable	100,000	-	290,000
Proceeds from private placement	-	-	744,800
Net cash provided by financing activities	<u>100,000</u>	<u>-</u>	<u>1,034,800</u>
Net increase in cash and cash equivalents	(167,406)	(86,950)	6,189
Cash at beginning of period	174,270	111,155	675
Cash at end of period	<u>\$ 6,864</u>	<u>\$ 24,205</u>	<u>\$ 6,864</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	<u>\$ 1,042</u>	<u>\$ -</u>	<u>\$ 2,830</u>
<b>NON-CASH FINANCING AND INVESTING ACTIVITIES:</b>			
Common stock issued for services	\$ -	\$ -	\$ 144,000
Common stock issued for mineral agreement	\$ -	\$ -	\$ 51,900
Note payable paid by lease transfer	\$ -	\$ -	\$ 65,000
Stock options issued for consulting	\$ 13,554	\$ -	\$ 48,404
Common stock issued for due diligence	\$ 53,000	\$ -	\$ 53,000

See accompanying condensed notes to interim financial statements.

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 1 – BASIS OF PRESENTATION**

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended September 30, 2005. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented. Operating results for the three month period ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ending September 30, 2006.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of asset and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company’s financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company’s financial position and results of operations.

**NOTE 2 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Timberline Resources Corporation (hereinafter “Timberline” or “the Company”) was incorporated in August of 1968 under the laws of the State of Idaho as Silver Crystal Mines, Inc., for the purpose of exploring for precious metal deposits and advancing them to production. Silver Crystal Mines operated and produced ore from the Silver Crystal (Ione) and Bear Top Mines in the Summit Mining District east of Murray, Idaho during the late 1960’s and into the 1980’s. During the 1990’s, the Company entered a period of dormancy, which lasted until the change of control in January 2004. Effective February 2004, the Company’s name was changed to Timberline Resources Corporation. The Company’s fiscal year-end is September 30.

On January 15, 2004, at the same time as the change in control, the Company entered a new exploration stage coinciding with the acquisition of new mining properties. Upon entering the new exploration stage, the Company did not continue owning or developing any properties it owned previously, nor has the Company re-acquired any previously owned properties.



**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Going Concern

As shown in the accompanying financial statements, the Company has limited revenues, has an accumulated deficit prior to the exploration stage of \$2,015,258 and a deficit accumulated during the exploration stage of \$1,313,945. These factors indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. Management plans to seek additional funding by means of a private placement of the Company's stock to carry out exploration and development of its acquired mineral properties.

Basic and Diluted Net Loss Per Share

Net loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Basic and diluted net loss per share were the same at December 31, 2005 and 2004, as the Company had outstanding at December 31, 2005, 245,000 outstanding and exercisable options, 500,000 warrants, and 900,000 shares under convertible debt (totaling 1,645,000 shares) and at December 31, 2004 had 892,500 outstanding warrants that would be anti-dilutive and are not included in the calculations.

Provision for Taxes

At December 31, 2005 and September 30, 2005, the Company had a net deferred tax asset calculated at an expected rate of 34% of approximately \$1,115,000 and \$1,037,000 respectively, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been recorded at December 31, 2005.

	December 31, 2005	September 30, 2005
Net operating loss carryforwards	\$ 3,280,000	\$ 3,050,000
Deferred tax asset	\$ 1,115,000	\$ 1,037,000
Deferred tax asset valuation allowance	\$ (1,115,000)	\$ (1,037,000)

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

At December 31, 2005, the Company has a net operating loss carryforward of approximately \$3,290,000, which will expire in the years September 30, 2006 through September 30, 2025. Not included in the calculation of deferred tax assets is approximately \$48,000 in stock options granted to officers that are not deductible for tax purposes. The table below shows the operating net loss carryforward by year of expiration.

The Tax Reform Act of 1986 substantially changed the rules relative to the use of net operating loss and general business credit carryforwards in the event of an “ownership change” of a corporation. Due to the change in ownership during January 2004, the Company is restricted in the future use of net operating loss and tax credit carryforwards generated before the ownership change. As of December 31, 2005, this limitation is applicable to accumulated net operating losses of approximately \$2,000,000, which were incurred prior to the change of ownership and would substantially limit the use of the Company’s respective, existing losses. The change in the allowance account from September 30, 2005 to December 31, 2005 was \$78,000.

The above estimates are based upon management’s decisions concerning certain elections which could change the relationship between net income and taxable income. Management decisions are made annually and could cause the estimates to vary significantly.

