

METALLINE MINING CO  
Form 10QSB  
September 19, 2006

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

FORM 10-QSB

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

For the quarterly period ended July 31, 2006

**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 34,126,661 shares of the issuer's common stock, par value \$0.01, outstanding as of August 1, 2006.

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

**METALLINE MINING COMPANY  
QUARTERLY REPORT ON FORM 10-QSB  
FOR THE QUARTERLY PERIOD ENDED JULY 31, 2006**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

PAGE

Consolidated Financial Statements:

Consolidated Balance Sheets as of July 31, 2006	2
Consolidated Statements of Operations for the three-month and nine-month periods ended July 31, 2006 and July 31, 2005 and for the period from inception (November 8, 1993) to July 31, 2006	3
Consolidated Statements of Cash Flow for the nine-month periods ended July 31, 2006 and July 31, 2005, and for the period from inception (November 8, 1993) to July 31, 2006	4
Condensed Notes to Consolidated Financial Statements	5

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

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

	July 31, 2006 (unaudited)	October 31, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,432,472	\$ 213,369
Accounts receivable	35,720	23,620
Prepaid expenses	31,301	13,242
Employee advances	1,142	9,560
<b>Total Current Assets</b>	<b>8,500,635</b>	<b>259,791</b>
<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
<b>Total Property Concessions</b>	<b>4,334,767</b>	<b>4,334,767</b>
<b>EQUIPMENT</b>		
Office and mining equipment, net	483,817	490,884
<b>Total Equipment</b>	<b>483,817</b>	<b>490,884</b>
<b>TOTAL ASSETS</b>	<b>\$ 13,319,219</b>	<b>\$ 5,085,442</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 82,507	\$ 86,189
Accrued liabilities and expenses	50,302	189,046
Other liabilities	28,744	15,873
Note payable, current portion	4,209	4,209
<b>Total Current Liabilities</b>	<b>165,762</b>	<b>295,317</b>
<b>LONG-TERM LIABILITIES</b>		
Note payable, net of current portion	4,208	7,365
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.01 par value; 50,000,000 shares authorized,		

Edgar Filing: METALLINE MINING CO - Form 10QSB

34,126,661 and 20,404,585 shares issued and outstanding, respectively	341,267	204,047
Additional paid-in capital	27,256,925	19,852,673
Stock options and warrants	5,265,069	1,347,839
Deficit accumulated during exploration stage	(19,714,012)	(16,621,799)
Total Stockholders' Equity	13,149,249	4,782,760
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 13,319,219</b>	<b>\$ 5,085,442</b>

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

	Three Months Ended		Nine Months Ended		November 8,
	July 31,	July 31,	July 31,	July 31,	(Inception)
	2006	2005	2006	2005	to
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	July 31,
					2006
					(unaudited)
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>					
Salaries and payroll expenses	127,295	109,929	965,409	682,925	4,203,026
Office and administrative expenses	93,193	70,985	258,676	247,568	1,247,622
Taxes and fees	127,428	969	301,106	47,996	790,547
Professional services	219,191	141,585	831,080	765,724	5,198,782
Property expenses	12,370	44,281	157,797	115,816	2,101,900
Depreciation	26,060	20,630	67,503	62,927	409,363
Exploration and research	599,787	83,093	671,649	819,614	6,005,735
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>1,205,324</b>	<b>471,472</b>	<b>3,253,220</b>	<b>2,742,570</b>	<b>19,956,974</b>
LOSS FROM OPERATIONS	(1,205,324)	(471,472)	(3,253,220)	(2,742,570)	(19,956,974)
<b>OTHER INCOME (EXPENSES)</b>					
Miscellaneous ore sales, net of expenses	10,426	(13,710)	(31,111)	(12,351)	134,027
VAT tax refunds	-	-	13,045	-	132,660
Miscellaneous income	24,000	10,000	85,500	10,000	94,000
Interest and investment income	81,197	3,249	95,631	29,542	171,104
Interest and financing expense	(1,203)	(152)	(2,058)	(455)	(288,829)
<b>TOTAL OTHER INCOME</b>	<b>114,420</b>	<b>(613)</b>	<b>161,007</b>	<b>26,736</b>	<b>242,962</b>
LOSS BEFORE INCOME TAXES	(1,090,904)	(472,085)	(3,092,213)	(2,715,834)	(19,714,012)
INCOME TAXES	-	-	-	-	-
NET LOSS	\$ (1,090,904)	\$ (472,085)	\$ (3,092,213)	\$ (2,715,834)	\$ (19,714,012)
<b>BASIC AND DILUTED NET LOSS PER</b>					

