METALLINE MINING CO
Form 10-K
January 11, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

R **ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED October 31, 2009.

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD OF _________ TO _________.

Commission File Number: 001-33125

METALLINE MINING COMPANY

(Name of registrant as specified in its charter)

Nevada	**91-1766677**
	(I.R.S. Employer Identification No.)

State or other jurisdiction of incorporation or organization

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

(Address of principal executive offices, including zip code)

Registrants telephone number: **(208) 665-2002**

Securities registered under Section 12(b) of the Act:

Title of Each Class	**Name of each exchange on which registered**
Common Stock, $0.01 Par Value	NYSE Amex

Common Stock, $0.01 Par Value

(Title of Class)

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes o No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Yes o No R

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

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o

Smaller reporting Company R

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

Yes o No R

As of December 23, 2009, there were 55,334,429 shares of the Registrant's $.01 par value Common Stock ("Common Stock"), Registrant s only outstanding class of voting securities, outstanding.

The aggregate market value of Common Stock held by non-affiliates of the Registrant as of April 30, 2009, computed by reference to the closing sales price on that date was $10,331,194.

PART I

When we use the terms Metalline Mining Company, the Company, we, us, our, or Metalline, we are re
Metalline Mining Company and its subsidiaries, unless the context otherwise requires. We have included technical terms important to an understanding of our business under Glossary of Common Terms at the end of this section. Throughout this document we make statements that are classified as forward-looking. Please refer to the Cautionary Statement about Forward-Looking Statements section of this document for an explanation of these types of assertions.

Item 1. BUSINESS

Background and Corporate Structure

Metalline Mining Company (the Company) is an exploration stage company, formed under the laws of the state of Nevada on August 20, 1993, to engage in the business of mining. The Company currently owns mining concessions, which are located in the municipality of Sierra Mojada, Coahuila, Mexico (the Property). The Company s objective is to define sufficient mineral reserves on the Property to justify the development of a mechanized mining operation (the Project). The Company conducts its operations in Mexico through its wholly owned Mexican subsidiaries, Minera Metalin S.A. de C.V. (Minera) and Contratistas de Sierra Mojada S.A. de C.V. (Contratistas). The Company has formed a new wholly owned subsidiary, Metalline Mining Delaware Inc., on December 3, 2009 which currently has no assets..

Merger Agreement with Dome Ventures

On December 4, 2009, Metalline executed an Agreement and Plan of Merger and Reorganization (the Merger Agreement) with Dome Ventures Corporation (Dome) whereby upon the closing of the transaction described in the Merger Agreement, Dome will become a wholly owned subsidiary of Metalline. Dome is a publicly held resource company based in Vancouver, British Columbia, Canada. Dome s common stock is listed on the TSX Venture Exchange (TSX-V) under the symbol "DV.U". Dome holds three exploration licenses in Gabon, West Africa and recently announced a joint venture agreement with AngloGold Ashanti Limited on two of its licenses, Ndjole and Mevang. At the same time Dome entered into a second joint venture agreement on the Ogooue license held by AngloGold Ashanti Limited.

Pursuant to the Merger Agreement, Metalline closed a private of 6,500,000 units of the Company, at a price of $.46 per unit, with each unit consisting of one share of common stock of the Company and one common stock purchase warrant of the Company, two of which warrants will entitle the holder to purchase one share of common stock. The warrants are exercisable if the Merger Agreement between Dome and Metalline is terminated and then only for a term extending until one year following the date of issuance, with an exercise price of $0.57 per share of common stock. This private placement was completed on December 22, 2009 with total net proceeds of $2,990,000. Further pursuant to the Merger Agreement, Dome agreed to raise $13,010,000 through private placement of special warrants of Dome by January 10, 2010.

The Merger Agreement sets forth a number of conditions precedent for completion of the transaction, and contains other standard provisions for transactions of this nature, including transaction protection terms, standard representations, warranties and covenants. There can be no assurance that Metalline will be able to meet the conditions precedent to the transaction contemplated by the Merger Agreement. The parties hope to complete the transaction in the second calendar quarter of 2010. If the Merger is not completed by May 30, 2010, the Merger Agreement will terminate.

This description of the contemplated transaction with Dome in this report is for informational purposes only and is neither an offer to sell nor a solicitation of an offer to buy any securities. Any offer of Metalline securities with respect to the proposed transaction between Dome and Metalline will be made only through a registration statement and related materials. In connection with the proposed transaction, Metalline will file a registration statement, including a joint proxy statement of Metalline and Dome, with the Securities and Exchange Commission. Investors are urged to read the registration statement and joint proxy statement (including all amendments and supplements to it) because they will contain important information. Investors may obtain free copies of the registration statement and joint proxy statement when they become available, as well as other filings containing information about Metalline and Dome, without charge, at the SEC s web site (www.sec.gov). These documents may also be obtained by directing a request to Metalline at 1330 E. Margaret Avenue, Coeur d'Alene, Idaho (telephone (208) 665-2002).

Metalline and Dome and their respective directors and executive officers and other members of management and employees are potential participants in the solicitation of proxies from Metalline and Dome shareholders in respect of the proposed merger.

Information regarding Metalline s directors and executive officers is available in this Annual Report on Form 10-K. Additional information regarding the interests of such potential participants in the proposed transaction will be included in the registration and joint proxy statement filed with the SEC in connection with the proposed transaction.

General Development of the Business

Overview

Since 1997, the Company has been exploring the Sierra Mojada concessions to identify available mineral deposits. The Company has focused its exploration efforts on two primary mineral types: the Silver Polymetallic Mineralization just north of the Sierra Mojada Fault and the Oxide Zinc Mineralization located south of the Sierra Mojada Fault.

The Company s initial exploration efforts were focused on the copper, silver, zinc, lead potential in the Silver Polymetallic Mineralization just north of the Sierra Mojada Fault. In 1999, the Company suspended exploration activities on the Silver Polymetallic Mineralization to evaluate the zinc and silver potential in the Oxide Zinc Mineralization. A successful feasibility study by the Skorpion Mine located in Namibia, Africa incorporated the use of the solvent extraction electrowinning (SXEW) process which the Company felt could be used effectively to process the potential zinc in the Oxide Zinc Mineralization.

