

METALLINE MINING CO  
Form 10QSB  
September 15, 2005

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

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**FORM 10-QSB**

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

For the quarterly period ended July 31, 2005

**o 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 x No o

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

There were 20,191,585 shares of the issuer's common stock, par value \$0.01, outstanding as of September 1, 2005.

Transitional Small Business Disclosure Format (check one): Yes o No x

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**METALLINE MINING COMPANY QUARTERLY REPORT  
ON FORM 10-QSB FOR THE QUARTERLY PERIOD  
ENDED JULY 31, 2005**

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| <b>PART I - FINANCIAL INFORMATION</b>  |             |
| Item 1: Financial Statements   | 1           |
| Item 2: Management's Discussion and Analysis of<br>Financial Condition and Results of Operations | 1           |
| Item 3: Controls and Procedures  | 8           |
| <b>PART II - OTHER INFORMATION</b>   |             |
| Item 1: Legal Proceedings  | 9           |
| Item 2: Unregistered Sales of Equity Securities and Use of Proceeds                              | 9           |
| Item 3: Defaults upon Senior Securities  | 9           |
| Item 4: Submission of Matters to a Vote of Security Holders                                      | 9           |
| Item 5: Other Information  | 9           |
| Item 6: Exhibits   | 9           |
| Signatures   | 10          |

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## **PART I - FINANCIAL INFORMATION**

### **ITEM 1. Financial Statements.**

The reviewed consolidated financial statements of Metalline Mining Company (the "Company"), for the period covered by this report, are included elsewhere in this report, beginning at page F/S-1.

The reviewed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for the interim financial information with the instructions to Form 10-QSB and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, all adjustments (consisting of only normal accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended July 31, 2005 are not necessarily indicative of the results that may be expected for the full year ending October 31, 2005.

For further information refer to the financial statements and footnotes thereto in the Company's Annual Report on Form 10-KSB for the year ended October 31, 2004 incorporated by reference herein.

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

#### *Forward-Looking Statements*

This Quarterly Report on Form 10-QSB, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and the Company's future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts, and projections about the industry in which the Company operates and the beliefs and assumptions of the Company's management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "may," variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of the Company's future financial performance, the Company's anticipated growth and potentials in its business, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified elsewhere herein and in the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2004 under "Risk Factors." Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. The Company undertakes no obligation to revise or update any forward-looking statements for any reason.

*Overview*

The Company is an exploration stage enterprise formed under the laws of the state of Nevada on August 20, 1993, to engage in the business of mining. The Company currently owns eight concessions located in the municipality of Sierra Mojada, Coahuila, Mexico. The Company conducts its operations in Mexico through its wholly owned Mexican subsidiary, Minera Metalin S.A. de C.V.

The eight concessions total 7,108 hectares (17,563 acres). The Company owns 100% of the eight concessions pursuant to purchase agreements with the previous owners. A number of prior established concessions that are not owned by the Company are located within the largest concession, the Sierra Mojada concession. The Company holds title to the concessions that it owns subject to its obligation to maintain the concessions by conducting work on the concessions, recording evidence of the work with the Mexican Ministry of Mines and paying a semi-annual fee to the Mexican government.

Ownership of a concession provides the owner with exclusive exploration and exploitation rights of all minerals located on the concessions, but does not include the surface rights to the real property. Therefore, the Company will need to negotiate the necessary agreements, as needed, with the appropriate surface landowners if the Company determines that a mining operation is feasible for the concessions. The Company currently anticipates that it will build mining infrastructure needed on land owned by the local municipality. Initial communications with the municipality officials indicate that they will be willing to negotiate the necessary agreements.

The concessions are located within a mining district known as the Sierra Mojada District (the "District"). The District is located in the west central part of the state of Coahuila, Mexico, near the Coahuila-Chihuahua state border approximately 200 kilometers south of the Big Bend of the Rio Grande River. See Exhibit 99.1 attached hereto and incorporated herein by reference for a map showing the location of the mine. The principal mining area extends for some 5 kilometers in an east-west direction along the base of the precipitous, 1,000 meter high, Sierra Mojada Range. The District has high voltage electric power supplied by the national power company, Comision Federal de Electricidad, C.F.E. and is supplied water by the municipality of Sierra Mojada. The District is accessible from Torreon by vehicle via 250 kilometers of paved road. There is a well maintained, 1100 meter, gravel airstrip in the District as well as a railroad connecting with the National Railway at Escalon and Monclova.

