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

FORM 10-QSB

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-34055

TIMBERLINE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

IDAHO	**82-0291227**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 EAST LAKESIDE AVENUE **COEUR D'ALENE, IDAHO**	**83814**
(Address of Principal Executive Offices)	(Zip Code)

(208) 664-4859

(Registrant's Telephone Number, including Area Code)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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

Number of shares of issuer's common stock outstanding at May 8, 2008: 27,279,903

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

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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2008 and 2007

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2008 (unaudited)	September 30, 2007 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	$ 4,068,264	$ 3,949,988
Accounts receivable	3,984,768	3,882,275
Employee receivable	13,646	7,073
Materials and supplies inventory	2,958,470	1,925,392
Prepaid expenses	398,890	373,288
TOTAL CURRENT ASSETS	11,424,038	10,138,016
PROPERTY, MINERAL RIGHTS AND EQUIPMENT:		
Property, mineral rights and equipment, net of accumulated depreciation	9,965,586	8,008,928
OTHER ASSETS:		
Restricted cash	801,859	802,860
Deposits and other assets	178,798	147,058
Intangible assets, net of amortization	-	105,557
Goodwill	2,808,524	2,808,524
TOTAL OTHER ASSETS	3,789,181	3,863,999
TOTAL ASSETS	$ 25,178,805	$ 22,010,943
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note payable to bank	$ 599,065	$ 599,065
Accounts payable	3,477,959	3,617,165
Accrued expenses	1,763,292	944,627
Notes payable - related parties	40,000	787,000
Deferred revenue	527,709	250,000
Current portion of capital leases	488,654	476,032
Current portion of notes payable	326,651	300,638
TOTAL CURRENT LIABILITIES	7,223,330	6,974,527
LONG-TERM LIABILITIES:		
Capital leases, net of current portion	801,240	647,416
Notes payable, net of current portion	528,577	571,534
TOTAL LONG-TERM LIABILITIES	1,329,817	1,218,950
COMMITMENTS AND CONTINGENCIES	-	-
TEMPORARY EQUITY		
Series A Preferred stock, $0.01 par value; liquidation and redemption value $2,775,341; 5,000,000 shares authorized, 4,700,000 shares issued and outstanding	1,880,000	1,880,000
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized, 27,279,903 and 24,801,108 shares issued and outstanding, respectively	27,279	24,801
Common stock subscribed	-	(802,761)
Additional paid-in capital	24,917,181	20,433,478
Accumulated deficit	(10,198,802)	(7,718,052)
TOTAL STOCKHOLDERS' EQUITY	14,745,658	11,937,466
TOTAL LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY	$ 25,178,805	$ 22,010,943

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008 (unaudited)	2007 (unaudited)	2008 (unaudited)	2007 (unaudited)
REVENUES	$ 8,386,327	$ 3,833,384	$ 14,821,452	$ 7,041,721
COST OF REVENUES	6,333,894	2,699,761	11,283,559	5,431,449
GROSS PROFIT	2,052,433	1,133,623	3,537,893	1,610,272
OPERATING EXPENSES:				
Mineral exploration expenses	422,968	71,903	999,720	154,948
Other general and administrative expenses	1,826,869	1,247,663	4,742,634	2,713,684
Loss (gain) on sale of equipment	4,817	-	(9,824)	-
TOTAL OPERATING EXPENSES	2,254,654	1,319,566	5,732,530	2,868,632
LOSS FROM OPERATIONS	(202,221)	(185,943)	(2,194,637)	(1,258,360)
OTHER INCOME (EXPENSE):				
Other income	101,709	8,727	170,909	17,454
Interest income	45,351	-	120,440	-
Interest expense	(106,372)	(44,793)	(251,940)	(120,145)
TOTAL OTHER INCOME (EXPENSE)	40,688	(36,066)	39,409	(102,691)
NET LOSS BEFORE INCOME TAXES	(161,533)	(222,009)	(2,155,228)	(1,361,051)
INCOME TAX EXPENSE	(325,520)	-	(325,520)	-
NET LOSS	$ (487,053)	$ (222,009)	$ (2,480,748)	$ (1,361,051)
NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED	$ (0.02)	$ (0.01)	$ (0.09)	$ (0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	27,072,145	19,195,923	26,428,180	16,949,834

