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METALLINE MINING CO
Form 10KSB
January 31, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 000-27667

METALLINE MINING COMPANY
(Exact name of registrant as specified in its charter)

Nevada 91-1766677
(State or other jurisdiction (IRS Employer Identification No.)
of incorporation)

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

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

Securities registered pursuant to Section 12 (b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

| Common Stock Title of each class | The OTC-Bulletin Board Name of each exchange on which registered |
|-------------------------------------|--|
|-------------------------------------|--|

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 as the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark 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 other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant at January 14, 2005 was \$24,904,458. The number of shares of common stock outstanding at such date was 19,751,409 shares. An additional 1,996,554 were deemed outstanding at such date pursuant to presently exercisable options and warrants.

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METALLINE MINING COMPANY ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED OCTOBER 31, 2004

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ON FORM 10-KSB FOR THE FISCAL YEAR
ENDED OCTOBER 31, 2004

SAFE HARBOR STATEMENT

This report contains both historical and prospective statements concerning the Company and its operations. Historical statements are based on events that have already happened; examples include the reported financial and operating results, descriptions of pending and completed transactions, and management and compensation matters. Prospective statements, on the other hand, are based on events that are reasonably expected to happen in the future; examples include the timing of projected operations, the likely effect or resolution of known contingencies or other foreseeable events, and projected operating results.

Prospective statements (which are known as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995) may or may not prove true with the passage of time because of future risks and uncertainties. The Company cannot predict what factors might cause actual results to differ materially from those indicated by prospective statements. The risks and uncertainties associated with prospective statements contained in this report include, among others, the following:

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(ii)

METALLINE MINING COMPANY ANNUAL REPORT
ON FORM 10-KSB FOR THE FISCAL YEAR
ENDED OCTOBER 31, 2004

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Background

Metalline Mining Company is an exploration stage enterprise formed under the laws of the State of Nevada, on August 20, 1993, to engage in the business of mining.

Current Operations

The Company expects to engage in the business of mining. The Company currently owns one mining property located in Mexico known as the Sierra Mojada Property. The Company conducts its operations in Mexico through its wholly owned subsidiary corporation, Minera Metalin S.A. de C.V. ("Minera Metalin").

The Sierra Mojada Property

The Sierra Mojada Property is comprised of eight concessions totaling 7,060 hectares (17,446 acres). The concessions were acquired by purchase agreements from the titled owners. The Company owns title to 100% of the concessions.

Location and Access

The Sierra Mojada Mining District is located in the west central

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part of the state of Coahuila, Mexico, near the Coahuila-Chihuahua state border some 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.

Vehicle access from Torreon is by 250 kilometers on paved road to Sierra Mojada. There is a well maintained, 1200 meter, gravel airstrip. The District has high voltage electric power and is served by a railroad that connects with the National Railway at Escalon and Monclova.

History

The Sierra Mojada Property has produced in excess of 10 million tons of high-grade ore that graded in excess of 30% lead, 20% zinc, 1% copper and 1 kg (31 ounces) silver per ton that was shipped directly to the smelter. The district has never had a mill to concentrate ore. All of the mining was done selectively for ore of sufficient grade to direct ship; mill grade ore was not mined. More than 50 kilometers of underground workings are spread through the 5-kilometer by 2-kilometer area from which more than 45 mines have produced ore. The deepest workings have ore grade mineralization and provide some of the best targets for reserve development. In spite of the amount of historic work, when a map of all of the historic workings is viewed there is much more unexplored area in the 5 by 2 kilometer area than has been explored and the vertical extent greater than 200 meters is totally unexplored.

The sediments are predominantly carbonate with some sandstone and shale and the attitudes are near horizontal. The mines are dry and the rocks are competent, the ore thickness and attitude is amenable to high volume mechanized mining methods and low cost production.

Based upon the foregoing, the Company is of the opinion that the magnitude of the Sierra Mojada mineral system has exploration potential for continued development of future reserves. However, there is no assurance as to the quantity or quality of the undeveloped reserves and there is no assurance that the Company will have the monetary resources to continue to explore for, develop, or retrieve any of the minerals located in the Sierra Mojada Property.

