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 June 30, 2007

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
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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 August 13, 2007, the number of the Company's shares of par value $0.001 common stock outstanding was **22,565,940.**

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

Timberline Resources Corporation
Form 10-QSB

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2007 and 2006

Timberline Resources Corporation and Subsidiaries

Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	September 30, 2006 (Audited)
Assets		
CURRENT ASSETS:		
Cash	$ 1,756,984	$ 732,245
Accounts receivable	2,132,745	1,305,496
Employee receivables	10,162	7,596
Inventories	1,935,623	865,566
Prepaid expense	43,123	80,294
Total current assets	5,878,637	2,991,197
PROPERTY AND EQUIPMENT:		
Property and equipment, net of accumulated depreciation	5,825,300	4,416,905
OTHER ASSETS:		
Deposits	20,463	10,020
Intangible assets, net of amortization	172,652	368,056
Investment in related entity	-	
Goodwill	2,808,524	2,808,524
Total other assets	3,001,639	3,186,600
Total assets	$ 14,705,576	$ 10,594,702

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	September 30, 2006 (Audited)
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Line of credit	$ 596,065	$ -
Accounts payable	1,981,791	1,321,854
Accrued expenses	553,138	672,302
Accrued interest, related-party payables	-	23,120
Deferred lease income	-	23,272
Current portion note payable, related party	1,116,569	1,222,524
Current portion of capital leases	457,707	478,099
Current portion of notes payable	353,885	165,849
Total current liabilities	5,059,155	3,907,020
LONG-TERM LIABILITIES:		
Related-party notes payable, net of current portion		225,000
Capital leases, net of current portion	593,910	724,081
Notes payable, net of current portion	786,674	274,515
Total long-term liabilities	1,380,584	1,223,596
Total liabilities	6,439,739	5,130,616
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized; 4,700,000 issued and outstanding	47,000	50,000
Common stock, $0.001 par value; 100,000,000 shares authorized; 21,394,449 and 14,356,921 shares issued and outstanding, respectively	21,394	14,357
Additional paid-in capital	15,507,064	10,429,403
Accumulated deficit	(7,309,621)	(5,029,674)
Total stockholders' equity	8,265,837	5,464,086
Total liabilities and stockholders' equity	$ 14,705,576	$ 10,594,702

See accompanying notes to consolidated financial statements.

Timberline Resources Corporation and Subsidiaries

Consolidated Statements of Operation

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	$ 4,798,748	$ 2,541,755	$ 11,840,469	$ 3,195,333
COST OF REVENUES	3,996,672	1,528,456	9,428,122	1,873,401
GROSS PROFIT	802,076	1,013,299	2,412,347	1,321,932
GENERAL AND ADMINISTRATIVE EXPENSES:				
Mineral exploration expenses	130,472	34,704	285,420	301,792
Other general and administrative expenses	1,465,576	1,775,637	3,928,258	2,183,165
Total expenses	1,596,048	1,810,341	4,213,678	2,484,957
LOSS FROM OPERATIONS	(793,972)	(797,042)	(1,801,331)	(1,163,025)
OTHER INCOME (EXPENSE):				
Lease income	25,818	8,445	43,272	25,336
Gain/loss on disposal of assets	(27,023)		(31,402)	(17,820)
Changes in fair value of derivatives	-	-	-	10,088
Property exploration and development fees		49,988		49,988
Amortization of intangible assets	29,167	-	(212,499)	-
Interest expense, net	(152,887)	(41,620)	(277,987)	(55,745)
Total other income (expense)	(124,925)	16,813	(478,616)	11,847
LOSS BEFORE TAXES	(918,897)	(780,229)	(2,279,947)	(1,151,178)
INCOME TAX EXPENSE	-	-	-	-
NET LOSS	$ (918,897)	$ (780,229)	$ (2,279,947)	$ (1,151,178)
NET LOSS PER COMMON SHARE, BASIC AND DILUTED	$ (0.04)	$ (0.07)	$ (0.13)	$ (0.13)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	20,504,423	10,488,973	18,201,369	8,584,499

See accompanying notes to consolidated financial statements.

