METALLINE MINING CO
Form 10QSB
September 19, 2007

Table of Contents

FORM 10-QSB

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

For the quarterly period ended July 31, 2007

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	91-1766677
(State or other jurisdiction of incorporation or organization)	(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 þ 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 þ

There were 38,728,603 shares of the issuer s common stock, par value $0.01, outstanding as of September 17, 2007.

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

METALLINE MINING COMPANY
QUARTERLY REPORTON FORM 10-QSB
FOR THE QUARTERLY PERIOD ENDED JULY 31, 2007
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
Consolidated Financial Statements:	
Consolidated Balance Sheets as of July 31, 2007 and October 31, 2006	F-2
Consolidated Statements of Operations for the nine-month and three-month periods ended July 31, 2007 and July 31, 2006 and for the period from inception (November 8, 1993) to July 31, 2007	F-3
Consolidated Statements of Cash Flow for the nine-month periods ended July 31, 2007 and July 31, 2006, and for the period from inception (November 8, 1993) to July 31, 2007	F-4
Condensed Notes to Consolidated Financial Statements	F-7

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1
Exhibit 32.2

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

Table of Contents

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

ASSETS	July 31, 2007 (Unaudited)	October 31, 2006 **
CURRENT ASSETS		
Cash and cash equivalents	$ 1,053,826	$ 689,994
Investments	8,900,000	5,925,000
Accounts receivable		35,934
Tax refunds receivable	313,425	
Other receivables	37,794	
Prepaid expenses	26,101	14,288
Total Current Assets	10,331,146	6,665,216
PROPERTY CONCESSIONS		
Sierra Mojada District (Note 4)	4,362,475	4,334,767
EQUIPMENT		
Office and mining equipment, net of accumulated depreciation of $454,434 and $427,892, respectively	707,866	611,966
Total Equipment	707,866	611,966
TOTAL ASSETS	$ 15,401,487	$ 11,611,949
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 24,968	$ 238,198
Accounts payable related parties	61,920	125,460
Accrued liabilities and expenses	55,370	116,162
Other liabilities		10,000
Total Current Liabilities	142,258	489,820
COMMITMENTS AND CONTINGENCIES (Note 4)		
STOCKHOLDERS EQUITY		
Common stock, $0.01 par value; 160,000,000 shares authorized, 38,623,103 and 34,207,912 shares issued and outstanding, respectively	386,231	342,079
Additional paid-in capital	48,024,813	38,594,886

Deficit accumulated during exploration stage	(33,124,356)	(27,814,836)
Accumulated other comprehensive income (loss)	(27,459)	
Total Stockholders Equity	15,259,229	11,122,129
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 15,401,487	$ 11,611,949

** Derived from the audited financial statements for the year ended October 31, 2006

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

Table of Contents

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

	Three Months Ended		Nine Months Ended		November 8, 1993 (Inception) to
	July 31, 2007 (Unaudited)	July 31, 2006 (Unaudited)	July 31, 2007 (Unaudited)	July 31, 2006 (Unaudited)	July 31, 2007 (Unaudited)
REVENUES	$	$	$	$	$
EXPLORATION AND PROPERTY HOLDING COSTS					
Exploration and property holding costs	963,245	669,486	2,100,838	1,055,533	11,427,701
Depreciation and write-off of equipment	40,874	17,924	183,520	53,771	305,658
	1,004,119	687,410	2,284,358	1,109,304	11,733,359
GENERAL AND ADMINISTRATIVE EXPENSES					
Salaries and payroll expenses	266,733	127,295	598,745	965,409	9,395,108
Office and administrative expenses	117,656	163,292	377,046	333,695	2,865,344
Professional services	460,954	219,191	2,117,676	831,080	7,502,558
Directors fees	76,920		225,720		2,061,884
Depreciation	11,112	8,136	18,682	13,732	185,113
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	933,375	517,914	3,337,869	2,143,916	22,010,007
LOSS FROM OPERATIONS	(1,937,494)	(1,205,324)	(5,622,227)	(3,253,220)	(33,743,366)
OTHER INCOME (EXPENSES)					
Interest and investment income	172,112	81,197	309,893	95,631	560,064
Miscellaneous ore sales, net of expenses		10,426		(31,111)	134,242
VAT tax refunds				13,045	132,660