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Exploration and Development.

On the 15th of November 2001, Metalline Mining Company and its Mexican Subsidiary Minera Metalin, S.A. de C.V. signed an Agreement with Minas Penoles, S.A. de C.V. and Compania Minera La Parrena, S.A. de C.V. The Agreement allowed Minas Penoles to earn a 60% interest in the Sierra Mojada project by completing a feasibility study over an "Earn in Period" of not more than 5 years. Penoles and Metalline, by mutual agreement of the parties, have terminated that agreement as of November 15, 2003.

Since November 15, 2003 Metalline has been the operator of the project. Metalline is conducting a reserve definition diamond drill program at Sierra Mojada. The drill program was initiated in January and through December 2004 25,143 meters were completed.

Reserva International, a company that specializes in ore reserve evaluation, has been retained to conduct a block model evaluation of

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the Sierra Mojada data with the objective of determining the size and grade of the deposit.

In a news release dated September 13, 2004 Metalline released the results of the first block model evaluation of the data for the Iron Oxide (Red Zinc) Manto, 22.6 million metric tons grading 8.11% zinc using a cut off grade of 5%.

All data generated after the above work and through November 9, 2004 has been added to the GEMCOM database and a second block model evaluation is in progress. The results of which will be announced when completed. The block model evaluation will be periodically updated as additional results are received.

Green Team International (GTI), Johannesburg, S. Africa has been retained to do a feasibility study on the project. The feasibility study will address metallurgy, mine plan, extraction method and economic evaluation studies.

GTI is the firm that conducted the feasibility studies on the Skorpion Mine for Reunion Ltd. and Anglo American. GTI designed, supervised the construction, and operated the Skorpion mine and extraction plant through initial production and until turning operation over to Skorpion Zinc an Anglo American company. The Skorpion Mine is the first mine in the world to use the solvent extraction electrowinning process for extracting SHG grade zinc from oxide zinc ore.

Metalline's objectives are to complete the definition of a body of mineralization containing sufficient zinc metal to justify a mine and extraction plant. Based on this body of mineralization a feasibility study will be completed for a mine and zinc solvent extraction electrowinning plant at Sierra Mojada.

District Potential

There is potential for long-term reserve expansion within the known extent of the mineral systems. There is potential to discover ore deposits in unexplored portions of the land position and at depth in unexplored stratigraphy. There is however, no assurance that the Company will have the monetary resources to continue to explore for, develop, or retrieve any of the minerals located in the Sierra Mojada property.

ITEM 2. RISK FACTORS

1. EXPLORATION STAGE MINING COMPANY WITH NO HISTORY OF OPERATION. The Company is in its exploration stage, has no operating history, and is subject to all the risks inherent in a new business enterprise. 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. See "Business".

2. NO COMMERCIALY MINEABLE ORE BODY. No commercially mineable ore body has been delineated on the properties, nor have any reserves been identified. See "Business".

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3. RISKS INHERENT IN THE MINING INDUSTRY. The Company is subject to all of the risks inherent in the mining

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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; the concession holder must pay fees and perform labor on the concessions to maintain the concessions title; exploration for minerals is highly speculative and involves substantial risks, even when conducted on properties known to contain significant quantities of mineralization, and most exploration projects do not result in the discovery of commercially mineable deposits of ore; 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; 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; mining activities are subject to substantial operating hazards some of which are not insurable or may not be insured due to economic considerations; and, the availability of water, which is essential to milling operations.

4. NATURE OF THE INDUSTRY.

Exploration, development, and mining of mineral properties is highly speculative and involves unique and greater risks than are generally associated with other businesses. The Company's operations will be subject to all the operating hazards and risks normally incident to the exploration, development, and mining of mineral properties, including risks enumerated above and below.

5. FLUCTUATING PRICE FOR METALS.

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

6. MINING CONCESSIONS.

The Company holds mining concessions in Mexico. Concessions require work and financial expenditures to retain their validity.

