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

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended December 31, 2006

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

1100 East Lakeshore Drive, Suite 301, Coeur d'Alene, ID	**83814**
(Address of principal executive offices)	(Zip Code)

Issuer's Telephone Number: (208) 664-4859

Copies of Communications to:
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561 Schaefer Avenue
Oradell, New Jersey 07649-2517
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Fax: 201-265-6069

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 [X]** NO [ ]

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of February 9, 2007 the number of the Company's shares of par value $0.001 common stock outstanding was 18,371,921.

Transitional Small Business Disclosure format (check one): Yes [ ] No **[X]**

Timberline Resources Corporation
Form 10-QSB

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (Unaudited)	September 30, 2006 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,699,817	$ 732,245
Accounts receivable	612,605	1,305,496
Employee receivables	17,866	7,596
Inventories	1,198,183	865,566
Prepaid expense	158,873	80,294
Total current assets	4,687,344	2,991,197
PROPERTY AND EQUIPMENT:		
Property and equipment, net of accumulated depreciation	4,346,564	4,416,905
OTHER ASSETS:		
Deposits	21,230	10,020
Intangible assets, net of amortization	247,223	368,056
Goodwill	2,808,524	2,808,524
Total other assets	3,076,977	3,186,600
TOTAL ASSETS	$ 12,110,885	$ 10,594,702
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Line of credit	$ 596,065	
Accounts payable	1,196,646	$ 1,321,854
Accrued expenses	578,846	672,302
Accrued interest - related party payables	20,967	23,120
Deferred lease income	14,545	23,272
Current portion note payable - related party	893,085	1,222,524
Current portion of capital leases	465,025	478,099
Current portion of notes payable	168,536	165,849
Total current liabilities	3,933,715	3,907,020
LONG-TERM LIABILITIES:		
Notes payable - related party, net of current portion	225,000	225,000
Capital leases, net of current portion	609,828	724,081
Notes payable, net of current portion	247,699	274,515
Total long-term liabilities	1,082,527	1,223,596
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; 5,000,000 and none issued and outstanding, respectively	50,000	50,000
Common stock, $0.001 par value; 100,000,000 shares authorized; 18,909,521 and 14,356,921 shares issued and outstanding, respectively	18,909	14,357
Additional paid-in capital	13,194,450	10,429,403
Accumulated deficit	(6,168,716)	(5,029,674)
Total stockholders' equity (deficit)	7,094,643	5,464,086
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 12,110,885	$ 10,594,702

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	December 31, 2006 (unaudited)	December 31, 2005 (unaudited)
REVENUES	$ 3,208,337	$ -
COST OF REVENUES	2,731,689	-
GROSS PROFIT	476,648	-
GENERAL AND ADMINISTRATIVE EXPENSES:		
Mineral exploration expenses	82,957	203,458
Other general and administrative expenses	1,321,362	28,437
TOTAL EXPENSES	1,404,319	231,895
LOSS FROM OPERATIONS	(927,671)	(231,895)
OTHER INCOME (EXPENSE):		
Lease income	8,727	8,445
Amortization of intangible assets	(140,278)	-
Interest expense, net	(79,820)	(12,320)
TOTAL OTHER INCOME (EXPENSE)	(211,371)	(3,875)
LOSS BEFORE TAXES	(1,139,042)	(235,770)
INCOME TAX EXPENSE	-	-
NET LOSS	$ (1,139,042)	$ (235,770)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.10)	$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	11,025,909	7,279,312