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2008 (unaudited)	Six Months Ended March 31, 2007 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,480,748)	$ (1,361,051)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	659,698	655,402
Loss (gain) on sale of equipment	(9,824)	4,379
Common stock issued for consulting	70,898	103,000
Share based compensation	641,045	68,350
Changes in assets and liabilities:		
Accounts receivable	(703,388)	(594,697)
Materials and supplies inventory	(1,033,078)	(696,835)
Prepaid expenses, deposits, and other assets	(7,342)	(67,824)
Employee receivable	(6,573)	(9,539)
Accounts payable	(139,207)	34,206
Accrued expenses	818,664	12,989
Deferred revenue	277,709	-
Accrued interest - related party payables	-	(19,020)
Deferred lease income	-	(17,454)
Net cash used by operating activities	(1,912,146)	(1,888,094)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(1,398,004)	(893,850)
Change in restricted cash	1,001	-
Purchase of investment in equity security	(50,000)	-
Proceeds from sale of equipment	14,641	8,536
Net cash used by investing activities	(1,432,362)	(885,314)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from line of credit	-	596,065
Proceeds from related party notes payable	60,000	226,061
Payments on related party notes payable	(807,000)	(428,979)
Payments on notes payable	(162,415)	(102,551)
Payments on capital leases	(204,803)	(260,807)
Proceeds from exercise of options	-	21,000
Proceeds from exercise of warrants	1,483,873	462,845
Proceeds from issuances of stock and warrants, net of stock offering costs	3,093,129	2,730,000
Net cash provided by financing activities	3,462,784	3,243,634
Net increase in cash	118,276	470,226
CASH AT BEGINNING OF PERIOD	3,949,988	732,245
CASH AT END OF PERIOD	$ 4,068,264	$ 1,202,471
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Account receivable exchanged for equipment	$ 600,895	$ -
Capital lease for equipment purchase	387,297	-
Note payable issued for equipment purchase	129,423	555,242

See accompanying 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"). Kettle provides drilling services to the mining and mineral exploration industries across North America and worldwide.

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 three and six-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2008.

   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, 2007.

b. *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.

   Cumulative but undeclared dividends on the Series A Preferred Stock (Note 7) for the three months ended March 31, 2008 have been considered in the EPS computation.

   The dilutive effect of convertible and exercisable securities, in periods of future income as of March 31, 2008, is as follows:

Stock options	3,215,001
Warrants	2,426,734
Convertible preferred stock	4,700,000
Total possible dilution	10,341,735

   At March 31, 2008 and 2007, the effect of the Company's outstanding options and common stock equivalents would have been anti-dilutive.

NOTE 3 – RELATED PARTY TRANSACTIONS:

In 2006, Kettle Drilling entered into loan agreements with its officers, David Deeds and Doug Kettle. These loans totaled $160,000 and $627,000, respectively as of September 30, 2007. David Deeds is the Chief Executive Officer of Kettle Drilling and a shareholder of the Company. Mr. Kettle is the President of Kettle Drilling and a shareholder of the Company. The loans bear interest at 10% and are due on demand. There was no accrued interest outstanding as of March 31, 2008 and September 30, 2007.

