

METALLINE MINING CO  
Form 10QSB  
March 19, 2007

**FORM 10-QSB**

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

For the quarterly period ended January 31, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-27667

**Metalline Mining Company**

(Exact name of small business issuer as specified in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

91-1766677  
(IRS Employer Identification No.)

1330 E. Margaret Ave.  
Coeur d'Alene, ID 83815  
(Address of principal executive offices)

Issuer's telephone number, including area code: (208) 665-2002

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

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

There were 36,819,483 shares of the issuer's common stock, par value \$0.01, outstanding as of March 13, 2007.

Transitional Small Business Disclosure Format (Check one): Yes  No

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**METALLINE MINING COMPANY  
QUARTERLY REPORT ON FORM 10-QSB  
FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2007**

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

	January 31, 2007 (Unaudited)	October 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,465,481	\$ 689,994
Marketable securities	3,545,000	5,925,000
Accounts receivable	35,722	35,934
Tax refunds receivable	362,965	-
Prepaid expenses	48,690	14,288
Total Current Assets	5,457,858	6,665,216
<b>PROPERTY CONCESSIONS</b>		
Sierra Mojada, Mojada 3	15,875	15,875
Fortuna	76,725	76,725
Esmeralda	255,647	255,647
Esmeralda I	180,988	180,988
U.M. Nortenos, Vulcano	3,682,772	3,682,772
La Blanca	122,760	122,760
Total Property Concessions	4,334,767	4,334,767
<b>EQUIPMENT</b>		
Office and mining equipment, net	605,355	611,966
Total Equipment	605,355	611,966
<b>TOTAL ASSETS</b>	<b>\$ 10,397,980</b>	<b>\$ 11,611,949</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 134,162	\$ 238,198
Accounts payable - related parties	188,460	125,460
Accrued liabilities and expenses	82,103	116,162
Other liabilities	10,000	10,000
Total Current Liabilities	414,725	489,820
<b>LONG-TERM LIABILITIES</b>	-	-
<b>COMMITMENTS AND CONTINGENCIES</b>	-	-
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value; 160,000,000 shares authorized, 34,207,912 shares issued and outstanding	342,079	342,079
Additional paid-in capital	39,689,836	38,594,886
Deficit accumulated during exploration stage	(30,048,660)	(27,814,836)

Total Stockholders' Equity	9,983,255	11,122,129
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,397,980	\$ 11,611,949

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

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

	Three Months Ended		November 8, 1993
	January 31, 2007	January 31, 2006	(Inception) to January 31 2007
	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES	\$ -	\$ -	\$ -
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Salaries and payroll expenses	163,398	130,696	8,959,761
Office and administrative expenses	331,807	50,873	1,736,034
Taxes and fees	1,145	119,542	798,505
Professional services	1,352,945	106,351	6,737,827
Directors fees	78,000	-	1,914,195
Property expenses	15,318	9,935	2,073,383
Depreciation	3,785	20,600	435,000
Exploration and research	356,818	18,152	7,769,681
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	2,303,216	456,149	30,424,386
LOSS FROM OPERATIONS	(2,303,216)	(456,149)	(30,424,386)
<b>OTHER INCOME (EXPENSES)</b>			
Miscellaneous ore sales, net of expenses	-	(41,537)	134,242
VAT tax refunds	-	13,045	132,660
Rental income	-	-	94,000
Miscellaneous income	96	-	(14,388)
Interest and investment income	70,633	17,726	320,804
Interest and financing expense	(1,337)	(335)	(291,623)
TOTAL OTHER INCOME	69,392	(11,101)	375,695
LOSS BEFORE INCOME TAXES	(2,233,824)	(467,250)	(30,048,691)
INCOME TAXES	-	-	-
NET LOSS	\$ (2,233,824)	\$ (467,250)	\$ (30,048,691)
<b>BASIC AND DILUTED NET LOSS PER COMMON SHARE</b>			
	\$ (0.07)	\$ (0.02)	
<b>BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>			
	34,207,912	21,810,960	