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006 (Unaudited)	Year Ended December 31, 2005 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,139,042)	$ (235,770)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	313,740	32
Loss on sale of asset	4,379	9,195
Common stock issued for services	36,249	-
Common stock issued for mineral agreement and leases	-	13,554
Stock options granted for consulting	68,350	-
Changes in assets and liabilities:		
Accounts receivable	692,891	-
Inventories	(332,617)	-
Prepaid expenses and deposits	(89,789)	-
Employee advances	(10,270)	-
Accounts payable	(125,207)	(30,743)
Accrued expenses	(93,456)	(15,229)
Accrued interest, related party payables	(2,154)	-
Deferred lease income	(8,727)	(8,445)
Net cash used by operating activities	(685,653)	(267,406)
CASH FLOWS USED BY INVESTING ACTIVITIES:		
Purchase of equipment	(117,921)	-
Proceeds from sale of assets	8,536	-
Net cash used by investing activities	(109,385)	-
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Net advances on line of credit	596,065	-
Proceeds from related party notes payable	-	100,000
Payments of related party notes payable	(329,439)	-
Payment on notes payable	(41,688)	-
Payments on capital leases	(127,328)	-
Proceeds from private placement, net	2,665,000	-
Net cash provided by financing activities	2,762,610	100,000
Net increase (decrease) in cash	1,967,572	(167,406)
Cash at beginning of period	732,245	174,270
Cash at end of period	$ 2,699,817	$ 6,864
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$ 101,962	$ 1,042
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Note payable paid by lease transfer	$ -	$ 65,000
Note payable issued for equipment purchase	$ 17,560	$ -
Common stock issued for acquisition	$ -	$ 53,000

See accompanying notes to consolidated financial statements.

NOTE 1 – 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.

During the first quarter of 2006, the Company acquired Kettle Drilling, Inc. (“Kettle Drilling” or “Kettle”) and its Mexican subsidiary, World Wide Exploration S.A. de C.V. (“World Wide”).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company’s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three-month period ended December 31, 2006 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2007.

For further information refer to the financial statements and footnotes thereto in the Company’s Annual Report on Form 10-KSB for the year ended September 30, 2006.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Kettle Drilling and World Wide after elimination of the intercompany accounts and transactions.

Estimates and Assumptions

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 assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. 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.

Stock-Based Compensation

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), at the beginning of fiscal year 2007, which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument on the grant-date fair value of the award. The Company has chosen to use the modified prospective transition method under SFAS 123(R). The Company’s financial statements for the three months ended December 31, 2006 reflect the impact of this adoption.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Under SFAS 123(R), the Company is required to select a valuation technique or option-pricing model that meets the criteria as stated in the standard. At present, the Company is continuing to use the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term ("volatility"). The risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

In accordance with the modified prospective transition method, the Company's unaudited consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS 123(R).

Stock-based compensation expense recognized for the three months ended December 31, 2006 and December 31, 2005 was $415,040 and $13,554 for services performed by outside unrelated parties.

During the three months ended December 31, 2006 and 2005, the Company recognized no employee share based compensation.

Net Loss Per Share

Statement of Financial Accounting Standards No. 128, "Earnings per Share," requires dual presentation of basic earnings per share ("EPS") and diluted EPS on the face of all income statements issued after December 15, 1997 for all entities with complex capital structures. Basic EPS is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

Net Loss Per Share, continued

The dilutive effect of convertible and exercisable securities, in periods of future income are as follows:

For periods ended	December 31, 2006	September 30, 2006
Stock options	1,322,500	1,047,500
Warrants	5,474,845	3,186,045
Convertible preferred stock	5,000,000	5,000,000
Total possible dilution	11,797,345	9,233,545

At December 31, 2006 and September 30, 2006, the effect of the Company's outstanding options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

NOTE 3 – LINE OF CREDIT:

The Company entered into a line of credit agreement for $600,000 with BankCDA on October 13, 2006. The loan bears interest at the bank's prime lending rate plus 1%. The loan is secured by accounts receivable, equipment and personal guarantees by three of the corporate officers. The outstanding balance on the line of credit as of December 31, 2006 was $596,065.

NOTE 4 – COMMON STOCK AND WARRANTS:

During the quarter ended December 31, 2006, the Company initiated a private placement of the Company's unregistered common stock. Under the private placement agreement, the Company can sell up to 4,200,000 shares of stock for a total of $2,730,000. The stock was being offered in units, with each "unit" offered consisted of one share of common stock and one warrant to purchase ½ of one share of the Company's common stock for $1.00 per share, through December 31, 2008. The units were sold for $0.65 each, representing management's estimate of the fair value of the Company's unregistered common stock and warrants at the time of sale. The Company sold 4,100,000 units for a total of $2,665,000 as of December 31, 2006.

In connection with the private placement, 477,600 units were granted to consultants for services associated with the offering. The units are valued at $0.65 per unit or $310,440, and are included in additional paid in capital as of December 31, 2006.