Edgar Filing: METALLINE MINING CO - Form 10QSB

COMMON SHARE	\$	(0.03)	\$	(0.02)	\$	(0.10)	\$	(0.14)
--------------	----	--------	----	--------	----	--------	----	--------

BASIC AND DILUTED  
WEIGHTED AVERAGE  
NUMBER  
OF COMMON SHARES  
OUTSTANDING

34,118,509	20,045,873	29,555,877	19,934,446
------------	------------	------------	------------

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

	9 Months Ended		Period from
	July 31,	July 31,	November 8,
	2006	2005	1993
	(unaudited)	(unaudited)	(Inception)
			to
			July 31,
			2006
			(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (3,092,213)	\$ (2,715,834)	\$ (19,714,012)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	67,503	62,927	409,363
Noncash expenses	-	-	126,864
Common stock issued for services	-	-	966,538
Common stock issued for compensation	668,715	176,772	1,488,946
Stock options issued for services	-	-	801,892
Stock options issued for financing fees	-	-	276,000
Common stock issued for payment of expenses	-	-	326,527
Stock warrants issued for services	-	-	688,771
Gain on sale of fixed assets	-	(10,000)	(10,000)
(Increase) decrease in:			
Marketable securities	-	650,000	-
Reclassification of marketable securities	-	600,000	-
Accounts receivable	(12,100)	74,490	(35,720)
Prepaid expenses	(18,059)	(30,893)	(31,301)
Employee advances	8,418	24,462	(1,142)
Increase (decrease) in:			
Accounts payable	(3,682)	(51,792)	82,507
Other liabilities	12,871	(30,918)	17,080
Accrued liabilities and expenses	(138,744)	12,022	81,958
Net cash used by operating activities	(2,507,291)	(1,238,764)	(14,525,729)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	-	-	(484,447)
Proceeds from investments	-	-	484,447
Proceeds from sale of fixed assets	-	10,000	10,000
Equipment purchases	(60,436)	(7,598)	(853,217)
Mining property acquisitions	-	-	(4,452,571)
Net cash used by investing activities	(60,436)	2,402	(5,295,788)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from sales of common stock with warrants	10,758,737	296,329	27,128,924
Proceeds from sales of options and warrants	-	-	949,890

Edgar Filing: METALLINE MINING CO - Form 10QSB

Proceeds from exercise of warrants	31,250		31,250
Deposits for sale of stock	-	-	125,500
Proceeds from shareholder loans	-	-	30,000
Payment of note payable	(3,157)	(3,157)	(11,575)
Net cash provided by financing activities:	10,786,830	293,172	28,253,989
Net increase (decrease) in cash and cash equivalents	8,219,103	(943,190)	8,432,472
Cash and cash equivalents beginning of period	213,369	1,384,030	-
Cash and cash equivalents end of period	\$ 8,432,472	\$ 440,840	\$ 8,432,472

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ 520	\$ 455	\$ 287,291

NON-CASH INVESTING AND FINANCING  
ACTIVITIES:

Common stock issued for equipment	\$ -	\$ -	\$ 25,000
-----------------------------------	------	------	-----------



**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

**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, 2005. 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, 2006 are not necessarily indicative of the results that may be expected for the year ending October 31, 2006.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

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, all of which are not insured. The Company also maintains cash in banks in Mexico. These accounts, which had U.S. dollar balances of \$431,751 and \$21,152 at July 31, 2006 and 2005, respectively, are denominated in pesos and are considered uninsured. Additionally, the Company maintained a Mexican petty cash balance of \$983 at July 31, 2005. At July 31, 2006, the Company's cash balances included \$8,332,472 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 nine months ended July 31, 2006 and 2005 were \$671,649 and \$819,614, respectively. The exploration costs expensed during the Company's exploration stage amount to \$6,005,735.

Foreign Operations

The accompanying balance sheet at July 31, 2006 contains Company assets in Mexico, including: \$4,334,767 in property concessions; \$514,855 (before accumulated depreciation) of mining equipment; and \$431,751 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.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

**NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

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.