Related party notes payable consist of the following at March 31, 2008 and September 30, 2007:

	Mar. 31, 2008	Sep. 30, 2007
Doug & Brenda Kettle	$ 40,000	$ 627,000
David Deeds	0	160,000
Less current portion	(40,000)	(787,000)
	$ 0	$ 0

NOTE 4 – INCOME TAXES:

Income (loss) from continuing operations before income taxes for the six months ended March 31, 2008 and 2007 are as follows:

	2008	2007
Current:		
Domestic	$ (2,924,386)	$ (1,641,572)
Foreign	769,158	280,521
	$ (2,155,228)	$ (1,361,051)

NOTE 4 – INCOME TAXES (continued) :

Significant components of income tax expense as of March 31, 2008 and 2007 are as follows:

		2008		2007
Current:				
Federal	$	-	$	-
State		-		-
Foreign		325,520		-
Total current income tax expense		325,520		-
Deferred:				
Federal		-		-
State		-		-
Foreign		-		-
Total deferred income tax expense		-		-
Total income tax expense	$	325,520	$	-

		2008		2007
Statutory Federal income tax rate		34%		34%
Expected income tax expense (benefit) based on statutory rate	$	(732,778)	$	(462,757)
Non-recognition of tax benefits related to losses		732,778		462,757
Foreign tax expense		325,520		-
Total income tax expense	$	325,520	$	-

NOTE 5 – COMMON STOCK AND WARRANTS:

During September, 2007, the Company initiated a private placement of the Company's restricted common stock. Under the private placement subscription agreement, the Company can sell up to 2,545,455 units for a total of $7,000,000, plus up to 5% in over-subscriptions. Each unit consists of one share of common stock and one half of one Class A Warrant; with each whole warrant exercisable to acquire one additional share of common stock at an exercise price of $3.50 per share for the period of twenty-four months from the Issue Date. The units were sold for $2.75 each, representing management's estimate of the fair value of the Company's unregistered common stock and warrants at the time of sale. In connection with this offering, the Company agreed to use commercially reasonable efforts to file a resale registration on Form SB-2 (or such other available form) no later than 60 days after the Closing Date and cause such registration to be declared effective no later than 120 days after the Closing Date (150 days if reviewed by the SEC). The registration statement is to register for resale the shares of common stock and the shares of common stock acquirable upon exercise of the warrants. The Company sold a total of 2,626,694 units for total proceeds of $7,223,408; with 1,780,972 units for proceeds of $4,897,673 closing on September 30, 2007, 288,182 units for proceeds of $792,500 closing on October 1, 2007, and 557,540 units for proceeds of $1,533,235 closing on October 11, 2007. As of March 31, 2008, there are 1,337,934 warrants outstanding from this placement.

NOTE 5 – COMMON STOCK AND WARRANTS (continued):

During the quarter ended March 31, 2008, the Company issued 766,000 shares of common stock as a result of warrants exercised. The warrants were granted pursuant to a private placement during 2006 and were exercised at a price of $1.00 per warrant.

The following is a summary of the Company's warrants outstanding:

	Warrants		Weighted Average Exercise Price
Outstanding at September 30, 2007	3,618,061	$	1.62
Issued	447,447		3.50
Exercised	(1,638,774)		(1.00)
Outstanding at March 31, 2008	2,426,734		2.38

These warrants expire as follows:

Warrants	Price	Expiration Date
1,088,800	$1.00	December 31, 2008
1,337,934	$3.50	September 30, 2009
2,426,734		

NOTE 6 – STOCK OPTIONS:

The Company has established a stock incentive plan as amended August 31, 2006, to authorize the granting of up to 2,750,000 stock options to employees, directors and consultants. The plan documents include a provision for all options granted to be exercised through a cashless exercise.

During October 2007, the Company granted 1,230,000 options to purchase common stock to directors and employees of the company as compensation for services rendered. The options have an exercise price of $3.40, the market price of the common stock on that date, and vest over the next two years. These options expire five years from the grant date. 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 3.75%; volatility of 82.3%; expected life of three years; dividend yield of zero. The options were valued at $1.87 per share. 493,336 of these options vested immediately, however only 267,500 were available under the reserve limit of the plan. Accordingly, an expense relating to those that were available under the reserve of the plan was recognized during the quarter ended December 31, 2007 in the amount of $500,225 and is included in Other general and administrative expenses. The expense was allocated on a pro-rata basis according to the number of options that vested immediately on the grant date. The remaining 225,836 options that did not vest because they were in excess of the reserve limit of the plan will only vest upon shareholder approval of an increase in the reserve limit. An additional 82,918 options vested during the quarter ended December 31, 2007 and an expense of $45,118 was taken related to those vested options.