Effective December 1, 2006, the Company entered into a consulting agreement whereby the consultant agreed to provide various consulting services for a twelve month period commencing on December 1, 2006 and ending on November 30, 2007. As compensation for the consulting services, in addition to cash, the Company agreed to issue 10,000 shares of restricted common stock upon commencement and issue 15,000 shares of restricted common stock per month. As of December 31, 2006, 25,000 shares of restricted common stock have been issued for services rendered. The shares issued were valued at $1.45 per share to reflect the Company's common stock trading price as of the close of business on December 31, 2006 for a total of $36,250 recorded to expense.

NOTE 5 – STOCK OPTIONS:

In February 2004, the Company's board adopted the 2004 Non-Qualified Stock Grant and Option Plan in order to provide incentives to directors, employees and others rendering services to the Company. No options have been granted under this plan.

On February 6, 2005, the Company's Board of Directors approved the 2005 Stock Incentive Plan which was amended August 31, 2006 to increase the authorized number of options grantable by 2,000,000 options. The Plan now authorizes the granting of up to 2,750,000 non-qualified stock options to officers, directors and consultants. At December 31, 2005, 412,500 options were granted to ten individuals at $0.56 per share. The options vest incrementally through December 31, 2005, expire in 5 years, and at December 31, 2006 and 2005, 412,500 options had vested. During the quarter ended December 31, 2005 50,000 options valued at $3,250 vested.

The fair value of the options granted in 2005 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%; expected life of 5 years; dividend yield of zero.

NOTE 5 – STOCK OPTIONS, continued:

During November 2005, the Company issued 40,000 stock options to two individuals for services performed. The options have an exercise price of $0.56 and vested immediately. The options expire after 5 years. The fair value of the options granted was estimated on their 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 75.72%; expected life of 5 years; dividend yield of 0. The options were valued at $0.26 per share, or $10,304. This amount has been recognized in other general and administrative expense during the three months ended December 31, 2005.

During October 2006, the Company issued 75,000 options to an individual for consulting services performed. The options have an exercise price of $0.80 and expire after 2 years. An additional 100,000 options were granted to the same individual in December 2006 for consulting services. The exercise price is $1.60 and expires after 3 years. As of December 31, 2006 all 175,000 options were fully vested. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Calculation. The following assumptions were made in estimating fair value: risk-free interest rate of 4.66%; volatility of 90.02%; expected life of 2 years; dividend yield of 0. The 75,000 options issued in October were valued at $0.36 per share, or $27,150 and the 100,000 shares issued in December were valued at $0.41 per share, or $41,200 . This amount has been recognized in other general and administrative expense during the three months ended December 31, 2006.

During November 2006, 100,000 options were issued to the chief financial officer of the company per the employment agreement. The options have an exercise price of $0.75 and begin vesting after one year from the option grant date. These options expire after 5 years. As of December 31, 2006, none had vested. The fair value of the options granted was estimated on their grant date using the Black-Scholes Option Price Calculation. The following assumptions were made in estimating fair value: risk-free interest rate of 4.75%; volatility of 88.31%; expected life of 5 years; dividend yield of 0. The options were valued at $0.58 per share, or $57,800.

The following is a summary of the Company's options issued under the non-qualified 2005 Stock Incentive Plan:

	Shares		Weighted Average Exercise Price
Outstanding at September 30, 2006	1,047,500	$	0.67
Granted	275,000		1.07
Expired	-		-
Outstanding at December 31, 2006	1,122,500	$	0.75
Exercisable at December 31, 2006	627,500	$	0.59
Weighted average fair value of options granted during the period ended December 31, 2006		$	0.46

NOTE 6 – SEGMENT INFORMATION:

The Company has three operating segments at December 31, 2006: drilling revenues from Kettle Drilling; drilling revenues in Mexico through Kettle's subsidiary, World Wide Exploration; and Timberline's exploration activities.