The Company explored the Oxide Zinc Mineralization from 1999 through 2005 and determined that it contained sufficient estimated zinc metal to justify a feasibility study of the mineralized material. The Company hired Green Team International (GTI) of Johannesburg, South Africa as the prime contractor in 2004 and commenced work on the five major elements of the feasibility study: Metallurgy, Resource Model, Mine Plan, Refining and Water Development.

During fiscal 2008, the Company completed an initial scoping phase of the feasibility study and developed a preliminary mine plan based upon the Company s initial resource model. The preliminary mine plan anticipated using an underground mining method that would use a long-hole end-slice panel stoping method to perform high-volume relatively low cost mining. The preliminary mine plan projected a minimum daily production rate of 3,000 tonnes (metric tons) per day, and a 17 year mine life. Shortly after developing the preliminary mine plan, the Company started working with its engineering firms to develop a more detailed mine plan and concentrator plant study. In May 2008, the Company selected SNC-Lavalin to prepare the detailed concentrator plant study. While working on the detailed mine plan and concentrator plant studies, the Company contracted with Pincock, Allen, & Holt to complete a new resource model based upon latest drilling results and a suite of silver analysis that were not available when the previous resource model was developed.

In July 2008, the Company announced that Pincock, Allen, and Holt had completed a new resource model on the Oxide Zinc Mineralization that more than doubled the estimated amount of zinc present in the deposit. The new resource model increased the estimated size and zinc content of the deposit plus added a potential estimated by-product credit for silver associated with the Oxide Zinc Mineralization. The new resource model required the Company to take a fresh look at the optimum mine size, mining methods, and other economic and engineering factors. The Company now believes that open pit mining will be effective on a deposit of this size and geometry and would remove the production rate constraints that are inherent in the underground mining scenario that was previously considered. The Company has completed a first pass evaluation of open pit mining of the new resource model and has determined that mining and processing rates might be as much as five times greater than the underground mining method and would likely result in significant economies of scale and may allow market opportunities that are not available with a smaller underground operation. Preliminary economic evaluation of open pit mining suggests that it would be much more profitable.

Moreover, open pit mining should allow the Company to mine the Silver Polymetallic Mineralization, which lies adjacent to the Oxide Zinc Mineralization on the north side of the east-west Sierra Mojada Fault as well as silver mineralization that is believed to overlie the oxide zinc material. This mineralization would be mined during stripping to access the Oxide Zinc. The Company has been actively evaluating the Silver Polymetallic Mineralization, but does not have enough drill data yet, and in the right places, to create a comprehensive resource model for this mineralization. Since August 2008, the Company s current drilling efforts have been primarily directed at infilling and defining the Silver Polymetallic Mineralization in order to bring the data to the quality required for a resource model. All feasibility study engineering work, except for work on a preliminary Silver-Polymetallic Resource Model, is on hold pending collection of the required open pit exploration data and development of an improved resource model.

As a result of the Company s limited capital resources and the on-going weakness in the capital markets during 2009, the Company scaled back its exploration activities and administrative costs to conserve capital while it tried to secure additional sources of capital. The Company scaled back its drilling activities from five drills operating at two shifts per day to two drills operating at one shift per day. In addition, the Company s officers and independent directors agreed to defer a significant portion of their compensation until the Board determined that the Company was adequately funded.

In September 2009, Pincock Allen & Holt (PAH) prepared a preliminary draft of an interim resource report for the Company that provided an initial resource estimate and identified any current or potential issues associated with developing a resource estimate in compliance with Canadian National Instrument 43-101 standards. PAH reviewed the Company s data collection methods, quality control/quality assurance protocols, resource database, and resource estimation models and made recommendations to improve the quality of its resource database. The resource estimates contained in this report were broken down into the Northside Zone, Red Zinc Zone and the White Zinc Zone.

The initial resource estimate for the Northside Zone was calculated based upon 3D modeling of 16,604 composite samples from 5,301 drill holes and other sample locations. Using a cutoff of 60 grams per tonne cutoff, the resource estimate showed that there are at least 30,263 blocks representing 5,910,742 cubic meters of material with satisfactory drill hole density that had an interpolated drill hole assay of 141.3 grams silver per tonne and 2.13% zinc. An average value of 2.67 tonnes per cubic meter was used as the bulk density for mineralized Northside rocks.

The initial resource estimate for the Southside Oxide Zinc Zone estimate that the zone contains more than 24,270,000 cubic meters of material averaging 4.7% zinc and 12.7 grams silver per tonne above a 1% zinc cutoff. The Oxide Zinc material has very high porosity and bulk density measurements based upon many hundreds of core and rock samples estimate the average in-place density to be 2.54 tonnes per cubic meter.

The PAH work also indicated the strong possibility that a very large, near-surface body of silver mineralization continued westward from the vicinity of the San Salvador shaft at the western end of the known Northside zone. They strongly recommended an intense exploration program in this region. Much of the Company s 2009 drilling program was in the eastern end of this target area.

During 2009, an additional 9,560 meters of diamond core holes were drilled, mostly from surface drill sites and targeted at silver mineralization. During the first six weeks of fiscal 2010, the pace of drilling was increased and an additional 1210.5 meter of core holes were drilled. During fiscal 2009, no samples were shipped to the external laboratory in order to conserve cash. As of the end of calendar 2009, approximately 6,000 samples that have been pre-screened for higher metal content at the on-site laboratory are awaiting shipment to the external laboratory. Shipment will be made as soon as an adequate supply of certified standard samples is available.

The Silver Polymetallic Mineralization is partly sulfide and partly a mixture of native silver and silver halides minerals. These silver minerals will probably require a different processing plant to recover the contained metals than would be required for the Oxide Zinc Zone. The Company needs to gain a complete understanding of the size, grade and metallurgical character of this potentially large silver-rich zone in order to evaluate the economic potential of the silver. Preliminary study of cyanide solubility of the silver, disclosed in a press release dated June 23, 2009, showed that much of the silver is readily soluble in a cyanide leach solution. More intensive geological, mineralogical, and geochemical studies to better understand the characteristics of the silver mineralization are currently in progress.

Employees

Metalline Mining Company currently has six employees, five of which are full time and one part time. After several recent staff reductions, approximately 47 employees are employed under contract to our Mexican operating company Contratistas de Sierra Mojada S.A. de C.V. Our Mexican holding company, Minera Metalin S.A. de C.V., has no employees.