Over 45 mines have produced ore from underground workings throughout the approximately five kilometer by two kilometer area that comprises the District. The Company estimates that since its discovery in 1879, the District has produced about 10 million tons of high grade ore that was shipped directly to smelters. The District has never had a mill to concentrate ore and all mining conducted thus far has been limited to selectively mined ore of sufficient grade to direct ship to smelters. The Company believes that mill grade mineralization that was not mined remains available for extraction. The Company anticipates exploring and potentially developing the mill grade mineralization and the unexplored portions of the concessions.

The concessions contain two distinct mineral systems separated by the Sierra Mojada fault which trends east-west along the base of the range. North of the fault mineralization is composed of silver, copper, zinc, lead sulfide and oxide minerals. South of the fault the mineralization is oxide zinc and oxide lead minerals.

The sediments in the District are predominantly limestone and dolomite with some conglomerate, sandstone and shale and the bedding attitudes are near horizontal. The mines are dry and the rocks are competent. The thickness and attitude of the mineralized material is amenable to high volume mechanized mining methods and low cost production.

Mining operations are typically developed in phases. These phases include: 1) exploring to identify available mineral deposits and define a resource; 2) conducting a feasibility study to determine whether deposits may be profitably extracted; and 3) eventually developing mining operations. The Company has already conducted extensive exploration and identification of the mineralization located on the concessions. The Company has also initiated a feasibility study. If the results of the feasibility study are positive and the Company is able to secure sufficient financing, then the Company would proceed to the development stage, leading eventually to the operation of a mine on the concessions.

Thus far, the Company has spent a total of approximately \$13 million during the exploration phase and 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 estimates that completion of a feasibility study will cost approximately \$5 million and the Company expects that it will take approximately 12 months to complete. 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.

Much of the infrastructure required for a mine, including access to roads, electricity and rail lines, is already in place due to the historical mining operations conducted in the District. Results from mapping, sampling, drilling and inspection of existing workings indicate that large mineralized resources can be developed within and adjacent to the existing workings and in unexplored stratigraphic units outside of and below the existing mine workings. The Company anticipates that it would also build additional infrastructure, including mine access, a tailings pond and an extraction plant. The Company would also enter into agreements with the landowners of the concessions' surface rights upon completion of a feasibility study and finalization of a mine plan for the Project. The Company estimates that construction of a mine and extraction plant would cost approximately \$400 million and take approximately 2 to 3 years to complete.

A description of work completed in the exploration phase and initiated in the feasibility phase follows:

In 1997 the Company initiated exploration of the concessions by collecting and analyzing historical data from previous mining operations, surveying the locations of the mines, geological mapping, and sampling of the surface and some of the existing mines. Based on the information gained from this work, the Company has been exploring the tabular, nearly horizontal bodies of mineralized material located on the concessions that are known as mantos.

Exploration from 1997 to 1999 concentrated on the polymetallic copper, silver, zinc, lead mineralization north of the Sierra Mojada Fault. The Veta Rica, Once, San Jose and other mines located in the western part of the district were mapped and channel sampled. In the eastern part of the district in the Encantada and Fronteriza mines, the copper, silver, zinc, lead mineralization, known as the Polymetallic Manto, has been mapped, channel sampled and drilled.

Work on the polymetallic mineralization was put on standby in 1999 when the Company recognized the potential of the oxide zinc mineralization as a result of a positive feasibility study conducted on the Skorpion Mine located in Namibia, Africa, that demonstrated that the use of the solvent extraction electrowinning ("SXEW") process could make it profitable to mine oxide zinc deposits that would otherwise be unfeasible. Now that the Company's work on the oxide zinc mineralization is in the feasibility study stage, the Company anticipates continued exploration of the polymetallic mineral system north of the Sierra Mojada Fault. However, the Company has not yet allocated financial resources nor established a timeline for when it expects to initiate such additional exploration.

The Company initiated a diamond drill program in January 2004, and drilled over 30,000 meters in 2004 and 2005. In addition, over 9,000 meters of percussion drill and over 12,000 meters of channel samples of the oxide zinc mineralization in the San Salvador, Encantada and Fronteriza mines has been completed by the Company and its joint venture partners. This work has defined a body of oxide zinc mineralization extending 1,500 meters in an east-west direction, 100 to 200 meters in a north-south direction, and 20 to 100 meters vertically. The Company intends to continue the drill program to further define the extent of the Iron Oxide Manto and the Smithsonite Manto.

Prior mining of oxide zinc mineralization has occurred intermittently over a distance in excess of 5 kilometers from the Oriental Mine located in the east end of the District to the Vasquez Tres Mine located in the west end of the District.

In 2004, the Company retained Reserva International, LLC, an independent contractor specializing in resource evaluation, to generate a block model evaluation based upon the data compiled from the Company's and its joint venture partner's accumulated database to determine the size and grade of the mineralization of the Iron Oxide Manto and the Smithsonite Manto. Based on the estimates generated from the block model evaluation, the Company has determined that the estimated mineralization justifies a feasibility study of the Iron Oxide Manto.