Miscellaneous income		24,000	2,814	85,500	82,330
Interest and financing expense		(1,203)		(2,058)	(290,286)
TOTAL OTHER INCOME	172,112	114,420	312,707	161,007	619,010
LOSS BEFORE INCOME TAXES	(1,765,382)	(1,090,904)	(5,309,520)	(3,092,213)	(33,124,356)
INCOME TAXES					
NET LOSS	$ (1,765,382)	$ (1,090,904)	$ (5,309,520)	$ (3,092,213)	$ (33,124,356)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.05)	$ (0.03)	$ (0.15)	$ (0.10)	
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	37,720,244	34,118,509	34,953,913	29,555,877	

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

Table of Contents

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

	Nine Months Ended July 31, 2007 (Unaudited)	Nine Months Ended July 31, 2006 (Unaudited)	Period from November 8, 1993 (Inception) to July 31, 2007 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (5,309,520)	$ (3,092,213)	$ (33,124,356)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and write-off of assets	202,202	67,503	633,447
Noncash expenses			126,864
Common stock issued for services	211,559		1,237,046
Common stock issued for compensation		668,715	977,106
Options issued for compensation	79,229		4,439,229
Common stock issued for directors fees.	244,260		244,260
Options and warrants issued for directors fees			1,665,705
Stock options issued for services			849,892
Stock options issued for financing fees			276,000
Common stock issued for payment of expenses			326,527
Stock warrants issued for services	1,094,950		1,783,721
(Increase) decrease in:			
Accounts receivable	35,934	(12,100)	
Tax refunds receivable	(313,425)		(313,425)
Other receivables	(37,794)	8,418	(37,794)
Prepaid expenses	(11,812)	(18,059)	(26,100)
Increase (decrease) in:			
Accounts payable related parties	(63,540)		61,920
Accounts payable	(213,230)	(3,682)	24,968
Other liabilities	(10,000)	12,871	(10,000)
Accrued liabilities and expenses	(60,792)	(138,744)	65,370
Net cash used by operating activities	(4,151,979)	(2,507,291)	(20,799,620)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Marketable securities			(5,925,000)
Purchase of investments	(15,200,000)		(15,684,447)
Proceeds from investments	12,225,000		12,709,447
Purchase of equipment	(298,103)	(60,436)	(1,285,508)
Acquisitions of mining property	(27,708)		(4,480,339)
Net cash used by investing activities	(3,300,811)	(60,436)	(14,665,847)

CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	5,671,893	10,758,737	33,253,707
Proceeds from issuance of options and warrants			981,140
Proceeds from exercise of warrants	2,172,188	31,250	2,172,188
Deposits for sale of stock			125,500
Proceeds from shareholder loans			30,000
Payment of note payable		(3,157)	(15,783)
Net cash provided by financing activities:	7,844,081	10,786,830	36,546,752
Effect of Exchange rate changes on cash	(27,459)		(27,459)
Net increase (decrease) in cash and cash equivalents	363,832	8,219,103	1,053,826
Cash and cash equivalents beginning of period	689,994	213,369	
Cash and cash equivalents end of period	$ 1,053,826	$ 8,432,472	$ 1,053,826
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	$	$	$
Interest paid	$	$ 520	$ 286,771
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued for equipment	$	$	$ 25,000
Common stock options issued for financing fees	$	$	$ 276,000
Common stock issued for non-cash options	$ 59,220	$	$ 59,220

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

Table of Contents

NOTE 1 ORGANIZATION AND DESCRIPTION OF BUSINESS

Metalline Mining Company (the Company) was incorporated in the State of Nevada on November 8, 1993 as the Cadgie Company for the purpose of acquiring and developing mineral 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 corporations, Minera Metalin S.A. de C.V. (Minera Metalin) and Contratistas de Sierra Mojada S.A. de C.V.

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

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

NOTE 2 BASIS OF PRESENTATION

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B as promulgated by the Securities and Exchange Commission (SEC). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2006. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

Table of Contents

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, 2007 are not necessarily indicative of the results that may be expected for the year ending October 31, 2007.

Concentration of Risk

The Company maintains its domestic cash in two commercial depository accounts. One of these accounts is insured by the Federal Deposit Insurance Corporation (FDIC) for up to $100,000. The other account consists of money market funds, certificates of deposit and preferred securities (including treasury inflation protected securities and auction rate preferred securities), all of which are not insured. The Company also maintains cash in banks in Mexico. These accounts, which had U.S. dollar balances of $265,630 and $184,679 at July 31, 2007 and October 31, 2006, respectively, are denominated in pesos and are considered uninsured. At July 31, 2007, the Company s cash balances and marketable securities included $9,853,826 which was not federally insured.

