

Metalline Mining: 4.9 Billion Reasons Why

Why Zinc?

In the past 42 years, world demand for Zinc metal has grown at an average yearly rate of 2%. At this pace, using all available production data (i.e., existing mines, new production from known deposits, and recycled zinc) an estimated 4-5 million metric tonne zinc production/consumption gap will form by 2015. The world currently consumes about 9 million metric tonnes per year.

Factors that indicate the price of zinc will appreciate greatly in the coming years:

- China consumes approximately 24% of the world's zinc supply.
- In 2004 China's 12-month zinc consumption increased 27.8%, and similar growth is forecasted for 2005.
- Since late 2001 China has become a net importer of zinc. Power shortages in China could mean decreased production, as well as a delay in smelter expansion.
- The cost to treat zinc concentrate continues to decrease, in an effort to attract more mine production. So far this hasn't worked.
- Little or no zinc discoveries have been made in the past 10 years, and it takes 10-15 years to bring a discovery to production status.
- Presently there are only a handful of operations that could become producers in the next 2-4 years, and it is very likely that the number of mines closing in that same period due to ore depletion will outweigh any positive effect that the newly opened zinc-mines will have on the market.

Metalline Mining Company just so happens to be one of those select few operations that could begin producing significant amounts of zinc within the next 2-4 years. About 4 months ago, in September of 2005, I wrote a 2-part report MMGG and the bullish case for zinc. Here are the links:

Zinc 101: The Future of Metalline Mining:

<http://www.silverinscripture.com/articles.php?id=42>

Zinc 102: The Bullish Case for Zinc:

<http://www.silverinscripture.com/articles.php?id=47>

Developments in the zinc market since my last report:

- The [price of zinc](#) has increased more than 68% from \$.64/lb to \$1.08/lb (2/03/06).
- The [LME zinc inventory](#) has decreased more than 30% to 368,500 tonnes (2/02/06). This represents a mere 13-day supply at the current demand of 28,000 tonnes per day.
- The share price of MMGG has increased over 100%, from \$1.00/share to \$2.03/share (2/03/06).

Metalline Mining ([MMGG.OB](#)): 4.9 Billion Reasons Why

Note: This is a follow-up to [Zinc 101](#), so if you would like more details please see my previous report.

The property owned by Metalline Mining is located in Coahuila, Mexico in the Sierra Mojada Mining District. The District has high voltage electric power and is accessible by rail lines, a well-maintained gravel airstrip, and 250 kilometers of paved road.

Since its discovery in 1979, the District is estimated to have produced over 10 million tons of high-grade ore, **possessing grades in excess of 30% lead, 20% zinc, 1% copper, and 31 ounces of silver per metric ton!** All mining was done by selectively mining ore of sufficient grade that did not need to be milled and could consequently be shipped directly to smelters. Since the District has never had a mill, it is almost certain to contain significant amounts of mill grade ore that was never mined before. This is tremendous information! To this day it remains somewhat of a mystery why no mill was ever constructed. The prevailing thought is that whoever was mining at the time was doing so well without a mill that they figured it was an unnecessary bother to construct one.

The property owned in title 100% by Metalline Mining consists of 17,446 acres, which can be further divided into two regions of mineralization, the Southern Sierra Mojada Fault composed of oxide zinc mineralization, and the Northern Sierra Mojada Fault, composed of polymetallic mineralization (i.e., silver, copper, zinc, and lead).

Since 1999, management at Metalline has focused their attention on the Southern Sierra Mojada Fault largely as a result of the positive feasibility study conducted by the [Skorpion Mine](#) in Namibia, Africa. The Skorpion Mine was the first, and to date the only, mine in the world making use of the very effective Solvent Extraction Electrowinning (SXEW) process, which is a method of creating a zinc concentrate capable of being shipped to a refinery site anywhere in the world. This provides an incredible advantage to the zinc producer, as it allows them to choose a refinery location offering the best economics relative to taxation, electrical cost, water, equipment and transportation costs, and other factors related to refining. Once at the refinery, the zinc concentrate is then reduced to Super High Grade* (SHG, 99.995%) zinc.