Although the Company is of the opinion that mineralized material sufficient to justify construction of a mine, extraction plant and refinery has been defined, the Company still must complete a feasibility study to determine whether a mining operation may be profitably conducted. This study will consist of a detailed engineering and economic valuation of the Iron Oxide Manto mineralized material to determine the viability and profitability of the potential operation.

The Company initiated the feasibility study in 2004, retaining Green Team Consultants International cc ("GTI"), of Johannesburg, South Africa. GTI was selected, in part, due to GTI's experience conducting the feasibility study for the Skorpion Mine in Namibia, Africa. GTI supervised the design, construction, and training of the Skorpion Zinc personnel and operated the mine and extraction plant through initial production and until the mine and plant were at 90% of capacity, at which point operation of the mine and plant was turned over to Skorpion Zinc, a subsidiary of Anglo American Corporation PLC.

The Skorpion Mine is the first, and to date only, mine in the world using the SXEW process for extracting zinc from oxide zinc ore and produces a refined product, Super High Grade (SHG) zinc which is 99.995% zinc. SXEW is a hydrometallurgical process that has about a 30% lower cost for extracting zinc than the pyrometallurgical process used at smelters by essentially all other mining operations around the world. The Company anticipates that using the SXEW process will enable the Company to extract zinc more efficiently and economically than its competitors.

GTI, as general contractor for the feasibility study, has retained TWP Consulting (pty) Ltd. ("TWP") to prepare the mine plan as part of the feasibility study for the Project. TWP is a large South African mining consulting company that has worked on large mining projects in South Africa and internationally, including the mine plan at the Skorpion Mine.

GTI has also retained Min-Tek, a South African consulting company specializing in mineral and metallurgical research and development, to complete the metallurgical work. Min-Tek performed the metallurgical work for the Skorpion feasibility studies. Metallurgical test work results have been reported in Metalline's press release dated July 12, 2005.

GTI has also retained SRK Consulting ("SRK") as the auditing engineering firm for the feasibility study. SRK is a world-wide engineering consulting company that was the auditing engineering firm for the feasibility study of the Skorpion Mine.

Principals of GTI, TWP and SRK have completed a tour and examination of Sierra Mojada, reviewed the project data, conducted underground examination of the Iron Oxide, Smithsonite and Polymetallic Mantos, and selected surface locations for the mine and extraction plant facilities.

The Company has had a mining operation in the Smithsonite Manto that has been shipping zinc carbonate ore to Cameron Chemical Company, for use as a micronutrient for the fertilizer industry. During the period ended July 31, 2005, the Company realized other income from the sale of zinc carbonate ore. The Company has ceased mining zinc carbonate ore, but anticipates continued sales from the existing inventory of mined ore until the inventory is depleted.

The Company's facilities in Mexico include offices, residences, shops, warehouse buildings and mining equipment located at Calle Maria #1, La Esmeralda, Coahuila, Mexico. Electric power has been upgraded to 13,200 volts and lines run to the compound, the shops and the San Salvador and Encantada mines. The San Salvador and the Encantada mines have been electrified and the main levels are wired. San Salvador and Encantada head frames and hoists have been rebuilt and upgraded. In management's opinion, the Company's plant and equipment are in good condition and well maintained.

*Cautionary Note to Investors*

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.

*Results of Operations for the Period Ended July 31, 2005.*

Nine months ended July 31, 2005 compared to the nine months ended July 31, 2004:

During the nine months ended July 31, 2005, the Company realized other income of \$235,021 from the sale of zinc carbonate ore from the Company's San Salvadore mine, in accordance with a contract with Cameron Chemicals Inc., Norfolk, Virginia. Costs associated with the sale of the ore totaled \$247,372 for the nine-month period ended July 31, 2005. There were ore sales of \$297,936 in the nine-month period ended July 31, 2004. General and administrative expenses decreased to \$2,742,570 for the nine-month period ended July 31, 2005 as compared to \$2,882,519 for the six-month period ended July 31, 2004. The decrease is primarily due to a decrease in exploration expenditures of \$878,718, partially offset by an increase in consulting and professional services of \$520,868, and an increase of \$220,691 in payroll and related expenses. For the nine months ended July 31, 2005, the Company experienced a loss of \$2,715,834, or \$0.14 per share, compared to a loss of \$2,723,947, or \$0.16 per share, during the comparable period in the previous year.