Investments

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company accounts for its investments in auction rate securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities such that if the underlying security of an auction rate security has a stated or contractual maturity date in excess of 90 days, regardless of the frequency of the interest rate reset date, the security is classified as a current available-for-sale investment. Short-term investments include investments with maturities greater than three months, but not exceeding twelve months and available for sale auction rate securities.

The Company determines the appropriate classification of its investments in debt and equity securities at the time of the purchase and re-evaluates classifications at each balance sheet date. Debt securities are classified as held to maturity when the Company has the intent and ability to hold the securities to maturity.

Table of Contents

The Company maintains the majority of its investments in auction rate securities (ARS) which provide acceptable interest rates with high liquidity allowing the Company to convert the securities to cash every 7 to 35 days depending upon the specific ARS. Auction rate securities are floating rate securities with long-term nominal maturities of 25 to 30 years, but are marketed by financial institutions with maturity and interest rates at 7, 28, and 35 day intervals. The result is that the market always has large quantities of securities resetting their interest rates every week resulting in high liquidity. As of July 31, 2007, the Company had $8,900,000 of ARS securities with reset dates of 7 days and annual yields ranging from 5% to 5.15%.

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, 2007 and 2006 were $2,284,358 and $1,109,304, respectively. The exploration costs expensed during the Company s exploration stage amount to $11,733,359.

Foreign Operations

The accompanying balance sheet at January 31, 2007 contains Company assets in Mexico, including: $4,362,475 in property concessions; $919,551 (before accumulated depreciation) of mining equipment; and $265,630 of cash. Although this country is considered economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company s operations. The Mexican government does not require foreign entities to maintain cash reserves in Mexico.

IVA Tax Receivable

The Company records a receivable for value added (IVA) taxes recoverable from Mexican authorities on goods and services purchased by its Mexican subsidiaries. As of July 31, 2007, the Company filed applications with the Mexican authorities to recover approximately $605,000 of value added taxes (IVA) paid by its Mexican subsidiaries during 2005, 2006, and 2007. The Company has recorded a receivable in the amount of $313,425 as of July 31, 2007 for IVA taxes paid since November 1, 2006. The Company has recorded an allowance on the IVA tax receivable for taxes paid prior to October 31, 2006 as collectability cannot be reasonably estimated. However, the Company has been working extensively with Mexican authorities to recover these amounts. Any subsequent recovery of these taxes will be booked as credit to exploration expense.

Table of Contents

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (hereinafter SFAS No. 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board s long-term measurement objectives for accounting for financial instruments. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007, although earlier adoption is permitted. Management has not determined the effect that adopting this statement would have on the Company s financial condition or results of operation.

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87,88,106, and 132(R) (hereinafter :SFAS No. 158). This statement requires an employer to recognize the overfunded or underfunded positions of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not for profit organization. This statement also requires an employer to measure the funded status of a plan as of the date of its year end statement of financial position, with limited exceptions. The adoption of this statement had no immediate material effect on the Company s financial condition or results of operations.

NOTE 4 CONCESSIONS IN THE SIERRA MOJADA DISTRICT

Sierra Mojada Mining Concessions

The Company owns or is in the process of acquiring 15 mining concessions consisting of 19,397.9202 hectares (about 47,930 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The mining concessions are considered one prospect area and are collectively referred to as the Sierra Mojada Project. The Company purchased nine of the concessions from Mexican entities and/or Mexican individuals and the remaining six concessions were granted by the Mexican government. Each mining concession enables the Company to explore the underlying concession in consideration for the payment of semi-annual fee to the Mexican government and completion of certain annual assessment work. Annual assessment work in excess of statutory annual requirements can be carried forward and applied to future periods. The company has completed sufficient work to meet future requirements for many years.

Table of Contents

As of July 31, 2007, the Company owns the following mining concessions in the Sierra Mojada District:

Concession	Acquisition Method	Date	Hectares	Cost Basis
Sierra Mojada	Purchased	5/30/2000	4,767.32	$ 15,875
Mojada 3	Purchased	5/30/2000	722.00	
Unificacion Mineros Nortenos	Purchased	8/30/2000	336.79	3,682,772
Vulcano	Purchased	8/30/2000	4.49	
Esmeralda 1	Purchased	8/20/2001	95.50	180,988
Esmeralda	Purchased	3/20/1997	117.50	255,647
La Blanca	Purchased	8/20/2001	33.50	122,760
Fortuna	Claim Filed	12/8/1999	13.96	76,725
Mojada 2	Claim Filed	7/17/2006	3,500.00	
El Retorno	Purchased	4/10/2006	817.65	15,413
Los Ramones	Purchased	4/10/2006	8.60	278
El Retorno Fracc. 1	Purchased	4/20/2006	5.51	93
Dormidos	Claim Filed	4/9/2007	2,326.10	
Agua Mojada	Claim Filed	1/26/2007	2,900.00	5,980
Alote	Claim Filed	5/17/2007	3,749.00	5,944
			19,397.92	$ 4,362,475