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

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

	Three Months Ended		Period from
	January 31,	January 31,	November 8,
	2007	2006	1993
	(Unaudited)	(Unaudited)	(Inception)
			to
			January 31,
			2007
			(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (2,233,824)	\$ (467,250)	\$ (30,048,660)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	3,785	20,600	435,030
Noncash expenses	2,825	-	129,689
Common stock issued for services	-	-	1,025,487
Common stock issued for compensation	-	-	977,106
Options issued for compensation	-	-	4,360,000
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	-	1,783,721
(Increase) decrease in:			-
Accounts receivable	(362,752)	(21,173)	(398,686)
Prepaid expenses	(34,402)	(43,865)	(48,690)
Employee advances	-	(2,000)	-
Increase (decrease) in:			-
Related party payable	63,000	-	188,460
Accounts payable	(104,036)	(2,028)	134,162
Contracts payable	-	-	-
Accrued liabilities and expenses	(34,059)	95,918	92,103
Net cash used by operating activities	(1,604,513)	(419,798)	(18,252,154)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Marketable securities	2,380,000	-	(3,545,000)
Purchase of investments	-	-	(484,447)
Proceeds from investments	-	-	484,447
Equipment purchases	-	-	(987,405)
Mining property acquisitions	-	-	(4,452,631)
Net cash used by investing activities	2,380,000	-	(8,985,036)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sales of common stock	-	5,661,200	27,581,814
Proceeds from sales of options and warrants	-	-	981,140
Deposits for sale of stock	-	-	125,500
Proceeds from shareholder loans	-	-	30,000

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Payment of note payable	-	(1,052)	(15,783)
Net cash provided by financing activities:	-	5,660,148	28,702,671
Net increase (decrease) in cash and cash equivalents	775,487	5,240,350	1,465,481
Cash and cash equivalents beginning of period	689,994	213,369	-
Cash and cash equivalents end of period	\$ 1,465,481	\$ 5,453,719	\$ 1,465,481

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ 1,337	\$ 335	\$ 288,108

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued for equipment	\$ -	\$ -	\$ 25,000
Common stock options issued for financing fees	\$ -	\$ -	\$ 276,000

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



**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2007**

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**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 concessions. 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 concessions located in a mining region known as the Sierra Mojada District that is located in the municipality of Sierra Mojada, Coahuila, Mexico. The Company conducts its operations in Mexico through its wholly owned subsidiary corporation, Minera Metalin S.A. de C.V. ("Minera Metalin") and Contratistas de Sierra Mojada S.A. de C.V.

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 is actively seeking additional capital and 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**

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2006. 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.

**METALLINE MINING COMPANY**  
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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 period ended January 31, 2007 are not necessarily indicative of the results that may be expected for the year ending October 31, 2007.

Concentration of Risk

The Company maintains its domestic cash 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 preferred securities (including treasury inflation protected securities and auction rate preferred securities), all of which are not insured. The Company also maintains cash in banks in Mexico. These accounts, which had U.S. dollar balances of \$304,043 and \$27,470 at January 31, 2007 and January 31, 2006, respectively, are denominated in pesos and are considered uninsured. Additionally, the Company maintained a Mexican petty cash balance of \$1,013 at January 31, 2006. At January 31, 2007, the Company's cash balances and marketable securities included \$4,910,481 which was not federally insured.

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 three months ended January 31, 2007 and 2006 were \$356,818 and \$18,152, respectively. The exploration costs expensed during the Company's exploration stage amount to \$7,769,681.

Foreign Operations

The accompanying balance sheet at January 31, 2007 contains Company assets in Mexico, including: \$4,334,767 in property concessions; \$822,097 (before accumulated depreciation) of mining equipment; and \$304,043 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.

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**NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (hereinafter "SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about 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. Earlier adoption is encouraged. The Company does not expect the adoption of SFAS No. 157 to have a significant effect on its financial position or results of operation.

