PEDEVCO CORP
Form 424B5
May 13, 2015

The information in this preliminary prospectus supplement is not complete and may be changed. A registration statement related to these securities has been declared effective by the Securities and Exchange Commission. This preliminary prospectus supplement and the accompanying base prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated May 12, 2015

Preliminary Prospectus supplement **Filed Pursuant to Rule 424b(5)**
To prospectus dated November 5, 2013 **Registration File No. 333-191869**

$__________

Shares of Common Stock

PEDEVCO Corp.

Pursuant to this prospectus supplement and the accompanying prospectus, PEDEVCO Corp. (the "Company", "PEDEVCO", "we", "us" and "our") is offering shares of our common stock (the "Shares"). We currently estimate the size of our offering at [$____] million, with an estimated additional [$____] million subject to the underwriter's over-allotment option described below.

Our common stock is listed on the NYSE MKT under the symbol "PED." On May 12, 2015, the last reported sales price of our common stock was $0.71.

Investing in our securities involves a high degree of risk. Before deciding whether to invest in our securities, you should consider carefully the risks that we have described under the caption "Risk Factors" beginning on page S-24 of this prospectus supplement and under the caption "Risk Factors" in our most recently filed Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, which is incorporated herein by reference in its entirety.

	Per Share	Total
Public offering price per Share	$	$
Underwriting discount (1)	$	$
Proceeds to us (before expenses) (2)	$	$

(1) Excludes underwriter's out-of-pocket expenses we have agreed to reimburse, and an advisory fee equal to 2% of the public offering price per share due and payable to Casimir Capital L.P., the Company's financial advisor. See the section captioned "Underwriting" in this prospectus supplement for additional information.

(2) We anticipate the total expenses associated with this offering will be approximately [$__________], including [$___________] payable as an advisory fee to Casimir Capital, L.P. as described in footnote (1) above.

The underwriter may also purchase up to an additional shares from us, at the public offering price less the underwriting discount, within 45 days from the date of this prospectus supplement to cover over-allotments, if any. If the underwriter exercises the option in full, the total underwriting discount payable by us will be $ and total proceeds to us before expenses will be $.

The underwriter expects to deliver the shares, in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about May , 2015.

The net proceeds from sales under this prospectus supplement will be used as described under "Use of Proceeds."

The aggregate market value of our outstanding common stock held by non-affiliates is approximately $24,213,532, based on 37,837,442 shares of outstanding common stock and approximately 8,308,744 shares held by affiliates, at a price of $0.82 per share, which was the last reported sales price of our common stock as quoted on the NYSE MKT on March 31, 2015. Pursuant to General Instruction I.B.6 of Form S-3, in no event during the period of twelve calendar months immediately prior to, and including, the sales under this prospectus supplement, will we sell our common stock in a public primary offering with a value exceeding more than one-third of the aggregate market value of the common stock held by non-affiliates so long as our public float remains below $75 million. Including securities being offered in this prospectus supplement, we have offered and sold an aggregate of $__________ in securities pursuant to General Instruction I.B.6 of Form S-3 during the twelve calendar months prior to and including the date of this prospectus supplement. For purposes of the calculations set forth in this paragraph, we have used the closing price of the Company's common stock on March 31, 2015, which price was $0.82 per share.

You should carefully read and consider the information under "Forward-Looking Statements" and "Risk Factors" beginning on page S-24 of this prospectus supplement and on page 11 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus supplement or the accompanying prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