The Skorpion Mine, which Metalline's mine will be modeled after, was ramped up to full production in 2004, producing 150,000 metric tons of SHG zinc per year. Skorpion's reported smelter cost was estimated by their feasibility study to be \$.25/pound, **lower than any other operating zinc mine.** In comparison, the Century Mine in Australia, one of the largest and highest grade zinc mines in the world, has a cash cost of \$.37/pound, and together with overhead costs was only marginally profitable until zinc prices began to rise off of their lows (\$.55) in August of 2005.

*To learn more about SHG zinc and the SXEW mining/refining process visit: [Skorpion Zinc](#).

Metalline Mining is currently conducting their feasibility study through Green Team International

(GTI), and it should be completed before year-end 2006. GTI conducted the feasibility study for the Skorpion mine, and they also oversaw its construction and operation. That mine cost about \$450 million to build, and this is therefore a good estimate of the cost for Metalline to build their own SXEW mine.*

*The Skorpion Mine was built between 2001 and 2003, meaning oil, labor and equipment costs would have been considerably less than they are today, but on the flipside, the Skorpion mine was constructed in a much more remote location, adding additional costs that Metalline is not likely to experience. Metalline's mine will be modeled after Skorpion's, meaning a similar size and production output. **The exciting part of all this is that Metalline has found a way to reduce acid costs** (a very significant cost in ore precessing) **by about 1/3, therefore it is the goal of Metalline management to produce 180,000 tonnes of zinc per year, or about 25% more than the Skorpion mine is currently producing** (this includes the 20% loss of recovery — see below).

The metallurgical work performed by GTI has developed a process that results in an 80% recovery of the oxide zinc concentrate, and a 98+% recovery during leaching. These results are highly favorable, and well above the minimum required.

Thus far, the total amount of mineralization* contained within the Southern Fault was estimated by Reserva International, an independent contractor specializing in resource evaluation, to be **2.23 million metric tons (Mt)**.

$2.23\text{Mt} \times 2,204.62262 \text{ pounds/tonne} = \text{more than } 4.9 \text{ Billion pounds of contained zinc metal.}$

Assuming an estimated smelter cost of \$.35 (an increase of 40% over the cost estimated by the Skorpion mine due to increased energy prices) and an additional \$.25 for all other overhead costs, Metalline would be profitable at a zinc price of over \$.60/pound. Since \$.60/pound is the average price required for a zinc mine to remain profitable, this estimate is likely too conservative, as Metalline will be making use of the very cost effective SXEW process. Thus, at today's zinc price of \$1.00/pound (1/28/06), Metalline's profit margin would be about \$.40/pound, and quite possibly even higher.

Using 180,000 metric tons (mt) of zinc production per year:

$180,000 \text{ mt} \times 2,204.62262 \text{ (pounds per mt)} = 396,832,071 \text{ pounds of zinc/year}$

$4.9 \text{ billion pounds} \times 80\% \text{ recovery} / 396,832,071 \text{ pounds/year} = \text{a } 10 \text{ year mine life}$

$397 \text{ million pounds zinc} \times \$.40 \text{ (profit margin)} = \text{\$158.8 million profit per year}$

$\text{\$158.8 million} \times 10 \text{ (a conservative P/E ratio)} = \text{1.59 billion market capitalization after the first year of operation, and at today's zinc prices which are likely going much higher!}$

(see below for price potential based upon these numbers)

Metalline's fully diluted share count is 25.3 million. Thus, at \$2.03/share, the current market cap of Metalline is only 51.4 million.

If the mine and extraction plant cost \$450 million dollars, and Metalline is able to raise this through a private placement at \$10/share*, this would only require 45 million more shares to be issued, bringing the fully diluted share count to 70.3 million. There is also the possibility of a joint-venture, but this scenario is harder to analyze, although it would likely dilute shareholder value to a similar degree. For our purposes, we will assume a fully diluted share count of 70.3 million shares after the financing of the mine, Metalline Mining retaining their full 100% rights to the property.