In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (hereinafter "FIN 48"), which 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 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 to have a material impact on its financial reporting, and the Company is currently evaluating the impact, if any, the adoption of FIN 48 will have on its disclosure requirements.

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

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

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principles and error corrections. SFAS No. 154 requires that changes in accounting principles be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect SFAS No. 154 to have a material impact on the Company's financial position, results of operations, or cash flows.

**NOTE 4 - CONCESSIONS IN THE SIERRA MOJADA DISTRICT**

Sierra Mojada Mining Concessions

During the period of August 23, 1996 to July 18, 2000, the Company executed six separate agreements for the acquisition of eight concessions in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. Each agreement enabled the Company to explore the underlying concession in consideration for the payment of stipulated annual payments. Each of the concession agreements included an option to purchase the concession and the annual payments, which were applied in full toward the contracted purchase price of the related concession.

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The Company subsequently completed the purchase of the eight concessions, as follows: Esmeralda, consisting of approximately 118 hectares, on March 20, 1997; Fortuna, consisting of approximately 14 hectares, on December 8, 1999; Sierra Mojada and Mojada 3, consisting of approximately 4,767 and 1,689 hectares, respectively, on May 30, 2000; Unificacion Mineros Nortenos and Vulcano, consisting of approximately 337 and 4 hectares, respectively, on August 30, 2000; Esmeralda I, consisting of approximately 98 hectares, on August 20, 2001; and La Blanca, consisting of approximately 34 hectares, on August 20, 2001. The Company has recorded the concessions at acquisition cost.

All of the concessions were acquired by purchase agreements with Mexican entities and/or Mexican individuals and all of the concessions were paid for in cash. In the acquisition of Sierra Mojada and Mojada 3 there was one purchase agreement for both concessions. Also, in the acquisition of Unificacion Mineros Nortenos and Vulcano, there was one purchase agreement for both concessions.

Because all eight concessions are located in the same mining region and in close proximity to one another, the concessions are routinely treated as one major prospect area and are collectively referred to as the Sierra Mojada Project. The primary work performed on the Company's concessions has consisted of geologic mapping, sampling, and drilling. This work has resulted in establishing the presence of mineralized material (zinc) of sufficient quantity and grade to justify in the Company's opinion a feasibility study which commenced in 2005.

**NOTE 5 - PROPERTY AND EQUIPMENT**

The following is a summary of the Company's property and equipment at January 31, 2007 and October 31, 2006, respectively:

	January 31, 2007	October 31, 2006
Mining equipment	\$ 612,657	\$ 589,751
Communication Equipment	9,886	10,179
Buildings and structures	137,006	141,061
Land - non mineral	15,839	15,839
Vehicles	125,311	152,030
Computer equipment	122,482	120,664
Office equipment	9,507	9,446
Furniture and fixtures	888	888
	1,033,576	1,039,858
Less: Accumulated depreciation	(428,221)	(427,892)
	\$ 605,355	\$ 611,966

Depreciation expense for the periods ended January 31, 2007 and 2006 was \$3,785 and \$20,600, respectively.

**METALLINE MINING COMPANY**  
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**NOTE 6 - CAPITAL STOCK**

Common Stock

In March 2005, the Company's board of directors authorized a private placement of up to 5,333,334 shares of the Company's restricted common stock at a price of \$1.125 per share for total proceeds of \$6,000,000. Purchasers of these shares also received a warrant to purchase one share of the Company's common stock at an exercise price of \$2.00 per share with an exercise period of five years. In September 2005, a modification of the private placement terms was authorized. The modified terms allow for the issuance of shares of common stock at a price of \$0.80 per share, a warrant exercise price of \$1.25 per share and an exercise period of five years. During the year ended October 31, 2006, the Company issued 13,456,084 shares of common stock under the aforementioned private placement, for cash consideration at \$0.80 per share with attached warrants valued at an average of \$0.29 per share. In addition, warrants were exercised for 25,000 shares of common stock for cash consideration at an average of \$1.25 per share. There were also 54,000 shares of common stock granted as stock bonuses to the Company's independent directors at an average value of \$2.32 per share for services received under the 2006 Plan, described below. In addition to the common stock issued through the private placement, 248,593 shares of common stock were issued for prior compensation at \$2.69 per share.