NOTE 6 – STOCK OPTIONS (continued):

During January 2008, the Company granted 165,000 options to purchase common stock to two individuals for consulting services performed. The options have an exercise price of $4.05, the market price of the common stock on that date, and vest over the next two years. These options expire five years from the grant date. 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 3.11%; volatility of 81.8%; expected life of three years; dividend yield of zero. The options were valued at $2.22 per share. These options did not vest because they were in excess of the reserve limit of the plan and will only vest upon shareholder approval of an increase in the reserve limit.

During February 2008, the Company granted 30,000 options to purchase common stock to an employee of the company. The options have an exercise price of $3.20, the market price of the common stock on that date, and vest over the next two years. These options expire five years from the grant date. 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 2.15%; volatility of 82.3%; expected life of three years; dividend yield of zero. The options were valued at $1.73 per share. These options did not vest because they were in excess of the reserve limit of the plan and will only vest upon shareholder approval of an increase in the reserve limit. An additional 57,918 options vested during the quarter ended March 31, 2008 and an expense of $30,601 was taken related to those vested options.

The current number of securities to be issued upon exercise of outstanding options exceeds the authorized shares to be issued under the Amended 2005 Equity Incentive Plan which was approved by shareholders on September 22, 2006. The Company plans to seek an increase in the number of authorized shares to be issued under the Amended 2005 Equity Incentive Plan at its next annual shareholder’s meeting. If the requested increase in the number of authorized shares is not approved, only 2,750,000 options will vest and may be exercised. If the requested increase in the number of authorized shares to be issued under the Plan is approved, the expense related to the remaining options that were to vest immediately upon grant will be recognized in the period where shareholder approval is obtained. There are 1,039,173 options vested as of March 31, 2008 while 2,175,828 remain unvested and vest over the next 3 years.

NOTE 6 – STOCK OPTIONS (continued):

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

	Options	Weighted Average Exercise Price
Outstanding at September 30, 2007	2,073,333	$ 2.13
Granted	1,425,000	3.47
Exercised	-0-	-0-
Expired / Cancelled	283,332	1.03
Outstanding at March 31, 2008	3,215,001[(1)]	$ 2.82
Exercisable at March 31, 2008	813,337	$ 1.94
Weighted average fair value of options granted during the period ended March 31, 2008		$ 1.91

The average remaining contractual term of the options outstanding and exercisable at March 31, 2008 is 4.00 and 3.74 years, respectively.

[(1)] As discussed above, options granted that are in excess of the reserve limit of the Company's Amended 2005 Equity Incentive Plan are subject to shareholder approval of an increased reserve limit.

NOTE 7 – PREFERRED STOCK:

Timberline is authorized to issue up to 10,000,000 shares of preferred stock, $.01 par value. The Board of Directors of Timberline is authorized to issue the preferred stock from time to time in series and is further authorized to establish such series, to fix and determine the variations in the relative rights and preferences as between series, to fix voting rights, if any, for each series, and to allow for the conversion of preferred stock into Common Stock.

On February 26, 2006, our Board of Directors adopted a resolution creating a series of Five Million Shares (5,000,000) shares of voting, convertible Preferred Stock designated as Series A Preferred Stock. The Preferred Stock was issued to Doug Kettle and Dave Deeds (the "Kettle Shareholders") as a part of the consideration delivered to them for the acquisition of Kettle Drilling.

On March 10, 2008, the Company entered into an agreement to pay $10 million in aggregate to repurchase all of the outstanding Series A Preferred Stock from the Kettle Shareholders. The repurchase of the Series A Preferred Stock is contingent upon the Company's ability to raise sufficient funds to complete our previously announced proposed acquisition of SMD as described in the Company's Form 8-K filing on February 28, 2008. If the Company is unable to raise sufficient funds to complete our

NOTE 7 – PREFERRED STOCK (continued):

previously announced proposed acquisition of SMD, or does not raise sufficient funds to repurchase all of the outstanding Series A Preferred Stock via alternative financing by June 30, 2008, then the agreement to repurchase the Series A Preferred Shares will be terminated.