*Raising the necessary capital at \$10/share is not unreasonable. The results of the feasibility study should be released later this year, and assuming that it is positive, this will attract large investors since it screams less risk. Furthermore, financing in general usually leads to higher and higher prices as it indicates to investors that everything is going as planned, and that things are nearing completion. And if Metalline has the potential to rise in price to over \$100/share after only one year of production (see below), then there should be no shortage of parties willing to finance just such a venture.

Price Potential

From the numbers referenced above:

With Zinc at \$1.00/pound:

1.59 billion market capitalization / 70.3 million outstanding shares = **\$21.78/share after the first year of operation** (11 times the current value)

Below is a breakdown of the share price potential in the event of significantly higher zinc prices:

With Zinc at \$1.50/pound = **\$50.83/share** (25 times the current value)

With Zinc at \$2.00/pound = **\$79.06/share** (39 times the current value)

With Zinc at \$2.50/pound = **\$107.30/share** (52 times the current value)

Remember, this calculation accounts for the profits after only one year of operation.

Furthermore, this says nothing about the Northern Fault (similar size), which contains an average of 300g silver per tonne (10 ounces/tonne), .6% copper, 5.5% zinc, and 2.2% lead. **Some samples even contained grades as high as 341 ounces of silver/ton!** These numbers are based upon over 5,000 samples taken from the polymetallic mineralization in the Northern Fault of the Sierra Mojada District between 1997 and 1999.*

*These numbers do not represent proven resources.

Regarding this Northern Fault:

“Now that the oxide zinc mineralization is in the feasibility study stage the Company is refocusing its attention on continued exploration of the silver and copper content of the Polymetallic Manto.”

This leaves room for an incredible amount of growth, **possibly doubling the value of the Company's mineralization* or more.**

*It is against the law in the US (not so in Canada) to use the term resources until a feasibility study is completed. This means that once the study is completed (assuming it is positive), Metalline will finally be able to 'brag' about its ore bodies in terms that investors will better understand.

In my opinion, here are the biggest risks:

- The Zinc price falls below \$.60/pound and makes its extraction unprofitable.

--I don't believe that this is at all likely to happen, as explained in the beginning of this report, in addition to my previous in-depth article on the subject (Zinc 102: [Zinc Prices to the Moon!](#))

- The feasibility study currently being conducted by GTI indicates that it would be unprofitable to mine the oxide zinc mineralization contained within the Southern Fault.

--This seems highly unlikely as well, considering that zinc prices are roaring ahead, and a magnificent mineralization has been detected by Metalline Mining through years of meticulous exploration.

Looking for a Bargain?

Let me first say that I don't think you'll see opportunities below \$1/share ever again, perhaps not even anything below \$1.50/share.

However, here are some factors that may lead to future buying opportunities:

- Some shares still remain from the previous private placement conducted in 2003-2004 that may hamper upward momentum, but it is most likely that most of these shares were already sold in the \$.80-\$3.00 range in these past 2 years, explaining much of the downward pressure on the stock price. Profit taking made sense, and this was at a time when zinc prices were low, Metalline was still involved in exploration and metallurgy, and a long way away from the completion of a feasibility study.
- 5.3 million shares will become free-trading in 12 months. This will put downward pressure on the stock as participants lock in profits (shares acquired at \$.80), but this is still 12 months away.
- An additional 5.3 million warrants may be exercised at \$1.25/share in 12-24 months time. Again, this will put downward pressure on the stock, but who knows how high the share price will be by then, because within 1 year there should be a feasibility study, and within 2 years Metalline may have already begun construction of their mine.

It is estimated that the mine needed by Metalline will take 2-4 years to complete. If all goes as planned, Metalline could be production ready as early as late 2008 to early 2009.

Four years is a long time to wait for many, so having patience for a good entry point may well be rewarded. But trying to predict the market is impossible. All such attempts result in error, and

oftentimes great error. You must make these decisions on your own, and I must simply present you with the information to guide you in making a wise one. For this reason I have chosen not to delay the release of this report any longer, regardless of how I feel about short-term performance.

Also, see [MMGG TA Analysis](#) by Roy Martens

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To conduct further due diligence please visit: www.metalin.com.

The future's so bright...

Shareholders might just have to wear shades.

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