National Securities Corporation

The date of this prospectus supplement is May ____, 2015

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Prospectus Supplement

Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This prospectus supplement and the accompanying prospectus, dated November 5, 2013, are part of a registration statement on Form S-3 (File No. 333-191869) that we filed with the Securities and Exchange Commission (the "SEC"), utilizing a "shelf" registration process on October 23, 2013 and that was declared effective on November 5, 2013. Under this process, we may sell from time to time in one or more offerings up to an aggregate of $100,000,000 in our securities described in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference into this prospectus supplement, the accompanying prospectus and any free writing prospectus. We have not, and the underwriter has not, authorized anyone to provide you with different information. If anyone provides you with different or additional information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any state or jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus is accurate on any date subsequent to the date set forth on the front of the document or that any information we have incorporated by reference is correct on any date subsequent to the date of the document incorporated by reference, even though this prospectus supplement, the accompanying prospectus and any free writing prospectus is delivered or securities are sold on a later date. We have filed with the SEC a registration statement on Form S-3 with respect to the securities offered hereby. This prospectus supplement and the accompanying prospectus do not contain all of the information set forth in the registration statement, parts of which are omitted in accordance with the rules and regulations of the SEC. For further information with respect to us and the securities offered hereby, reference is made to the registration statement and the exhibits that are a part of the registration statement. We will disclose any material changes in our affairs in a post-effective amendment to the registration statement and the accompanying prospectus of which this prospectus supplement is a part, a future prospectus supplement, a free writing prospectus or a future filing with the Securities and Exchange Commission incorporated by reference in this prospectus supplement. It is important for you to read and consider all the information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference therein, in making your investment decision.

This document is in two parts. The first part is this prospectus supplement, which adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering of Shares. This prospectus supplement adds, updates and changes information contained in the accompanying prospectus and the information incorporated by reference. To the extent the information contained in this prospectus supplement differs or varies from the information contained in the accompanying prospectus or any document incorporated by reference, the information in this prospectus supplement shall control.

We further note that the representations, warranties and covenants made by us or the underwriter in any agreement that is filed as an exhibit to any document that is incorporated by reference in the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of our affairs.

Persons outside the United States who come into possession of this prospectus supplement or the accompanying prospectus must inform themselves about, and observe any restrictions relating to, the offering of the securities and the distribution of this prospectus supplement and accompanying prospectus outside of the United States.

Our logo and other trade names, trademarks, and service marks of PEDEVCO Corp. appearing in this prospectus supplement and the accompanying prospectus are the property of our company. Other trade names, trademarks, and service marks appearing in this prospectus supplement and the accompanying prospectus are the property of their respective holders.

The market data and certain other statistical information used throughout this prospectus supplement and the accompanying prospectus are based on independent industry publications, government publications and other published independent sources. Although we believe that these third-party sources are reliable and that the information is accurate and complete, we have not independently verified the information. Some data is also based on our good faith estimates. While we believe the market data included in this prospectus supplement, the accompanying prospectus and the information incorporated herein and therein by reference is generally reliable and is based on reasonable assumptions, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the heading "Risk Factors" beginning on page S-24 of this prospectus supplement and on page 11 of the accompanying prospectus.

Unless otherwise stated, information in this prospectus supplement assumes the underwriter will not exercise its over-allotment option to purchase additional shares of our common stock.

All references to "we", "our", "us", the "Company", and "PEDEVCO" in this prospectus supplement mean PEDEVCO Corp. and all entities owned or controlled by us except where it is made clear that the term means only the parent company. The term "you" refers to a prospective investor. Please carefully read this prospectus supplement, the prospectus, any free writing prospectus and any pricing supplement, in addition to the information contained in the documents we refer to under the headings "Where You Can Find More Information" and "Incorporation of Certain Documents by Reference".

PROSPECTUS SUPPLEMENT SUMMARY

The following summary highlights material information found in more detail elsewhere in, or incorporated by reference in, this prospectus supplement. It does not contain all of the information you should consider. As such, before you decide to buy our common stock, in addition to the following summary, we urge you to carefully read this entire prospectus supplement and documents incorporated by reference herein, and any other prospectus supplements or free writing prospectuses, especially the risks of investing in our common stock as discussed under "Risk Factors." The following summary is qualified in its entirety by the detailed information appearing elsewhere in this prospectus supplement.