**Recent Accounting Pronouncements**

In March 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 156, “Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140.” This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations: a transfer of the servicer’s financial assets that meets the requirements for sale accounting; a transfer of the servicer’s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities ; or an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. The statement also requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable and permits an entity to choose either the amortization or fair value method for subsequent measurement of each class of servicing assets and liabilities. The statement further permits, at its initial adoption, a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity’s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value and requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity’s fiscal year. Management believes the adoption of this statement will have no impact on the Company’s financial condition or results of operations.

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (hereinafter "SFAS No. 155"). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management is currently analyzing the effect of this statement on the Company's financial condition and results of operations.

Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. This reclassification has resulted in no changes to the Company's accumulated deficit or net losses presented.

**NOTE 4 – MINERAL PROPERTY INTERESTS**

On November 26, 2004, the Company signed a mineral property lease with Sterling Mining Company (as lessee) on four groups of unpatented lode mining claims (88 individual claims) located in Lincoln and Sanders County, Montana. Upon execution of the lease, the Company was paid cash of \$19,600 and Sterling Mining Corporation forgave loans totaling \$65,000 and related interest of \$2,669. In return, Sterling received the right to explore and mine the aforementioned claims through May 31, 2007. In addition, Sterling can renew the lease on an annual basis after 2007 by making annual lease payments of \$5,000 per claim group and paying a one percent (1%) net smelter return royalty on any production from the claims that are subject to the agreement. The Company is recognizing the \$87,269 of lease income over the period of the initial lease which expires on June 1, 2007. The Company has recognized for the three months ended December 31, 2005, \$8,445 in lease income and the remaining balance is included in the financial statements as "deferred lease income".

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The following is a summary of property, equipment, and accumulated depreciation:

	December 31, 2005	December 31, 2004
Equipment	\$ 643	\$ 643
Less accumulated depreciation	(217)	(88)
	<u>\$ 425</u>	<u>\$ 555</u>

Depreciation expense for the three months ending December 31, 2005 and 2004 was \$32 each period. Maintenance and repairs are expensed as incurred.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Company has entered into seven related party contracts with consultants for professional services, to be paid at customary hourly or daily rates, plus expenses. At December 31, 2005, \$1,225 was accrued to be paid to some of these related parties and is included on the financial statements under “accounts payable – related parties”. During the year ended September 30, 2005, officers and shareholders of the Company paid expenses on behalf of the Company totaling \$16,453. This amount is reflected on the balance sheet as related party payables.

The Company received two loans totaling \$225,000 from an officer of the company on August 24, 2005 and on December 1, 2005. See Note 7 for further disclosure of both loans.

**NOTE 7 – CONVERTIBLE DEBT**

On August 24, 2005, the Company entered into a loan agreement with Swallow Family, LLC, an entity owned by Mr. John Swallow, the Company’s chairman, for the LLC to loan the Company \$125,000, repayable at 10% interest on an interest only basis. Monthly payments are \$1,041.67, beginning on September 1, 2005. The term of the loan is from September 1, 2005 to September 1, 2008. The loan is convertible to shares of the Company’s stock, at a price of \$0.25 per share or the market price of the stock when the loan is repaid, whichever is less. The loan has been used to finance an exploration drilling program at the Snowstorm Project. As of the note’s origination and as of December 31, 2005, the note principal could be converted into 500,000 shares of common stock.

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

On December 1, 2005, the Company entered into a loan agreement with Swallow Family, LLC, for the LLC to loan the Company \$100,000, repayable at 10% interest on an interest only basis. Monthly payments are \$1,042, beginning on January 1, 2006. The term of the loan is from December 1, 2006 to December 1, 2010. The loan is convertible to shares of the Company's stock, at a price of \$0.25 per share or the market price of the stock when the loan is repaid, whichever is less. The loan has been used to finance an exploration drilling program at the Snowstorm Project. As of the note's origination and as of December 31, 2005, the note principal could be converted into 400,000 shares of common stock. See Note 10.

The Company determined that the aforementioned convertible debt includes an embedded derivative which will be treated as a stock purchase options and liability because of the underlying terms of the contract.