As of March 31, 2008, there is $190,341 of cumulative but undeclared dividends on the Series A Preferred Stock and the conversion price remains $0.40.

The Company has determined that the preferred stock of the Company should be classified as a temporary equity item on the Company's balance sheet. As a result, the preferred stock is classified in a "mezzanine" section of temporary equity presented between total liabilities and stockholders' equity.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

Real Estate Lease Commitments
The Company has real estate lease commitments related to its main office in Coeur d'Alene, Idaho, a facility in Butte, Montana, offices of Kettle Drilling in Coeur d'Alene, Idaho, a storage shop in Rathdrum, Idaho, and its operational facility in Elko, Nevada. The Company's Mexico subsidiary also leases facilities for its administrative office and warehouse under defined term lease agreements which are for one year. Total office and storage rental expense aggregated $73,340 and $19,553 for the three months ended March 31, 2008 and 2007, respectively, and $125,146 and $51,235 for the six months ended March 31, 2008 and 2007, respectively.

Environmental Contingencies
The Company has in past years been engaged in mining in northern Idaho, which is currently the site of a federal Superfund cleanup project. Although the Company is no longer involved in mining in this or other areas at present, the possibility exists that environmental cleanup or other environmental restoration procedures could remain to be completed or mandated by law, causing unpredictable and unexpected liabilities to arise. At the date of these financial statements, the Company is not aware of any environmental issues or litigation relating to any of its current or former properties.

Severance Agreements
During the quarter ended March 31, 2008, the Company announced a change in management at its Kettle Drilling subsidiary. As a result of this change, the Company has a commitment to pay total additional severance of $1,800,000 to the Kettle Shareholders contingent upon the Company's ability to raise sufficient funds to complete our previously announced proposed acquisition of SMD as described in the Company's Form 8-K filing on February 28, 2008.

NOTE 9 – SEGMENT INFORMATION:

The Company has three operating segments at March 31, 2008: 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 three months and six months ended March 31, 2008 and 2007 is as follows:

	Three months ending March 31		Six months ending March 31	
Revenues:	**2008**	**2007**	**2008**	**2007**
Timberline	$ -	$ -	$ -	$ -
Kettle Drilling	5,722,242	2,857,979	10,664,421	5,499,089
World Wide Exploration	2,664,085	975,405	4,157,031	1,542,632
Total revenues	$ 8,386,327	$ 3,833,384	$ 14,821,452	$ 7,041,721
Income / (Loss) before income taxes:				
Timberline	$ (1,056,007)	$ (458,143)	$ (2,734,884)	$ (992,237)
Kettle Drilling	135,913	(31,872)	(189,502)	(649,335)
World Wide Exploration	758,561	268,006	769,158	280,521
Income / (Loss) before income taxes	$ (161,533)	$ (222,009)	$ (2,155,228)	$ (1,361,051)

Total assets:	March 31, 2008	September 30, 2007
Timberline	$ 17,830,288	$ 15,143,464
Kettle Drilling	5,530,749	6,147,484
World Wide Exploration	1,817,768	719,995
Total assets	$ 25,178,805	$ 22,010,943

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, 2007, 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.

During the six months ended March 31, 2008, revenues from transactions with two customers each amounted to 10% or more of our total revenues. One such customer accounted for revenue of $3,270,275, and another customer accounted for revenue of $2,035,063. The revenue for both customers is reported through Kettle Drilling.

The assets of Timberline are located in the United States. The assets of Kettle Drilling are also located in the United States and their revenues are derived from drilling contracts in the United States. The assets of World Wide Exploration are located in Mexico and their revenues are derived from drilling contracts in Mexico.

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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this quarterly report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under "Risk Factors and Uncertainties" in our Annual Report on Form 10-KSB, filed with the SEC on January 14, 2008.

