

METALLINE MINING CO  
Form 10-Q  
June 16, 2008

**Table of Contents**

**U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED April 30, 2008.**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD OF \_\_\_\_\_ TO \_\_\_\_\_.**  
**Commission File Number: 001-33125**  
**METALLINE MINING COMPANY**  
**(Exact name of registrant as specified in its charter)**

**Nevada**

**91-1766677**

State or other jurisdiction of  
incorporation or organization

(I.R.S. Employer  
Identification No.)

**1330 E. Margaret Ave., Coeur d Alene, ID 83815**

(Address of principal executive offices, including zip code)

Registrant's telephone number: **(208) 665-2002**

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 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 filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 11, 2008, there were 39,644,627 shares of the Registrant's \$.01 par value Common Stock ( Common Stock ), Registrant's only outstanding class of voting securities, outstanding.

**PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**METALLINE MINING COMPANY**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2008**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	PAGE
Consolidated Financial Statements:	
<u>Consolidated Balance Sheets as of April 30, 2008 and October 31, 2007</u>	2
<u>Consolidated Statements of Operations for the three and six months ended April 30, 2008 and April 30, 2007 and for the period from inception (November 8, 1993) to April 30, 2008</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended April 30, 2008 and April 30, 2007, and for the period from inception (November 8, 1993) to April 30, 2008</u>	4-5
<u>Condensed Notes to Consolidated Financial Statements</u>	6
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

[The balance of this page has been intentionally left blank.]

**Table of Contents**

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**

	<b>April 30, 2008</b>	<b>October 31, 2007</b>
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,454,488	\$ 1,434,487
Marketable securities		7,900,000
Value-added tax receivable	681,157	401,341
Other receivables	34,345	23,993
Prepaid expenses	269,664	17,827
<b>Total Current Assets</b>	<b>7,439,654</b>	<b>9,777,648</b>
<b>PROPERTY CONCESSIONS</b>		
Sierra Mojada District (Note 4)	4,633,218	4,536,111
<b>EQUIPMENT</b>		
Office and mining equipment, net of accumulated depreciation of \$509,982 and 407,457, respectively (Note 5)	1,123,790	919,420
<b>TOTAL ASSETS</b>	<b>\$ 13,196,662</b>	<b>\$ 15,233,179</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 199,915	\$ 84,634
Accounts payable - Related Parties		68,460
Income Tax Payable	39,956	55,331
Accrued liabilities and expenses	228,331	92,133
Other liabilities	79,172	100,766
<b>Total Current Liabilities</b>	<b>547,374</b>	<b>401,324</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$0.01 par value; 160,000,000 shares authorized, 39,644,627 and 39,144,977 shares issued and outstanding, respectively	396,446	391,450
Additional paid-in capital	50,975,533	49,273,440
Deficit accumulated during exploration stage	(38,437,603)	(34,746,393)

Edgar Filing: METALLINE MINING CO - Form 10-Q

Other comprehensive (loss)	(285,088)	(86,642)
Total Stockholders' Equity	12,649,288	14,831,855
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,196,662</b>	<b>\$ 15,233,179</b>

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

**Table of Contents**

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>		<b>November 8,</b>
	<b>April 30,</b>		<b>April 30,</b>		<b>(Inception)</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>to April 30,</b>
					<b>2008</b>
	\$	\$	\$	\$	\$
REVENUES					
EXPLORATION AND PROPERTY HOLDING COSTS					
Exploration and property holding costs	753,921	656,250	1,387,676	1,243,532	14,221,798
Depreciation and asset write-off	45,947	36,707	106,203	36,707	589,526
<b>TOTAL EXPLORATION AND PROPERTY HOLDING COSTS</b>	<b>799,868</b>	<b>692,957</b>	<b>1,493,879</b>	<b>1,280,239</b>	<b>14,811,324</b>
GENERAL AND ADMINISTRATIVE EXPENSES					
Salaries and payroll expenses	472,064	168,614	1,107,542	332,012	10,934,024
Office and administrative expenses	195,312	140,246	289,112	259,389	2,280,345
Professional services	551,778	303,777	871,831	1,656,722	8,821,284
Directors fees	163,293	70,800	323,922	148,800	2,599,253
Depreciation	6,610	3,785	12,976	7,570	188,362
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>1,389,057</b>	<b>687,222</b>	<b>2,605,383</b>	<b>2,404,493</b>	<b>24,823,268</b>
<b>LOSS FROM OPERATIONS</b>	<b>(2,188,925)</b>	<b>(1,380,179)</b>	<b>(4,099,262)</b>	<b>(3,684,732)</b>	<b>(39,634,592)</b>
OTHER INCOME (EXPENSES)					
Interest and investment income	32,727	67,148	122,353	137,781	807,317
Foreign currency transaction gain (loss)	481,990		325,874		423,882
Miscellaneous ore sales, net of expenses					134,242
VAT tax refunds					132,660
Miscellaneous income		2,718	17	2,814	82,352
Interest and financing expense					(289,230)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>514,717</b>	<b>69,866</b>	<b>448,244</b>	<b>140,595</b>	<b>1,291,223</b>

Edgar Filing: METALLINE MINING CO - Form 10-Q

LOSS BEFORE INCOME TAXES	(1,674,208)	(1,310,313)	(3,651,018)	(3,544,137)	(38,343,369)
INCOME TAXES	4,350		40,192		94,234
NET LOSS	\$ (1,678,558)	\$ (1,310,313)	\$ (3,691,210)	\$ (3,544,137)	\$ (38,437,603)
OTHER COMPREHENSIVE INCOME (LOSS) Foreign Currency translation adjustments	(284,817)		(198,446)		(285,088)
COMPREHENSIVE LOSS	\$ (1,963,375)	\$ (1,310,313)	\$ (3,889,656)	\$ (3,544,137)	\$ (38,722,691)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	\$ (0.04)	\$ (0.04)	\$ (0.09)	\$ (0.10)	
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	39,612,587	35,650,954	39,503,884	34,915,983	

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

**Table of Contents**

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended</b>		<b>Period from</b>
	<b>April 30,</b>		<b>November 8,</b>
	<b>2008</b>	<b>2007</b>	<b>(Inception)</b>
			<b>to April 30,</b>
			<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (3,691,210)	\$ (3,544,137)	\$ (38,437,603)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and equipment write-off	119,223	44,277	779,942
Noncash expenses			126,864
Foreign currency transaction loss (gain)	(319,909)		(417,915)
Common stock issued for services			1,237,047
Common stock issued for compensation	82,840		1,059,946
Stock options issued for compensation	956,863		5,751,052
Common stock issued for directors fees	190,824	188,460	497,004
Stock options and warrants issued for directors fees			1,665,705
Stock options issued for services			849,892
Stock options issued for financing fees			276,000
Common stock issued for payment of expenses			326,527
Stock warrants issued for services		1,094,950	1,852,720
(Increase) decrease in:			
Accounts receivable		3,294	
Value added tax receivable	(263,887)	(501,032)	(657,121)
Other receivables	(9,880)	(31,246)	(33,552)
Prepaid expenses	(247,274)	(15,567)	(265,062)
Increase (decrease) in:			
Accounts payable	115,329	(138,102)	199,831
Accounts payable related parties	(68,460)	(69,660)	
Income tax payable	(16,112)		38,102
Accrued liabilities and expenses	131,301	(33,308)	223,114
Other liabilities	(23,109)		75,622
Net cash used by operating activities	(3,043,461)	(3,002,071)	(24,851,885)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments			(21,609,447)
Proceeds from investment sales	7,900,000	3,425,000	21,609,447
Equipment purchases	(299,785)	(24,845)	(1,836,622)
Mining property acquisitions			(4,632,037)
Net cash provided by (used by) investing activities	7,600,215	3,400,155	(6,468,659)



CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from sales of common stock		5,671,893		33,379,207
Proceeds from sales of options and warrants		84,375		949,890
Proceeds from exercise of warrants	476,563			3,447,966
Proceeds from shareholder loans				30,000
Payment of note payable				(15,783)
Net cash provided by financing activities:	476,563	5,756,268		37,791,280
Effect of exchange rates on cash	(13,316)			(16,248)
Net (decrease) increase in cash and cash equivalents	5,020,001	6,154,352		6,454,488
Cash and cash equivalents beginning of period	1,434,487	689,994		
Cash and cash equivalents end of period	\$ 6,454,488	\$ 6,844,346	\$	6,454,488

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

**Table of Contents**

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

	<b>Six Months Ended</b>		<b>Period from</b>
	<b>April 30,</b>		<b>November 8,</b>
	<b>2008</b>	<b>2007</b>	<b>1993</b>
			<b>(Inception)</b>
			<b>to April 30,</b>
			<b>2008</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>			
Income taxes paid	\$ 29,328	\$	\$ 29,328
Interest paid	\$	\$ 2,167	\$ 286,771
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>			
Common stock issued for equipment	\$	\$	\$ 25,000
Common stock options issued for financing fees	\$	\$	\$ 276,000
Common stock options issued for non-cash options	\$	\$ 59,220	\$ 59,220

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

**Table of Contents**

**NOTE 1 ORGANIZATION AND DESCRIPTION OF BUSINESS**

Metalline Mining Company ( the Company ) was incorporated in the State of Nevada on November 8, 1993 as the Cadgie Company for the purpose of acquiring and developing mineral properties. The Cadgie Company was a spin-off from its predecessor, Precious Metal Mines, Inc. On June 28, 1996, at a special directors meeting, the Company s name was changed to Metalline Mining Company. The Company s fiscal year-end is October 31.

The Company expects to engage in the business of mining. The Company currently owns several mining concessions in Mexico (collectively known as the Sierra Mojada Property). The Company conducts its operations in Mexico through its wholly owned subsidiary corporations, Minera Metalin S.A. de C.V. ( Minera Metalin ) and Contratistas de Sierra Mojada S.A. de C.V. ( Contratistas ).

The Company s efforts have been concentrated in expenditures related to exploration properties, principally in the Sierra Mojada project located in Coahuila, Mexico. The Company has not determined whether the exploration properties contain ore reserves that are economically recoverable. The ultimate realization of the Company s investment in exploration properties is dependent upon the success of future property sales, the existence of economically recoverable reserves, the ability of the Company to obtain financing or make other arrangements for development, and upon future profitable production. The ultimate realization of the Company s investment in exploration properties cannot be determined at this time, and accordingly, no provision for any asset impairment that may result, in the event the Company is not successful in developing or selling these properties, has been made in the accompanying financial statements.

The Company s management believes its properties can ultimately be sold or developed to enable the Company to continue its operations. However, there are inherent uncertainties in mining operations and management cannot provide assurances that it will be successful in this endeavor. Furthermore, the Company is in the exploration stage, as it has not realized any revenues from its planned operations.

**NOTE 2 BASIS OF PRESENTATION**

These unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-K as promulgated by the Securities and Exchange Commission ( SEC ). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2007. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

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

Operating results for the three-month and six-month periods ended April 30, 2008 are not necessarily indicative of the results that may be expected for the year ending October 31, 2008.

**Table of Contents**

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reclassifications**

Certain reclassifications have been made to prior periods and to the inception to date consolidated financial statements to conform to current year presentation. Such reclassifications had no effect on net loss.

**Concentration of Risk**

The Company maintains its domestic cash and marketable securities in two commercial depository accounts. One of these accounts is insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000. The other account consists of money market funds, certificates of deposit and US treasury securities, all of which are not FDIC insured. The Company also maintains cash in banks in Mexico. These accounts, which had U.S. dollar balances of \$305,040 and \$229,094 at April 30, 2008 and October 31, 2007, respectively, are denominated in pesos and are considered uninsured. At April 30, 2008, the Company's cash balances and marketable securities included \$659,817 which was not federally insured.

**Earnings Per Share**

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 128 Earnings Per Share, which provides for calculation of basic and diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were common stock equivalents of 18,246,568 shares and 19,765,658 shares outstanding at April 30, 2008 and 2007, respectively, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive.

**Exploration Costs**

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred. Exploration costs expensed during the six months ended April 30, 2008 and 2007 were \$1,387,676 and \$1,243,532, respectively. The exploration costs expensed to date during the Company's exploration stage amount to \$14,221,798.

**Foreign Operations**

The accompanying balance sheet at April 30, 2008 contains Company assets in Mexico, including: \$4,633,218 in mineral properties; \$1,539,878 (before accumulated depreciation) of property and equipment; \$681,157 in value-added tax receivable; and \$305,040 of cash. Although this country is considered economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations. The Mexican government does not require foreign entities to maintain cash reserves in Mexico.

**IVA Tax Receivable**

The Company records a receivable for value added (IVA) taxes recoverable from Mexican authorities on goods and services purchased by its Mexican subsidiaries. As of April 30, 2008, the Company has filed applications with the Mexican authorities to recover approximately \$987,000 of IVA taxes paid by its Mexican subsidiaries from 2005 to 2008. The Company has recorded a receivable in the amount of \$681,157 as of April 30, 2008 for IVA taxes paid since November 1, 2006. The Company has recorded an allowance on the IVA tax receivable for taxes paid prior to October 31, 2006 as collectability cannot be reasonably estimated. The Company continues to work extensively with Mexican authorities to recover these amounts. In April 2008, the Company received a payment of \$23,844 from the Mexican authorities for an unknown tax period and has applied this payment against the IVA receivable. Any subsequent recovery of the taxes paid prior to October 31, 2006 will be booked as reduction to exploration expense.

**Table of Contents****NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Marketable Securities**

The Company accounts for its marketable securities in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ( SFAS No. 115 ) and classifies marketable securities as trading, available-for-sale, or held-to-maturity. At October 31, 2007, the Company held \$7,900,000 of marketable securities in auction rate securities ( ARS ) which are floating rate securities with long-term nominal maturities of 25 to 30 years, but are marketed by financial institutions with maturity and interest rates at 7, 28, and 35 day intervals. In accordance with SFAS No. 115, these auction rate securities were classified as current available-for-sale securities. Marketable securities include investments with maturities greater than six months, but not exceeding twelve months and available for sale auction rate securities.

During the three months ended January 31, 2008, the Company sold all of its auction rates securities for no gain or loss and invested the proceeds in short-term US treasury securities. The Company does not anticipate investing in auction rate securities in the near future given the increased liquidity risk associated with failed auctions for these securities.

**Income Taxes**

Income taxes are provided based upon the liability method of accounting pursuant to SFAS No. 109, *Accounting for Income Taxes* (hereinafter SFAS No. 109 ). Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the more likely than not standard imposed by SFAS No. 109 to allow recognition of such an asset.