Timberline Resources Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Nine Months Ended June 30,	
	2007	2006
	(Unaudited)	(Unaudited)
Increase (Decrease) in Cash		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,279,947)	$ (1,151,178)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	857,824	208,499
Loss on sale of asset	31,402	17,820
Change in fair value of derivatives	-	(10,090)
Common stock issued for services	391,000	39,499
Common stock issued for lease agreement	5,000	4,000
Stock options granted for consulting	155,017	118,996
Quarterly employee stock bonus issuance	20,000	-
Changes in assets and liabilities:		
Accounts receivable	(827,249)	48,809
Inventories	(1,070,057)	499,480
Prepaid expenses, deposits and other	9,633	(88,908)
Employee advances	(2,567)	(2,095)
Accounts payable	677,908	325,938
Accrued expenses	(137,134)	172,181
Accrued interest, related-party payables	(23,121)	16,453
Deferred lease income	(23,272)	(25,335)
Net cash provided by (used in) operating activities	(2,215,563)	174,069
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(1,007,038)	(903,639)
Proceeds from sale of assets	16,294	30,990
Cash paid for acquisition of subsidiary	-	(2,400,000)
Net cash used in investing activities	(990,744)	(3,272,649)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from bank overdraft payable	-	(277,796)
Net advances on line of credit	596,065	(63,937)
Net proceeds from related-party notes payable	-	679,500
Payments of related-party notes payable	(330,955)	(379,654)
Proceeds from notes payable and capital lease obligations	(1,758)	895,176
Payment on notes payable	(171,379)	(310,418)
Payments on capital leases	(371,608)	-
Proceeds from exercise of options	21,017	-
Proceeds from exercise of warrants	1,759,664	
Proceeds from private placement, net	2,730,000	3,268,938
Net cash provided by financing activities	4,231,046	3,811,809
NET INCREASE IN CASH	1,024,739	713,229
CASH, BEGINNING OF PERIOD	732,245	174,270
CASH, END OF PERIOD	$ 1,756,984	$ 887,499

See accompanying notes to consolidated financial statements.

Timberline Resources Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	Nine Months Ended June 30,	
	2007	2006
	(Unaudited)	(Unaudited)
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$ 175,702	$ 84,024
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Common stock issued for services	$ -	$ -
Note payable issued for equipment purchase	681,580	708,271
Capital lease issued for equipment purchase	412,797	-
Stock options issued for consulting and lease payment	-	162,445
Common stock issued for acquisition	-	53,000
Preferred stock issued for acquisition	-	2,000,000
Beneficial conversion on preferred stock	-	1,950,000
Note payable issued for acquistion	-	400,000
Conversion of preferred stock to common stock	3,000	

See accompanying notes to consolidated financial statements.

Timberline Resources Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS:

Timberline Resources Corporation ("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:

a. *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 nine-month period ended June 30, 2007, 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.

b. *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.

c. *Estimates and assumptions* – The preparation of financial statements in accordance with accounting principles generally accepted 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.

d. *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 nine months ended June 30, 2007, 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 nine months ended June 30, 2007 and 2006, was $861,427 and $162,495, respectively, for services performed by outside unrelated parties.

e. 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.

The dilutive effect of convertible and exercisable securities, in periods of future income as of June 30, 2007, is as follows:

Stock options	2,140,000
Warrants	3,654,074
Convertible preferred stock	4,700,000
Total possible dilution	10,494,074

At June 30, 2007 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.

f. *New accounting pronouncements* – In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157), which will become effective in our 2008 financial statements. SFAS 157 establishes a framework for measuring fair value and expands disclosure about fair value measurements, but does not require any new fair value measurements. The Company has not yet determined the effect that adoption of SFAS 157 may have on the results of operations or financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

The FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115,* in the first quarter 2007. The statement allows entities to value financial instruments and certain other items at fair value. The statement provides guidance over the election of the fair value option, including the timing of the election and specific items eligible for the fair value accounting. Changes in fair values would be recorded in earnings. The Company is evaluating the impact the adoption of this statement will have, if any, on its financial statements.