Available Information

We maintain an internet website at www.metallinemining.com. The information on our website is not incorporated by reference in this annual report on Form 10-K. We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (the SEC) in accordance with the Securities Exchange Act of 1934, as amended. Alternatively, you may read and copy any information we file with the SEC at its public reference room at 100 F Street NE, Washington, D.C. 20549. You may obtain information about the operation of the public reference room by calling 1-800-SEC-0330. You may also obtain this information from the SEC s website, http://www.sec.gov.

Item 1A. RISK FACTORS

Our securities are highly speculative and involve a high degree of risk. Identified below are material risks known to the Company.

RISKS RELATED TO OUR BUSINESS:

Exploration Stage Mining Company with No History of Operation

The Company is in its exploration stage, has very limited operating history, and is subject to all the risks inherent in a new business enterprise. For example, to date we have had no revenues and have relied upon equity financing to fund our operations. The likelihood of success of the Company must be considered in light of the problems, expenses, difficulties, complication, and delays frequently encountered in connection with a new business, and the competitive and regulatory environment in which the Company will operate, such as under-capitalization, personnel limitations, and limited revenue sources.

Due to Our History of Operating Losses, We are Uncertain That We Will Be Able to Maintain Sufficient Cash to Accomplish Our Business Objectives

During the fiscal years ended October 31, 2009 and 2008 we suffered net losses of $4,724,110 and $12,320,422, respectively. At October 31, 2009 there was stockholders equity of $6,237,139 and working capital of $830,692. There is no assurance that we can generate net income, increase revenues or successfully explore and exploit our properties.

Significant amounts of capital will be required to continue to explore and then develop the Sierra Mojada concessions. Other than the additional capital resources available upon the successful completion of the Dome merger described above, the Company s other sources of funding primarily consist of the sale of additional equity securities, borrowing funds, or selling a portion of our interests in our assets. There is no assurance that any additional capital that the Company will require will be obtainable on terms acceptable to us, if at all. Failure to obtain such additional financing could result in delays or indefinite postponement of further exploration and development of our projects. Equity financing, if available, may result in substantial dilution to existing stockholders.

See the Plan of Operation under Item 7. Management s Discussion and Analysis below for a description of management s plans in regard to this issue. The financial statements do not include any adjustments relating to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should we be unsuccessful in implementing these plans.

Capital Requirements and Liquidity; Need for Subsequent Funding

The Company will adjust its expenditures in consideration of its available resources and the tasks to be performed. Company management and our board of directors monitor our overall costs and expenses and, if necessary, adjust Company programs and planned expenditures in an attempt to ensure we have sufficient operating capital. We continue to evaluate our costs and planned expenditures for our on-going project at our Sierra Mojada mining concessions.

The Company closed on $2,990,000 in a private placement transaction on December 22, 2009. Although the Company believes that with the receipt of these funds it can fund its current and proposed operations through June 2010, the continued exploration and development of the Sierra Mojada project will require significant amounts of additional capital. The Company expects to receive additional funds at the closing of a strategic transaction with Dome Ventures Corporation (as described in a Current Report on Form 8-K dated December 4, 2009). However, the closing of that transaction is subject to a number of conditions precedent, and there can be no assurance that the transaction will be completed.

If the contemplated transaction with Dome does not occur the Company likely will need to explore other sources of funding during fiscal 2010 or consider reducing its planned activities. The weak US and global economies combined with instability in global financial and capital markets have currently limited the availability of this funding. If the disruptions in the global financial and capital markets continue, debt or equity financing may not be available to us on acceptable terms, if at all. Equity financing, if available, may result in substantial dilution to existing stockholders. If we are unable to fund future operations by way of financing, including public or private offerings of equity or debt securities, our business, financial condition and results of operations will be adversely impacted.

Our Independent Registered Public Accounting Firm s Report on our 2009 Financial Statements Questions our Ability to Continue as a Going Concern

As a result of our recurring losses from operations and limited capital resources, our independent registered public accounting firm s report on our financial statements as of October 31, 2009 and for the fiscal years ended October 31, 2009 and 2008 includes an explanatory paragraph expressing doubt about our ability to continue as a going concern.

As discussed in Note 1 to the consolidated financial statements, the Company has executed an Agreement and Plan of Merger and Reorganization (the Agreement) with Dome Ventures Corporation (Dome) on December 4, 2009, whereby upon the closing of the transaction, Dome will become a wholly owned subsidiary of the Company. The closing of this transaction is subject to several conditions including Dome raising $13,010,000 through a private placement of special warrants by January 10, 2010, shareholder approval by both companies, and registration of the common stock issued to the Dome shareholders. In the event the Company is unable to successfully close this transaction, the Company may not have sufficient working capital to operate during the next fiscal year. This raises substantial doubt about the Company's ability to continue as a going concern.

In the event the Company is unable to successfully close the Dome transaction, Management will need to immediately reduce all exploration activities and reduce administrative costs to conserve capital while it tries to secure alternative sources of capital to fund its operations and continue exploration of the Sierra Mojada Project. Management would also immediately resume its efforts to explore for various sources of additional capital including additional equity funding, joint venture participation, strategic partner and smelter and metal trading companies willing to fund projects for a commitment of product. If we are unable to quickly find alternative sources of capital, our business, financial condition and results of operations will be adversely impacted. Accordingly, we can offer no assurance that the actions we plan to take to address these conditions will be successful. Furthermore, inclusion of a going concern qualification in the report of our independent accountants may have a negative impact on our ability to raise additional capital and may adversely impact our stock price.

Disruptions in the Global Financial and Capital Markets May Impact Our Ability to Obtain Financing.

The global financial and capital markets have been experiencing extreme volatility and disruption, including the failures of financial services companies and the related liquidity crisis. Although we expect to meet our near term liquidity needs with our working capital on hand, we will continue to need further funding to achieve our business objectives. In the past, the issuance of equity securities has been the major source of capital and liquidity for us. The extraordinary conditions in the global financial and capital markets have currently limited the availability of this funding. If the disruptions in the global financial and capital markets continue, debt or equity financing may not be available to us on acceptable terms, if at all. If we are unable to fund future operations by way of financing, including public or private offerings of equity or debt securities, our business, financial condition and results of operations will be adversely impacted.

Our common stock may be delisted from the NYSE Amex (formerly American Stock Exchange) and if it is delisted, it will likely adversely impact our ability to raise capital.