Effective November 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, ( FIN 48 ), an interpretation of Financial Accounting Standards Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements the impact of uncertain tax positions. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. See Note 11 for discussion of FIN 48 and impact it had on the Company's financial position and results of operations.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (U.S. GAAP), and expands disclosures about fair value measurements. This Standard addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. GAAP. Accordingly, this Standard does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company does not expect the adoption of SFAS 157 will have a material impact on its financial position, results of operations, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* ( SFAS 159 ). Under SFAS 159, a company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company is currently assessing the impact that SFAS 159 may have on its financial position, results of operations, and cash flows.

**Table of Contents****NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). The Company is currently assessing the impact that SFAS 141(R) may have on its financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ( SFAS 160 ), an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company does not expect the adoption of SFAS 160 will have a material impact on its financial position, results of operations, and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ). FAS No. 161 enhances the disclosure requirements under FAS No. 133 pertaining to how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for under SFAS No. 133, and how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008 (fiscal year 2009 for the Company). . The Company does not expect the adoption of SFAS 160 will have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). This statement identifies sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles ( GAAP ) in the United States. SFAS No. 162 moves the hierarchy of GAAP sources for non-governmental entities from the auditing literature to the accounting literature. This statement will become effective 60 days following approval by the Securities and Exchange Commission ( SEC ) of amendments made by the Public Company Accounting Oversight Board to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. Any effect of applying SFAS No. 162 should be reported as a change in accounting principle. The Company does not expect SFAS 162 will have a material impact on its financial position, results of operations, and cash flows.

**NOTE 4 CONCESSIONS IN THE SIERRA MOJADA DISTRICT****Sierra Mojada Mining Concessions**

The Company owns 16 mining concessions consisting of 19,408.41 hectares (about 47,958 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The mining concessions are considered one prospect area and are collectively referred to as the Sierra Mojada Project.

The Company purchased eleven of the concessions from Mexican entities and/or Mexican individuals and the remaining five concessions were granted by the Mexican government. Each mining concession enables the Company to explore the underlying concession in consideration for the payment of semi-annual fee to the Mexican government and completion of certain annual assessment work. Annual assessment work in excess of statutory annual requirements can be carried forward and applied to future periods. The Company has completed sufficient work to meet future requirements for many years.

**Table of Contents****NOTE 4 CONCESSIONS IN THE SIERRA MOJADA DISTRICT (continued)**

As of April 30, 2008, the Company owns the following mining concessions in the Sierra Mojada District:

<b>Concession</b>	<b>Acquisition Method</b>	<b>Date</b>	<b>Hectares</b>	<b>Cost Basis</b>
Sierra Mojada	Purchased	5/30/2000	4,767.32	\$ 16,283
Mojada 3	Purchased	5/30/2000	722.00	
Unificacion Mineros Nortenos	Purchased	8/30/2000	336.79	3,777,439
Vulcano	Purchased	8/30/2000	4.49	
Esmeralda 1	Purchased	8/20/2001	95.50	185,640
Esmeralda	Purchased	3/20/1997	117.50	262,219
La Blanca	Purchased	8/20/2001	33.50	125,916
Fortuna	Claim Filed	12/8/1999	13.96	78,697
Mojada 2	Claim Filed	7/17/2006	3,500.00	
El Retorno	Purchased	4/10/2006	817.65	15,815
Los Ramones	Purchased	4/10/2006	8.60	286
El Retorno Fracc. 1	Purchased	4/20/2006	5.51	95
Dormidos	Claim Filed	4/9/2007	2,326.10	
Agua Mojada <sup>(1)</sup>	Claim Filed	1/26/2007	2,900.00	6,261
Alote <sup>(1)</sup>	Claim Filed	5/17/2007	3,749.00	6,224
Volcan Dolores	Purchased	9/24/2007	10.49	158,343
			19,408.41	\$ 4,633,218

(1) Title for this concession is pending.

**NOTE 5 PROPERTY AND EQUIPMENT**

The following is a summary of the Company's property and equipment at April 30, 2008 and October 31, 2007, respectively:

	<b>April 30, 2008</b>	<b>October 31, 2007</b>
Mining equipment	\$ 1,080,966	\$ 838,635
Well equipment	38,974	
Communication equipment	9,092	8,902
Buildings and structures	163,060	153,590
Vehicles	151,070	172,449
Computer equipment and software	185,211	145,167
Office equipment	5,399	8,134
	1,633,772	1,326,877
Less: Accumulated depreciation	(509,982)	(407,457)
	\$ 1,123,790	\$ 919,420

Depreciation expense and write-off of property and equipment for the six months ended April 30, 2008 and 2007 was \$119,179 and \$44,277 respectively. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.



**Table of Contents****NOTE 6 SHAREHOLDER RIGHTS PLAN**

On June 11, 2007, the Board of Directors adopted a Shareholders' Right Plan through the adoption of a Rights Agreement, which became effective immediately. In connection with the adoption of the Rights Agreement, the Board of Directors declared a distribution of one Right for each outstanding share of the Company's common stock, payable to shareholders of record at the close of business on June 22, 2007. The Right is attached to the underlying common share and will remain with the common share if the share is sold or transferred.

In certain circumstances, in the event that any person acquires beneficial ownership of 20% or more of the outstanding shares of the Company's common stock, each holder of a Right, other than the acquirer, would be entitled to receive, upon payment of the purchase price, which is initially set at \$20 per Right, a number of shares of the Company's common stock having a value equal to two times such purchase price. The Rights will expire on June 11, 2017.

**NOTE 7 COMMON STOCK**

During the six-months ended April 30, 2008, the Company issued 381,250 shares of common stock for warrants exercised at an average cash consideration of \$1.25 per share. In addition, the Company granted 38,000 shares to three employees of Contratistas at an average market price of \$2.18. The Company also issued 80,400 shares of common stock at an average market price of \$2.37 per share to its independent directors for services provided during the quarters ended October 31, 2007, January 31, 2008 and April 30, 2008. The Company had accrued \$68,460 as of October 31, 2007 for costs associated with director shares for the quarter ended October 31, 2007.

**NOTE 8 STOCK OPTIONS**

The Company has two existing qualified stock option plans. Under the 2006 Stock Option Plan (the "2006 Plan") the Company may grant non-statutory and incentive options to employees, directors and consultants for up to a total of 5,000,000 shares of common stock. Under the 2001 Equity Incentive Plan (the "2001 Plan") the Company may grant non-statutory and incentive options to employees, directors, and consultants for up to a total of 1,000,000 shares of common stock. Options are typically granted with an exercise price equal to the closing market price of the Company's stock at the date of grant and have a contractual term of 9 to 10 years. Prior to October 31, 2006, most stock option grants were immediately vested at date of grant. Subsequent grants have typically been issued with a graded vesting schedule over approximately 2 to 3 years. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the plan). New shares are issued upon exercise of stock options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatility is based upon weighted average of historical volatility over the expected term of the option and implied volatility. The expected term of stock options is based upon historical exercise behavior and expected exercised behavior. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield is assumed to be none as the Company does not anticipate paying any dividends in the foreseeable future. A summary of the weighted average assumptions used to value stock options for the six months ended April 30, 2008 and 2007 are as follows:

<b>Options</b>	<b>Six months Ended</b>	
	<b>2008</b>	<b>April 30, 2007<sup>(1)</sup></b>
Expected volatility		73%
Risk-free interest rate		3.4%
Dividend yield		
Expected term (in years)		8.05

(1) No options were granted during the six months ended April 30,

2007.

The weighted-average grant-date fair value of options granted during the six months ended April 30, 2008 was \$1.62. No options were exercised during the six months ended April 30, 2008. During the six months ended April, 30, 2007, 126,000 options were exercised with a total intrinsic value of \$161,280.