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 and equipment. The outstanding balance on the line of credit as of June 30, 2007, 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 consisting of one share of common stock and one warrant to purchase one half 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 4,200,000 units for a total of $2,730,000 as of June 30, 2007.

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 June 30, 2007.

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 through February 2007. As of June 30, 2007, 55,000 shares of restricted common stock have been issued for services rendered. The shares issued were valued at the Company's common stock trading price as of the close of business on the date of each issuance. As of June 30, 2007, there was a total of $103,000 recorded to expense. During the quarter ended June 30, 2007, a revised consulting agreement was entered into effective May 1, 2007 and ending on April 30, 2009. In addition to cash, the new agreement calls for 120,000 of shares to be issued. The shares were issued May 1, 2007 and valued based on fair market value of $288,000 and included in consulting expense for the three and nine months ended June 30, 2007.

Timberline Resources Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 5 – STOCK OPTIONS:

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 nonqualified stock options to officers, directors and consultants. The plan documents include a provision for all options granted have the ability to exercise the options through a cashless exercise.

At December 31, 2005, 412,500 options had been granted to ten individuals at $0.56 per share. The options vested incrementally through December 31, 2005 and expire in five years. 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 five years; dividend yield of zero.

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, vested immediately and expire after five 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 five years; dividend yield of zero. 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 two 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 three years. As of June 30, 2007, 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 two years; dividend yield of zero. 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 nine months ended June 30, 2007.

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 five years. As of June 30, 2007, 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 five years; dividend yield of zero. The options were valued at $0.58 per share, or $57,800.

Timberline Resources Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 5 – STOCK OPTIONS (continued):

During April 2007, 875,000 options were issued to key management of the Company and its wholly owned subsidiaries. The options have an exercise price of $3.00 and begin vesting after one year from the option grant date. These options expire after five years. As of June 30, 2007, 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 4.0%; volatility of 95.0%; expected life of five years; dividend yield of zero. The options were valued at $1.70 per share, or $1,487,500.

During the nine months ended June 30, 2007, 57,500 options were exercised for a total of $32,200.

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

	Shares	Weighted Average Exercise Price
Outstanding at September 30, 2006	1,047,500	$ 0.67
Granted	1,150,000	2.54
Exercised	-57,500	(0.56)
Outstanding at June 30, 2007	2,140,000	$ 1.64
Exercisable at June 30, 2007	590,000	$ 0.76
Weighted average fair value of options granted during the period ended June 30, 2007		$ 1.24

Timberline Resources Corporation and Subsidiaries

Notes to Consolidated Financial Statements

NOTE 6 – SEGMENT INFORMATION:

The Company has three operating segments at June 30, 2007: 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 nine months ended June 30, 2007, is as follows:

	June 30, 2007
Revenues:	
Timberline	$ -
Kettle Drilling	9,351,425
World Wide Exploration	2,489,044
Total revenues	$ 11,840,469
Loss before income taxes:	
Timberline	$ (1,651,067)
Kettle Drilling	(1,044,406)
World Wide Exploration	415,526
Total loss before income taxes	$ (2,279,947)
Identifiable assets:	
Timberline	$ 4,345,118
Kettle Drilling	7,960,122
World Wide Exploration	2,400,336
Total identifiable assets	$ 14,705,576
Depreciation and amortization:	
Timberline	$ 219,697
Kettle Drilling	599,269
World Wide Exploration	38,858
Total depreciation and amortization	$ 857,824

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, diamond 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, has invested over $1.9-million in World Wide, and has sharply increased its staffing in anticipation of increased demand for drilling services and a shortage of experienced people. The Kettle and World Wide fleets of main service modernized core drills now includes ownership of thirteen drill rigs in the U.S. and five in Mexico. In addition, Kettle also has three leased drill rigs, two of which include options to purchase. Kettle owns several smaller and less modern drills that it uses on an as needed, special application basis. Subsequent to the end of the quarter, Kettle expects to take delivery of three additional purchased drill rigs by October 2007.