NOTE 5 PROPERTY AND EQUIPMENT

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

	July 31, 2007	October 31, 2006
Mining equipment	$ 657,231	$ 589,751
Communication equipment	8,864	10,179
Buildings and structures	141,061	141,061
Land non mineral	15,839	15,839
Vehicles	170,182	152,030
Computer equipment and software	156,656	120,664
Office equipment	11,579	9,446
Furniture and fixtures	888	888
	1,162,300	1,039,858
Less: Accumulated depreciation	(454,434)	(427,892)
	$ 707,866	$ 611,966

Table of Contents

Depreciation expense including write-off of equipment for the nine months ended July 31, 2007 and 2006 was $202,202 and $67,503, respectively.

NOTE 6 CAPITAL STOCK

Common Stock

In March 2007, the Company completed a private placement of 2,413,571 shares of the Company s restricted common stock and warrants to purchase 1,206,785 shares of common stock exercisable at $2.42 per share for four years, at a price of $4.70 per unit, which consists of two shares of common stock and one warrant. Net proceeds from this private placement were $5,671,893. Using the Black-Scholes model, an average value of $3.49 per warrant was allocated to these warrants for a total allocated value of $4,210,473

During the nine months ended July 31, 2007, the Company issued 49,120 shares to outside consultants for services provided at an average price of $4.31 per share. The Company also issued 90,000 shares of common stock at an average price of $2.71 per share to its independent directors for services provided.

During the nine months ended July 31, 2006, the Company issued 13,456,084 shares of common stock under a private placement for cash consideration of $0.80 per share. Purchasers of these shares also received a warrant to purchase one share of common stock at an exercise price of $1.25 with an exercise period of five years. The warrants were valued at $.29 per share for a total allocated value of $3,945,838. In addition to common stock issued through the private placement, 248,593 shares of common stock were issued for prior compensation at $2.69 per share.

Shareholder Rights Plan

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

In the event that any person acquires beneficial ownership of 20% or more of the outstanding shares of the Company s common stock, each holder of a Right, other than the acquirer, would be entitled to receive, upon payment of the purchase price, which is initially set at $20 per Right, a number of shares of the Company s common stock having a value equal to two times such purchase price. The Rights will expire on June 11, 2017, or on June 11, 2008 if the Shareholder Rights Plan is not approved by the Company s shareholders before that date.

Table of Contents

Stock Options

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

The Company has elected to adopt the modified prospective transition method as permitted by Statement 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, the Company will apply the provisions of Statement 123(R) to new awards and to awards modified, repurchased, or cancelled after November 1, 2006. The Company had no remaining estimated compensation for grants that were outstanding as of the effective date that would need to be recognized over the remaining service period. The Company s consolidated financial statements as of and for the three and nine months ended July 31, 2007, reflect the impact of SFAS 123(R).

The Company has two existing qualified stock option plans. Under the 2006 Qualified Stock Option Plan (the 2006 plan) the Company may grant non-statutory and incentive options to employees, directors and consultants for up to a total of 5,000,000 shares of common stock. Under the 2001 Qualified Stock Option Plan (the 2001 Plan) the Company may grant non-statutory and incentive options to employees, directors, and consultants for up to a total of 1,000,000 shares of common stock.

In June 2007, the Company granted stock options to purchase up to 250,000 shares of common stock to the Company s CFO at $4.30 per share under the 2006 Plan. The options vest 50,000 on October 31, 2007, and 100,000 on both October 31, 2008 and 2009. The fair market value of the options at the date of grant was $2.69 per share and the Company has recognized $79,229 of compensation expense through July 31, 2007. This expense is included in salaries and payroll expense under general and administrative expenses. There remains $594,306 of total unrecognized compensation expense, which is expected to be recognized over a period of 2.25 years. No share-based employee compensation cost for stock options was recognized in the consolidated financial statements for the nine month period ended July 31, 2006.

In, February 2007, options for 210,000 shares of the Company s common stock granted under the Company s 2001 Equity Incentive Plan were exercised under the cashless exercise provision of the Plan, whereby recipients elected to receive 126,000 shares without payment of the exercise price, and the remaining options for 84,000 shares were cancelled.