Segment information (after intercompany eliminations) for the year ended December 31, 2006 is as follows:

		December 31, 2006
Revenues:		
Timberline	$	-
Kettle Drilling		2,641,110
World Wide Exploration		567,227
Total revenues	$	3,208,337
Loss before income taxes:		
Timberline	$	(534,094)
Kettle Drilling		(617,463)
World Wide Exploration		12,515
Total loss before income taxes	$	(1,139,042)
Identifiable assets:		
Timberline	$	2,609,543
Kettle Drilling		5,732,358
World Wide Exploration		713,237
Total identifiable assets	$	9,055,138
Depreciation and amortization:		
Timberline	$	122,893
Kettle Drilling		188,597
World Wide Exploration		2,250
Total depreciation and amortization	$	313,740

The accounting policies of the segments are the same as those described in the notes to the consolidated financial statements included in the Company's annual report filed on Form 10-KSB for the fiscal year ended September 30, 2006, after considering newly adopted accounting pronouncements described elsewhere herein. Separate management of each segment is required because each business unit is subject to different marketing, production, and technology strategies.

Timberline is not an operating entity at this point insofar as they are not generating revenues from the sales of their properties, but they are actively exploring several properties for their mining potential. Kettle's revenues are derived from drilling contracts in North America.

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 management of the Company. From January 2004 until March 2006, we were strictly a mineral exploration company. Beginning with our acquisition of Kettle Drilling Inc. ("Kettle") in March 2006, we have advanced a new, aggressive business plan. Prior to our purchase of Kettle, the Company had not had any revenues and only losses since well before that time. Accordingly, a comparison of our financial information for prior accounting periods would not likely be meaningful or helpful in making an investment decision regarding our Company. The revenues have been generated by Kettle and its recently formed, wholly owned Mexican subsidiary, World Wide Exploration, S.A. de C.V. ("World Wide").

Kettle and World Wide specialize in hardrock, underground drilling – a niche business that we believe is perfectly positioned as the industry matures and exploration projects are advanced into producing mines.

Since completing the acquisition, Kettle has invested in several state-of-the-art, computerized drills (with additional drills on back order), has invested over $750,000 in World Wide, and has sharply increased its staffing in anticipation of increased demand for drilling services and a shortage of experienced people. Kettle owns eight main service modernized core drills in the U.S. with an additional three main service modernized core drills in Mexico. In addition, Kettle owns several smaller and less modern drills that it uses on an as needed, special application basis. A substantial portion of the Company's core drill purchases are financed through capital leases.

Kettle also owns a fleet of vehicles, trucks and fork lifts for its drilling operations. Other equipment and vehicles were financed with notes collateralized by the equipment or vehicles. Timberline and its subsidiaries lease office space and storage facilities. We believe these facilities are adequate for our needs for the foreseeable future.

Our business plan for the next twelve months is to continue to grow both our domestic and Mexican drilling operations as well as to continue to evaluate and advance our exploration prospects – either on our own or through joint venture. Since the exploration business is essentially a research and development activity, our exploration costs are largely dependent upon near-term results, and thus future plans are always subject to review and revision.

As planned, cash flow from drilling operations has been reinvested into the drilling business and deployed toward high-potential mineral exploration ventures, including due diligence efforts and down payments for high-potential gold exploration properties. Kettle is also investigating expanding its operations and consulting services into additional foreign markets beyond Mexico.

During the quarter ended December 31, 2006, we raised gross proceeds of $2,730,000 in a "best efforts only" private placement of our securities (4,200,000 units at $.65 per unit) to 10 accredited investors. Each unit consisted of one share of common stock and one-half of one share purchase warrant. Each whole purchase warrant will entitle its holder to purchase one additional share of our common stock for $1.00 until December 2008. Also, during the quarter ended December 31, 2006, Kettle acquired an operating line of credit from a local bank for $600,000, and a commitment for a $1.5-million equipment purchase line of credit. Accordingly, we believe that we have sufficient available funds and revenues to proceed with our business plan over the next 12 months. However, if we are incorrect with our anticipated revenues and expenses over the next 12 months, we may not be able to proceed with all aspects of our business plan, including our planned exploration activities, without additional financing.

Results of Operations for Three Month Periods Ending December 31, 2006 and December 31, 2005.

Financial Information from Comparative Quarters

We have begun to have revenues due to and since our March 6, 2006 acquisition of Kettle. Prior to that we did not have revenues and only had losses. We are presently in the exploration stage of our mining exploration business. In that regard, 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.