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.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

**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.

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.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

**NOTE 5 - PROPERTY AND EQUIPMENT**

The following is a summary of the Company's property and equipment at July 31, 2006 and October 31, 2005, respectively:

	July 31, 2006	October 31, 2005
Mining equipment	\$ 514,855	\$ 514,855
Buildings and structures	141,061	141,061
Land - non mineral	15,839	15,839
Vehicles	76,856	42,068
Computer equipment	114,435	88,787
Office equipment	4,183	4,183
Furniture and fixtures	8,186	8,186
	875,415	814,979
Less: Accumulated depreciation	(391,598)	(324,095)
	\$ 483,817	\$ 490,884

Depreciation expense for the periods ended July 31, 2006 and 2005 was \$67,503 and \$62,927, respectively.

**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 nine months ended July 31, 2006, the Company issued 13,448,483 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. Net proceeds from this private placement were \$10,758,737. The commission and other costs associated with this private placement were \$339,816. During the nine months ended July 31, 2006, warrants for 25,000 shares were exercised for a cash consideration of \$1.25 per share. 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.

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. The Company has not issued any new options since 2002. As of July 31, 2006, there were 670,000 options outstanding and exercisable. Of this amount, 250,000 were granted to officers and directors of the Company.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

Summarized information regarding stock options outstanding and exercisable at July 31, 2006 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	3.02	\$ 1.25	100,000	\$ 1.25	
1.32	370,000	0.18	1.32	370,000	1.32	
2.15	200,000	3.59	2.15	200,000	2.15	
\$ 1.25-2.15	670,000	1.62	\$ 1.60	670,000	\$ 1.56	

**Warrants**

During the nine months ended July 31, 2006, the Company issued 13,448,483 common stock warrants, exercisable at \$1.25 per share. A value of \$0.29 per warrant was allocated to these warrants with a total allocated value of \$3,924,480 as part of the investment unit priced at \$0.80 per share. During the nine months ended July 31, 2006, warrants for 25,000 shares were exercised for \$1.25 per share.

**NOTE 7 - INCOME TAXES**

At July 31, 2006, the Company had net deferred tax assets calculated at an expected rate of 34% of approximately \$5,653,000, 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.

**METALLINE MINING COMPANY**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JULY 31, 2006**

---

The significant components of the deferred tax assets at July 31, 2006 and October 31, 2005 are as follows:

	July 31, 2006	October 31, 2005
Net operating loss carryforward	\$ 16,625,000	\$ 13,572,000
Deferred tax asset	\$ 5,653,000	\$ 4,614,000
Deferred tax asset valuation allowance	\$ (5,653,000)	\$ (4,614,000)

As of July 31, 2006, the Company had net operating loss carryforwards of approximately \$16,625,000, which expire in the years 2008 through 2026. The Company has recognized approximately \$1,491,000 of losses from the issuance of stock options and warrants for services through fiscal 2005, which were not deductible for tax purposes. The change in the allowance account from October 31, 2005 to July 31, 2006 was \$1,039,000. The Company has immaterial temporary differences resulting from differences in tax depreciation of equipment.

**NOTE 8 - SUBSEQUENT EVENTS**

The Company's Board of Directors approved and adopted the 2006 Stock Option Plan, with a maximum of 5,000,000 shares of common stock. As of July 31, 2006, the exercise of options granted under "the Plan" is subject to the approval of shareholders to increase the Company's authorized common stock.

## **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, 2005 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.

### *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 (through its subsidiary) currently owns eight concessions that are located in the municipality of Sierra Mojada, Coahuila, Mexico. The Company's objective is to define sufficient mineral reserves on these concessions to justify the development of a mechanized mining operation (the "Project"). The Company conducts its operations in Mexico and owns these eight concessions through its wholly owned Mexican subsidiary, Minera Metalin S.A. de C.V.

The Company's primary focus has been to explore the Sierra Mojada concessions to identify available mineral deposits and define a resource. From 1999 through early 2005 an oxide zinc resource 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 with 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 manto mineralized material. The study consists of five major elements: Metallurgy, Mine Plan, Extraction, Reduction and Water Development. The Metallurgy studies have been completed, results of which have been announced in a news release dated July 12, 2005. The Mine Plan studies contract has been awarded to Pincock Allen & Holt of Lakewood, Colorado. The mine plan studies are in progress and are estimated to require an additional four months to complete. The Mine Plan studies will determine the method used to mine the deposit, the associated mining costs and determine the production rate. When the production rate is determined the Extraction and Reduction plant can be designed and costed. The contemplated Extraction and Reduction process is known as Solvent Extraction Electrowinning (SXEW). Water Development is in progress and consists of drilling for a groundwater aquifer capable of producing sufficient water for the mine and plant.