Overview

We are an energy company engaged primarily in the acquisition, exploration, development and production of oil and natural gas shale plays in the Denver-Julesberg Basin ("D-J Basin") in Colorado, which contains hydrocarbon bearing deposits in several formations, including the Niobrara, Codell, Greenhorn, Shannon, J-Sand, and D-Sand. As of December 31, 2014, we held approximately 14,985 net D-J Basin acres located in Weld and Morgan Counties, Colorado, comprised of approximately 14,013 net acres in the Wattenberg and Wattenberg Extension areas of the D-J Basin that we acquired in March 2014 from Continental Resources, Inc. ("Continental" and the "Continental Acquisition") and previously referred to as our "Wattenberg Asset," and approximately 972 net acres in the Wattenberg Extension area of the D-J Basin we previously referred to as our "Niobrara Asset," which we now collectively refer to as our "D-J Basin Asset." Our wholly-owned subsidiary, Red Hawk Petroleum, LLC ("Red Hawk"), as of December 31, 2014, held interests in 53 gross (7.8 net) wells in our D-J Basin Asset, of which (i) 14 gross (6.3 net) wells are operated by Red Hawk and are currently producing, (ii) 17 gross (1.5 net) wells are non-operated, and (iii) 22 wells have an after-payout interest. As of December 31, 2014, we also operated 5 additional wells in our D-J Basin Asset through Condor Energy Technology, LLC ("Condor"), our partially-owned subsidiary, which we divested in February 2015 (as discussed below).

In February 2015, we continued to expand our D-J Basin position through the acquisition of additional oil and gas working interests from Golden Globe Energy (US), LLC ("GGE" and the "D-J Basin Acquisition"), which included approximately 12,977 additional net acres in the D-J Basin located almost entirely within Weld County, Colorado, including acreage located in the prolific Wattenberg core area, and interests in 53 gross wells with an estimated then-current net daily production of approximately 500 barrels of oil equivalent per day ("BOEPD") as of February 7, 2015. The majority of these assets were originally conveyed to GGE's predecessor-in-interest, RJ Resources Corp., by us in March 2014 in connection with the Continental Acquisition, and are now included in our D-J Basin Asset. See further details regarding this transaction below in "Recent Developments   D-J Basin Asset Acquisition." Management believes the acquisition of these reserves should enhance the Company's ability to access more traditional sources of debt financing and secure additional opportunities, including the contemplated transaction with Dome Energy, Inc. discussed in greater detail below.

In February 2015, the Company, Dome Energy AB ("Dome AB"), and Dome Energy, Inc., a wholly-owned subsidiary of Dome AB ("Dome US," and together with DOME AB, "Dome Energy"), entered into a Heads of Agreement which contemplates the acquisition by the Company of 100% of the capital stock of Dome US in exchange for approximately 140 million shares of our common stock. Dome US produces approximately 1,250 BOEPD from a core operated portfolio of conventional oil and gas assets located in Texas and Wyoming, and from additional non-core producing assets located in Arkansas, Kentucky, Louisiana, Mississippi, and Oklahoma. See further details regarding this transaction below in "Recent Developments   Heads of Agreement with Dome Energy, Inc.".

The contemplated acquisition of Dome US and the recently completed D-J Basin Acquisition were structured to work hand-in-hand, with the intent of increasing the assets, proven reserves and cash flows of the Company, for the express purpose of securing lower-cost bank financing, whether by increasing Dome US's current bank facility and/or securing new bank credit to pay down the Company's current debt and reduce the future cost of capital for the Company.

Furthermore, in February 2015, the Company sold to MIE Jurassic Energy Corp. ("MIEJ"), its then 80% partner in Condor, the Company's (i) 20% interest in Condor, and (ii) approximately 972 net acres and interests in three wells located in the Company's legacy, non-core Niobrara acreage located in Weld County, Colorado, that were directly held by the Company in Condor-operated wells. The assets sold included working interests in five Condor-operated wells that produced approximately 26 barrels of oil per day net to the Company's interest as of February 2015, as well as approximately 2,300 total net acres to the Company's interest in non-core Niobrara areas. The Company and MIEJ also agreed to aggregate and restructure all liabilities owed by the Company to MIEJ and Condor, reducing our debt outstanding with MIEJ and Condor from approximately $9.4 million to $4.925 million, revising and extending the terms of the outstanding debt due to MIEJ, and reducing our senior debt by $500,000 through MIEJ's direct repayment of principal due to our senior lenders. See greater details regarding this transaction below in "Recent Developments Settlement Agreement with MIEJ."