Although our common stock is currently quoted on the NYSE Amex, at April 30, 2009 our stockholders equity was $5,272,602. On May 1, 2009 the Company received a notice of deficiency from the NYSE Amex which could result in the delisting of our common stock from the NYSE Amex. The notice stated that at that time Metalline did not currently meet Section 1003(a)(iii) of the NYSE Amex Company Guide (the "Company Guide") which requires listed issuers that have sustained losses from continuing operations and/or net losses in its five most recent fiscal years to maintain stockholders' equity of at least $6,000,000. On June 1, 2009, the Company submitted a plan of compliance addressing how we intend to regain compliance with the Exchange's continued listing standards. This plan of compliance was accepted by the Exchange on July 13, 2009, and the Company was granted an extension until November 1, 2010 to regain compliance with Section 1003(a)(iii) of the Company Guide. As of October 31, 2009, the Company s stockholders equity was $6,237,139; however the Company will need to demonstrate that it can maintain its stockholders equity over $6,000,000 before it can regain compliance with Section 1003(a)(iii). There can be no assurance that the Company will be able to implement the plan within the prescribed timeframe. The successful closing of the Dome Transaction would increase stockholders equity and likely allow the Company to regain compliance with section 1003(a)(iii).

Because our financing activities are dependent to a large extent on eventual liquidity for the investors, the delisting of our common stock from the NYSE Amex, if it should occur, will make future financing activities significantly more difficult and may raise liquidity issues for current investors.

No Commercially Mineable Ore Body; Resources and Reserves

No commercially mineable ore body has been delineated on the properties, nor have any reserves been identified. The Company is an exploration stage company and does not currently have any known reserves and cannot be expected to have reserves unless and until a feasibility study is completed for the Sierra Mojada concessions that show proven and probable reserves. There can be no assurance that the Company s concessions will ever contain reserves and investors may lose their entire investment in the Company.

There are numerous uncertainties inherent in estimating quantities of mineral resources such as silver, zinc, lead, and copper, including many factors beyond our control, and no assurance can be given that the recovery of mineral resources will be realized. In general, estimates of recoverable mineral resources are based upon a number of factors and assumptions made as of the date on which the resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable mineral resources, the classification of such resources based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially. No estimates of commerciality or recoverable mineral resources can be made at this time, if ever.

Our Business Plan is Highly Speculative and its Success Depends on Mineral Development in the Sierra Mojada Concessions

Our business plan is focused primarily on developing and operating a mine in the Company s Sierra Mojada concessions and to identify reserves, as described herein. Exploitation of mineralization and determining whether the mineralization might be extracted profitably is highly speculative and it may take a number of years until production is possible, during which time the economic viability of the project may change. Substantial expenditures are required to establish reserves, extract metals from ores and, in the case of new properties, to construct mining and processing facilities. The Sierra Mojada Project is subject to all of the risks inherent in mineral development (as described in more detail below), operation and revenue uncertainties, market sizes, profitability, market demand, and commodity price fluctuations. Further, the economic feasibility of any development project is based upon, among other things, estimates of the size and grade of reserves, proximity to infrastructures and other resources (such as water and power), production rates, capital and operating costs, and metals prices. Development projects are also subject to the completion of favorable feasibility studies, issuance of necessary permits and the ability to raise further capital to fund activities. There can be no assurance that we will be successful in overcoming these risks.

Risks Inherent in the Mining Industry

The Company is subject to all of the risks inherent in the mining industry including, without limitation, the following:

competition from a large number of companies, many of which are significantly larger than the Company, in the acquisition, exploration, and development of mining properties;

due to our limited financial resources the Company, the concession holder, might not be able raise enough money to pay the fees, taxes and perform labor necessary to maintain the concessions in good force;

exploration for minerals is highly speculative and involves substantial risks, even when conducted on properties known to contain significant quantities of mineralization, our exploration projects may not result in the discovery of commercially mineable deposits of ore;

the probability of an individual prospect ever having reserves that meet the requirements of Securities Act Industry Guide 7 is extremely remote, or the properties may not contain any reserves, and any funds spent on exploration may be lost;

our operations are subject to a variety of existing laws and regulations relating to exploration and development, permitting procedures, safety precautions, property reclamation, employee health and safety, air quality standards, pollution and other environmental protection controls and the Company may not be able to comply with these regulations and controls; and

a large number of factors beyond the control of the Company, including fluctuations in metal prices, inflation, and other economic conditions, will affect the economic feasibility of mining.

THE BUSINESS OF MINERAL EXPLORATION IS SUBJECT TO MANY RISKS:

Fluctuating Price for Metals

The Company s operations will be greatly influenced by the prices of commodities, including silver, zinc, lead, copper, and other metals. These prices fluctuate widely and are affected by numerous factors beyond the Company s control, including interest rates, expectations for inflation, speculation, currency values, in particular the strength of the United States dollar, global and regional demand, political and economic conditions and production costs in major metal producing regions of the world.

Mining Concessions

The Company holds mining concessions in Mexico. The Company holds title to the concessions that it owns subject to its obligation to maintain the concessions by conducting work on the concessions, recording evidence of the work with the Mexican Ministry of Mines and paying a semi-annual fee to the Mexican government. Ownership of the concessions provides the Company with exclusive exploration and exploitation rights of all minerals located on the concessions but does not include the surface rights to the real property. Therefore, the Company will need to negotiate the necessary agreements, as needed, with the appropriate surface landowners if the Company determines that a mining operation is feasible for the concessions. The Company currently anticipates that it will build mining infrastructure needed on land in part owned by the Company and in part owned by the local municipality. The municipality officials indicate that they are willing to negotiate the necessary agreements, but there can be no assurance that an agreement that is satisfactory to the Company will be reached.

Title to Our Mineral Properties May be Challenged

Our policy is to seek to confirm the validity of our rights to title to, or contract rights with respect to, each mineral property in which we have a material interest. However, we cannot guarantee that title to our properties will not be challenged. Title insurance generally is not available, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions may be severely constrained. Our mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, we may be unable to operate our properties as permitted or to enforce our rights with respect to our properties. We annually check the official land records in Mexico City to determine if there are annotations indicating the existence of a legal challenge against the validity of any of our concessions. As of October 2009, there were no such annotations, nor are we aware of any challenges from the government or from third parties.