Nine months ended July 31, 2004 compared to the nine months ended July 31, 2003:

During the nine months ended July 31, 2004, the Company realized other income of \$297,936 from the sale of zinc carbonate ore from the Company's San Salvadore mine, in accordance with a contract with Cameron Chemicals Inc., Norfolk, Virginia. Costs associated with the sale of the ore totaled \$170,048 for the nine-month period ended July 31, 2004. There were ore sales of \$287,846 in the nine-month period ended July 31, 2003. General and administrative expenses increased to \$2,882,519 for the nine-month period ended July 31, 2004 as compared to \$849,472 for the nine-month period ended July 31, 2003. The increase is primarily due to an increase in office and administrative expenses of \$128,518 and a \$1,696,391 increase in exploration expenditures. For the nine months ended July 31, 2004, the Company experienced a loss of \$2,723,947, or \$0.16 per share, compared to a loss of \$770,335, or \$0.07 per share, during the comparable period in the previous year.



*Liquidity and Capital Resources.*

The Company financed its obligations during the fiscal year ended October 31, 2004 by selling 7,580,150 shares of its common stock at an average price of \$1.00 per share, less issuance costs of \$698,863. During the nine months ended July 31, 2005 the Company sold 263,404 shares in private placement transactions at a price of \$1.125 per share. Due to the Company's substantial losses and mineral revenues, the Company's independent certified public accountants included a paragraph in the Company's 2004 financial statements relative to a going concern uncertainty.

In order to maintain operations, the Company will have to raise additional capital through loans or through the sale of securities. If the Company is unable to raise additional capital, it may have to cease operations.

*Cash flows for the nine months ended July 31, 2005 were as follows:*

During the nine-month period ended July 31, 2005, the Company's cash position decreased by \$943,190 primarily due to expenditures related to the drilling program conducted by the Company on the Company's concessions. During the nine-month period, \$600,000 in marketable securities were reclassified as cash and cash equivalents. Also during this period, the Company used \$1,228,764 in operating activities, principally in connection with the drilling program. In addition, the Company realized \$296,329 from the sale of 263,404 shares of the Company's common stock, and expended \$7,598 for additional mining equipment.

*Effect of Recently Issued Accounting Pronouncements.*

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153 (hereinafter "SFAS No. 153"). This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement will not impact the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 152, which amends SFAS Statement No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions." This statement also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects, does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will not impact the financial statements of the Company.

In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs— an amendment of ARB No. 43, Chapter 4" (hereinafter "SFAS No. 151"). This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under some circumstances, SFAS No. 151 mandates that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will not impact the financial statements of the Company.

### **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.

#### *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 1. Legal Proceedings.

The Company is not currently a party to any legal proceedings.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the nine months ended July 31, 2005, the Company issued 176,772 shares to officers and directors as compensation for services, and sold 263,404 shares of the Company's common stock at a price of \$1.125 per share. These shares were issued in private placement transactions without registration under the Securities Act in reliance upon the exemptions from the registration requirements provided by Section 4(2) of the Securities Act, and Rule 506 of Regulation D promulgated under the Securities Act.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

(a) Documents which are filed as a part of this report:

1. Financial Statements: The required financial statements are contained in pages F/S-1 through F/S-11 of this Form 10-QSB.
2. Financial Statement Schedules: Financial statement schedules have been omitted as they are not applicable or the information is included in the Consolidated Financial Statements.
3. Exhibits: The exhibits filed as part of this report and the exhibits incorporated herein by reference are listed in the Exhibit Index at page E-1.

(b) See (a)(3) above for all exhibits filed herewith.

(c) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

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

**July 31, 2005**

**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

September 15, 2005

\_\_\_\_\_  
Date

By: /s/ Merlin D. Bingham

\_\_\_\_\_  
Merlin D. Bingham, its President

September 15, 2005

\_\_\_\_\_  
Date

By: /s/ Wayne L. Schoonmaker

\_\_\_\_\_  
Wayne L. Schoonmaker, its  
Principal Financial Officer

10

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**METALLINE MINING COMPANY**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | PAGE  |
|---|-------|
| <b>Consolidated Financial Statements:</b>   |       |
| Consolidated Balance Sheets as of July 31, 2005<br>and October 31, 2004   | F/S-2 |
| Consolidated Statements of Operations for the three<br>and nine-month periods ended July 31, 2005 and<br>July 31, 2004 and for the period from inception<br>(November 8, 1993) to July 31, 2005 | F/S-3 |
| Consolidated Statements of Cash Flow for the nine-month<br>periods ended July 31, 2005 and July 31, 2004, and<br>for the period from inception (November 8, 1993)<br>to July 31, 2005           | F/S-4 |
| Condensed Notes to Consolidated Financial Statements  | F/S-5 |