For the three months ended December 31, 2006, we recorded revenues of $3,208,337 versus revenues of $-0- in the same period of 2005. The increase in revenues is solely attributed to the drilling operations of Kettle, our wholly owned subsidiary that we acquired in March 2006.

Gross profit, defined as revenues less cost of revenues, was $476,648 of revenues for the three months ended December 31, 2006, compared to $-0- for the three months ended December 31, 2005. The increase is due to the drilling operations of Kettle and its subsidiary, World Wide, We acquired Kettle in March 2006.

Cost of revenue was $2,731,689 for the three months ended December 31, 2006 compared to $-0- for the three months ended December 31, 2005. Such change is solely due to the drilling operations of Kettle and its subsidiary. During the relevant period in 2005, we did not own Kettle and we were still only an explorations stage mining company.

We incurred operating expenses in the amount of $231,895 for the three months ended December 31, 2005, and $1,404,319 for the three months ended December 31, 2006.

Our net loss increased from $235,770 for three months ended December 31, 2005 to $1,139,042 for the three months ended December 31, 2006 primarily due to a increase in general expenses including legal and accounting expenses, expenses related to the acquisition and operation of Kettle and costs related to the private placement completed during the quarter. Our general and administrative expenses increased from $28,437 to $1,321,362. These increases are due mainly to the operation of Kettle including amortization of costs related to the acquisition of Kettle and higher marketing and promotion expenses.

Financial Condition and Liquidity

At December 31, 2006, we had current assets of $4,687,344 including cash in the amount of $2,699,817, inventory of $1,198,183 and accounts receivable of $612,605. We had property and equipment of $4,346,564 and other assets totaling $3,076,977 consisting of deposits of $21,230, intangible assets of $247,233 and goodwill of $ 2,808,524.

We believe that, with the March 6, 2006, acquisition of Kettle Drilling, Inc., within the foreseeable future we will achieve profitable operations, and are no longer dependent upon obtaining financing to pursue exploration activities.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

Significant Accounting Policies

Our discussion and analysis of the Company's financial condition and results of operations are based upon our consolidated financial statements which have been prepared in conformity with U.S. generally accepted accounting principles. The application of our critical accounting policies is particularly important to the portrayal of our financial position and results of operations. These critical accounting policies require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Exploration Expenditures

All exploration expenditures are expensed as incurred. Payments made to lease mineral properties are expensed until proved reserves are established.

Revenue Recognition

Generally, the Company recognizes drilling service revenues as the drilling services are provided to the customer based on the actual amount drilled for each contract. 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. Revenues from leases are recognized when realized and earned according to the lease provisions and receipt of the lease payments.

Intangible Assets

Intangible assets from the acquisition of Kettle Drilling, including employment contracts, and customer drilling contracts, are stated at the estimated value at the date of acquisition. Amortization of employment contracts is calculated on a straight-line basis over a useful life of six years. Amortization of the drilling contracts is calculated on a straight-line basis over the life of the contracts (typically one year or less). The value of employment and customer drilling contracts will be periodically tested for impairment. Any impairment loss revealed by this test would be reported in earnings for the period during which the loss occurred.

Inventories

The Company values its inventories at the lower of average cost or market, using the first-in-first-out (FIFO) method. Allowances are recorded for inventory considered to be in excess or obsolete. Inventories consist primarily of parts, operating supplies, drill rods and drill bits. The value of inventory previously used in drilling and still considered useable, is valued at 25-90% of cost depending on remaining life expectancy.

Review of Carrying Value of Property and Equipment for Impairment

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

Goodwill

Goodwill relates to the acquisition of Kettle Drilling. In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets,” at least annually goodwill is tested for impairment by applying a fair value based test. In assessing the value of goodwill, assets and liabilities are assigned to the reporting units and a discounted cash flow analysis is used to determine fair value.

Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments.