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, with particular emphasis on Mexico. We will also continue to evaluate and advance our exploration prospects – either on our own or through joint venture. Subsequent to the end of the quarter, Timberline purchased its own dedicated exploration drill rig, separate from the main Kettle fleet. Ownership of the rig will ensure timely access to a drill rig for our exploration projects and will be staffed by experienced Kettle personnel. 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 primarily reinvested into the drilling business as indicated by the continuation of our aggressive addition of new drill rigs. Kettle continues to investigate expanding its operations and consulting services into additional foreign markets beyond Mexico.

We have also deployed some funds toward mineral exploration ventures, including due diligence efforts and down payments for high-potential gold and base metal exploration properties. Subsequent to the end of the quarter, we finalized our lease of the Conglomerate Mesa and Santa Rosa projects, along with our purchase of the Butte Highlands project.

During the quarter ended June 30, 2007, we raised net proceeds of $1,296,819 from the exercise of previously issued warrants. 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. The outstanding balance owed on the line of credit as of June 30, 2007 was $596,065, which remained the same as the amount owed at the end of the prior quarter. 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 and Nine Month Periods Ended June 30, 2007 and June 30, 2006.

Financial Information from Comparative Quarters

We have begun to have revenues due to and since our March 6, 2006 acquisition of Kettle and its wholly owned subsidiary, World Wide. 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 June 30, 2007, we recorded revenues of $4,798,748 versus revenues of $2,541,755 in the same period of 2006. For the nine months ended June 30, 2007, we recorded revenues of $11,840,469 versus revenues of $3,195,333 in the same period of 2006. The increase in revenues in each case is attributed to the drilling operations of Kettle having a full three months and nine months of revenues, respectively, compared to only one month and four months, respectively, of revenues in both 2006 periods as a result of our acquisition Kettle as our wholly owned subsidiary in March 2006.

Gross profit, defined as revenues less cost of revenues, was $802,076 for the three months ended June 30, 2007, compared to $1,013,299 for the three months ended June 30, 2006, a decrease of $211,223. Gross profit was $2,412,347 for the nine months ended June 30, 2007, compared to $1,321,932 for the nine months ended June 30, 2006, an increase of $1,090,415. Similar to the increase in revenues, indicated above, the increase in gross profit in each of the 2007 periods is attributed to the drilling operations of Kettle having a full three months and nine months of revenues, respectively, compared to only one month and four months, respectively, of revenues in both 2006 periods as a result of our acquisition Kettle as our wholly owned subsidiary in March 2006. However, gross profits did not increase at the same rate as that of revenues because we experienced unexpected downtime of our rigs and crews during the most recently completed quarter due to a regulatory investigation of a mining accident that had occurred in a surrounding area. We also experienced significant down time at other sites due to warranty-covered technical issues that have now been addressed by their manufacturer. This downtime unexpectedly increased our cost of revenues and general expenses for the three and nine month 2007 periods which correspondingly reduced the gross profit for those periods.

We incurred mineral exploration expenses in the amount of $130,472 and $34,704 for the three months ended June 30, 2007 and 2006, respectively. We incurred mineral exploration expenses in the amount of $285,420 and $301,792 for the nine months ended June 30, 2007 and 2006, respectively.

We incurred other general and administrative expenses in the amount of $1,465,576 and $1,775,637 for the three months ended June 30, 2007 and 2006, respectively. For the nine months ended June 30, 2007 and 2006 we incurred other general and administrative expenses in the amount of $3,928,258 and $2,183,165, respectively. Other general and administrative expense is primarily composed of stock based compensation, accounting and management salaries and employee benefit plans.