Risks Inherent With Foreign Operations

The operations of the Company are currently conducted in Mexico and as such the operations of the Company are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation, labor unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions, currency controls and governmental regulations that favor or require the rewarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Mexico may adversely affect the operations or profitability of the Company. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the operations of the Company. In addition, legislation in the United States regulating foreign trade, investment and taxation could have a material adverse effect on our financial condition, results of operations and cash flows. In management s judgment, these risks are much less than the equivalent risks would be for a project of a similar nature conducted in the United States.

Environmental Controls

Compliance with statutory environmental quality requirements may necessitate significant capital outlays, may materially affect the earning power of the Company, or may cause material changes in the Company s intended activities. Our exploration operation of the Sierra Mojada Project requires compliance with state and federal regulations. No assurance can be given that environmental standards imposed by either federal or state governments will not be changed or become more stringent, thereby possibly materially adversely affecting the proposed activities of the Company. In addition, if we are unable to fund fully the cost of remediation of any environmental condition, we may be required to suspend operations or enter into interim compliance measures pending completion of the required remediation.

Availability of Water

Water is essential in all phases of the exploration and development of mineral properties. It is used in such processes as exploration, drilling, leaching, placer mining, dredging, testing, and hydraulic mining. Mining and ore processing requires large volumes of water. Both the lack of available water and the cost of acquisition may make an otherwise viable project economically impossible to complete. Although work completed thus far indicates that an adequate supply of water can probably be developed in the area for an underground mining operation, the Company will need to complete an additional water exploration program to determine if there is sufficient water available for an open pit mining operation.

Shortages of Supplies and Materials

The mineral industry has experienced from time to time shortages of certain supplies and materials necessary in the exploration for and evaluation of mineral deposits. The prices at which such supplies and materials are available have also greatly increased. Our planned operations would likely be subject to delays due to such shortages and that further price escalations will increase the Company s costs of such supplies and materials. Experience of the Company and of others in the industry is that suppliers are currently often unable to meet contractual obligations for supplies, equipment, materials, and services, and that alternate sources of supply do not exist.

Availability of Outside Engineers and Consultants

The Company is heavily dependent upon outside engineers and other professionals to complete work on its feasibility study. The mining industry has experienced significant growth over the last several years and as a result, many engineering and consulting firms have experienced a shortage of qualified engineering personnel. The Company closely monitors its outside consultants through regular meetings and review of resource allocations and project milestones. However, the lack of qualified personnel combined with increased mining projects could result in delays in completing our feasibility study or result in higher costs to keep personnel focused on our project.

Operational Hazards; Uninsured Risks

The Company is subject to risks and hazards, including environmental hazards, industrial accidents, the encountering of unusual or unexpected geological formations, cave-ins, flooding, earthquakes and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, reduced production and delays in mining, asset write-downs, monetary losses and possible legal liability. The Company may not be insured against all losses or liabilities, which may arise from operations, either because such insurance is unavailable or because the Company has elected not to purchase such insurance due to high premium costs or other reasons. Although the Company maintains insurance in an amount that we consider to be adequate, liabilities might exceed policy limits, in which event we could incur significant costs that could adversely affect our results of operation. The realization of any significant liabilities in connection with our mining activities as described above could negatively affect our results of operations and the price of our common stock.

Need for Additional Key Personnel; Reliance on Officers and Directors

At the present, the Company employs five full-time and one part-time employee in the United States, and relies on the personal efforts of its officers and directors. The success of the Company s proposed business will depend, in part, upon the ability to attract and retain qualified employees. The Company believes that it will be able to attract competent employees, but no assurance can be given that the Company will be successful in this regard. If the Company is unable to engage and retain the necessary personnel, its business would be materially and adversely affected.

RISKS RELATING TO OUR COMMON STOCK:

No Dividends Anticipated

At the present time the Company does not anticipate paying dividends, cash or otherwise, on its common stock in the foreseeable future. Future dividends will depend on earnings, if any, of the Company, its financial requirements and other factors. There can be no assurance that the Company will pay dividends.

Our Stock Price Can Be Extremely Volatile

The trading price of our Common Stock has been and could continue to be subject to wide fluctuations in response to announcements of our business developments and drill results, progress reports on our feasibility study, the metals markets in general, and other events or factors. In addition, stock markets have experienced extreme price volatility in recent years. This volatility has had a substantial effect on the market prices of companies, at times for reasons unrelated to their operating performance. Such broad market fluctuations may adversely affect the price of our Common Stock.

Compliance with Section 404 of the Sarbanes-Oxley Act

Section 404 of the Sarbanes-Oxley Act requires management to assess the Company s internal controls over financial reporting as of the end of our fiscal year. Current regulations of the Securities and Exchange Commission will require us to include management s assessment of our internal control over financial reporting in our annual report commencing with the annual report we file with the SEC for our fiscal year ended October 31, 2009.

We have incurred significant increased costs in implementing and responding to these requirements. In particular, the rules governing the standards that must be met for management to assess the Company s internal control over financial reporting under Section 404 are complex, and require significant documentation, testing and possible remediation. In response we have retained additional consultants to help us comply with the requirements of Section 404. In addition, we will incur additional fees from our auditors as they perform the additional services necessary for them to provide their attestation. If we are unable to favorably assess the effectiveness of our internal control over financial reporting when we are required to, we may be required to change our internal control over financial reporting to remediate deficiencies. In addition, investors may lose confidence in the reliability of our financial statements causing our stock price to decline.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

<u>Sierra Mojada Mining Concessions</u>

The Company owns 16 concessions consisting of 19,408.41 hectares (about 47,958 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. Eleven of the mining concessions were purchased from Mexican entities and/or Mexican Individuals and the remaining five mining concessions were granted by the Mexican government. Our concessions are without known reserves and the project is exploratory in nature.

The Company owns the following mining concessions as of October 31, 2009:

Concession	Title No.	Hectares
Sierra Mojada	198513	4767.32
Mojada 3	226756	722.00
Unificacion Mineros Nortenos	169343	336.79
Esmeralda I	211158	95.50
Esmeralda	212169	117.50
La Blanca	220569	33.50
Fortuna	160461	13.96
Vulcano	83507	4.49
Mojada 2	227585	3,500.00
El Retorno	216681	817.65
Los Ramones	223093	8.60
El Retorno Fracc. 1	223154	5.51
Dormidos	229323	2,326.10
Agua Mojada	232165	2,900.00
Alote[1]	--	3,749.00
Volcan Dolores	224873	10.49
Total		19,408.41

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[1] Title for this concession is pending.