ITEM 3. CONTROLS AND PROCEDURES

During the last quarter of the fiscal year ending September 30, 2006, we determined that there were errors in the financial statements contained in our Form 10QSB for the period ending June 30, 2006 which caused us to file an amendment to the subject Form 10QSB with corrected and restated financials statements. Accordingly, since that time, we have taken steps to enhance existing policies, or implement new ones, so as to have an effective system of internal controls over financial reporting. These measures, which either have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, include the development of policies and procedures and the educating of employees on existing policies and procedures in an effort to continuously improve our overall control environment. Except for the improvements described above, there have been no other changes in the internal control over financial reporting during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

The Company's Chief Executive Officer and Principal Financial Officer have reviewed the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, such officers believe that the Company's disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report. However, we do not expect that disclosure controls or internal controls over financial reporting will prevent all errors or all instances of fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within its company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

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

Other than the unregistered sales of equity securities reported in our Current Report on Form 8K filed on December 27, 2006, we recorded the following unregistered sales or issuances of equity securities during the quarter ended December 31, 2006:

- On October 2, 2006, we granted a two-year option to purchase 75,000 shares of our common stock pursuant to our 2005 Amended Equity Incentive Plan. The option was issued to the provider of promotion and investment services pursuant to an agreement we have with that provider. We valued this option at $27,150.
- In December 2006, we issued 477,600 units of our securities to one individual for finder services. Each unit consisted of one share of our common stock and one-half of one share (two-year) purchase warrant. Each whole purchase warrant will entitle the holder to purchase one additional share of our common stock for $1.00. We valued each of the units issued at $0.65, i.e., a total of $310,440.
- In December 2006, we issued 25,000 shares our common stock to a consultant (an affiliate of the aforementioned provider of finder services) pursuant to a December 1, 2006 Consulting Agreement. We valued these shares at approximately $0.6897 per share, i.e., a total of $36,250.

All of such issuances of securities detailed immediately above were issued in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

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 10.1 – October 2, 2006 Agreement with Gold Seek LLC for promotion and investor relations services

Exhibit 10.2 – December 1, 2006 Consulting Agreement with Investor Voices, LLC

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), Wilson

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, Wilson

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

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

/s/ Michael Wilson

Michael Wilson
(Chief Financial Officer)

Date: February 14, 2007

INDEX TO ATTACHED EXHIBITS

Exhibit 10.1 –October 2, 2006 Agreement with Gold Seek LLC for promotion and investor relations services

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Exhibit 10.1 October 2, 2006 Agreement with Gold Seek LLC for promotion and investor relations services

Contract Proposal

Timberline Resources Corp. & Peter Spina, Silver Seek LLC

Term: 1- year

- An option to purchase 75,000 common shares of Timberline Resources Corp., at US $0.80 per share. Expiry **October 2, 2008**
- $1,000/month

Promotion / Investor Relations Work:

- 10% Premier & 10% Skyscraper banner rotation on SilverSeek.com
- Stock Profile – SilverSeek.com
- Resource Directory Listing on GoldSeek.com
- Banner design work
- One quarterly Update by Peter Spina on SilverSeek.com, which may include:
    - Interview with the company
    - Corporate Profile
    - Stock Report
- Featured Stock News (silverseek.com)

10/2/06

Peter Spina
Owner, Gold Seek LLC
8420 S. Continental Divide Rd.
Suite 221
Littleton, Co. 80127

Acknowledged and agreed to this 2nd day of October, 2006.

John Swallow – President, Director of Timberline Resources Corp.

CONSULTING AGREEMENT

This Agreement is made and entered into effective the first day of December, 2006 by and between Investor Voices, LLC ("IV") and Timberline Resources Corp., ("COMPANY").

1. IV shall serve, on a non-exclusive basis, as financial public relations consultant to company during the term of this Agreement. In such capacity, IV shall (a) introduce company to segments of the financial community where it is not presently known; (b) disseminate information regarding company, the content and form of which is approved by Company, to the financial community; (c) prepare or review on behalf of company press releases, reports and other communications with and to shareholders, the investment community and the general public, the content and form of which is approved by Company; and (d) arrange meetings between Company officials and brokers, dealers, analysts, institutional investors and other investment community professionals, provide the Company with assistance in their R & D projects, overseas communications with Company shareholders, new business development, strategic consulting for development of new products and financial alliance with overseas entities, coordination assistance of overseas presentations for the purpose of exploring new applications of products as well as developing new markets and financing.