There were no shares of common stock issued in the three months ended January 31, 2007.

Stock Options

On July 7, 2006, the Company's shareholders approved a qualified stock option plan (the "2006 Plan"), which provides for non-statutory and incentive stock options for employees, directors and consultants, and has reserved a total of 5,000,000 shares of common stock for issuance pursuant to the Plan.

On March 1, 2001, the Company's shareholders approved a qualified stock option plan (the "2001 Plan"), which provides for non-statutory and incentive stock options for employees, directors and consultants, and has reserved a total of 1,000,000 shares of common stock for issuance pursuant to the Plan. Summarized information about stock options outstanding and exercisable at January 31, 2007 is as follows:

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Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$1.30	100,000	2.52	\$ 1.30	100,000	\$ 1.30	
1.32	310,000	3.68	1.32	310,000	1.32	
2.59	2,750,000	9.25	2.59	2,750,000	2.59	
2.15	200,000	3.08	2.15	200,000	2.15	
\$1.30-2.59	3,360,000	8.15	\$ 2.41	3,360,000	\$ 2.41	

**Warrants**

During the three months ended January 31, 2007, for services received, the Company issued warrants for 500,000 common shares, exercisable at \$3.40 per share. A value of \$1.86 per warrant was allocated to these warrants with a total allocated value of \$928,750. The Company also issued warrants for 100,000 common shares, exercisable at \$2.63 per share. A value of \$1.66 per share was allocated to these warrants with a total allocated value of \$166,200

**NOTE 7 - INCOME TAXES**

At January 31, 2007, the Company had net deferred tax assets calculated at an expected rate of 34% of approximately \$6,900,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, there is a valuation allowance equal to the net deferred tax asset.

The significant components of the deferred tax assets at January 31, 2007 and October 31, 2006 are as follows:

	January 31, 2007	October 31, 2006
Net operating loss carryforward	\$ 20,200,000	\$ 19,100,000
Deferred tax asset	\$ 6,900,000	\$ 6,500,000
Deferred tax asset valuation allowance	\$ (6,900,000)	\$ (6,500,000)

As of January 31, 2007, the Company had net operating loss carryforwards of approximately \$20,200,000, which expire in the years 2008 through 2027. The Company has recognized approximately \$1,095,000 of losses from the issuance of stock options and warrants for services in the three months ended January 31, 2007, which were not deductible for tax purposes. The change in the allowance account from October 31, 2006 to January 31, 2007 was \$400,000. The Company has immaterial temporary differences resulting from differences in tax depreciation of equipment.

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**NOTE 8 - SUBSEQUENT EVENTS**

In February, 2007 the Company issued 54,000 shares of common stock to independent directors of the Company for services received in the prior fiscal year and 18,000 shares of common stock for services received in the three months ended January 31, 2007, all as stock bonuses under the 2006 Plan. The Company also issued 126,000 shares of common stock upon the exercise of stock options under the 2001 Plan.

On March 6, 2007, the Company completed a private offering of 2,413,571 shares of the Company's common stock and warrants to purchase 1,206,785 shares of common stock, exercisable at \$2.42 per share and expiring on March 6, 2011 (the "Securities"). The Securities were purchased at a price of \$4.70 per Unit, which consists of two shares of common stock and one warrant for an aggregate gross proceeds of \$5,671,892.



**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*Cautionary Statement about Forward-Looking Statements*

This Quarterly Report on Form 10-QSB 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-QSB 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;

Business strategies and development of our business plan; and

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 Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006 under the caption "Risk Factors," 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 "Property"). 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.