On November 17, 2009, the Dirección General de Minas issued title 235371 to replace title 198513 and increase the hectares on the Sierra Mojada property from 4,767.32 hectares to 4,818.49 hectares. The Dirección General de Minas also issued 4 new titles to add 1.57 hectares for small concessions near the Sierra Mojada concession.

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 is using a new process under newly revised Mexican mineral land law to seek title to certain small parcels within and bounded by our concessions. These parcels are very old concessions that appear to have been abandoned and where the precise locations of the concession corners are uncertain. The concessions involved are more than one kilometer away from the area being studied in our feasibility study. The new law appears to grant the Company, as owners of the surrounding concessions, an exclusive right to award of these concessions. A governmental process to grant such title is under development and our applications are serving as test cases. We cannot anticipate when a final determination will be made on these applications.

Ownership of a concession provides the owner with exclusive exploration and exploitation rights of all minerals located on the concessions, but does not include the surface rights to the real property. Therefore, the Company will need to negotiate any necessary agreements with the appropriate surface landowners if the Company determines that a mining operation is feasible for the concessions. The Company owns surface rights to three lots in the area (Sierra Mojada lot #1, #2, and #7) and the preliminary location of the surface plant is mostly on these lots. The Company currently anticipates that it will build mining infrastructure needed on land partly owned by the local municipality. The municipality officials indicate that they will grant the necessary agreements. The preliminary location for the tailing impoundment is on land owned by the Ejido Esmeralda, an agricultural cooperative. The Company has entered into a fifty year lease agreement with the Ejido for the use of this land and up to 50 Ha of common use land elsewhere on the Ejido. The Company has entered into preliminary agreements with other Ejidos and with private landholders to obtain surface trespass and use rights to drill water wells, to complete and test water wells, and to build water pipelines from well sites to the Company s holdings near Sierra Mojada. The Company has moved to perfect these agreements by having them executed and filed before a Notary Public.

Pursuant to the map below, the concessions are located within a mining district known as the Sierra Mojada District (the District). The District is located in the west central part of the state of Coahuila, Mexico, near the Coahuila-Chihuahua state border approximately 200 kilometers south of the Big Bend of the Rio Grande River. The principal mining area extends for some 5 kilometers in an east-west direction along the base of the precipitous, 1,000 meter high, Sierra Mojada Range. The District has high voltage electric power supplied by the national power company, Comision Federal de Electricidad, C.F.E. and is supplied water by the municipality of Sierra Mojada. The District is accessible from Torreon by vehicle via 250 kilometers of paved road. There is a well maintained, 1,100 meter, gravel airstrip in the District as well as a railroad connecting with the National Railway at Escalon and at Monclova.

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

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

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

Much of the infrastructure required for a mine, including access to roads, electricity and rail lines, is already in place due to the historical mining operations conducted in the District. The Company may need additional high power transmission lines. The municipality is seeking to evaluate the adequacy of the current power system for the future needs of the community, and has funding to increase the capacity of the power lines. The Company will work with the municipality to assess these needs as the power requirements are received from our feasibility team. At present, we foresee no great problem meeting the power requirements of mine and concentrator.

Sampling, Analysis, Quality Control and Security

Company activities conform to mining industry standard practices and very closely follow the Best Practices Guidelines of the Canadian Institute of Mining, Metallurgy, and Petroleum (CIM). Sampling is directed and supervised by trained and experienced geologists. Drill core and other samples are processed and logged using industry standard methods. Standard samples, duplicates and blanks are periodically entered into the stream of samples submitted for assays, and campaigns of re-sampling and duplicate analyses and round-robin inter-laboratory validations are conducted periodically. The Company uses ALS Chemex - Vancouver laboratory as its primary laboratory. ALS Chemex is ISO 9001:2000 certified. All analytical results that are used in resource models are exclusively from the independent primary laboratory.

Our consultants perform technical audits of our operations, including our formal QA/QC program, and recommend improvements as needed. A systematic program of duplicate sampling and assaying of representative samples from previous exploration activities is currently underway under the direction and control of our consultants. Preliminary results of this study acceptably confirm the values in the project database used for resource modeling.

The Company operates a sample preparation and an analytical laboratory at the project that prepares samples for shipment, performs QA/QC analyses to ensure against cross contamination of samples during preparation, and removes most low-value samples from the flow to the primary laboratory. The internal laboratory is not certified but does practice a well disciplined QA/QC program including internal standards, blanks, and duplicates and a regular comparison and reconciliation with the independent laboratory to assure accuracy of the in-house analyses.

Mexico Facility

The Company s facilities in Mexico include offices, residences, shops, warehouse buildings and mining equipment located at Calle Mina #1, La Esmeralda, Coahuila, Mexico. The Company s telephone and fax number in Mexico is 52 872 761 5129. Electric power has been upgraded to 13,200 volts and lines run to the office compound, the shops and the San Salvador and Encantada mines. The San Salvador and the Encantada mines have been electrified and the main levels are wired. San Salvador and Encantada head frames and hoists have been rebuilt and upgraded. The hoist on the Fronteriza shaft is current undergoing a major overhaul and repair. The Company has chosen not to obtain insurance on some its facilities and equipment because it would be difficult to obtain the insurance and the cost would outweigh the value. In management s opinion, the Company s plant and equipment are mostly in good condition and well maintained, and adequate round-the-clock security is provided.

Corporate Office

The Company s corporate offices are located at 1330 East Margaret Avenue, Coeur d Alene, Idaho 83815, and its telephone number is (208) 665-2002 and fax number is (208) 665-0041. The Company s website is www.metallinemining.com.

Glossary of Common Terms

The terms defined in this section are used throughout this Form 10-K.