Table of Contents

A summary of stock option activity as of July 31, 2007 and changes during the nine months then ended is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 1, 2006	3,360,000	$ 2.41		
Granted	250,000	4.30		
Exercised	(126,000)	1.32		
Forfeited or Expired	(84,000)	1.32		
Outstanding at July 31, 2007	3,400,000	$ 2.61	8.10	$ 2,806,500
Exercisable at July 31, 2007	3,150,000	$ 2.48	7.96	$ 3,021,500

Summarized information about stock options outstanding and exercisable at July 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Ave. Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.30	100,000	2.02	$ 1.30	100,000	$ 1.30
1.32	100,000	3.18	1.32	100,000	1.32
2.15	200,000	2.59	2.15	200,000	2.15
2.59	2,750,000	8.75	2.59	2,750,000	2.59
4.30	250,000	9.88	4.30		
$ 1.30-4.30	3,400,000	8.10	$ 2.61	3,150,000	$ 2.48

A summary of the nonvested shares as of July 31, 2007 and changes during the nine months ended July 31, 2007 is as follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at October 31, 2006		$
Granted	250,000	2.69
Vested		
Forfeited		
Nonvested at July 31, 2006	250,000	$ 2.69

As of July 31, 2007, there was $594,306 of total unrecognized compensation costs related to nonvested share based compensation arrangements granted under the qualified stock option plans. That cost is expected to be recognized over a weighted average period of 2.25 years.

Warrants

During the nine months ended July 31, 2007, the Company issued warrants for 600,000 common shares for professional services at an average exercise price of $3.27 per share. Using the Black-Scholes model an average value of $1.82 per warrant was allocated to these warrants for a total allocated value of $1,094,950

In connection with the private placement completed in March 2007, the Company issued warrants to purchase 1,206,785 shares of common stock at an exercise price of $2.42 per share. The warrants were valued at $3.49 per share for a total allocated value of $4,210,473.

During the nine months ended July 31, 2007, warrants for 1,736,500 shares were exercised at an average price of $1.25 per share for total cash proceeds of $2,172,187. The value allocated to these warrants on the date of grant was $503,585.

As of July 31, 2007, the Company has outstanding warrants to purchase 14,945,408 shares of common stock. The warrants have a weighted average exercise price of $1.42 per share and have a weighted average remaining contractual life of 3.28 years.

NOTE 7 SUBSEQUENT EVENTS

In August, 2007 the Company issued 18,000 shares of common stock to independent directors of the Company for services received in the three months ended July 31, 2007. The Company has accrued $61,920 of costs associated with these shares as of July 31, 2007.

Also in August 2007, two warrants were exercised for 87,500 shares of common stock at an exercise price of $1.25 per share.

Table of Contents

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

Cautionary Statement about Forward-Looking Statements

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

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

The timing of exploration activities;

Business strategies and development of our business plan; and

Forward-looking statements also typically include words such as anticipate , estimate , expect , potential , cou similar words suggesting future outcomes. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of zinc prices, currency exchange rate fluctuations, uncertainties in cash flow, expected acquisition benefits, exploration mining and operating risks, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed Company s Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006 under the caption Risk Factors, many of which are beyond our control. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements.

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

Plan of Operation

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

Table of Contents

The Company owns the following mining concessions, including the buildings and equipment located thereon:

Concession[1]	Title No.	Hectares
Sierra Mojada	198513	4,767.3154
Mojada 3	226756	722.0000
Unificacion Mineros Nortenos	169343	336.7905
Esmeralda I	211158	95.4977
Esmeralda	212169	117.5025
La Blanca	220569	33.5044
Fortuna	160461	13.9582
Vulcano	83507	4.4904
Mojada 2	227585	3,500.0000
El Retorno	216681	817.6548
Los Ramones	223093	8.6039
El Retorno Fracc. 1	223154	5.5071
Dormidos	229323	2,326.0953
Agua Mojada	E-07/16743	2,900.0000
Alote[1]		3,749.0000
Total		19,397.9202

[1] Title for this concession is pending.

The Company owns or is in the process of acquiring 15 concessions consisting of 19,397.9202 hectares (about 47,930 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The Company purchased nine of the concessions from Mexican entities and/or Mexican individuals and the remaining six mining concessions were granted by the Mexican government.