The Company estimates that completion of a feasibility study will cost an additional \$3.3 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 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 and Reduction plant to extract metal from the ore that would be mined. The Company estimates that construction of a Mine (based on the Mine Plan) and Extraction and Reduction plant would cost approximately \$400 million and take approximately 2 to 3 years to complete after completion of the feasibility study, assuming sufficient funding is available. The Company intends to finance construction costs with 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.

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

*Cautionary Note*

The Company is an exploration stage company and does not currently have any known reserves and cannot be expected to have reserves unless and until a feasibility study is completed for the Sierra Mojada concessions that 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.

Set forth in the Company's Annual Report on Form 10-KSB and in other documents we file with the Securities and Exchange Commission are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-QSB.

*Results of Operations for the Period Ended July 31, 2006.*

Nine months ended July 31, 2006 compared to the nine months ended July 31, 2005:

During the nine months ended July 31, 2006, the Company realized other income of \$62,464 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 \$93,575 in the nine-month period ended July 31, 2006. There were ore sales of \$235,021 in the nine-month period ended July 31, 2005. General and administrative expenses increased to \$3,253,220 for the nine-month period ended July 31, 2006 as compared to \$2,742,570 for the nine-month period ended July 31, 2005. The increase is primarily due to the costs associated with resumption of drilling activity on the Company's property, resulting in an increase in exploration-related expenditures of \$170,501. Additionally, there was an increase in payroll costs of \$282,484. For the nine months ended July 31, 2006, the Company experienced a loss of \$3,092,213, or \$0.10 per share, compared to a loss of \$2,715,834, or \$0.14 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, 2005 by the sale of 7,580,150 shares of its common stock during the previous fiscal year at an average price of \$1.00 per share, less issuance costs of \$698,863, and the sale of 476,404 shares of common stock during the year ended October 31, 2005 at an average price of \$0.98 per share. During the nine months ended July 31, 2006 the Company sold 13,448,483 shares in private placement transactions at a price of \$0.80 per share, and issued 25,000 shares at \$1.25 per share for exercise of a warrant. Due to the Company's substantial losses and minimal revenues, the Company's independent certified public accountants included a paragraph in the Company's 2005 financial statements relative to a going concern uncertainty.

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 \$6.3 million, but there can be no assurance that this estimate will not be revised upward. The Company expects to spend approximately \$3.3 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.

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.

*Cash flows for the nine months ended July 31, 2006 were as follows:*

During the nine-month period ended July 31, 2006, the Company's cash position increased by \$8,219,103, due to the private placement sale of 13,448,483 shares of the Company's common stock at a price of \$0.80 per share. Also during this period, the Company used \$2,507,291 in operating activities, principally in connection with maintaining the property and costs of the private placement, and implementation of a drilling program.

*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 Annual Report on Form 10-KSB.

Fair Value of Financial Instruments

The Company's financial instruments as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash and cash equivalents, marketable securities, receivables, advances to employees, accounts payable and accrued expenses. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at October 31, 2005 and 2004.

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.

Property and equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line or accelerated methods over the estimated useful lives of the assets. The useful lives of property, plant and equipment for purposes of computing depreciation are five to seven years for equipment, and 39 years for buildings.

The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

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 effected by the issuance of SFAS No. 123R.

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

The warrants were valued using the Black-Scholes option pricing model. The assumptions used were as follows: volatility of 58%, a risk-free interest rate of 3% and an exercise term of five years.

The fair value of options was determined using the Black-Scholes option pricing model using a risk free interest rate of 3.25% and a volatility of 42.49%.

#### 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, 2005 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)</sup>
- 3.2 Certificate of Amendment to Articles of Incorporation, filed herewith.
- 3.3 Bylaws, as amended, filed herewith.
- 31.1 Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32.2 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

---

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

**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

September 18, 2006

\_\_\_\_\_  
Date

By: /s/ Merlin D. Bingham

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

September 18, 2006

\_\_\_\_\_  
Date

By: /s/ Wayne L. Schoonmaker

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

18

---

**EXHIBIT INDEX**

- 3.1 Articles of Incorporation(1)
- 3.2 Certificate of Amendment to the Articles of Incorporation, filed herewith
- 3.3 Bylaws, as amended, filed herewith.
- 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.

---

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