Concession	A grant of a tract of land made by a government or other controlling authority in return for stipulated services or a promise that the land will be used for a specific purpose.
Exploration expenditures	Costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain mineral deposit reserves.
Mineralized Material	Mineral bearing material such as zinc, silver, copper and lead that has been physically delineated by one or more of a number of methods including drilling, underground work, surface trenching and other types of sampling. This material has been found to contain a sufficient amount of mineralization of an average grade of metal or metals to have economic potential that warrants further exploration evaluation. While this material is not currently or may never be classified as reserves, it is reported as mineralized material only if the potential exists for reclassification into the reserves category. This material cannot be classified in the reserves category until final technical, economic and legal factors have been determined. Under the United States Securities and Exchange Commission s standards, a mineral deposit does not qualify as a reserve unless the recoveries from the deposit are expected to be sufficient to recover total cash and non-cash costs for the mine and related facilities and make a profit.
Ore, Ore Reserve, or Mineable Ore Body	The part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.
Reserves	Estimated remaining quantities of mineral deposit and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: (a) analysis of drilling, geological, geophysical and engineering data; (b) the use of established technology; (c) specified economic conditions, which are generally accepted as being reasonable, and which are disclosed; and

	(d) are permitted and financed for development
Resources	Those quantities of mineral deposit estimated to exist originally in naturally occurring accumulations.
	Resources are, therefore, those quantities estimated on a particular date to be remaining in known accumulations plus those quantities already produced from known accumulations plus those quantities in accumulations yet to be discovered.
	Resources are divided into:
	(a) discovered resources, which are limited to known accumulations; and
	(b) undiscovered resources.
Solvent Extraction and Electrowinning (SXEW)	A hydrometallurgical process in which metal is dissolved from the rock by an acid or base, concentrated by organic solvents and recovered from solution by electrolysis.
Stratigraphic units	A body of rock established as a distinct entity, geologically classified, based on any of the properties or attributes or combinations thereof that rocks possess.
Tonne	A metric ton which is equivalent to 2204.6 pounds.
Unproved property	A property or part of a property to which no reserves have been specifically attributed.

Item 3. LEGAL PROCEEDINGS

In October 2008, Mineros Nortenos (Mineros) filed a legal action against Minera Metalin, a wholly owned subsidiary of the Company. The action was filed in the Chihuahua Civil Court, in the state of Chihuahua Mexico. Mineros complaint alleged that Minera Metalin breached an August 30, 2000 agreement between the parties regarding work and labor to be provided to the Company s mining project and seeks to rescind the agreement and also seeks monetary damages. The Company believed the Mineros allegations were frivolous and without merit and contracted with a law firm in Mexico to defend the action. The Company entered into a $250,000 contractual commitment to that law firm and on November 4, 2008, the Company paid $125,000 for upfront payment under this contract.

On November 11, 2009, the Chihuahua Civil Court issued a judgment in favor of the Company and Mineros had nine days to appeal. Mineros did not file an appeal within the prescribed time and the Company paid the remaining $125,000 to the law firm on December 14, 2009. Accordingly, the Company has recorded an accrued liability of $125,000 as of October 31, 2009, as substantially all legal services in regards to this litigation were performed as of October 31, 2009.

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

The Company held its most recent shareholders meeting in April 2008. In the definitive proxy statement for that meeting the Company announced that it intended to hold its 2009 shareholders meeting in April 2009. The Company has not yet set a date for its next shareholders meeting but currently expects to hold the meeting in April 2010. Although we have not yet set a definitive date for our next shareholders meeting we are requiring that proposals from our shareholders for consideration at the meeting must be presented to the Company not later than January 15, 2010. After January 15, 2010, any shareholder proposal will be considered untimely. If we significantly extend the date of our shareholders meeting further, we will provide a new date for receipt of proposals.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

<u>Market Information</u>

The Company s Common Stock is traded on the NYSE Amex (formerly known as the American Stock Exchange) under the symbol MMG. The following table sets forth the high and low sales prices of the Company s Common Stock for each quarter during the fiscal years ended October 31, 2009 and October 31, 2008 as reported by the NYSE Amex.

	<u>**Fiscal Quarter**</u>	**High**	**Low**
Fiscal Year End October 31, 2009		$	$
		.74	.27
		$	$
		.33	.18
	4th Quarter (8/1/09 10/31/09)	$	$
	3rd Quarter (5/1/09 7/31/09)	.37	.11
	2nd Quarter (2/1/09 4/30/09)	$	$
	1st Quarter (11/1/08 1/31/09)	.51	.20
Fiscal Year End October 31, 2008	4th Quarter (8/1/08 10/31/08)	$	$
	3rd Quarter (5/1/08 7/31/08)	1.25	.21
	2nd Quarter (2/1/08 4/30/08)	$	$
	1st Quarter (11/1/07 1/31/08)	2.34	1.12
		$	$
		2.65	1.69

	$	$
	3.18	1.77

The closing price of the Common Stock as reported on December 23, 2009, was $0.78 per share.

Holders

As of December 23, 2009, there were 227 holders of record of the Company s Common Stock. This does not include persons who hold our common stock in brokerage accounts and otherwise in street name.

Dividends

The Company did not declare or pay cash or other dividends on its Common Stock during the last two calendar years. The Company has no plans to pay any dividends, although it may do so if it s financial position changes.

Equity Compensation Plan Information

As of December 21, 2009, the Company had adopted two formal equity compensation plans. The 2000 Equity Incentive Plan (the 2000 Plan) was approved by the board of directors and stockholders in 2001. The 2006 Stock Option Plan (the 2006 Plan) was approved by the board of directors in May 2006 and stockholders in July 2006.

The following table gives information about the Company s Common Stock that may be issued upon the exercise of options, warrants and rights under the Company s compensation plans as of October 31, 2009.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance**
Equity compensation plans approved by security holders	5,005,623[1]	$2.27	363,577[2]

Equity compensation plans not approved by security holders	1,017,353[3]	$2.44	
Total	6,022,976	$2.30	363,577

(1)

Includes: (i) options to acquire 530,000 shares of Common Stock under the 2000 Plan; and (ii) options to acquire 4,475,623 shares of common stock under the 2006 Plan.

(2)

Includes: (i) 260,000 shares of Common Stock available for issue under the 2000 Plan; and (ii) 103,577 shares of Common Stock available for issue under the 2006 Plan.

(3)

Includes (i) warrants to purchase 6,103 shares of Common Stock as compensation for services to Tomlinson Programs Inc., (ii) warrants to purchase 204,000 shares of Common Stock as compensation for services to Aegis Capital Inc., (iii) warrants to purchase 17,250 shares of Common Stock to an independent director of the Company, (iv) warrants to purchase 200,000 shares of Common Stock as compensation for financial services to O&M Partners and (v) warrants to purchase 590,000 shares as compensation for financial services to David Nahmias.

Recent Sales of Unregistered Securities

All sales of unregistered equity securities that occurred during the period covered by this report, and through December 31, 2009, have been previously reported in a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Cautionary Statement about Forward-Looking Statements

This Annual Report on Form 10-K 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-K 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:

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

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The timing of exploration activities; and

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Business strategies and development of our business plan.