The Company holds title to its concessions subject to its obligation to maintain and conduct work on the concessions, record evidence of the work with the Mexican Ministry of Mines and pay a semi-annual fee to the Mexican government. Annual assessment work in excess of statutory requirements can be carried forward and applied against future annual work requirements. The value of our accumulated carry forwards on our concessions would meet future requirements for many years.

The Company s primary focus has been to explore the Sierra Mojada concessions to identify available mineral deposits, securing a legal right to exploit the deposit and defining a resource. From 1999 through early 2005 an oxide zinc mineralization has been defined that management has determined contains sufficient estimated zinc metal to justify a study of the mineralized material. A feasibility study has been initiated for the Company by Green Team International of Johannesburg, South Africa as the prime contractor. The Company s plan of operation for the next 10 to 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 feasibility study is a detailed engineering and economic valuation of the iron oxide and smithsonite manto mineralized material and consists of six major elements: Resource Model, Metallurgy, Mine Plan, Extraction, Reduction and Water Development.

Table of Contents

The Resource Model has been revised and it will be used interactively with the mining and concentrator team to optimize the baseline business case for the study. Another revision of the Resource Model incorporating improved geological constraints is expected to be completed by late September 2007. The Resource Model will then be subjected to a technical audit.

The Company has performed a technical audit of its sample collecting, sample preparation, and data logging technical processes and is improving its technical processes, facilities, and procedures. It has acquired improved geological information requested by its engineers in completing their studies. Field studies for a geotechnical study involving diamond drilling and structural mapping have been completed, in situ and laboratory measurements of rock strength and other testing to confirm the applicability of various mining methods to the rocks at Sierra Mojada is nearly complete, and a report of conclusions is being prepared. The Company analyzed a large sampling of rocks from within the boundaries of the current Resource Model grade shell for other metals that might be recovered as coproducts of mining zinc. The elements considered include silver, cadmium, indium, gallium, germanium, and cobalt. Of these elements only silver is a candidate for coproduct recovery from the material within the resource model.

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

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

The Company has entered into a contract with Agapito Associates Inc., of Golden, Colorado, to perform geotechnical and rock mechanics studies at the site in support of mine planning activities. In mid-May 2007, a drilling program was initiated to obtain large diameter core samples for testing in Agapito laboratories. This drilling used one of the Company s diamond drill units. As of August 8, 2007, the drilling program was completed. Fourteen large diameter diamond drill holes were completed, totaling 1363.25 m of hole, the cores exhaustively logged for geotechnical purposes, and samples selected for laboratory measurements of rock strength. A borehole shear strength tester (BST) has been used to determine in situ rock strength in these, and other, bore holes. Structural mapping is complete in both surface and underground localities. The geotechnical work is approximately on the planned schedule.

Table of Contents

Water Development is completed and consisted of drilling for a groundwater supply capable of producing water for the mine and plant in volumes adequate to meet water supply requirements estimated by the engineering groups performing the feasibility study. Four wells were completed and tested, and application is be made to the appropriate agency (the Comisión Nacional de Agua) to grant the Company water rights. In the opinion of the Company and its consulting geohydrologist, the Company can reasonably expect to develop enough water of adequate quality to meet the requirements for a mine and concentrator, and the associated potable water requirements for employees.
Environmental, Social, and permitting studies will be continued and completed by our consultants. Weather-, noise-, and air-quality-monitoring continue. A community survey was conducted in cooperation with the government of the Municipio of Sierra Mojada, to document the social impact of the potential mining operations. A documented community out-reach program in being continued with our workers, the local community, the local government and appropriate agencies in State and Federal governments. All of this work will be done to comply with Mexican regulations, laws, and norms and with sustainable development considerations as described in the International Finance Corporations Performance Standards on Social and Environmental Sustainability and the Environment Assessment required by the World Bank s Equator Principles .

In order to finance the feasibility study and the business operations described above for corporate overhead through completion of the feasibility study, the Company has raised capital by selling unregistered shares of its common stock as described below in Liquidity and Capital Resources. The Company estimates that completion of a feasibility study will cost an additional $3.0 million and the Company expects that it will take an additional 10 to 12 months to complete all aspects of the study. Spending on the feasibility study during the nine months ended July 31, 2007 was approximately $1,340,000. This amount includes payments to third parties for goods and services, and does not include expenses for general corporate purposes or to support the feasibility study by our employees in Mexico.
Following the completion of a successful feasibility study, the Company would then proceed to secure financing for the construction of a mine and related infrastructure pursuant to a Mine Plan developed specifically for the Company s concessions and for Concentration and Reduction plants to extract metal from the ore that would be mined. The Company estimates that construction of a mine and extraction and reduction plant would cost approximately $400 million and take approximately two to three years to complete after completion of the feasibility study, assuming sufficient funding is available. The Company intends to finance construction costs by seeking a combination of equity and debt. In addition the Company may seek joint venture partners or other alternative financing sources as necessary to complete development of the project.