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F/S-1

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

|  | July 31<br>2005<br>(unaudited) | October 31,<br>2004 |
|--|--------------------------------|---------------------|
| <b>ASSETS</b>  |                                |                     |
| <b>CURRENT ASSETS</b>  |                                |                     |
| Cash and cash equivalents                                    | \$ 440,840                     | \$ 1,384,030        |
| Marketable securities  | -                              | 1,250,000           |
| Accounts receivable  | 13,674                         | 88,164              |
| Prepaid expenses   | 32,945                         | 2,052               |
| Employee advances  | 9,560                          | 34,022              |
| <b>Total Current Assets</b>                                  | <b>497,019</b>                 | <b>2,758,268</b>    |
| <b>PROPERTIES, SIERRA MOJADA 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             |
| <b>Total Property Concessions</b>                            | <b>4,334,767</b>               | <b>4,334,767</b>    |
| <b>PROPERTY AND EQUIPMENT</b>                                |                                |                     |
| Office and mining equipment, net of accumulated depreciation | 511,514                        | 566,843             |
| <b>Total Property and Equipment</b>                          | <b>511,514</b>                 | <b>566,843</b>      |
| <b>TOTAL ASSETS</b>  | <b>\$ 5,343,300</b>            | <b>\$ 7,659,878</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                  |                                |                     |
| <b>CURRENT LIABILITIES</b>                                   |                                |                     |
| Accounts payable   | \$ 5,439                       | \$ 57,231           |
| Accrued liabilities and expenses                             | 114,527                        | 145,445             |
| Other liabilities  | 12,022                         | -                   |
| Note payable, current portion                                | 4,209                          | 4,209               |
| <b>Total Current Liabilities</b>                             | <b>136,197</b>                 | <b>206,885</b>      |
| <b>LONG-TERM LIABILITIES</b>                                 |                                |                     |
| Note payable, net of current portion                         | 8,417                          | 11,574              |
| <b>COMMITMENTS AND CONTINGENCIES</b>                         | <b>-</b>                       | <b>-</b>            |
| <b>STOCKHOLDERS' EQUITY</b>                                  |                                |                     |

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Preferred stock, \$0.01 par value; 1,000,000 shares  
authorized,  
no shares outstanding

- -

Common stock, \$0.01 par value; 50,000,000 shares  
authorized,

20,191,585 and 19,751,409 shares issued and  
outstanding, respectively

201,916 197,515

Additional paid-in capital

19,425,319 19,064,992

Stock options and warrants

1,606,923 1,498,550

Deficit accumulated during exploration stage

(16,035,472) (13,319,638)

Total Stockholders' Equity

5,198,686 7,441,419

TOTAL LIABILITIES AND STOCKHOLDERS'

EQUITY

\$ 5,343,300 \$ 7,659,878

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

F/S-2

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

|  | Three Months Ended  |                       | Nine Months Ended     |                       | Period from            |
|--|---------------------|-----------------------|-----------------------|-----------------------|------------------------|
|  | July 31,            | July 31,              | July 31,              | July 31,              | November 8,            |
|  | 2005                | 2004                  | 2005                  | 2004                  | 1993                   |
|  | (unaudited)         | (unaudited)           | (unaudited)           | (unaudited)           | (Inception)            |
|  |                     |                       |                       |                       | to                     |
|  |                     |                       |                       |                       | July 31,               |
|  |                     |                       |                       |                       | 2005                   |
|  |                     |                       |                       |                       | (unaudited)            |
| REVENUES   | \$ -                | \$ -                  | \$ -                  | \$ -                  | \$ -                   |
| <b>GENERAL AND ADMINISTRATIVE EXPENSES</b>       |                     |                       |                       |                       |                        |
| Salaries and payroll expenses                    | 109,929             | 149,656               | 682,925               | 462,234               | 3,123,437              |
| Office and administrative expenses               | 70,985              | 71,611                | 247,568               | 196,572               | 927,031                |
| Taxes and fees                                   | 969                 | 33,838                | 47,996                | 90,607                | 442,084                |
| Professional services                            | 141,585             | 147,165               | 765,724               | 244,856               | 4,804,381              |
| Property expenses                                | 44,281              | 131,517               | 115,816               | 146,135               | 1,873,862              |
| Depreciation                                     | 20,630              | 18,658                | 62,927                | 43,783                | 321,320                |
| Exploration and research                         | 83,093              | 1,138,703             | 819,614               | 1,698,332             | 4,486,816              |
| <b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b> | <b>471,472</b>      | <b>1,691,148</b>      | <b>2,742,570</b>      | <b>2,882,519</b>      | <b>15,978,931</b>      |
| <b>LOSS FROM OPERATIONS</b>                      | <b>(471,472)</b>    | <b>(1,691,148)</b>    | <b>(2,742,570)</b>    | <b>(2,882,519)</b>    | <b>(15,978,931)</b>    |
| <b>OTHER INCOME (EXPENSES)</b>                   |                     |                       |                       |                       |                        |
| Miscellaneous ore sales, net of expenses         | (13,710)            | 21,254                | (12,351)              | 155,856               | 144,823                |
| Gain on sale of equipment                        | 10,000              | -                     | 10,000                | -                     | 10,000                 |
| Interest and investment income                   | 3,249               | 2,798                 | 29,542                | 3,171                 | 75,257                 |
| Interest and financing expense                   | (152)               | (152)                 | (455)                 | (455)                 | (286,621)              |
| <b>TOTAL OTHER INCOME</b>                        | <b>(613)</b>        | <b>23,900</b>         | <b>26,736</b>         | <b>158,572</b>        | <b>(56,541)</b>        |
| <b>LOSS BEFORE INCOME TAXES</b>                  | <b>(472,085)</b>    | <b>(1,667,248)</b>    | <b>(2,715,834)</b>    | <b>(2,723,947)</b>    | <b>(16,035,472)</b>    |
| <b>INCOME TAXES</b>                              | <b>-</b>            | <b>-</b>              | <b>-</b>              | <b>-</b>              | <b>-</b>               |
| <b>NET LOSS</b>                                  | <b>\$ (472,085)</b> | <b>\$ (1,667,248)</b> | <b>\$ (2,715,834)</b> | <b>\$ (2,723,947)</b> | <b>\$ (16,035,472)</b> |