**Table of Contents****NOTE 8 STOCK OPTIONS (continued)**

The following is a summary of stock option activity for the six months ended April 30, 2008 is as follows:

<b>Options</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at October 31, 2007	3,650,000	\$ 2.63		
Granted	750,004	2.19		
Exercised				
Forfeited or Expired				
Outstanding at April 30, 2008	4,400,004	\$ 2.56	7.61	\$ 115,000
Vested or Expected to Vest at April 30, 2008	4,400,004	\$ 2.56	7.61	\$ 115,000
Exercisable at April 30, 2008	3,533,333	\$ 2.49	7.42	\$ 115,000

The Company has recognized stock-based compensation costs for stock options of \$956,863 for the six months ended April 30, 2008. No stock-based compensation was recorded for the six months ended April 30, 2007. The Company typically does not recognize any tax benefits for stock options due to the Company's recurring losses. The Company currently expects all outstanding options to vest. Compensation cost is revised if subsequent information indicates that the actual number of options vested is likely to differ from previous estimates.

Summarized information about stock options outstanding and exercisable at April 30, 2008 is as follows:

<b>Options Outstanding</b>			<b>Options Exercisable</b>		
<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Ave. Remaining Contractual Life (Years)</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Weighted Average Exercise Price</b>
\$ 1.25-1.32	200,000	1.85	\$ 1.29	200,000	\$ 1.29
2.15-2.85	3,950,004	7.80	2.51	3,283,333	2.53
4.30	250,000	9.14	4.30	50,000	4.30
\$ 1.25-4.30	4,400,004	7.61	\$ 2.56	3,533,333	\$ 2.49

A summary of the nonvested shares as of April 30, 2008 and changes during the quarter ended April 30, 2008 is as follows:

<b>Nonvested Shares</b>	<b>Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
Nonvested at October 31, 2007	400,000	\$ 2.79

Edgar Filing: METALLINE MINING CO - Form 10-Q

Granted	750,004		1.62
Vested	(283,333)		1.56
Forfeited			
Nonvested at April 30, 2008	866,671	\$	2.18

**Table of Contents****NOTE 8 STOCK OPTIONS (continued)**

As of April 30, 2008, there was \$1,200,849 of total unrecognized compensation costs related to nonvested share based compensation arrangements granted under the qualified stock option plans. That cost is expected to be recognized over a weighted average period of 1.83 years.

On January 18, 2008, the Compensation Committee recommended to the Board of Directors and the Board granted stock options to purchase 400,000 shares of common stock under the 2006 Stock Option Plan to the officers of the company with an exercise price of \$2.18 and an expiration date of ten years. The options vest 1/3 at date of grant, 1/3 on January 1, 2009 and 1/3 on January 1, 2010.

Also on January 18, 2008, the Board of Directors granted options to purchase 200,004 shares of common stock under the 2006 Stock Option Plan to fourteen Mexican employees with an exercise price of \$2.18 and an expiration date of ten years. The options vest 1/3 on December 31, 2008, 1/3 on December 31, 2009, and 1/3 on December 31, 2010 and have a cashless exercise feature.

On April 17, 2008, the Board of Directors granted options to purchase 150,000 shares of common stock under the 2006 Stock Option Plan to a legal consultant in Mexico with an exercise price of \$2.25 and an expiration date of ten years. The options vested immediately at date of grant.

**NOTE 9 WARRANTS**

The Company may issue warrants to investors in connection with private placement of Company Stock or for financial services in connection with private placements or investor relations. Warrants issued for financial services or investor relations are typically granted with an exercise price equal to the market price of the Company's stock at the date of grant. The fair value of each warrant is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatility is based upon weighted average of historical volatility over the contractual term of the warrant and implied volatility. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield is assumed to be none as the Company has not paid dividends nor does not anticipate paying any dividends in the foreseeable future.

A summary of warrant activity for the quarter ended April 30, 2008 is as follows:

Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at October 31, 2007	14,380,147	\$ 1.44		
Issued with private placement				
Issued for services				
Exercised	(381,250)	1.25		
Forfeited or expired	(152,333)	1.88		
Outstanding at April 30, 2008	13,846,564	\$ 1.44	2.75	\$ 7,310,953

**Table of Contents****NOTE 9 WARRANTS (continued)**

Summarized information about warrants outstanding and exercisable at April 30, 2008 is as follows:

Exercise Price		Warrants Outstanding and Exercisable		Weighted Average
		Number	Weighted Ave. Remaining Contractual	
Price		Outstanding	Life (Years)	Exercise Price
\$ 1.25	\$1.75	11,985,169	2.71	\$ 1.25
\$ 2.00	\$2.63	1,361,395	2.74	2.42
\$ 3.40	\$5.00	500,000	3.68	3.40
\$ 1.25	\$5.00	13,846,564	2.75	\$ 1.44

During the six-month period ended April 30, 2008, the Company did not grant any warrants. During the six months ended April 30, 2007, 381,250 warrants were exercised with a total intrinsic value of \$478,438.

During the six-month period ended April 30, 2007, the Company issued warrants for 600,000 common shares for professional services at a weighted average exercise price of \$3.27 per share. The fair value of these warrants was determined to be \$1,094,950 based upon the Black-Scholes-Merton pricing model using risk free interest rate of 5%, expected volatility of 80%, and a contractual term of 3 to 5 years.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**Compliance with Environmental Regulations

The Company's mining activities are subject to laws and regulations controlling not only the exploration and mining of mineral properties, but also the effect of such activities on the environment. Compliance with such laws and regulations may necessitate additional capital outlays, affect the economics of a project, and cause changes or delays in the Company's activities.

Employment Agreements

Effective January 1, 2007, Merlin Bingham, Roger Kolvoord, and Terry Brown entered into Executive Employment Agreements with the Company pursuant to which they would receive a base annual salary of \$206,000, \$187,000, and \$125,000, respectively. The employment agreements have an initial term of 1 year with automatic renewal for an additional year at each anniversary. The employment agreements also provide for twelve months of severance in the event the agreement is not renewed for the calendar year following a change in control.

On January 18, 2008, the Company's Compensation Committee completed a review of officer and director compensation and approved an increase in base salary for Messrs Bingham, Kolvoord, and Brown to \$247,000, \$224,000, and \$150,000, respectively effective January 1, 2008. Also, the Company entered into an Executive Employment Agreement with Robert Devers that provides for a base annual salary of \$165,000 and contains substantially the same terms and conditions as those in the employment agreements between the Company and its other executive officers. The agreement is effective January 1, 2008.

Royalty Agreement

In connection with the purchase of certain mining concessions, the Company has agreed to pay the previous owners a net royalty interest on revenue from future mineral sales.

**Table of Contents**

**NOTE 10 COMMITMENTS AND CONTINGENCIES (continued)**

**Mining Concessions**

The Company holds title to several mining concessions in Mexico that require the Company to conduct a certain amount of work each year to maintain these concessions. Annual work in excess of these statutory requirements can carry forward to future periods. The Company has accumulated a large enough carry forward to meet future requirements for several years. The mining concessions also require the Company to pay semi-annual fees to the Mexican government.

**NOTE 11 INCOME TAXES**

**Provision for Taxes**

The Company files a United States federal income tax return on a fiscal year-end basis and files Mexican income tax returns for its two Mexican subsidiaries on a calendar year-end basis. The Company and one of its wholly-owned subsidiaries, Minera Metalin, have not generated taxable income since inception. Contratistas, another wholly-owned Mexican subsidiary, did generate taxable income based upon intercompany fees with Minera during the calendar year ended December 31, 2007.