After giving effect to the D-J Basin Acquisition and the divestiture of our legacy non-core Niobrara assets to MIEJ as discussed above, we produced an average of approximately 850 BOEPD from our D-J Basin Asset during Q1 2015, and as of February 1, 2015, we held approximately 26,990 net acres and interests in 53 gross (15.6 net) wells in our D-J Basin Asset, of which 14 gross (12.5 net) wells are operated by our wholly-owned subsidiary, Red Hawk and are currently producing, 17 gross (3.1 net) wells are non-operated, and 22 wells have an after-payout interest.

We have also entered into agreements to acquire a 5% interest in a Canadian publicly-traded company which is in the process of acquiring a 100% working interest in production and exploration licenses covering an approximate 380,000 acre oil and gas producing asset located in the Pre-Caspian Basin in Kazakhstan, which closing is contingent upon approvals from the Kazakhstan government and satisfaction of other customary closing conditions, which we anticipate occurring on or before July 31, 2015. In connection with our recent D-J Basin Acquisition, we provided GGE a one-year option to acquire our interest in our Kazakhstan opportunity for $100,000, described in greater detail below in "Recent Developments D-J Basin Asset Acquisition."

We have listed below the total production volumes and total revenue net to the Company for the years ended December 31, 2014 and 2013 attributable to our D-J Basin Asset, including the calculated production volumes and revenue numbers for our D-J Basin Asset held indirectly through Condor that would be net to our interest if reported on a consolidated basis, and which does not include any production realized from our recent D-J Basin Acquisition.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Oil volume (barrels (BBL))	57,753	16,065
Gas volume (Mcf)	94,981	13,560
Volume equivalent (BOE) (1)	73,583	18,325
Revenue (000's)	$ 5,139	$ 1,531

(1) 6 thousand cubic feet (Mcf) of natural gas is equivalent to 1 barrel of oil ("BOE").

Recent Developments

D-J Basin Asset Acquisition

On February 23, 2015 (the "Closing"), we entered into and closed the transactions contemplated by a Purchase and Sale Agreement (the "Purchase Agreement") with GGE, pursuant to which the Company, through Red Hawk, acquired from GGE all of its rights, title and interest in approximately 12,977 net acres in the DJ Basin located almost entirely within Weld County, Colorado, including acreage located in the prolific Wattenberg core area, and interests in 53 gross (7.8 net) wells with an estimated current net daily production of approximately 500 barrels of oil equivalent per day as of February 7, 2015 (the "GGE Assets"). All of GGE's leases and related rights, oil and gas and other wells, equipment, easements, contract rights, and production are included in the purchase, the majority of which assets were originally conveyed to GGE's predecessor-in-interest, RJ Resources Corp., by us in March 2014 in connection with the Continental Acquisition.

As consideration for the acquisition of the GGE Assets, the Company (i) issued to GGE 3,375,000 restricted shares of common stock and 66,625 restricted shares of the Company's newly-designated Amended and Restated Series A Convertible Preferred Stock (the "Series A Preferred" (described in greater detail below)), (ii) assumed approximately $8.35 million of junior subordinated debt from GGE (the "Junior Debt") pursuant to an Assumption and Consent Agreement and an Amendment to Note and Security Agreement, and (iii) provided GGE with a one-year option to acquire the Company's interest in its Kazakhstan opportunity for $100,000 pursuant to a Call Option Agreement (the "Kazakhstan Call Option Agreement", described in greater detail below).