|   |    |        |    |        |    |        |    |        |
|---|----|--------|----|--------|----|--------|----|--------|
| BASIC AND DILUTED<br>NET LOSS PER<br>COMMON SHARE | \$ | (0.02) | \$ | (0.09) | \$ | (0.14) | \$ | (0.16) |
|---|----|--------|----|--------|----|--------|----|--------|

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| BASIC AND DILUTED<br>WEIGHTED AVERAGE<br>NUMBER<br>OF COMMON SHARES<br>OUTSTANDING | 20,045,873 | 19,542,160 | 19,934,446 | 16,720,771 |
|--|------------|------------|------------|------------|

See condensed notes to the consolidated financial statements.

F/S-3

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

|   | Nine Months Ended |                | Period from     |
|---|-------------------|----------------|-----------------|
|   | July 31,          | July 31,       | November 8,     |
|   | 2005              | 2004           | 1993            |
|   | (unaudited)       | (unaudited)    | (Inception)     |
|   |                   |                | to              |
|   |                   |                | July 31,        |
|   |                   |                | 2005            |
|   |                   |                | (unaudited)     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                   |                |                 |
| Net loss  | \$ (2,715,834)    | \$ (2,723,947) | \$ (16,035,472) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                   |                |                 |
| Depreciation  | 62,927            | 43,783         | 321,290         |
| Noncash expenses  | -                 | -              | 126,864         |
| Payment of services from issuance of stock                                  | -                 | 272,922        | 966,538         |
| Issuance of stock for compensation  | 176,772           | -              | 820,231         |
| Payment of services from issuance of options                                | -                 | -              | 801,892         |
| Payment of financing fees from the issuance of stock options                | -                 | -              | 276,000         |
| Payment of expenses from issuance of stock                                  | -                 | -              | 326,527         |
| Warrants issued for services  | -                 | -              | 688,771         |
| Gain on sale of fixed assets  | (10,000)          | -              | (10,000)        |
| (Increase) decrease in:   |                   |                |                 |
| Foreign property tax refund receivable                                      | -                 | -              | -               |
| Marketable securities   | 650,000           | -              | (600,000)       |
| Reclassification of marketable securities to cash and cash equivalents      | 600,000           | -              | 600,000         |
| Accounts receivable   | 74,490            | (57,348)       | (13,674)        |
| Prepaid expenses  | (30,893)          | (20)           | (32,945)        |
| Employee advances   | 24,462            | (13,897)       | (9,560)         |
| Increase (decrease) in:   |                   |                |                 |
| Accounts payable  | (51,792)          | (60,574)       | 5,439           |
| Accrued liabilities and expenses  | (30,918)          | 101,302        | 130,309         |
| Other liabilities   | 12,022            | -              | 16,231          |
| Net cash used by operating activities                                       | (1,238,764)       | (2,437,779)    | (11,621,559)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                   |                |                 |
| Purchase of investments   | -                 | -              | (484,447)       |
| Proceeds from investments   | -                 | -              | 484,447         |