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 silver and zinc prices, currency exchange rate fluctuations, uncertainties in cash flow, expected acquisition benefits, exploration mining and operating risks, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed under the caption Risk Factors, 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.

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.

Merger Agreement with Dome Ventures

On December 4, 2009, Metalline executed an Agreement and Plan of Merger and Reorganization (the Merger Agreement) with Dome Ventures Corporation (Dome) whereby upon the closing of the transaction described in the Merger Agreement, Dome will become a wholly owned subsidiary of Metalline. Dome is a publicly held resource company based in Vancouver, British Columbia, Canada. Dome s common stock is listed on the TSX Venture Exchange (TSX-V) under the symbol "DV.U". Dome holds three exploration licenses in Gabon, West Africa and recently announced a joint venture agreement with AngloGold Ashanti Limited on two of its licenses, Ndjole and Mevang. At the same time Dome entered into a second joint venture agreement on the Ogooue license held by AngloGold Ashanti Limited.

Pursuant to the Merger Agreement, Metalline closed a private of 6,500,000 units of the Company, at a price of $.46 per unit, with each unit consisting of one share of common stock of the Company and one common stock purchase warrant of the Company, two of which warrants will entitle the holder to purchase one share of common stock. The warrants are exercisable if the Merger Agreement between Dome and Metalline is terminated and then only for a term extending until one year following the date of issuance, with an exercise price of $0.57 per share of common stock. This private placement was completed on December 22, 2009 with total net proceeds of $2,990,000. Further pursuant to the Merger Agreement, Dome agreed to raise $13,010,000 through private placement of special warrants of Dome by January 10, 2010. The funds will be held in escrow pending the closing of the transaction.

Upon the closing of the transaction described in the Merger Agreement, Metalline will acquire all of the outstanding shares of Dome by the issuance of 47,724,561 shares of common stock. The number of Metalline common shares to be received by each Dome shareholder will depend on the number of Dome shares outstanding at the closing of the transaction. Additionally, upon the effective date of the transaction all outstanding Dome warrants will be exchanged for warrants to acquire Metalline common stock on equivalent terms. The parties anticipate that the Metalline common stock issued in the transaction will be listed on both the NYSE Amex and the TSX Venture Exchange. Metalline will be considered the acquirer for accounting purposes.

The Merger Agreement sets forth a number of conditions precedent for completion of the transaction, and contains other standard provisions for transactions of this nature, including transaction protection terms, standard representations, warranties and covenants. There can be no assurance that Metalline will be able to meet the conditions precedent to the transaction contemplated by the Merger Agreement. The parties expect to complete the transaction during the second calendar quarter of 2010. If the Merger is not completed by May 30, 2010, the Merger Agreement will terminate.

Going Concern Presentation of Financial Statements

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Since its inception in November 1993, the Company has not generated revenue and has incurred a net loss of $51,790,925 from inception through October 31, 2009. Accordingly, the Company has not generated cash flow from operations and has primarily relied upon private placement of its common stock and proceeds from warrant exercises to fund its operations. As of October 31, 2009, the Company had a working capital of $830,692.

As discussed above, the Company has executed an Agreement and Plan of Merger and Reorganization with Dome. The closing of this transaction is subject to several conditions including Dome raising $13,010,000 through a private placement of special warrants by January 10, 2010, shareholder approval by both companies, and registration of the common stock to be issued to the Dome shareholders. In the event the Company is unable to successfully close this transaction, the Company may not have sufficient working capital to operate during the next fiscal year. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts or classification of liabilities that may result from the possible inability of the Company to continue as a going concern. Management s plans with regards to these conditions are described in Plan of Operation below.

Results of Operation

For the fiscal year ended October 31, 2009, the Company experienced a consolidated net loss of $4,724,000 or $0.11 per share, compared to a consolidated net loss of $12,320,000 or $0.31 per share during the comparable period last year. The $7,596,000 decrease in consolidated net loss is primarily due to a $1,854,000 decrease in exploration and property holding costs and a $2,436,000 decrease in general and administrative costs as the Company scaled back operations during the year to conserve working capital. A $3,421,000 decrease in foreign currency translation loss also contributed to the lower net loss for 2009.

Exploration and property holding costs

Exploration and property holding costs decreased $1,854,000 or 57% to $1,381,000 for the fiscal year ended October 31, 2009 compared to $3,235,000 for the comparable period last year. This decrease was primarily due to a reduction in drilling and exploration costs as the Company scaled back drilling activities from five drills operating at two shifts per day six days per week to two drills operating at one shift per day on a five day week basis. The Company scaled back its exploration activities at the end of fiscal 2008 as part of management s plans to conserve operating capital.

General and Administrative Costs

General and administrative expenses decreased $2,436,000 or 44% to $3,072,000 for the fiscal year ended October 31, 2009 as compared to $5,508,000 for the comparable period last year. This decrease was primarily due to a $1,206,000 decrease in professional fees and a $568,000 decrease in salaries and payroll expenses. Stock based compensation for options account for a significant part of general and administrative expenses and was a primary factor for several of the fluctuations described below.

Salaries and payroll expense decreased $568,000 or 27% from the comparable period in 2008 primarily due to lower stock based compensation for stock options and restricted stock grants. Stock based compensation for stock options decreased from $1,029,000 in 2008 to $546,000 in 2009. The decrease in stock based compensation during 2009 was primarily attributable to lower pro-rata stock based compensation on stock options granted in 2007 and 2008. As discussed in Note 9 to the consolidated financial statements, the Company recognizes stock based compensation over the options vesting period based upon the fair value of the option at date of grant. This decrease was partially mitigated by $138,240 of stock based compensation recorded in 2009 for stock options granted to officers and corporate employees pursuant to salary deferral agreements described below. Also contributing to the decrease in salaries and wages during 2009 was lower stock based compensation on restricted stock grants. During 2008, the Company granted 38,000 shares to three key employees of our Mexican subsidiary with a total fair value of $83,000.

Included in salaries and payroll expense for fiscal 2009 is $267,903 of deferred salaries for executive officers and corporate employees. As discussed in more detail under liquidity and capital resources section below, the Company s executive officers and corporate employees entered into salary deferral agreements with the Company to defer 25% to 50% of their base salaries effective February 1, 2009 until the Board of Directors determined that the Company has sufficient operating capital to continu