The Purchase Agreement contains customary representations, warranties, covenants and indemnities by the parties thereto. In addition the Company, by resolution of the Board of Directors, has formally increased the size of the Company's Board of Directors from three (3) members to five (5) members, and provided GGE the right pursuant to the Purchase Agreement and the certificate of designation designating the Series A Preferred, upon notice to the Company, to appoint designees to fill the two (2) vacant seats, one of which must be an independent director as defined by applicable rules. GGE has not provided notice of their intent to appoint any designees and no designees have been appointed to date. The Board appointment rights continue until GGE no longer holds any of the Tranche One Shares (defined below). The Company has further agreed that, within ninety (90) days of the Closing, extendable by up to an additional forty-five (45) days in the event the Company is a party to a material corporate transaction that requires shareholder approval, the Company shall file all required documentation with the SEC necessary to seek shareholder approval (the "Shareholder Approval") of the Certificate of Designation (defined below), the issuance of the Company's common stock upon conversion of the Series A Preferred, and other related matters, and to include the Company's Board of Directors' recommendation to the shareholders that they approve these matters.

Pursuant to the Company's Amended and Restated Certificate of Designations of PEDEVCO Corp. Establishing the Designations, Preferences, Limitations, and Relative Rights of its Series A Convertible Preferred Stock (the "Certificate of Designation"), the 66,625 shares of Series A Convertible Preferred Stock issued to GGE (which represent all of the Series A Convertible Preferred Stock designated pursuant to the terms of the Certificate of Designation) (i) have a liquidation preference senior to all of the Company's common stock equal to $400 per share (the "Liquidation Preference"), (ii) accrue an annual dividend equal to 10% of their Liquidation Preference, payable annually from the date of issuance (the "Dividend"), (iii) vote together with the common stock on all matters, with each share having one (1) vote, and (iv) are not convertible into common stock of the Company until the Shareholder Approval is received. Upon the Company's receipt of Shareholder Approval, (x) the Series A Convertible Preferred Stock automatically cease accruing Dividends and all accrued and unpaid Dividends are automatically forfeited and forgiven in their entirety, (y) the Liquidation Preference of the Series A Convertible Preferred Stock is reduced to $0.001 per share from $400 per share, and (z) each share of Series A Preferred is convertible into common stock on a 1,000:1 basis, subject to a lock-up that prohibits GGE from selling the common stock shares issuable upon conversion through the public markets for less than $1 per share for a period that is twelve (12) months following the Closing, provided that no conversion is allowed in the event, the holder thereof, would beneficially own more than 9.99% of the Company's outstanding common stock or voting stock.

In the event the Company repays all amounts due and outstanding under the PEDEVCO Senior Loan (defined below) within nine (9) months of the Closing, the Company is entitled, at its option, to redeem (or assign the right to redeem or purchase) the Series A Convertible Preferred Stock as follows: (i) for the first nine (9) months following the Closing, the Company may repurchase and redeem any or all of 15,000 shares of Series A Convertible Preferred Stock (the "Tranche One Shares") at a repurchase price of $500 per share; (ii) following the first nine (9) months after the Closing until twenty-four (24) months following the Closing, the Company may repurchase and redeem any or all of the outstanding Tranche One Shares or any or all of an additional 15,000 shares of Series A Convertible Preferred Stock (the "Tranche Two Shares") at a repurchase price of $650 per share; and (iii) following twenty-four (24) months after the Closing until thirty-six (36) months following the Closing, the Company may repurchase and redeem any or all remaining outstanding shares of Series A Convertible Preferred Stock at a repurchase price of $800 per share (collectively, the "Company Redemption Rights"). In addition, in the event the Company repays the PEDEVCO Senior Loan and redeems all the Tranche One Shares within nine (9) months of the Closing, (i) 25,000 shares of Series A Convertible Preferred Stock (the "Tranche Four Shares") are automatically redeemed and repurchased by the Company for $0 per share, and (ii) GGE may request (but not require) that the Company redeem and repurchase (x) the Tranche Two Shares (or such portion thereof that is then outstanding) at a redemption price of $650 per share for a period of thirty (30) days following the twenty-four (24) month anniversary of the Closing, and (y) the Tranche Two Shares (or such portion thereof that is then outstanding) and 11,625 shares of Series A Convertible Preferred Stock (the "Tranche Three Shares") at a redemption price of $800 per share for a period of thirty (30) days following the thirty-six (36) month anniversary of the Closing ((x) and (y), the "Holder Redemption Requests"). In the event the Company does not redeem and repurchase (or if the Company has assigned such right, another party has redeemed or purchased) all such shares pursuant to the Holder Redemption Requests, the holders thereof have no recourse against the Company, provided that if the Company (or if applicable, the third party) does not repurchase and redeem all such requested shares, and the average closing price of the Company's common stock over the thirty (30) day period immediately preceding the third anniversary of the Closing is below $0.80 per share, then the Company is required to issue the holders up to an additional 10,000 shares of Series A Convertible Preferred Stock, pro-rated based on the actual number of shares redeemed and repurchased by the Company.