7. 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. 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.

8. GOVERNMENTAL REGULATION AND ENVIRONMENTAL CONTROLS.

The Company's activities are subject to extensive Mexican laws and regulations controlling not only the exploration for and development of mineral properties, but also the possible effect of such activities upon the environment. In its mining operations, the Company will use certain equipment, which will subject the Company to Mexican safety and health regulations. While the Company intends to act in compliance with all such regulations, any adverse ruling under any regulations, any imposition of a fine, or any imposition

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of more stringent regulations could require the Company to make additional capital expenditures that could impair its operations.

9. AVAILABILITY OF WATER SHORTAGES OF SUPPLIES AND MATERIALS.

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. Any water that may be found will be subject to acquisition pursuant to appropriate governing laws. The Company has definitely not determined the availability of water at Sierra Mojada, except to note that adequate water supplies are generally developed by drilling, but has not determined the cost of acquisition. Both the lack of available water and the cost of acquisition may make an otherwise viable project economically impossible to complete. The mineral industry has experienced from time to time shortages of certain supplies and materials necessary in the exploration for and

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evaluation of mineral deposits. The prices at which such supplies and materials are available have also greatly increased. There is a possibility that planned operations may be subject to delays due to such shortages and that further price escalations will increase the costs of the Company.

10. UNINSURED RISKS.

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.

11. NEED FOR SUBSEQUENT FUNDING.

The Company has an immediate need for additional funds in order to finance its proposed business operations. The Company's continued operations therefore will depend upon the availability of cash flow, if any, from its operations or its ability to raise additional funds through bank borrowings or equity or debt financing. There is no assurance that the Company will be able to obtain additional funding when needed, or that such funding, if available, can be obtained on terms acceptable to the Company. If the Company cannot obtain needed funds, it may be forced to curtail or cease its activities.

12. NEED FOR ADDITIONAL KEY PERSONNEL.

At the present, the Company employs five full-time and one part-time employee. 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.

13. RELIANCE UPON DIRECTORS AND OFFICERS.

The Company is wholly dependent, at the present, upon the personal efforts and abilities of its Officers and Directors who will exercise control over the day-to-day affairs of the Company. While the Company may solicit business through its Officers, there can be no assurance as to the volume of business, if any, which the Company may succeed in obtaining, nor that its proposed operations will prove to be profitable. As of the date hereof, the Company does not have any commitments regarding its proposed operations and there can be no assurance that any commitments will be forthcoming.

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14. NON-ARMS' LENGTH TRANSACTION.

The number of shares of Common Stock issued to present shareholders of the Company for cash was arbitrarily determined and may not be considered the product of arm's length transactions. See "Principal Shareholders".

15. INDEMNIFICATION OF OFFICERS AND DIRECTORS FOR SECURITIES LIABILITIES.

The Bylaws of the Company provide that the Company may indemnify any Director, Officer, agent, and/or employee as to those liabilities and on those terms and conditions as are specified in the Nevada Business Corporation Act. Further, the Company may purchase and maintain insurance on behalf of any such persons whether or not the corporation would have the power to indemnify such person against the liability insured against. The foregoing could result in substantial expenditures by the Company and prevent any recovery from such Officers, Directors, agents, and employees for losses incurred by the Company as a result of their actions. Further, the Company has been advised that in the opinion of the Securities and Exchange Commission, indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

16. COMPETITION.

The Company believes that it will have competitors and potential competitors, many of whom may have considerably greater financial and other resources than the Company.

17. PUBLIC MARKET FOR SECURITIES.

At present, the Company's common stock is traded under the symbol MMGG on the OTC Bulletin Board operated by the National Association of Securities Dealers, Inc. This market is a thinly traded market and lacks the liquidity of other public markets with which some investors may have more experience.

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18. CUMULATIVE VOTING, PREEMPTIVE RIGHTS AND CONTROL.