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|                                       |         |           |             |
|---------------------------------------|---------|-----------|-------------|
| Proceeds from sale of fixed assets    | 10,000  | -         | 10,000      |
| Equipment purchases                   | (7,598) | (296,997) | (792,781)   |
| Mining property acquisitions          | -       | -         | (4,452,631) |
| Net cash used by investing activities | 2,402   | (296,997) | (5,235,412) |

CASH FLOWS FROM FINANCING ACTIVITIES:

|   |         |           |            |
|---|---------|-----------|------------|
| Proceeds from sales of common stock               | 296,329 | 6,917,850 | 16,325,287 |
| Proceeds from sales of options and warrants       | -       | -         | 949,890    |
| Proceeds from shareholder loans                   | -       | -         | 30,000     |
| Payment of note payable                           | (3,157) | -         | (7,366)    |
| Net cash provided (used) by financing activities: | 293,172 | 6,917,850 | 17,297,811 |

|  |            |              |            |
|--|------------|--------------|------------|
| Net increase (decrease) in cash and cash equivalents | (943,190)  | 4,183,074    | 440,840    |
| Cash and cash equivalents beginning of period        | 1,384,030  | 733,369      | -          |
| Cash and cash equivalents end of period              | \$ 440,840 | \$ 4,916,443 | \$ 440,840 |

SUPPLEMENTAL CASH FLOW DISCLOSURES:

|                   |        |        |          |
|-------------------|--------|--------|----------|
| Income taxes paid | \$ -   | \$ -   | \$ -     |
| Interest paid     | \$ 455 | \$ 455 | \$ 1,061 |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |            |            |            |
|--|------------|------------|------------|
| Common stock issued for services               | \$ -       | \$ 272,922 | \$ 966,538 |
| Common stock issued for compensation           | \$ 176,772 | \$ -       | \$ 820,231 |
| Common stock issued for payment of expenses    | \$ -       | \$ -       | \$ 326,527 |
| Common stock issued for equipment              | \$ -       | \$ -       | \$ 40,000  |
| Common stock options issued for financing fees | \$ -       | \$ -       | \$ 276,000 |
| Options issued for services                    | \$ -       | \$ -       | \$ 801,892 |
| Warrants issued for services                   | \$ -       | \$ -       | \$ 688,771 |
| Noncash expenses                               | \$ -       | \$ -       | \$ 126,864 |

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

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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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").

**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, 2004. 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 nine month period ended July 31, 2005 are not necessarily indicative of the results that may be expected for the year ending October 31, 2005.

F/S-5

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**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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Going Concern

As shown in the accompanying financial statements, the Company has no revenues, has incurred a net loss of \$2,715,834 for the nine months ended July 31, 2005 and has an accumulated deficit of \$16,035,472. These factors indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments related to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

The Company's management believes that in order to maintain operations, the Company will have to raise additional capital through loans or through the sale of securities. If the Company is unable to raise additional capital, it may have to cease operations.

**NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153 (hereinafter "SFAS No. 153"). This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement will not impact the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 152, which amends SFAS Statement No. 66, "Accounting for Sales of Real Estate," to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions." This statement also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects, does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will not impact the financial statements of the Company.

F/S-6

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**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, "Inventory Costs— an amendment of ARB No. 43, Chapter 4" (hereinafter "SFAS No. 151"). This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under some circumstances, SFAS No. 151 mandates that items such as idle facility expense, excessive spoilage, double freight, and re-handling costs be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will not impact the financial statements of the Company.

**NOTE 4 - MARKETABLE SECURITIES**

Pursuant to Statement of Financial Accounting Standards No. 115, the Company classifies marketable securities as trading, available-for-sale, or held-to-maturity. During the year ended October 31, 2004, the Company purchased \$1,250,000 in various preferred equity securities and classified them as available-for-sale. The Company's marketable securities consisted of preferred stock held by UBS securities for the Company's account. These investments were subsequently disposed of and the Company currently holds no marketable securities.

**NOTE 5 - 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.

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.

F/S-7

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**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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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 Sierra Mojada Mining District 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, subsequent to the Company's October 31, 2004 fiscal year end).