The Company's provision for income taxes of \$40,192 for the six months ended April 30, 2008 consists of \$40,192 of current foreign income tax provision. There was no federal or state income tax provision for the six months ended April 30, 2008 and 2007.

**Adoption of FIN 48 Accounting for Uncertainty in Income Taxes**

Effective November 1, 2007, the Company adopted Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ( FIN 48 ), an interpretation of Financial Accounting Standards Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements the impact of uncertain tax positions. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

With the adoption of FIN 48, the Company identified unrecognized tax benefits of approximately \$103,000 which resulted in a reduction of the Company's foreign net operating loss carryforwards. The adoption of FIN 48 did not require a cumulative effect adjustment to beginning retained earnings and there were no material changes to the reserves for unrecognized tax benefits during the quarter ended April 30, 2008.

The reserve for unrecognized tax benefits of \$103,000 as of April 30, 2008, if recognized would not have a material effect on the Company's effective tax rate.

The following tax years remain open to examination by the Company's principal tax jurisdictions.

United States:	1993 and all following years
Mexico:	1997 and all following years

The Company has not identified any uncertain tax position for which it is reasonably possible that the total amount of unrecognized tax benefit will significantly increase or decrease within the next twelve months.

The Company's policy is to classify tax related interest and penalties as income tax expense. There is no interest or penalties estimated on the underpayment of income taxes as a result of these unrecognized tax benefits.

**Table of Contents****NOTE 12 SEGMENT INFORMATION**

The Company operates in one business segment being the exploration of mineral property interests. Geographic information is approximately as follows:

	<b>April 30, 2008</b>	<b>April 30, October 31, 2007</b>	
Identifiable assets			
Mexico	\$ 6,305,000	\$ 6,063,000	
United States	6,892,000	9,170,000	
	\$ 13,197,000	\$ 15,233,000	
	<b>For the six months ended April 30, 2008</b>	<b>2007</b>	<b>Inception to date April 30, 2008</b>
Net loss for the period			
Mexico	\$ 1,070,000	\$ 980,000	\$ 8,688,000
United States	2,621,000	2,564,000	29,749,000
	\$ 3,691,000	\$ 3,544,000	\$ 38,437,000

**NOTE 13 SUBSEQUENT EVENTS**

On June 4, 2008 we issued a warrant to purchase 100,000 shares of common stock to a consultant for financial services at an exercise price of \$2.00 per share. The warrant has a two year term and will vest equally over the two year term. The fair value of these warrants was determined to be \$81,837 based upon the Black-Scholes-Merton pricing model using risk free interest rate of 2.47%, expected volatility of 73%, and a contractual term of 2 years.



**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

When we use the terms Metalline Mining Company, the Company, we, us, our, or Metalline, we are referring to Metalline Mining Company and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under "Glossary of Common Terms" in our Annual Report on Form 10-KSB for the fiscal year ended October 31, 2007. Throughout this document we make statements that are classified as forward-looking.

*Cautionary Statement about Forward-Looking Statements*

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be forward-looking statements. All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that our management expects, believes or anticipates will or may occur in the future are forward-looking statements. Such forward-looking statements include discussion of such matters as:

The amount and nature of future capital, development and exploration expenditures;

The timing of exploration activities; and

Business strategies and development of our business plan.

Forward-looking statements also typically include words such as "anticipate", "estimate", "expect", "potential", "could", or similar words suggesting future outcomes. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of zinc prices, currency exchange rate fluctuations, uncertainties in cash flow, expected acquisition benefits, exploration mining and operating risks, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed under the caption "Risk Factors" in our Annual Report on Form 10-KSB for the fiscal year ended October 31, 2007, many of which are beyond our control. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements.

The Company is under no duty to update any of these forward-looking statements after the date of this report. You should not place undue reliance on these forward-looking statements.

**Plan of Operation**

The Company is an exploration stage company, formed under the laws of the state of Nevada on August 20, 1993, to engage in the business of mining. The Company currently owns mining concessions, which are located in the municipality of Sierra Mojada, Coahuila, Mexico. The Company's objective is to define sufficient mineral reserves on the Property to justify the development of a mechanized mining operation (the "Project"). The Company conducts its operations in Mexico through its wholly owned Mexican subsidiaries, Minera Metalin S.A. de C.V. ("Minera") and Contratistas de Sierra Mojada S.A. de C.V.

***Feasibility Study- Oxide Zinc Mineralization***

As stated under "General Development of the Business" in PART 1 of the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2007, the primary activity of the Company is to complete a feasibility study and to evaluate the engineering factors and economics of mining the oxide zinc mineralization in our Sierra Mojada concessions. This task consists in part of performing the required technical tasks and in part of properly documenting, in accordance with generally accepted engineering guidelines, (i) norms, and procedures; (ii) the manner in which the tasks were performed; and (iii) the results of the ensuing analysis. Much of this work is iterative in nature and results of one task often requires modification of the work in some other task, and resulting modifications in the documentation of all impacted tasks. The final feasibility study becomes a summary



## **Table of Contents**

document that reflects the important conclusion of detailed reports on the various technical tasks. For the format that we are using the detailed studies are termed Complimentary Reports. The Complimentary Reports currently being prepared deal with: (i) the geology of the Sierra Mojada area and the methods used to evaluate the mineralization; (ii) the resource model that provides an estimate of the size and grade of the mineralized volume, including a detailed discussion of the geostatistical methods used to create the estimate; (iii) the geotechnical results including a detailed discussion of how the geotechnical data were acquired and how they are interpreted; and (iv) a hydrology report on the water supply for the area.

The Company has completed the scoping phase of the feasibility study and has developed a preliminary mine plan. The mine plan anticipates using an underground mining method that would use a long-hole end-slice panel stoping method to perform high-volume relatively low cost mining. Currently, the mine plan projects a minimum daily production rate of 3,000 tonnes (metric tons) per day, and a 17 year mine life. Based upon these production volume and mine life, the Company is working with its engineering firms to develop a more detailed mine plan and concentrator plant study. These studies need to be prepared in greater levels of details so that cost estimates can improve the level of precision required for the definitive feasibility study (plus or minus 10-15%). In May 2008, the Company selected SNC-Lavalin to prepare the detailed concentrator plant study.

The Company continues to evaluate several business plans to exploit the deposit. Two of the models involve construction of a zinc refinery to treat concentrates from Sierra Mojada. The third involves sale of concentrate to existing third party refineries. Management continues to hold discussions with potential concentrate buyers to determine whether a market for Sierra Mojada concentrate exists on terms that are attractive to us and competitive with the refinery options.

### ***Prepare for Test Mine***

Pincock, Allen & Holt has strongly recommended a test mining program to confirm the planning mining method and validate the geotechnical data. The first phase of the test mining program is to construct a production decline to the selected test mine area near the center of the resource and constructing initial access development workings to the test area. The second phase would be test mining. The Company has worked with Pincock, Allen and Holt to prepare a Request for Proposal inviting contractors to bid on the test mining project. The Company is awaiting bids from selected outside contractors.

### ***Continued Improvement of the Sierra Mojada Infrastructure***

The Company is continuously improving its general business capabilities in Mexico so that it is capable of performing the ramp up in activity required by our business objectives. During 2008, the Company has made several improvements to the Sierra Mojada infrastructure including:

The company purchased 1 additional drill and has hired and trained additional personnel to operate this equipment. The additional diamond drilling capabilities not only eliminated dependence on outside contractors, but also increased our ability to quickly respond to any additional drilling requirements for the feasibility study and has allowed for continued exploration of the Silver Polymetallic Manto.