The Company's primary focus has been to explore the Sierra Mojada concessions to identify available mineral deposits, securing a legal right to exploit the deposit and defining a resource. From 1999 through early 2005 an oxide zinc mineralization has been defined that management has determined contains sufficient estimated zinc metal to justify a feasibility study of the mineralized material. A feasibility study has been initiated for the Company by Green Team International of Johannesburg, South Africa as the prime contractor. The Company's plan of operation for the next 12 months is to continue work on the feasibility study to determine whether a mining operation may be profitably conducted on the Company's concessions. The study is a detailed engineering and economic valuation of the iron oxide and smithsonite manto mineralized material. The study consists of six major elements: Resource Model, Metallurgy, Mine Plan, Extraction, Reduction and Water Development.



The Resource Model is currently being revised and when the revision is complete it will be used interactively with the mining and concentrator team to optimize the baseline business case for the study. The Resource Model will then be subjected to a technical audit.

The Company will also audit and improve its sample collecting, sample preparation, and data logging technical processes. It will also acquire improved geological information requested by its engineers in completing their studies. The new studies will include geotechnical studies and other testing to confirm the applicability of various mining methods to the rocks at Sierra Mojada. The Company will analyze a large sampling of rocks from within the boundaries of the current Resource Model grade shell for other metals that might be recovered as coproducts of mining zinc. The elements being considered include silver, cadmium, indium, gallium, germanium, and cobalt.

Metallurgical studies will continue with an objective of improving the design of the concentrator circuit for processing of zinc as well as to evaluate the existing circuit as applied to the recovery of silver. The scoping study phase of the Mine Plan will be completed by evaluating interactions and optimizations between Mine Plan, concentrator and refinery sizing, and the Resource Model. On completion of this activity, the basic mine method(s) and project capacities will be frozen and mine planning will be carried to the next level of detail. The location of the refinery, the extraction and reduction plant will then be finalized, using the results of a previously performed alternatives analysis, and the details of refinery location and design will be attacked. GTI has previously completed fairly mature concentrator and refinery designs.

The Mine Plan studies contract has been awarded to the firm of Pincock, Allen and Holt. The Mine Plan studies involve three stages of progressively more definitive work. These are a scoping stage, a preliminary design phase, and a detailed design phase. The scoping stage of Mine Plan studies will evaluate methods to mine the deposit, determine the optimum method to mine the deposit, the associated capital and mining costs and determine feasible production rates. The production rate for the project is determined through an economic evaluation that seeks to optimize the expected return on investment based on consideration of the Resource Model and interactions with the mining method, the extraction and reduction plants in the context of the expected capital and operating costs of the entire system. A baseline design case using concentration of oxide zinc minerals and refining the concentrate using solvent extraction and electrowinning (SXEW) is used to compare the economic efficiency of various engineering alternatives. After the optimum approach is determined, the engineering design is developed in stages of increasing complexity and detail. Throughout this process, standard engineering practices are employed to progressively reduce the engineering and economic uncertainties.

A contract will be issued to Agapito Associates Inc., of Golden, Colorado, to perform geotechnical and rock mechanics studies at the site in support of mine planning activities. Late second quarter, 2007, we are planning to begin a drilling program to obtain large diameter core samples for testing in Agapito laboratories. This drilling will use one of the Company's diamond drill units.

Water Development is in progress and consists of drilling for a groundwater supply capable of producing water for the mine and plant in volumes adequate to meet water supply requirements estimated by the engineering groups performing the feasibility study. Water Development will be completed, several wells will be completed and tested, and application will be made to the appropriate agency (the Comisión Nacional de Agua) to grant the Company water rights. Environmental, Social, and permitting studies will be continued and completed by our consultants. Weather-, noise-, and air-quality-monitoring will be performed. A documented community out-reach program is already underway and will be continued with our workers, the local community, the local government and appropriate agencies in State and Federal governments. All of this work will be done to comply with Mexican regulations, laws, and norms and with sustainable development considerations as described in the International Finance Corporations "Performance Standards on Social and Environmental Sustainability" and the Environment Assessment required by the World Bank's "Equator Principles".



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."