Following EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," and SFAS No. 133, the Company has recognized an embedded derivative in the convertible debentures. For accounting and fair value purposes, the derivatives will be accounted for as stock options, following SFAS No. 123(R) for valuation purposes. The fair value of each derivative was estimated on the grant date using the Black-Scholes Option Price Calculation. The following assumptions were made in estimating fair value: risk-free interest rate of 5%; volatility of 18.3% and 75.72%; expected life of 3 years. The initial fair value of the derivative embedded in the \$125,000 debt was \$102,690 and the initial fair value of the \$100,000 debt was \$113,120, which are being recognized in the liabilities section of the balance sheet as derivatives from convertible debt. The excess of the fair value of the derivative related to the \$100,000 loan (a total of \$13,120) was immediately expensed in the current period. The convertible debt is discounted for the derivative and the discount is being amortized over the life of the loan using the effective interest method (for the September loan) and a modified effective interest method (for the December loan). This modified method is materially the same as the effect interest method. Amortization expense for the three months ended December 31, 2005 was \$15,365.

Under the guidance of SFAS No. 133 and EITF 00-19, all derivatives are restated to their fair value on each reporting date. To do so, the Company again values the convertible options using the Black-Scholes Option Price Calculation. Any change to the fair value of the derivatives is recognized on the income statement and recorded as other income or expense. At December 31, 2005, the Company recognized an increase in the fair value of the derivatives of \$23,765.

**NOTE 8 – ACQUISITION OF KETTLE DRILLING**

On December 19, 2005, the Company signed a letter of intent ("LOI") to acquire Kettle Drilling, Inc. ("Kettle"), a privately held corporation. Under the terms of the LOI, the Company issued to Kettle 100,000 non-refundable shares of its common in exchange for a 75-day option within which to acquire an initial 60% stake in Kettle for \$2.8 million. On closing, the Company will then receive an additional option to acquire the remaining 40% of Kettle for \$2 million over 2 years. Key management personnel at Kettle have agreed to stay on with the Company for a minimum of three years after the initial transaction closes.

The value of the shares on the date issuance was \$0.53 or \$53,000 in total. This was recorded as a deferred acquisition cost on the financial statements.

The acquisition was completed on March 1, 2006.

**TIMBERLINE RESOURCES CORPORATION**  
**(FORMERLY SILVER CRYSTAL MINES, INC.)**  
**(An Exploration Stage Company)**  
**CONDENSED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 9 – SUBSEQUENT EVENTS**

Subsequent to the date of the financial statements, the Company initiated a private placement of the Company's common stock. Under the private placement agreement, the Company can sell up to 8,000,000 shares of stock for a total of \$4,400,000. The stock is being sold in units, with each "unit" offered containing one share of common stock and one warrant to purchase ½ of a share of the Company's common stock (two warrants would be needed to purchase one share of common stock). The units are to be sold for \$0.55 per unit. As of February 20, 2006, the Company has received approximately \$1,300,000 under the private placement, and will issue the shares of stock at the closing of the private placement.

**NOTE 10 – CORRECTION OF AN ERROR**

The accompanying financial statements for December 31, 2005 have been restated to correct an error in the balance of deferred debt issuance cost and derivatives from convertible debt. The Company initially discounted the carrying value of the debentures by the amount of the beneficial conversion rights, but instead is discounting the carrying value of the debentures by the fair value of the derivative as well recognizing separately the fair value of the embedded derivatives as prescribed under SFAS No. 133. The Company also restated the September 30, 2005 financial statements for the same reason. The effects of the restatement were to increase convertible debt and derivative from convertible debt by \$209,911, increase the discount on convertible debt by \$50,307, decrease equity (specifically beneficial conversion rights) by \$161,000, increase change in fair value of derivatives by \$23,765, increase amortization of discount on convertible debt by \$6,170, increase accumulated deficit by \$7,727 (due to the prior year restatement) and increase net loss by \$29,936 (\$0.01 per share). See Notes 3 and 7.

The following is the summary of the effects of the above corrections:

	As Originally Filed	As Corrected	Change
<b>Financial Position</b>			
Convertible notes payable	\$ 225,000	\$ 225,000	\$ -
Discount on convertible note payable	\$ 149,444	\$ (199,751)	\$ 50,307
Derivative from convertible debt	\$ -	\$ 248,970	\$ 248,970
Beneficial conversion rights	\$ 161,000	\$ -	\$ (161,000)
Net loss	\$ 235,770	\$ 265,706	\$ 29,936
Accumulated deficit*	\$ 1,276,282	\$ 1,313,945	\$ 37,663
<b>Results of Operations</b>			
Amortization of discount on note payable**	\$ (9,195)	\$ (15,365)	\$ (6,170)
Change in fair value of derivative	\$ -	\$ 23,765	\$ 23,765
Loss per share	\$ (0.03)	\$ (0.04)	\$ (0.01)

\* Included in this change is \$7,727 that was a correction of an error at September 30, 2005

\*\* Originally included as part of interest expense, this is now being recognized as a separate line item

## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### OVERVIEW

We commenced our exploration stage in January 2004 with the change in the control the Company, and we have not had any revenues and only losses since well before that time. Accordingly, a comparison of our financial information for accounting periods would likely not be meaningful or helpful in making an investment decision regarding our Company. Since the exploration business is essentially a research and development activity, our future business focus depends upon current results where future plans can change radically at any time. Accordingly, it would not be meaningful, and perhaps would be misleading, to make estimates of anticipated expenditures beyond the next 12 months.