An onsite sample laboratory was completed at Sierra Mojada and is being used to get immediate feedback on drilling results and reduce outside sampling and assaying costs. All samples that will be incorporated in mineral resource models will be assayed in duplicate by the outside laboratory.

A water pipeline was completed to provide water for increased drilling activities, accommodate test mining and reduce our water costs.

### ***Exploration of Silver Polymetallic Manto***

Although the Company's primary focus is to complete the bankable feasibility on the oxide zinc mineralization in the Sierra Mojada concessions, the Company continues to explore and evaluate the Silver Polymetallic Manto which is located north and adjacent of the oxide zinc mineralization. The purpose of this work is to evaluate the mineralization potential of the Silver Polymetallic Manto and to determine whether mining of both mineral systems can be conducted. During the quarter ended April 30, 2008, a total of 3,378.7 meters of diamond drilling was completed in various areas of the property, mostly in pursuit of



**Table of Contents**

silver polymetallic targets. In May, 2008, 1,934.6 meters of additional drilling was completed. We expect that the rate of drilling will increase through the year. As disclosed in a press release dated April 24, 2008, the Company recently collected enough sample data to prepare an initial evaluation of silver and copper content in part of the Silver Polymetallic Manto. A total of 8,766 meters of diamond drill, percussion drill, and channel samples, within this sample block, were used to calculate a weighted average grade of 145 grams silver per tonne and 0.20% copper. The Company plans to continue to evaluate the Silver Polymetallic Manto using our 4 diamond drills, 3 percussion drills, channel sampling and geologic mapping. The continuing evaluation is intended to increase sample density and expand the core area. The Company is also in the process of preparing a more detailed geostatistical evaluation to improve the evaluation of silver and copper as well as associated lead and zinc.

***Other***

In order to finance the feasibility study and the business operations described above for corporate overhead through completion of the feasibility study, the Company has raised capital by selling unregistered shares of its common stock as described below in Liquidity and Capital Resources.

***Cautionary Note***

The Company is an exploration stage company and does not currently have any known reserves and cannot be expected to have reserves unless and until a feasibility study is completed for the Sierra Mojada concessions that show proven and probable reserves. There can be no assurance that the Company's concessions contain proven and probable reserves and investors may lose their entire investment in the Company.

**Results of Operation**

**Three Months Ended April 30, 2008**

For the quarter ended April 30, 2008, the Company experienced a consolidated net loss of \$1,679,000 or \$0.04 per share, compared to a consolidated net loss of \$1,310,000, or \$0.04 per share during the comparable period in the previous year. The \$369,000 increase in consolidated net loss is primarily due to a \$702,000 increase in general and administrative costs and a \$107,000 increase in exploration and property holding costs. These costs increases were partially mitigated by a \$482,000 gain on foreign currency translation.

***Exploration and property holding costs***

Exploration and property holding costs increased to \$800,000 for the quarter ended April 30, 2008 compared to \$693,000 for the comparable period last year. This increase was primarily due to additional drilling and exploration costs associated with the operation of two new drills which were purchased near the beginning of fiscal year. The Company currently is operating four drills with two eight-hour shifts per drill. The Company completed the geotechnical drilling for the feasibility study on the oxide zinc mineralization during the first quarter and is now focused on continued exploration of silver polymetallic mineralization north of the Sierra Mojada fault.

***General and Administrative Costs***

General and administrative expenses increased to \$1,389,000 for the quarter ended April 30, 2008 as compared to \$687,000 for the comparable period last year. The \$702,000 increase in general and administrative expenses was primarily due to an increase in stock based compensation associated with graded vesting of options issued to officers, directors, and consultants. Stock based compensation for options granted with a graded vesting schedule are recognized pro-rata over the vesting period.

Salaries and payroll expense increased \$303,000 from the comparable period in 2007 due to higher stock based compensation for stock options granted to officers and key employees. During 2007, the Company did not record any stock based compensation for stock options whereas during 2008, the Company recorded stock based compensation of \$230,000 for stock options granted with the graded vesting.

**Table of Contents**

Professional fees increased \$248,000 from the comparable period in 2007 primarily due to stock based compensation of \$237,000 for stock options granted to our Mexican legal consultant for services performed. The options vested immediately.

Directors fees also increased \$92,000 from the comparable period in 2007, primarily due to the additional cash and stock based compensation related to the addition of a third independent director. Approximately \$75,000 of this increase is attributable to stock based compensation for options to purchase 150,000 shares issued in October 2007 with a graded vesting period of 2 years. The Company added a third independent director in October 2007 to further strengthen its board of directors and to meet the requirements set forth by the American Stock Exchange.

***Other Income (Expense)***

Other Income (Expense) increased \$445,000 from the comparable period in 2007 primarily due a \$482,000 foreign currency translation gain on intercompany loans to its Mexican subsidiaries. As of April 30, 2008, the Company had an intercompany receivable of \$15.5 million dollars which is subject to exchange rate fluctuations between the U.S. Dollar and Mexican Peso.

**Six Months Ended April 30, 2008**

For the six months ended April 30, 2008, the Company experienced a consolidated net loss of \$3,691,000 or \$0.09 per share, compared to a consolidated net loss of \$3,544,000, or \$0.10 per share during the comparable period in the previous year. The \$147,000 increase in consolidated net loss is primarily due to a \$214,000 increase in exploration and property holding costs and a \$201,000 increase in general and administrative costs. These costs increases were partially mitigated by a \$326,000 gain on foreign currency translation.

***Exploration and property holding costs***

Exploration and property holding costs increased to \$1,494,000 for the six months ended April 30, 2008 compared to \$1,280,000 for the comparable period last year. This increase was primarily due to additional drilling and exploration costs associated with the operation of two new drills which were purchased near the beginning of the fiscal year. The Company currently is operating four drills with two eight-hour shifts per drill. Earlier this fiscal year, the Company completed a majority of the geotechnical drilling for the feasibility on the oxide zinc mineralization and is now primarily focused on continued exploration of silver mineralization north of the Sierra Mojada fault.

***General and Administrative Costs***

General and administrative expenses increased to \$2,605,000 for the six months ended April 30, 2008 as compared to \$2,404,000 for the comparable period last year. The \$201,000 increase in general and an administrative expense was primarily due to increased costs in salaries and payroll expenses and directors fees and was partially mitigated by lower professional fees. Stock based compensation for options and warrants accounted for a significant part of general and administrative expenses and were a primary factor for several of the fluctuations described below.

Salaries and payroll expense increased \$776,000 from the comparable period in 2007 due to higher stock based compensation for stock options and restricted stock grants. During 2007, the Company did not record any stock based compensation for stock options whereas during 2008, the Company recorded stock based compensation of \$568,000 for stock-based compensation associated with the graded vesting of stock options granted to officers and key employees. Also, during 2008, the Company granted 38,000 shares to three key employees of our Mexican subsidiary with a total value of \$83,000.

Professional fees decreased \$785,000 from the comparable six month period in 2007 due to lower stock based compensation associated with options/warrants issued to officers, directors, and financial consultants. During 2007, the Company recognized stock based compensation of \$1,094,000 under professional fees for 600,000 warrants issued to financial consultants. During 2008, the Company recognized stock based compensation of \$237,000 for 150,000 stock options granted to our Mexican legal consultant.