The Company estimates that completion of a feasibility study will cost an additional \$3.5 million and the Company expects that it will take an additional 12 to 18 months to complete. Following the completion of a successful feasibility study, the Company would then proceed to secure financing for the construction of a mine and related infrastructure pursuant to a Mine Plan developed specifically for the Company's concessions and for Concentration and Reduction plants to extract metal from the ore that would be mined. The Company estimates that construction of a mine and extraction and reduction plant would cost approximately \$400 million and take approximately two to three years to complete after completion of the feasibility study, assuming sufficient funding is available. 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 is improving its general business capabilities in Mexico so that it is capable of performing the ramp up in activity required by our business objectives. We are selectively improving the quality of our workforce at all levels. We will become fully compliant with labor registration, safety, health and training requirements, and environmental registration. Until that time, we do not have to comply in these areas because we were grandfathered into compliance.

Some overarching business objectives in our activities are: to systematically reduce the significant risk factors listed earlier in this document; to reach the level of certainty required to comply with SEC Industry Guide 7; and to meet the level of quality required for our feasibility study to be acceptable to financial institutions to support funding decisions. Two disciplines help us to reach these objectives. First, generally accepted international engineering practice is based on methodology to achieve progressive reduction of risk and progressive reduction in economic uncertainties as studies progress. Second, outside technical/engineering auditors are retained to insure that work is done to the quality required by the engineering norms.

The Company will continue its program to explore for new mineralization. This effort is most intensely focused on areas of silver-copper mineralization close to mine workings that might be constructed to access and work the zinc oxide manto. The purpose of this work is both to identify areas that might be mined as well as to insure that contemplated mine workings do not render mineralization unmineable that might otherwise be exploited. The Company is aware of other areas within its concessions that it believes may have significant exploration potential. As resources are available, or specific opportunities are identified, such areas may receive exploration attention.

In the past the Company has evaluated various opportunities for generating near-term revenues from small scale mining from its concessions, and it will continue to do so in the future. However, it will only engage in such operations if 1) they are not diversionary to the task of completing the feasibility study; 2) they are safe for our workers; 3) the business risk is low; 4) the opportunity is affordable; 5) the profit potential is significant to a company of our size. We have no current plans to enter any such venture.

*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 shows 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. See "Risk Factors" in the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006.

**Results of Operations**

During the three months ended January 31, 2007, the Company realized other income of \$69,392 as compared to a negative \$11,101 for the three month period ending January 31, 2006. General and administrative expenses increased to \$2,303,216 for the three month period ended January 31, 2007 as compared to \$456,149 for the quarter ended January 31, 2006. The increase is primarily due to the increase in office and administrative expenses of \$280,934, increase in exploration expenditures of \$338,666, professional services increase of \$1,246,594 and increase in administration costs of \$280,934. Of the total \$1,352,945 booked as professional services, \$1,094,950 was due to the expensing of warrants issued in the quarter for services rendered by outside consultants. This expensing of warrants is a non-cash item. The cash portion, totaling \$257,995, consists mostly of payments to consultants in connection with the feasibility study, and legal and accounting fees. The increased expenditures were primarily due to increased exploration and feasibility expenditures following completion of the private placement of the Company's common stock in the prior fiscal year. For the three months ended January 31, 2007, the Company experienced a loss of \$2,233,824, or \$0.07 per share, compared to a loss of \$467,250, or \$0.02 per share, during the comparable period in the previous year.

**Liquidity and Capital Resources**

The Company financed its obligations during the quarter year ended January 31, 2007 from cash on hand. At January 31, 2007, the Company's cash, cash equivalents and marketable securities decreased by \$1,604,513 compared to the year ended October 31, 2006. Also during this period, the Company used \$1,604,513 in operating activities, principally in connection with maintaining the property, continuation of a surface exploration drilling program and continued feasibility study funding, which includes the water development drilling.

Subsequent to the three month period ended January 31, 2007, the Company completed a private offering of 2,413,571 shares of the Company's common stock and warrants to purchase 1,206,785 shares of common stock, exercisable at \$2.42 per share and expiring on March 6, 2011 (the "Securities"). The Securities were purchased at a price of \$4.70 per Unit, which consists of two shares of common stock and one warrant for an aggregate gross proceeds of \$5,671,892.60. As of March 12, 2007, the Company's cash position was \$8,747,586.