Company acknowledges and agrees that IV will be serving other clients during the term of this Agreement and that the Company shall not be entitled to the exclusive time and attention of IV in the performance of its services hereunder. IV agrees to use its best efforts and professional expertise in performing services for Company hereunder. The Company further acknowledges and agrees that IV has the right to conduct such due diligence on Company as it deems necessary. Company and any of its officers and agents agree to fully cooperate with IV with regard to such due. All information provided for distribution by Company will comply with the anti-fraud provisions of the federal securities laws. IV will not issue any written statements without approval by Company and will retain in confidence any material nonpublic information disclosed to them by Company.

2. The services to be rendered by Advisor shall be rendered for a period of twelve (12) months and shall commence on December 1st, 2006 and end on November 30th, 2007. Without written notice from either party, the agreement shall revolve into subsequent twelve (12) month terms. This Agreement may be terminated at any time on thirty (30) days notice by either party by written notice to the other party. Notwithstanding anything to the contrary, IV may terminate this agreement at any time if in its opinion Company has provided or caused to be provided false or misleading information to IV. IV may also terminate for non-payment of invoices when due. In such event, the entire amount due on the contract shall be immediately due and payable.

3. As compensation for consulting services hereunder, Company shall pay Ian J. Cassel on the first date of each month the sum of three thousand dollars ($3000), with the payment for each month of service to be made prior to the commencement of such service month. If payment is not received by the 15th day of the month, service will be stopped.

4. Company shall issue to Ian J. Cassel 10,000 shares of restricted common stock. Stock shall be delivered within 10 days of the signing of the contract. The Company shall include the Shares in its next registration statement on Form SB-2 or any other equivalent form, including without limitation, any Form SB-2 filed.

5. In addition, As compensation for consulting services hereunder, Company shall issue Ian J. Cassel on the thirtieth day of each month, starting December 30th, 2006, the sum of 15,000 shares of restricted common stock. The Company shall include the Shares in its next registration statement on Form SB-2 or any other equivalent form, including without limitation, any Form SB-2 filed.

6. This Agreement contains the entire agreement and understanding of the parties concerning the subject matter hereof and supersedes and replaces all prior and contemporaneous negotiations, proposed agreements and agreements, whether written or oral. This agreement may be amended or altered and rights hereunder may be waived only by a written instrument signed by the party to be bound thereby.

7. This Agreement shall be interpreted in accordance with the laws of the State of New Jersey applicable to contracts that are negotiated, executed and performed wholly within said state and without regard to any choice of laws of principles applied under the laws of such state. THE PARTIES HEREBY CONSENT TO THE JURISDICTION OF THE APPROPRIATE FEDERAL OF STATE COURTS SITTING IN THE COUNTY OF HUNTERDON FOR ANY AND ALL DISPUTES ARISING UNDER THIS AGREEMENT AND THE PARTIES HEREBY WAIVE ANY AND ALL DEFENSES BASED ON PERSONAL JURISDICTION OF SUCH COURT.

8. This Agreement may be executed in one or more counterparts, each of which shall be considered an original and all of which together shall constitute one and the same agreement.

In Witness hereof, the undersigned have executed this Agreement as of the first day of December, 2006.

Investor Voices, LLC	Timberline Resources Corp
By: ______________	By: ______________
Ian J. Cassel	Mr. John Swallow
Partner	Chairman and CEO

By signing this Agreement, Client certifies that no changes have been made to the electronic file delivered by Investor Voices, LLC without their knowledge and consent.

Exhibit 31.1

CERTIFICATION

I, John Swallow, certify that:

1. I have reviewed this quarterly 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: February 14, 2007.

/s/ John Swallow

____

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

Exhibit 31.2

CERTIFICATION

I, Michael P. Wilson, certify that:

1. I have reviewed this quarterly 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: February 14, 2007.

/s/ Michael Wilson

Michael Wilson
(CFO)

Exhibit 32.1

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, 2006 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: February 14, 2007.

/s/ John Swallow

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

Exhibit 32.2

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, Michael Wilson, 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, 2006 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: February 14, 2007.

/s/ Michael Wilson

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Michael Wilson
(CFO)