**NOTE 6 - PROPERTY AND EQUIPMENT**

The following is a summary of the Company's property and equipment at July 31, 2005 and October 31, 2004, respectively:

|                                | July 31,<br>2005 | October 31,<br>2004 |
|--------------------------------|------------------|---------------------|
| Mining equipment               | \$ 514,855       | \$ 507,257          |
| Buildings and structures       | 141,061          | 141,061             |
| Land - non mineral             | 15,839           | 15,839              |
| Vehicles                       | 42,068           | 42,068              |
| Computer equipment             | 88,787           | 88,787              |
| Office equipment               | 4,183            | 4,183               |
| Furniture and fixtures         | 8,185            | 8,185               |
|                                | 814,978          | 807,380             |
| Less: Accumulated depreciation | (303,464)        | (240,537)           |
|                                | \$ 511,514       | \$ 566,843          |

**NOTE 7 - CAPITAL STOCK**

Preferred Stock

At its March 1, 2001 annual shareholders meeting, the Company approved a change to its articles of incorporation whereby the Company is authorized to issue 1,000,000 shares of \$0.01 par value preferred stock. The specific features of the preferred stock are to be determined by the Company's board of directors. At July 31, 2005, there were no shares of preferred stock issued or outstanding.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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Common Stock

During the nine months ended July 31, 2005 the Company issued 176,772 shares to officers and directors as compensation for services at a price of \$1.00 per share.

During the nine months ended July 31, 2005 the Company issued 263,404 shares to private placement participants for total cash proceeds of \$296,329.

Stock Options

On March 1, 2001, the Company's shareholders approved a qualified stock option plan. The number of shares eligible for issuance under the qualified plan is to be determined by the Company's board of directors. As of July 31, 2005, there were 720,000 options outstanding and exercisable. Of this amount, 250,000 were granted to officers and directors of the Company.

Summarized information regarding stock options outstanding and exercisable at July 31, 2005 is as follows:

| Exercise Price | Options Outstanding |   |                                 | Weighted Average Exercise Price | Options Exercisable |                                 |  |
|----------------|---------------------|---|---------------------------------|---------------------------------|---------------------|---------------------------------|--|
|                | Number Outstanding  | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price |                                 | Number Exercisable  | Weighted Average Exercise Price |  |
| \$ 1.25        | 100,000             | 4.02  | \$ 1.25                         | 100,000                         | \$ 1.25             |                                 |  |
| 1.32           | 320,000             | 1.18  | 1.32                            | 320,000                         | 1.32                |                                 |  |
| 1.75           | 100,000             | 2.61  | 1.75                            | 100,000                         | 1.75                |                                 |  |
| 2.15           | 200,000             | 4.59  | 2.15                            | 200,000                         | 2.15                |                                 |  |
| \$ 1.25-2.15   | 720,000             | 2.72  | \$ 1.60                         | 720,000                         | \$ 1.60             |                                 |  |

Warrants

During the nine months ended July 31, 2005, the Company issued warrants to purchase an aggregate of 263,404 shares of Company common stock, exercisable at \$2.00 per share. The value allocated to these warrants was \$108,373.

**NOTE 8 - FINANCIAL STATEMENT RECLASSIFICATION**

For the period ended April 30, 2005, the Company reclassified various balance sheet and cash flow statement balances. These reclassifications did not effect the statement of operations for the periods presented.

F/S-9

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**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2005**

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**NOTE 9 - INCOME TAXES**

At July 31, 2005, the Company had net deferred tax assets calculated at an expected rate of 34% of approximately \$4,478,000, 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 July 31, 2005 and October 31, 2004 are as follows:

|  | July 31,<br>2005 | October 31,<br>2004 |
|--|------------------|---------------------|
| Net operating loss carryforward        | \$ 13,171,000    | \$ 10,456,000       |
| Deferred tax asset                     | \$ 4,478,000     | \$ 3,555,000        |
| Deferred tax asset valuation allowance | \$ (4,478,000)   | \$ (3,555,000)      |

At July 31, 2005, the Company had net operating loss carryforwards of approximately \$13,171,000, which expire in the years 2008 through 2025. The Company has recognized approximately \$1,483,000 of losses from the issuance of stock options and warrants for services through fiscal 2004, which were not deductible for tax purposes. The change in the allowance account from October 31, 2004 to July 31, 2005 was \$923,000. The Company has immaterial temporary differences resulting from differences in tax depreciation of equipment.

F/S-10

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**EXHIBIT INDEX**

- 3.1 Articles of Incorporation of the registrant. Filed as an exhibit to the registrant's registration statement on Form 10-SB (Commission File No. 000-27667) and incorporated by reference herein.
  - 3.2 Bylaws of registrant. Filed as an exhibit to the registrant's current report on Form 8-K on September 14, 2005 and incorporated by reference herein.
  - 3.3 Articles of Amendment to the Articles of Incorporation. Filed as an exhibit to the registrant's registration statement on Form 10-SB and incorporated by reference herein.
  - 4.1 Reference is made to Exhibits 3.1, 3.2 and 3.3.
  - 31.1 Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act. Filed herewith.
  - 31.2 Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act. Filed herewith.
  - 32.1 Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350. Furnished herewith.
  - 32.2 Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350. Furnished herewith.
  - 99.1 Sierra Mojada location map. Filed herewith.
  - E-1
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