The Company's current operating expenses total \$350,000 per month, for an expected operating expense of \$4.2 million in the next 12 months. The Company continues to maintain a sampling and drilling program that is budgeted at approximately \$50,000 per month, not including analytical costs which can vary from \$20,000 to \$40,000 per month. The Company has estimated that completion of a feasibility study will cost approximately \$6.5 million, but there can be no assurance that this estimate will not be revised upward. Assuming adequate funding is available, the Company expects to spend approximately \$3.5 million in the next 12 months on the feasibility study. The Company believes the feasibility study will be completed in the next 12 to 18 months. If at any time we think we have insufficient cash, we will adjust our program and expenditures appropriately.

The Company's management believes that private placements of its shares have provided sufficient cash for the Company to continue to operate for at least the next twelve months based on current expense projections. Following the completion of a successful feasibility study, the Company would then proceed to the construction phase, which would entail construction of a mine and related infrastructure pursuant to a mine plan developed specifically for the Company's concessions, and construction of an extraction plant to extract metal from the ore that would be mined. In order to proceed with the construction phase, the Company would need to rely on additional equity or debt financing, or the Company may seek joint venture partners or other alternative financing sources.

### **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.

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. Our significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in this Quarterly Report on Form 10-QSB.

### 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 majority of its operations are in Mexico. The assets and liabilities relating to Mexican operations are exposed to exchange rate fluctuations. The Company has adopted Financial Accounting Standard No. 52. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the balance sheet date, and revenue and expenses are translated at the average exchange rate during the period. Realized gains or losses are included in income for the year as a result of operations. Non-monetary assets, liabilities and items recorded in income arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

### Accounting for Stock Options and Warrants Granted to Employees and Nonemployees

The Company currently reports stock issued to employees under the rules of SFAS No. 123 and therefore, the Company's accounting for stock options and warrants are not affected by the issuance of SFAS No. 123R, except for how it relates to modification of existing options.

In December 2004, the Financial Accounting Standards Board revised SFAS No. 123 and issued SFAS No. 123R.

Warrants were valued using the Black-Scholes option pricing model. The assumptions used were as follows: volatility of 80%, a risk-free interest rate of 5% and an exercise term of from two to five years.

The fair value of options was determined using the Black-Scholes option pricing model using a risk free interest rate of 5% and a volatility of 80%.

### 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. Costs of future expenditures for environmental remediation are not discounted to their present value unless subject to a contractually obligated fixed payment schedule. 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.





Future remediation costs for inactive mines are accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred. Such costs estimates include, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates are reflected in earnings in the period an estimate is revised.

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. At October 31, 2006 the Company has no accrual for reclamation and remediation obligations because management cannot make a reasonable estimate. Any reclamation or remediation costs related to abandoned concessions has been previously expensed.

**ITEM 3. Controls and Procedures.**

*Disclosure Controls and Procedures.*

The Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Company's principal executive officer and principal financial officer have concluded that, as of the end of such period, the Company's disclosure control and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

The Company's management has also concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

*Changes in Internal Control 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.

**PART II - OTHER INFORMATION**

**ITEM 6. Exhibits.**

3.1 Articles of Incorporation. <sup>(1), (2), (3)</sup>

3.2 Bylaws, as amended. <sup>(3)</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.

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

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

(3) Incorporated by reference from Form 10-KSB, filed January 31, 2007.

**METALLINE MINING COMPANY**  
**An Exploration Stage Company**

**SIGNATURES**

In accordance with Section 12, 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METALLINE MINING COMPANY

March 16, 2007

Date

By: /s/ Merlin Bingham

Merlin Bingham, President and  
Chief Executive Officer

March 16, 2007

Date

By: /s/ Wayne L. Schoonmaker

Wayne L. Schoonmaker,  
Principal Financial Officer and  
Chief Accounting Officer