The Assumption and Consent Agreement provided that, as of the effective date of the agreement, the Company assumed all of GGE's rights, obligations and liabilities under that certain Note and Security Agreement, dated April 10, 2014 (the "GGE Note"), as amended by that certain Amendment to Note and Security Agreement, dated as of the effective date (the GGE Note, as amended, the "Amended GGE Note"). The lender under the Amended GGE Note is RJ Credit LLC ("RJC"), and the Amended GGE Note has an aggregate principal balance of $8,353,000. The Amended

GGE Note is due and payable on December 31, 2017, and bears interest at the per annum rate of twelve percent (12%) (24% upon an event of default), which interest is payable monthly in cash by the Company. The Amended GGE Note is subordinate and subject to the terms and conditions of those certain promissory notes issued by the Company in favor of BRe BCLIC Primary, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJC, as investors (the "PEDEVCO Senior Loan Investors"), and BAM Administrative Services LLC, as agent for the investors, and any related collateral documents (collectively, the "PEDEVCO Senior Loan"), as well as any future secured indebtedness of the Company from a lender with an aggregate principal amount of at least $20,000,000 (a "Future PEDEVCO Loan"). Should the Company repay the PEDEVCO Senior Loan and replace such indebtedness with a Future PEDEVCO Loan, then, upon the reasonable request of such senior lender, RJC agreed to further amend the Amended GGE Note to adjust the frequency of interest payments or to eliminate such payments and replace the same with the accrued interest to be paid at maturity.

The GGE Note contains customary representations, warranties, covenants and requirements for the Company to indemnify RJC and its affiliates, related parties and assigns. The GGE Note also includes various covenants (positive and negative) binding the Company, including requiring that the Company provide RJC with quarterly (unaudited) and annual (audited) financial statements, restricting the Company's ability to create liens and encumbrances and sell or otherwise dispose of the collateral securing the GGE Note. RJC is one of the lenders under the PEDEVCO Senior Loan, and is an affiliate of GGE.

The Kazakhstan Call Option Agreement provides that for a period of one (1) year following the Closing, GGE may acquire from the Company, for a purchase price of $100,000, either (i) that certain promissory note (the "A6 Promissory Note"), in the principal amount of $5 million, issued by Asia Sixth Energy Resources Limited ("Asia Sixth") to Pacific Energy Development Corp. ("PEDCO"), a wholly-owned subsidiary of the Company, on August 1, 2014, or (ii) in the event the A6 Promissory Note is exchanged for capital stock in Caspian Energy Inc. (the "CEI Stock") pursuant to that certain Share Purchase Agreement dated as of August 1, 2014, by and among PEDCO, Asia Sixth, and certain other parties thereto, GGE may acquire the CEI Stock from the Company.

Heads of Agreement with Dome Energy, Inc.

On February 23, 2015, the Company, Dome AB, and Dome US, entered into a Heads of Agreement (the "Heads of Agreement") pursuant to which the parties agreed to certain terms and conditions for the acquisition by the Company of 100% of the capital stock of Dome US (the "DOME Acquisition"). Under the nonbinding Heads of Agreement, the Company agreed to acquire all of Dome AB's oil and gas interests in the United States that are held by Dome US in exchange for approximately 140 million shares of the Company's common stock (the "Consideration Shares"), representing approximately 64% of the Company's total issued and outstanding shares of capital stock on an as-converted basis (assuming the Series A Preferred is converted into common stock, and excluding the 25,000 Tranche Four Series A Preferred shares issued to GGE as described above), subject to +/-4% adjustment based on further valuation due diligence by the parties.