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 the management appointments of John Swallow and Paul Dircksen and our acquisition of a drilling services company, Kettle Drilling, Inc. ("Kettle"), in March 2006, we have advanced a new, aggressive business plan. Prior to our new business model, the addition of new management, and the purchase of Kettle, the Company had no reported revenues and accumulated losses.

Our corporate objective is to provide investors with significant exposure to both the 'picks and shovels' and 'blue sky' aspects of our industry. We believe that our business model is highly scalable and uniquely well-positioned to take advantage of the environment that currently exists in the mining and exploration industries. We have the people and knowledge base to continue to evaluate growth opportunities – either organically or through mergers and acquisitions.

Kettle and its subsidiary, World Wide Exploration S.A. de C.V. ("WWE"), provide both surface and underground drilling services but specialize in underground, hard rock core drilling. Their clients include both mining and exploration companies in the United States and Mexico. Total revenues both for the quarter and for the first six months of 2008 were up approximately 100-percent for the second consecutive year. WWE showed a record profit for the quarter. We are pleased with our performance in Mexico and expect the established trend of profit growth to continue. We are also determined to improve the performance of our U.S. operations, which showed a modest profit, and believe that refocusing our emphasis from rapid growth to profitability will continue to improve our operating results. Based on the revenues reported by our drilling operations for the first two quarters, typically our weakest due to holiday shutdowns, we are confident that, barring unforeseen events, we will achieve our 2008 drilling revenue objective of $30-million.

Additionally, during the quarter we also announced a management transition at our drilling subsidiaries, which is now underway, during which we expect drilling operations to proceed as normal and without interruption.

During the quarter we announced the signing of a definitive Purchase Agreement to acquire Small Mine Development, LLC ("SMD"), one of the largest underground mine contractors in the United States. We believe that upon receipt of shareholder approval and closing, the acquisition of SMD will provide us with the foundation to be a significant player in the North American mining services industry. We believe that our pursuit of SMD demonstrates our belief that a strong presence in both mining services and exploration are likely to provide excellent returns to our shareholders over the long term.

Subsequent to the end of the quarter, we filed a Preliminary Proxy with the U.S. Securities and Exchange Commission (SEC) which included proposals related to the acquisition of SMD and other items and is now under review.

In our Exploration Division, during the quarter we continued our exploration, permitting, and drilling activity. Our expenditures are representative of our commitment to ramp up exploration activity during 2008 on several of our properties.

We received approval from Inyo County to proceed with exploration at Conglomerate Mesa and are awaiting approval from the Bureau of Land Management for our planned road building and drill program. In preparation for our upcoming drill program, we have conducted extensive mapping and sampling at Conglomerate Mesa, recently acquiring 292 additional rock samples. We continue to build upon previous work performed by Newmont and BHP-

Billiton as we explore and define this district-scale gold exploration prospect. Additional mapping and sampling was also performed at East Camp Douglas, including a detailed structural analysis and the collection of 88 additional rock chip samples, as we outline and prepare drill targets on the property. Permitting and planning is also underway at Butte Highlands and Snowstorm in anticipation of active spring and summer field seasons at both properties. At Downeyville, we completed a 6-hole, 5,300-foot drill program and subsequently dropped the property. We also dropped the rest of our Cedar Mountains project, the Pac and HD properties. Although these were early-stage “legacy” properties that preceded the current management team, we believe that they merited limited testing before being returned to their owners.

Results of Operations for the Three Month and Six Month Periods ended March 31, 2008 and 2007

Combined Results – Timberline Corporate, Timberline Exploration, Kettle Drilling and WWE

For the three months ended March 31, 2008, we reported $8,386,327 in revenue compared to $3,833,384 in the same period of 2007. For the six months ended March 31, 2008 we reported revenues of $14,821,452 versus revenues of $7,041,721 in the same period of 2007. Our revenues are derived entirely from our drilling subsidiaries and comprised of $5,722,242 from Kettle Drilling and $2,664,085 from WWE for the three months ended March 31, 2008. For the six months ended March 31, 2008 Kettle Drilling and WWE reported revenues of $10,664,421 and $4,157,031, respectively. Our revenue increase was primarily due to the growth in the number of drill rigs operating this year versus last year. Gross profit from Kettle and WWE was $1,204,849 and $847,584, respectively, for the three months ended March 31, 2008, and $2,392,654 and $1,145,239, respectively, for the six months ended March 31, 2008.