**Table of Contents**

Directors' fees also increased \$175,000 from the comparable period in 2007, primarily due to the additional cash and stock based compensation related to the addition of a third independent director. Approximately \$152,000 of this increase is attributable to stock based compensation for options to purchase 150,000 shares issued in October 2007 with a graded vesting period of 2 years. The Company added a third independent director to further strengthen its board of directors and to meet the requirements set forth by the American Stock Exchange.

***Other Income (Expense)***

Other Income (Expense) increased \$307,000 from the comparable period in 2007 primarily due to a \$326,000 foreign currency translation gain on intercompany loans to its Mexican subsidiaries. As of April 30, 2008, the Company had an intercompany receivable of \$15.5 million dollars which is subject to exchange rate fluctuations between the U.S. Dollar and Mexican Peso.

***Liquidity and Capital Resources***

The Company financed its obligations during the six months ended April 30, 2008 from cash on hand. At April 30, 2008, the Company's cash, cash equivalents and marketable securities decreased \$2,880,000 as compared to the year ended October 31, 2007. During the six-month period, the Company used \$3,043,000 in operating activities, principally in connection with maintaining the property, continuation of exploration drilling program and continued work on the feasibility study. The Company spent \$300,000 on capital expenditures and received \$477,000 of cash proceeds from exercise of warrants during the period.

As of April 30, 2008, the Company's cash, cash equivalents and marketable securities, was \$6,454,000.

The Company is in the detailed engineering phase of completing the bankable feasibility study and currently estimates that it will cost about \$3.4 million of outside consulting costs to complete the feasibility study. The Company anticipates that portions of study that relate to the detailed mine and concentrator plant will be completed by the end of our fiscal year and that the final study documents are scheduled to be completed in December 2008. Following successful completion of the feasibility study, the Company expects to incur additional costs of \$600,000 related thereto. Also following completion of the study, the Company will then proceed to secure financing for the construction of a mine, concentration plant and related infrastructure pursuant to the detailed plans in the bankable feasibility report. The Company intends to finance construction costs by seeking a combination of equity and debt. In addition the Company may seek joint venture partners or other alternative financing sources as necessary to complete development of the project.

The Company's current operating expenses, exclusive of feasibility study costs and non-cash items such as depreciation and stock based compensation total approximately \$380,000 per month. The Company will continue to monitor timing and cost of feasibility study and adjust our programs and expenditures accordingly to ensure we have sufficient cash to complete the feasibility study. However, the Company may pursue additional financing in the future to allow for continued exploration of the silver mineralization north of the Sierra Mojada fault, to fund some preliminary mine development, and to maintain adequate working capital during future periods. There can be no assurance that additional funding will be available on reasonable terms, if at all.

***Recent Accounting Pronouncements***

In November 2007, the Company adopted Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (FIN 48), an interpretation of Financial Accounting Standards Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an uncertain tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements the impact of uncertain tax positions. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. See Note 11 to the consolidated financial statements for discussion of FIN 48 and the impact it had on the Company's financial position or results of operations.

**Table of Contents**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Standard addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under U.S. GAAP. Accordingly, this Standard does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company does not expect the adoption of SFAS 157 will have a material impact on our financial position, results of operations, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* ( SFAS 159 ). Under SFAS 159, a company may choose, at specified election dates, to measure eligible items at fair value and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years (fiscal year 2009 for the Company). The Company is currently assessing the impact that SFAS 159 may have on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) changes accounting for acquisitions that close beginning in 2009. More transactions and events will qualify as business combinations and will be accounted for at fair value under the new standard. SFAS 141(R) promotes greater use of fair values in financial reporting. Some of the changes will introduce more volatility into earnings. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). The Company is currently assessing the impact that SFAS 141R may have on our financial position, results of operations, and cash flows.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ( SFAS 160 ), an amendment of ARB No. 51. SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (fiscal year 2010 for the Company). SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company does not expect the adoption of SFAS 160 will have a material impact on our financial position, results of operations, and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ). FAS No. 161 enhances the disclosure requirements under FAS No. 133 pertaining to how and why an entity uses derivative instruments, how derivative instruments and related hedge items are accounted for under SFAS No. 133, and how derivative instruments and related hedge items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008 (fiscal year 2009 for the Company). . The Company does not expect the adoption of SFAS 160 will have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ( SFAS 162 ). This statement identifies sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles ( GAAP ) in the United States. SFAS No. 162 moves the hierarchy of GAAP sources for non-governmental entities from the auditing literature to the accounting literature. This statement will become effective 60 days following approval by the Securities and Exchange Commission ( SEC ) of amendments made by the Public Company Accounting Oversight Board to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. Any effect of applying SFAS No. 162 should be reported as a change in accounting principle. The Company does not expect SFAS 162 will have a material impact on its financial position, results of operations, and cash flows.

**Critical Accounting Policies**



The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a variety of estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and (ii) the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

## Table of Contents

Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. We have identified certain accounting policies that we believe are most important to the portrayal of our current financial condition and results of operations.

### Property Concessions

Costs of acquiring property concessions are capitalized by project area upon purchase or staking of the associated claims. Costs to maintain the property concessions and leases are expensed as incurred. When a property concession reaches the production stage, the related capitalized costs will be amortized, using the units of production method on the basis of periodic estimates of ore reserves. To date no concessions have reached production stage.

Property concessions are periodically assessed for impairment of value and any diminution in value is charged to operations at the time of impairment. Should a property concession be abandoned, its capitalized costs are charged to operations. The Company charges to operations the allocable portion of capitalized costs attributable to property concessions sold. Capitalized costs are allocated to property concessions abandoned or sold based on the proportion of claims abandoned or sold to the claims remaining within the project area.

### Deferred tax assets and liabilities

The Company recognizes the expected future tax benefit from deferred tax assets when the tax benefit is considered to be more likely than not of being realized. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize deferred tax assets could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the Company's ability to obtain the future tax benefits.

### Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

### Foreign Currency Translation

While the Company's functional currency is the U.S. dollar, the local currency is the functional currency of the Company's wholly-owned Mexican subsidiaries. The assets and liabilities relating to Mexican operations are exposed to exchange rate fluctuations. The Company has adopted Financial Accounting Standard No. 52. Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the period-end exchange rates, and revenue and expenses are translated at the average exchange rates during the period. Exchange differences arising on translation are disclosed as a separate component of shareholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations. Intercompany transactions and balances with the Company's Mexican subsidiaries are considered to be short-term in nature and accordingly all foreign currency translation gains and losses on intercompany loans are included in the consolidated statement of operations.

### Accounting for Stock Options and Warrants Granted to Employees and Non-employees

On November 1, 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 123(R), Share-Based Payment, which requires the fair value of share-based payments, including grants of employee stock options to be recognized in the statement of operations based on their fair values. Prior to the Company's adoption of SFAS No. 123(R), the Company followed the method prescribed in SFAS (SFAS) No. 123, Accounting for Stock-Based Compensation. The fair value of the Company's stock options issued prior to the adoption of SFAS No. 123(R) was determined using a Black-Scholes pricing model, which assumes no expected dividends and estimates the option expected life, volatility and risk-free interest rate at the time of grant. Prior to the adoption of SFAS No. 123(R), the Company used historical and implied market volatility as a basis for calculating expected volatility.



**Table of Contents**

The Company uses the Black-Scholes pricing model as a method for determining the estimated fair value for employee stock awards under SFAS 123(R). The expected term of the options is based upon evaluation of historical and expected future exercise behavior. The risk-free interest rate is based upon U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life of the grant. Volatility is based upon historical volatility of the Company's stock. The Company has not historically issued any dividends and it does not expect to in the future. The Company uses the graded vesting attribution method to recognize compensation costs over the requisite service period.