The Company is improving its general business capabilities in Mexico so that it is capable of performing the ramp up in activity required by our business objectives. We are selectively improving the quality of our workforce at all levels. We will become fully compliant with labor registration, safety, health and training requirements, and environmental registration. Until that time, we do not have to comply in these areas because we were grandfathered into compliance.
Some overarching business objectives in our activities are: to systematically reduce the significant risk factors listed earlier in this document; to reach the level of certainty required to comply with SEC Industry Guide 7; and to meet the level of quality required for our feasibility study to be acceptable to financial institutions to support funding decisions. Two disciplines help us to reach these objectives. First, generally accepted international engineering practice is based on methodology to achieve progressive reduction of risk and progressive reduction in economic uncertainties as studies progress. Second, outside technical/engineering auditors are retained to insure that work is done to the quality required by the engineering norms.

Table of Contents

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

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

Subsequent Event

In August 2007, the Company issued 18,000 shares of common stock to independent directors of the company for services received in the three months ended July 31, 2007. The Company has accrued $61,920 of costs associated with these shares as of July 31, 2007. Also in August 2007, two warrants were exercised for 87,500 shares of common stock at an exercise price of $1.25 per share.

Cautionary Note

The Company is an exploration stage company and does not currently have any known reserves and cannot be expected to have reserves unless and until a feasibility study is completed for the Sierra Mojada concessions that shows proven and probable reserves. There can be no assurance that the Company s concessions contain proven and probable reserves and investors may lose their entire investment in the Company. See Risk Factors in the Company s Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006.

Results of Operations

For the nine months ended July 31, 2007, the Company experienced a consolidated net loss of $5,309,000 or $0.15 per share, compared to a consolidated net loss of $3,092,000, or $0.10 per share during the comparable period in the previous year. The $2,217,000 increase in consolidated net loss is primarily due to a $1,175,000 increase in exploration and property holding costs and a $1,287,000 increase in professional fees. These increases and other cost increases were partially offset by higher interest and investment income.

Exploration and property holding costs

Exploration and property holding costs increased to $2,284,000 for the nine-months ended July 31, 2007 compared to $1,109,000 for the comparable period last year. This increase was primarily due to increased drilling and sampling costs to support the company s feasibility study.

Table of Contents

General and Administrative Costs

General and administrative expenses increased to $3,338,000 for the nine month period ended July 31, 2007 as compared to $2,144,000 for the nine month period ended July 31, 2006. The $1,194,000 increase is overall general and administrative expenses are primarily due to the following:

- Higher professional fees due to $1,094,000 of stock based compensation for warrants issued to outside consultants for investor services.
- Increased professional fees related to the preparation of the Company s feasibility study
- Director s fees increased $226,000 primarily due to stock based compensation for stock grants issued to its independent directors.

These increases were partially offset by a $366,000 decrease in salaries and payroll expenses. The decrease in salaries and payroll expense is due to higher stock based compensation in 2006 related to stock grants issued to officers.

Other Income (Expense)

Other Income (Expense) was $312,707 for the nine months ended July 31, 2007 as compared to $161,007 for the comparable period in 2006. The increase of $151,700 is primarily due to higher interest and investment income and was partially offset by lower miscellaneous income. Higher cash and investment balances due to recent private equity offering combined with recent warrant exercises have resulted in higher investable cash balances which have resulted in increased interest and investment income.

Liquidity and Capital Resources

The Company financed its obligations during the nine months ended July 31, 2007 from cash on hand. At July 31, 2007, the Company s cash, cash equivalents and marketable securities increased by $3,339,000 compared to the year ended October 31, 2006. This increase is due to $5,672,000 in net proceeds from a private placement discussed below that closed on March 6, 2007 and $2,172,000 of cash proceeds from warrants exercised during the period. Also during this period, the Company used $4,152,000 in operating activities, principally in connection with maintaining the property, continuation of a surface exploration drilling program and continued feasibility study funding, which includes the water development drilling.

During the nine month period ended July 31, 2007, the Company completed a private offering of 2,413,571 shares of the Company s common stock and warrants to purchase 1,206,785 shares of common stock, exercisable at $2.42 per share and expiring on March 6, 2011 (the Securities). The Securities were purchased at a price of $4.70 per Unit, which consists of two shares of common stock and one warrant for aggregate gross proceeds of $5,671,893.