Our overall after tax net loss for the three months ended March 31, 2008 was $487,053 compared to an overall net loss of $222,009 for the three months ended March 31, 2007. For the six months ended March 31, 2008, our overall net loss was $2,480,748 compared to $1,361,051 for the same period in 2007. Our net loss for the three months ended March 31, 2008 is comprised of $1,056,007 for Timberline Corporate and Exploration, offset by gains of $135,913 for Kettle Drilling and $433,041 at WWE. Our net loss for the six months ended March 31, 2008 is comprised of $2,734,884 for Timberline Corporate and Exploration and $189,502 for Kettle Drilling offset by a gain of $443,638 at WWE.

Timberline Corporate and Exploration Division

The after tax net loss of $1,056,077 for the combined Timberline Corporate and the Exploration division during the three months ended March 31, 2008 is comprised of non-cash charges of $130,601, exploration expenditures of $422,968, and other general and administrative costs of $502,438. Included in the non-cash charges are expenses related to stock options that vested during the quarter. Also included in the non-cash charges is $100,000 in Depreciation and Amortization.

The after tax net loss of $2,734,884 for the combined Timberline Corporate and the Exploration division during the six months ended March 31, 2008 is comprised of non-cash charges of $838,933, exploration expenditures of $999,720, and other general and administrative costs of $896,231. Included in the non-cash charges are expenses related to common stock issuances for consulting services, stock based compensation, and for stock options that vested during the quarter. Also included in the non-cash charges is $126,990 in Depreciation and Amortization.

Kettle Drilling and WWE

For the three months ended March 31, 2008, Kettle Drilling had revenues of $5,722,242 as compared to $2,857,979 for the three months ended March 31, 2007. WWE had revenues of $2,664,085 for the three months ended March 31, 2008 as compared to $975,405 for the three months ended March 31, 2007. The increase in revenues is attributable to the growth in the number of operating drill rigs at each company.

For the three months ended March 31, 2008, net income before taxes from Kettle was $135,913 while net income before taxes at WWE was $758,561 as compared to a net loss of $31,872 for Kettle and net income of $268,006 for WWE for the three months ended March 31, 2007. At Kettle, our transition to a profit for the quarter is attributable to stabilizing our growth, while the net income at WWE grew substantially compared to the corresponding quarter in 2007 due to the increased activity and number of drill rigs in Mexico.

For the six months ended March 31, 2008, Kettle Drilling had revenues of $10,664,421 as compared to $5,499,089 for the six months ended March 31, 2007. WWE had revenues of $4,157,031 for the six months ended March 31, 2008 as compared to $1,542,632 for the six months ended March 31, 2007. The considerable increase in revenues is attributable to the growth in the number of operating drill rigs at each company.

For the six months ended March 31, 2008, net loss before taxes from Kettle was $189,502 while net income before taxes at WWE was $769,158, as compared to a net loss of $649,335 for Kettle and net income before taxes of $280,521 for WWE for the six months ended March 31, 2007. At Kettle, the reduced loss from last year is attributable to stabilizing our growth, while the net income at WWE grew substantially due to the increased activity and number of drill rigs in Mexico.

Financial Condition and Liquidity

At March 31, 2008, we had assets of $25,178,805 consisting of cash in the amount of $4,068,264; accounts receivable in the amount of $3,984,768; inventories valued at $2,958,470; property, mineral rights and equipment, net of depreciation of $9,965,586; and other assets of $4,201,717. The Company believes that its cash and cash flow from continuing operations will be sufficient to fund our operations for the next twelve months.

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.