The Company also used the Black-Scholes valuation model to determine the fair market value of warrants. The risk-free interest rate is based upon U.S. Treasury rates at the date of grant with maturity dates approximately equal to the contractual term of the grant. Volatility is based upon historical volatility of the Company's stock. The Company has not historically issued any dividends and it does not expect to in the future.

**Impairment of Long-Lived Assets**

We review the net carrying value of all facilities, including idle facilities, on a periodic basis. We estimate the net realizable value of each property based on the estimated undiscounted future cash flows that will be generated from operations at each property, the estimated salvage value of the surface plant and equipment and the value associated with property interests. These estimates of undiscounted future cash flows are dependent upon the estimates of metal to be recovered from proven and probable ore reserves and mineral resources expected to be converted into mineral reserves, future production cost estimates and future metals price estimates over the estimated remaining mine life. If undiscounted cash flows are less than the carrying value of a property, an impairment loss is recognized based upon the estimated expected future cash flows from the property discounted at an interest rate commensurate with the risk involved.

**Environmental Matters**

When it is probable that costs associated with environmental remediation obligations will be incurred and they are reasonably estimable, we accrue such costs at the most likely estimate. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study for such facility and are charged to provisions for closed operations and environmental matters. We periodically review our accrued liabilities for such remediation costs as evidence becomes available indicating that our remediation liability has potentially changed. Such costs are based on our current estimate of amounts that are expected to be incurred when the remediation work is performed within current laws and regulations. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required. Any such increases in future costs could materially impact the amounts charged to earnings. As of April 30, 2008, the Company has no accrual for reclamation and remediation obligations because the Company has not engaged in any significant activities that would require remediation under its current concessions or inherited any known remediation obligations from acquired concessions. Any reclamation or remediation costs related to abandoned concessions has been previously expensed.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Foreign Currency Exchange Risk**

Although a large amount of our expenditures are in U.S. dollars, certain purchases of labor, operating supplies and capital assets are denominated in Mexican pesos or other currencies. As a result, currency exchange fluctuations may impact the costs of our operations. Specifically, the appreciation of Mexican Peso against the U.S. dollar may result in an increase in operating expenses and capital costs at the Sierra Mojada Project in U.S. dollar terms. To reduce this risk, we maintain minimum cash balances in foreign currencies, including Mexican Pesos and complete most of our purchases, including capital expenditures relating to the Sierra Mojada Project, in U.S. dollars. We currently do not engage in any currency hedging activities.

**ITEM 4T. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures.**

Management of the Company is responsible for establishing and maintaining adequate disclosure controls and procedures and for the assessment of the effectiveness of our disclosure controls and procedures. Our disclosure controls and procedures are processes designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with U.S. generally accepted accounting principles ( GAAP ) as well as the accompanying disclosures contained in our periodic reports filed with the Securities and Exchange Commission. All disclosure controls and procedures and internal controls systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

The Company's management, primarily the Company's Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Rule 13a-15(b) of the Exchange Act as of April 30, 2008. Based upon that review and evaluation, these officers concluded that our disclosure controls and procedures were effective as of April 30, 2008.

In connection with the audit of our consolidated financial statements for the fiscal year ended October 31, 2007, our independent accounting firm identified a material weakness in our internal controls over financial reporting. More specifically, the Company did not complete a timely review of its foreign currency translation calculations and record the proper foreign currency translation gain on intercompany loans for the fiscal year ended October 31, 2007. As a result, an adjusting journal entry in the amount of \$98,000 was required at October 31, 2007 to correct the foreign currency translation gain on intercompany loans. An audit adjustment indicates that there were deficiencies that existed in the design or operation of our disclosure controls and procedures and our internal control over financial reporting that adversely affected our disclosure controls and that are to be considered material weaknesses. In response to the material weaknesses described above, the Company performed additional analyses and other procedures to ensure the Company's consolidated financial statements at October 31, 2007 were prepared in accordance with generally accepted accounting principles.

The Company implemented changes in internal controls over financial reporting described below during the first quarter of 2008 and has performed additional analysis and reviews in connection with the preparation of the financial statements and disclosures in Form 10-Q for the last two fiscal quarters. Based upon the review of the controls implemented and additional analysis performed, management believe these controls have operated for a sufficient amount of time to conclude that our internal controls over financial reporting were effective as of April 30, 2008.

**Table of Contents**

**(b) Changes In Internal Controls Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Earlier this fiscal year, the Company implemented additional policies and procedures to improve the financial close process, including process improvements related to foreign currency translations. In addition, we engaged an external accounting firm to assist us with our review of financial information to ensure that the consolidated financial statements are prepared in accordance with GAAP prior to subjecting them to audit or review by our independent public accounting firm. We believe these actions have remediated the material weakness described above and have operated for a sufficient period of time for management to conclude that these controls are operating effectively.

**PART II OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

None.

**Item 1A. RISK FACTORS**

There were no material changes from the risk factors as previously discussed in our Form 10-KSB for the year ended October 31, 2007.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND PROCEEDS**

**Recent Sales of Unregistered Securities**

Following are descriptions of all unregistered equity securities of the Company sold during the second fiscal quarter and as of June 4, 2008, excluding transactions that were previously reported in our Form 10-Q or a Form 8-K.

On April 17, 2008, pursuant to the Company's 2006 Stock Option Plan, the Company granted our Mexican legal counsel 150,000 options to purchase shares of the Company's Common Stock with the option being exercisable at \$2.25 per share until April 17, 2018. The options were issued in consideration for services. The options were issued in reliance on the exemption from registration contained in Section 4(2) of the 1933 Act. No commissions or other remuneration were paid for this issuance.

On April 30, 2008 we issued an aggregate of 32,400 shares of the Company's common stock to our independent directors. These shares were issued in consideration for services. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the 1933 Act. No commissions or other remuneration were paid for this issuance.

On June 4, 2008 we issued a warrant to a consultant to purchase 100,000 shares of Company common stock exercisable at \$2.00 per share. The warrant is exercisable until June 3, 2010 and the underlying shares vest over a two year term. The warrant was issued in consideration for business consulting and promotional services rendered to the Company. We relied on the exemption from registration provided by Section 4(2) under the Securities Act of 1933 for this issuance. No commissions or other remuneration were paid in connection with this issuance.

**Item 3. DEFAULT UPON SENIOR SECURITIES**

None.

**Table of Contents**

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

As reported on Form 8-K filed April 18, 2008, the Company reported that its shareholders voted at the annual shareholder meeting to re-elect the five members of our board of directors and to ratify and approve Hein & Associates, LP as our independent registered public accounting firm.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

3.1(a) Articles of Incorporation.<sup>1</sup>

3.1(b) Certificate of Amendment to Articles of Incorporation.<sup>2</sup>

3.2 Bylaws.<sup>2</sup>

31.1 Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

31.2 Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

(1) Incorporated by reference from Form 10-SB, filed October 15, 1999.

(2) Incorporated by reference from Form 10-QSB, filed September 19, 2006.

**Table of Contents**

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METALLINE MINING COMPANY

Date: June 16, 2008

By: /s/ Merlin Bingham  
Merlin Bingham,  
President and Principal Executive Officer

Date: June 16, 2008

By: /s/ Robert Devers  
Robert Devers,  
Chief Financial Officer and Principal Accounting  
Officer



**Table of Contents**

**EXHIBIT INDEX**

- 31.1 Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.