As of July 31, 2007, the Company s liquid resources , consisting of cash, cash equivalents and marketable securities, was $9,954,000.

The Company s current operating expenses total $350,000 per month, for an expected operating expense of $4.2 million in the next 12 months. The Company continues to maintain a sampling and drilling program that is budgeted at approximately $50,000 per month, not including analytical costs which can vary from $20,000 to $40,000 per month. As discussed previously, assuming adequate funding is available, the Company estimates that it will cost about $3.0 million in additional spending to complete the feasibility study, but there can be no assurance that this estimate will not be revised upward. The portions of the study that relate to the mine and concentrator in Mexico should be largely complete by the end of 2007, but we expect that work on the refinery and preparation of the final study documents will not be completed until October of 2008. If at any time we think we have insufficient cash, we will adjust our program and expenditures appropriately.

Table of Contents

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

Critical Accounting Policies

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

Our management routinely makes judgments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the future resolution of the uncertainties increase, these judgments become even more subjective and complex. Although we believe that our estimates and assumptions are reasonable, actual results may differ significantly from these estimates. Changes in estimates and assumptions based upon actual results may have a material impact on our results of operation and/or financial condition. We have identified certain accounting policies that we believe are most important to the portrayal of our current financial condition and results of operations. Our significant accounting policies are disclosed in Note 2 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006.

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.

Table of Contents

Deferred tax assets and liabilities

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

Estimates

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

Foreign Currency Translation

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

Shareholder Rights Plan

On June 11, 2007, the Board of Directors adopted a shareholders rights plan, which became effective immediately. The rights are designed to have certain anti-takeover effects and as such they will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on a substantial number of rights being acquired, or in a manner or on terms not approved by the Board of Directors. The rights, however, should not deter any prospective offeror willing to negotiate in good faith with the Board of Directors, nor should the rights interfere with any merger or other business combination approved by the Board of Directors. To effect the shareholders rights plan the Board of Directors declared a distribution of one right to each outstanding share of common stock, payable to shareholders of record on June 22, 2007. This right will be attached to the underlying common share and remain with the common share should the common share be sold or transferred. The rights will expire on June 11, 2017, or on June 11, 2008 if the rights plan is not approved by the Company s shareholders before that date.

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

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

Table of Contents

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

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

Impairment of Long-Lived Assets

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

Environmental Matters

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

Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required. Any such increases in future costs could materially impact the amounts charged to earnings. As of July 31, 2007, the Company has no accrual for reclamation and remediation obligations because the Company has not engaged in any significant activities that would require remediation under its current concessions or inherited any known remediation obligations from acquired concessions. Any reclamation or remediation costs related to abandoned concessions has been previously expensed.

Table of Contents

ITEM 3. 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.

Table of Contents

PART II OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Following are descriptions of all unregistered equity securities of the Company sold during the last fiscal quarter and as of September 18, 2007, excluding transactions that were previously reported on our Form 10-QSB or Form 8-K filed during the period.

On August 7, 2007, the Company issued 12,500 shares of Common Stock to investors upon the exercise of warrants. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the 1933 Act and Rule 506 of Regulation D.

On August 12, 2007, the Company issued 75,000 shares of Common Stock to investors upon the exercise of warrants. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the 1933 Act and Rule 506 of Regulation D.

ITEM 6. Exhibits.

3.1 Articles of Incorporation. (1), (2), (3)

3.2 Bylaws, as amended. (3)

4.1 Rights Agreement, dated as of June 11, 2007, between the Company and OTC Stock Transfer, as Rights Agent. (4)

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

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

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

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

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

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

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

2007.

(4) Incorporated by reference to Exhibit 1 to the Company s Registration Statement on Form 8-A filed on June 11, 2007

11

Table of Contents

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, 2007	By:	/s/ Merlin Bingham
Date		Merlin Bingham, President and Chief Executive Officer
September 18, 2007	By:	/s/ Robert Devers
Date		Robert Devers, Principal Financial Officer and Chief Accounting Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation. (1), (2), (3)
3.2	Bylaws, as amended. (3)
4.1	Rights Agreement, dated as of June 11, 2007, between the Company and OTC Stock Transfer, as Rights Agent. (4)
31.1	Certification of CEO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of CFO Pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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

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

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

(4) Incorporated by reference to Exhibit 1 to the Company s Registration

Statement on
Form 8-A filed
on June 11,
2007

13