Our plan of operations for the next twelve months is to complete initial exploration programs on our mineral properties. We anticipate that the exploration programs will cost at least \$350,000. In addition, we anticipate spending an additional \$150,000 in other fees and expenses over the next year.

On December 19, 2005, we entered into a letter of intent wherein we agreed to acquire Kettle Drilling, Inc. This arrangement calls for us make a cash payment of \$2,800,000 to the principals of Kettle Drilling, Inc., on or about March 1, 2006, along with the issuance to them of convertible preferred stock. Subsequent to the period covered by this Form on 10QSB, we completed the acquisition as variously reported on Forms 8K.

<b>Anticipated Expenditure Over the Next 12 Months</b>	<b>Amount</b>
Acquisition of Kettle Drilling, Inc.	\$ 2,800,000
Initiate Exploration Activity (Snowstorm Project)	125,000
Initiate Exploration Activity (Olympic/Sun Property)	75,000
Initiate Exploration Activity (HD, ACE and PAC Properties)	50,000
Initiate Exploration Activity (Downeyville Property)	50,000
Initiate Exploration Activity (Spencer Property)	50,000
Professional and Geological Fees	50,000
Salaries and Wages	25,000
Travel Expenses	25,000
Other Administrative Expenses	50,000
<b>Total</b>	<b>\$ 3,300,000</b>

We will not be able to proceed with our planned acquisition of Kettle Drilling, Inc., our exploration programs, or meet our administrative expense requirements, without additional financing. We are currently conducting a "best-efforts" private offering of our securities to raise a maximum of \$4,400,000. If this offering is not successful, we will not be able to complete the acquisition of Kettle Drilling, Inc.

We may also seek to obtain short-term loans from our directors or principal shareholders. At this time, we cannot provide investors with any assurance that we will be able to raise sufficient funding from the sale of our securities (through the current private offering or otherwise) or through loans from our directors or principal shareholders to meet our obligations over the next twelve months. Regarding our exploration activities, if we are unable to raise sufficient additional funding through equity financing and/or loans, we will next attempt to obtain joint venture partners on a project by project basis to help lessen the expenses involved on each project (which would correspondingly reduce our portion of any revenues that may result if a property is successfully developed, of which there can be no assurance.) If we are

unsuccessful with that approach, we will attempt to renegotiate the underlying agreements on all or some of the properties to lower the obligations and allow us to maintain the properties. These factors raise substantial doubt that the Company will be able to continue as a going concern. To the extent management's plans are unsuccessful in overcoming the going concern uncertainty; the Company will cease all operations and no longer continue as a going concern.

### **Results of Operations for Years Ending September 30, 2004 and 2005**

We did not earn any revenues during the years ending September 30, 2004 and 2005. We do not anticipate earning revenues until such time, if at all, that we have successful exploration results and/or if we acquire Kettle Drilling, Inc. and derive income from its drilling activities as our wholly owned subsidiary. We are presently in the exploration stage of our mining exploration business. We can provide no assurance that we will discover economic mineralization levels of minerals, or if such minerals are discovered, that we will enter into commercial production.

We incurred operating expenses in the amount of \$515,344 for the fiscal year ended September 30, 2004, and \$547,701 for the year ended September 30, 2005.

Our net loss increased from \$1,505 in fiscal 2003 to \$517,266 in fiscal 2004 primarily due to a general increase in company activity since the takeover of the new management team and commencement of our exploration stage both in January 2004.

Our net loss increased from \$517,266 during the year ended September 30, 2004 to \$530,933 during the year ended September 30, 2005 primarily due to increased mineral exploration expenses, but was offset by lease income from one of our properties. Mining and exploration expenses increased from \$364,320 to \$389,321 and our general and administrative expenses increased from \$151,024 to \$158,380. These increases are due mainly to general increases in individual costs and increased exploration activity.

We have not attained profitable operations and are dependent upon obtaining financing to pursue exploration activities. For these reasons our auditors stated in their report that they have substantial doubt that we will be able to continue as a going concern.