There are no preemptive rights in connection with the Company's Common Stock. The shareholders purchasing in this offering may be further diluted in their percentage ownership of the Company in the event additional shares are issued by the Company in the future. Cumulative voting in the election of Directors is not provided for. Accordingly, the holders of a majority of the shares of Common Stock, present in person or by proxy, will be able to elect all of the Company's Board of Directors. See "Description of the Securities".

19. 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. Investors who anticipate the need of an immediate income from their investment in the Company's Common Stock should refrain from the purchase of the securities being offered hereby. See "Dividend Policy".

ITEM 3. DESCRIPTION OF PROPERTIES.

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

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| Concession ----- | Title No. ----- | Hectares ----- |
|------------------------------|--------------------|-------------------|
| Sierra Mojada | 198513 | 4767.3154 |
| Mojada 3 | 199246 | 1689.2173 |
| Esmeralda | 188765 | 117.5025 |
| Esmeralda 1 | 187776 | 97.6839 |
| Unification Mineros Nortenos | 169343 | 336.7905 |
| La Blanca | 188326 | 33.5044 |
| Fortuna | 160461 | 13.9582 |
| Vulcano | 83507 | 4.4904 |
| | | ----- |
| Total | | 7060.4626 |
| | | ===== |

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 is (208) 665-0041. Minera Metalin has its operations, consisting of mining equipment, offices, residences, shops, and warehouse buildings, located at Calle Mina #1, La Esmeralda, Coahuila, Mexico and its telephone and FAX number is 871 775 2100.

ITEM 4. LEGAL PROCEEDINGS.

Minera Metalin, the Company's Mexican subsidiary, has been named as a co-defendant in a lawsuit filed in Mexico regarding the Company's purchase of two mining concessions. During the nine months ended July 31, 2003 the Company settled this suit for approximately \$36,000. The Company paid approximately \$13,800 at the time of settlement, with the balance payable in six equal installments of approximately \$3,700. The Company has met its obligation under the settlement.

ITEM 5. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The laws of the state of Nevada under certain circumstances provide for indemnification of the Company's Officers, Directors and controlling persons against liabilities, which they may incur in such capacities. A summary of the circumstances in which such indemnification is provided for is contained herein, but this description is qualified in its entirety by reference to the Company's Articles of Incorporation and to the statutory provisions.

In general, any Officer, Director, employee or agent may be indemnified against expenses, fines, settlements or judgments arising in connection with a legal proceeding to which such person is a party, if that person's actions were in good faith, were believed to be in the Company's best interest, and were not unlawful. Unless such person is successful upon the merits in such an action, indemnification may be awarded only after a determination by independent decision of the Board of Directors, by legal counsel, or by a vote of the shareholders, that the applicable standard of conduct was met by the person to be indemnified.

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The circumstances under which indemnification is granted in connection with an action brought on behalf of the Company is generally the same as those set forth above; however, with respect to such actions, indemnification is granted only with respect to expenses actually incurred in connection with the defense or settlement of the action. In such actions, the person to be indemnified must have acted in good faith and in a manner believed

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to have been in the Company's best interest, and have not been adjudged liable for negligence or misconduct.

The Company's Articles of Incorporation and Bylaws do not contain any provisions for indemnification as described above.

ITEM 6. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The annual meeting of the shareholders of Metalline Mining Company was held on March 1, 2001. The following items were presented for a vote of the shareholders, all of which were approved:

1. Election of three directors.
2. Authorization of a Qualified Stock Option Plan.
3. Amendment of the Company's Articles of Incorporation to authorize one million shares of Preferred Stock, \$0.01 par value per share.
4. Ratification of the appointment of Williams & Webster, Certified Public Accountants, to audit the financial statements of the Company.

PART II

ITEM 7. MARKET PRICE FOR COMMON EQUITY AND OTHER SHAREHOLDER MATTERS.

The Company's shares are traded on the Bulletin Board operated by the National Association of Securities Dealers, Inc. (the "Bulletin Board") under the trading symbol "MMGG". The Company's shares began trading November 19, 1996. Summary trading by quarter for 2004, 2003, and 2002 are as follows:

| Fiscal Quarter | High Bid |
|----------------|----------|
|----------------|----------|