Critical Accounting Policies and Estimates

See Note 2 to the financial statements contained elsewhere in this Quarterly Report for a complete summary of the significant accounting policies used in the presentation of our financial statements. The summary is presented to assist the reader in understanding the financial statements. The accounting policies used conform to accounting principals generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Our critical accounting policies are as follows:

Exploration Expenditures

All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned.

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.

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 three 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. There was no impairment loss revealed by this test as of September 30, 2007.

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.

Certain information contained in this “Management Discussion and Analysis” constitutes forward looking information and actual results could differ from estimates, expectations or beliefs contained in such statements.

ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

At the end of the quarter covered by this report, an evaluation was carried out under the supervision of and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operations of the Company’s disclosure controls and procedures (as defined in Rule 13a – 15(e) and Rule15d – 15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that as of the end of the period covered by this report, the Company’s disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

The CEO and the CFO reached this conclusion with respect to the Company's disclosure controls and procedures notwithstanding the fact that we determined that there were material weaknesses with respect to the Company's internal control over financial reporting, as discussed below. While the CEO and CFO believe there is overlap between disclosure controls and procedures and internal control over financial reporting, they have concluded that a material weakness in internal controls limited to those discussed below does not cause the Company's disclosure controls and procedures to be ineffective. The Company's CEO and CFO believe that the inter-relation of disclosure controls and procedures and internal control over financial reporting is specific to the particular control policies adopted by the Company and the Company's CEO and CFO have carefully considered such inter-relation of the Company's specific policies in reaching this conclusion. Specifically, the CEO and the CFO have considered whether the material weakness in internal controls over financial reporting, as discussed below, stemmed from or was indicative of a lapse in the Company's disclosure policies related to inter-company reporting policies and financial statement preparation policies.

Changes in Internal Control Over Financial Reporting

In reviewing our internal controls over financial reporting for the three months ending March 31, 2008, the Company’s management determined that there were material weaknesses in our internal control over financial reporting.

These material weaknesses have been conveyed to our Audit Committee. Management’s assessment is that these weaknesses are primarily the result of not having enough sufficiently qualified accounting personnel involved in the preparation of the Company’s consolidated financial statements.

During the quarter we hired a corporate controller and will continue to devote additional resources to supervise the day to day accounting functions and ensure the preparation of accurate and timely financial statements. Management believes the actions taken and the follow-up that will occur during the remainder of 2008 will effectively eliminate the weaknesses identified.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Timberline is not a party to any material pending legal proceedings, and no such proceedings are known to be contemplated.

No director, officer or affiliate of Timberline and no owner of record or beneficial owner of more than 5.0% of our securities or any associate of any such director, officer or security holder is a party adverse to Timberline or has a material interest adverse to Timberline in reference to pending litigation.

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

The Company issued 766,000 shares of its common stock upon the exercise of warrants previously sold by the Company as part of units of the Company, as reported by the Company in its Current Report on Form 8-K, filed with the SEC on October 18, 2007. The shares of common stock issued upon exercise of the warrants were sold pursuant to exemptions from registration requirements of the Securities Act provided by Section 506 of Regulation D of the Securities Act and by Rule 903 of Regulation S of the Securities Act, such exemptions being available based on information obtained from the investors to the private placement.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of1934, as amended

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

SIGNATURES

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

TIMBERLINE RESOURCES CORPORATION

By: /s/ Randal Hardy

Randal Hardy
Chief Executive Officer and Chief Financial Officer
(On behalf of the registrant and as
Principal Executive Officer and Principal Accounting and Financial Officer)

Date: May 14, 2008

EXHIBIT 31.1

CERTIFICATION

I, Randal Hardy, Chief Executive Officer and Chief Financial Officer of Timberline Resources Corporation, 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 statement 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) 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 reasonably 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 function):

(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 controls over financial reporting.

Date: May 14, 2008

By: /s/ Randal Hardy

Randal Hardy
Chief Executive Officer &Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Timberline Resources Corporation (the “Company”) on Form 10-QSB for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Randal Hardy, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2008

By: /s/ Randal Hardy
____
Randal Hardy
Chief Executive Officer & Chief Financial Officer