At September 30, 2005, we had assets of \$174,727 consisting of cash in the amount of \$174,270, and other assets of \$457.

### **Results of Operations for Three Month Periods Ending December 31, 2004 and December 31, 2005**

We did not earn any revenues during the three month periods ending December 31, 2004 and 2005. We do not anticipate earning revenues until such time, if at all, that we have successful exploration results and/or if we acquire Kettle Drilling, Inc. and derive income from its drilling activities as our wholly owned subsidiary. We are presently in the exploration stage of our mining exploration business. We can provide no assurance that we will discover economic mineralization levels of minerals, or if such minerals are discovered, that we will enter into commercial production.

We incurred operating expenses in the amount of \$63,420 for the three months ended December 31, 2004, and \$231,897 for the three months ended December 31, 2005.

Our net loss increased from \$57,790 for three months ended December 31, 2004 to \$265,706 for the three months ended December 31, 2005 primarily due to a general increase in mineral exploration activity



and general expenses including legal and accounting expenses, but was offset by lease income from one of our properties. Mining and exploration expenses increased from \$45,033 to \$203,458 and our general and administrative expenses increased from \$18,387 to \$28,439. These increases are due mainly to general increases in individual costs and increased exploration activity.

We have not attained profitable operations and are dependent upon obtaining financing to pursue exploration activities. For these reasons our auditors stated in their report that they have substantial doubt that we will be able to continue as a going concern.

### **ITEM 3. CONTROLS AND PROCEDURES**

An evaluation was performed by the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. And on that evaluation, the Company has concluded that disclosure controls and procedures were effective as of December 31, 2005, in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

There has been no change in our internal controls over financial reporting during the quarter ended December 31, 2005 that has materially affect or is reasonable likely to materially affect, our internal controls over financial reporting.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None

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

During the three month period ended December 31, 2005, the Company issued a total of 100,000 shares of its restricted common stock to secure a 75 day option to purchase Kettle Drilling, Inc. The December 19, 2005, issuance of the shares to the principals of Kettle Drilling, Inc. (David Deeds-25,000 shares, and Douglas Kettle-75,000 shares) was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act"). Each recipient represented his intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and, appropriate legends were affixed to the share certificates issued in such transactions. No advertisement or general solicitation was used in connection with any offer or sale of such securities.

### **ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

### **ITEM 5. OTHER INFORMATION**

None

### **ITEM 6. EXHIBITS.**

Exhibit 31.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) and section 302 of the Sarbanes-Oxley Act of 2002, Swallow
Exhibit 31.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) and section 302 of the Sarbanes-Oxley Act of 2002, Gurkowski
Exhibit 32.1	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Swallow
Exhibit 32.2	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Gurkowski

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Timberline Resources Corporation**  
(Registrant)

/s/ John Swallow

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

/s/ Thomas Gurkowski

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Thomas Gurkowski  
(Secretary/Treasurer and Chief Financial Officer)

Date: May 30, 2006

## **INDEX TO ATTACHED EXHIBITS**

Exhibit 31.1 - Certification Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a), Swallow

Exhibit 31.2 - Certification Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a), Gurkowski

Exhibit 32.1 - Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Swallow

Exhibit 32.2 - Certification Required by Rule 13a-14(b) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, Gurkowski

## CERTIFICATION

I, John Swallow, certify that:

1. I have reviewed this annual report on Form 10-QSB of Timberline Resources Corporation;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 30, 2006.

/s/ John Swallow

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John Swallow  
(CEO and Chairman of the Board of Directors)

## CERTIFICATION

I, Thomas Gurkowski, certify that:

1. I have reviewed this annual report on Form 10-QSB of Timberline Resources Corporation;

2. Based on my knowledge, this report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 30, 2006.

/s/ Thomas Gurkowski

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Thomas Gukowski  
(Secretary/Treasurer and CFO)

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

I, John Swallow, CEO, and Chairman of the Board of Directors of Timberline Resources Corporation (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on 10QSB of the Company for the period ended December 31, 2005 as filed with the Securities and Exchange Commission (the “report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 30, 2006.

/s/ John Swallow

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John Swallow  
(CEO and Chairman of the Board of Directors)

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

I, Thomas Gurkowski, Secretary/Treasurer and CFO of Timberline Resources Corporation (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. This Quarterly Report on 10QSB of the Company for the period ended December 31, 2005 as filed with the Securities and Exchange Commission (the “report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 30, 2006.

/s/ Thomas Gurkowski

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Thomas Gurkowski  
(Secretary/Treasurer and CFO)