Our net loss for three months ended June 30, 2007 and 2006 was $918,897 and $780,229, respectively. For the nine month period ended June 30, 2007 and 2006 the net loss was $2,279,947 and $1,151,178, respectively.

At June 30, 2007, we had current assets of $5,878,637 including cash of $1,756,984, inventory of $1,935,623 and account receivables of $2,132,745. We had other assets totaling $8,826,939 consisting of property and equipment of $5,825,300, deposits of $20,463, net intangible assets of $172,652 and goodwill of $ 2,808,524.

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

Financial Condition and Liquidity

As of June 30, 2007, the Company's working capital was $819,482 which was an increase from $410,546 on the same date in 2006. This increase in the Company's working capital is primarily attributable to proceeds from our sale of securities and the profitable operations of World Wide, the wholly owned subsidiary of Kettle, our wholly owned subsidiary. A snap shot, as of June 30, 2007 and 2006, of the Company's liquidity is provided in the table below:

	2007	2006
Cash	$ 1,756,984	$ 887,499
Working Capital	819,482	410,546
Total Current Assets	5,878,637	3,002,307
Total Current Liabilities	5,059,155	2,591,761
Stockholders' Equity	8,265,837	6,261,803

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 nine 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.

ITEM 3. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer, who is currently also its Principal Financial Officer, has reviewed the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this review, such officer believes that the Company's disclosure controls and procedures are effective in timely alerting him 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. The effectiveness of our internal controls over financial reporting may be negatively impacted by that fact that the chief executive officer and principal financial officer (the positions responsible for our controls and procedure) is currently one and the same person. The former principal financial officer resigned during the quarter ended June 30, 2007, and our Chief Executive Officer, John Swallow, has been acting in both capacities since that time. He will continue to do so until a new principal executive officer is appointed; this expected to occur by September 2007. The former principal financial officer continues to provide financial consulting services to the Company.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there have been no changes in the Company's internal control over financial reporting during the first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

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

We recorded the following unregistered sales or issuances of equity securities during the quarter ended June 30, 2007:

- An option holder exercised previously issued options to purchase 20,000 shares of our common stock on a "cashless" exercise basis. In accordance with the terms of the 2005 stock incentive plan we issued 16,657 shares of our common stock to the option holder.
- Accredited unit warrant holders exercised warrants to purchase 1,356,500 shares of our common stock for a total of $1,296,820.
- We issued 120,000 shares of our common stock to a consultant for services pursuant to a Revised Consulting Agreement. We valued these shares at approximately $2.40 per share for a total of $288,000.
- We issued 2,000 shares of our common stock to one individual for services rendered. We valued these shares at approximately $2.50 per share for a total of $5,000.
- We granted options to purchase 875,000 shares of our common stock at $3.00 per share to certain non-executive employees of Kettle Drilling, Inc., our wholly owned subsidiary. These options were granted pursuant to our Amended 2005 Equity Incentive Plan.
- We issued a total of 8,000 shares valued at $20,000 of our restricted common stock to certain Kettle Drilling, Inc. employees as part of a quarterly stock bonus plan.

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

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

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, Principal Financial Officer and Chairman of the Board of Directors)

Dated: August 20, 2007

INDEX TO ATTACHED EXHIBITS

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

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 31.1

CERTIFICATION

I, John Swallow, the Chief Executive Officer and Principal Financial Officer, 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: August 20, 2007

/s/ John Swallow

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John Swallow
(CEO, Principal Financial Officer and Chairman of the Board of Directors)

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, Principal Financial Officer 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 June 30, 2007, 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: August 20, 2007.

/s/ John Swallow

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John Swallow
(CEO, Principal Financial Officer and Chairman of the Board of Directors)