The obligations of the parties under the Heads of Agreement are conditioned upon satisfaction or waiver by the parties of the following conditions: (i) approval by each party's Board of Directors and shareholders in accordance with applicable law and their respective governing documents; (ii) approval of a mutually agreeable definitive acquisition agreement; (iii) approval from the NYSE MKT of the DOME Acquisition and the issuance and additional listing of the Consideration Shares; (iv) the registration with the SEC of the Consideration Shares; (v) the provision for the repayment or satisfaction of all amounts due and outstanding under the PEDEVCO Senior Loan on or immediately following the closing of the DOME Acquisition; (vi) agreement by RJC to subordinate the Amended GGE Note (as defined above) to DOME US's senior credit facility; (vii) consummation by the Company of the acquisition of the GGE Assets (as described above); (viii) receipt of all material necessary third party consents and approvals, including approval from each party's senior lenders, as necessary and required; (ix) the Company's continued listing on the NYSE MKT; and (x) completion by each party of confirmatory due diligence, to each such party's satisfaction, including, but not limited to, with respect to the other party's oil and gas production, leaseholds, and financial condition.

The parties intend to negotiate and enter into definitive documentation as soon as practicable, with an anticipated signing date to occur before May 24, 2015, and upon terms and conditions as mutually acceptable to the parties. Unless otherwise agreed upon by the parties, if the DOME Acquisition has not closed by September 30, 2015, either party may terminate the proposed transaction. An additional requirement of the DOME Acquisition, is that the number of members of the Board of Directors of the Company be increased, at the closing of the transaction, by two (2) members, who shall be designated by Dome US, one of which shall be independent as defined under applicable NYSE MKT and SEC guidelines. The Company can make no guarantees or assurances that the parties will be able to mutually agree on definitive documentation, or that the DOME Acquisition will be consummated on terms and conditions acceptable to the Company, if at all.

Settlement Agreement with MIEJ

On February 19, 2015 (the "MIEJ Closing Date"), the Company and PEDCO entered into a Settlement Agreement (the "MIEJ Settlement Agreement") with MIEJ. MIEJ was PEDCO's 80% partner in Condor, and is the lender to PEDCO under that certain Amended and Restated Secured Subordinated Promissory Note, dated March 25, 2013, in the principal amount of $6,170,065, entered into by PEDCO and MIEJ (the "MIEJ-PEDCO Note"). Pursuant to the MIEJ Settlement Agreement, (i) MIEJ and PEDCO agreed to restructure the MIEJ-PEDCO Note through the entry into a new Amended and Restated Secured Subordinated Promissory Note, dated February 19, 2015 (the "New MIEJ Note"), (ii) PEDCO agreed to sell its (x) full 20% interest in Condor (the "Condor Interests") to MIEJ pursuant to a Membership Interest Purchase Agreement entered into by and between PEDCO and MIEJ (the "Condor Purchase Agreement"), and (y) interests in approximately 972 net acres and interests in three (3) wells located in PEDCO's legacy non-core Niobrara acreage located in Weld County, Colorado, that were directly held by PEDCO (the "PEDCO Direct Interests") to Condor pursuant to an Assignment entered into by and between PEDCO and Condor, (the "PEDCO Direct Interests Assignment"), which Condor Interests and PEDCO Direct Interests together produced an estimated current net daily production of approximately 26 barrels of oil equivalent per day net to PEDCO as of February 7, 2015, and the parties agreed had a combined value of $4.2 million, (iii) Condor forgave approximately $1.8 million in previous working interest expenses related to the drilling and completion of certain wells operated by Condor that was due from PEDCO with respect to the PEDCO Direct Interests, and (iv) certain other related matters occurred, which, in summary, had the net effect of reducing approximately $9.4 million in aggregate liabilities due from PEDCO to MIEJ and Condor to $4.925 million, which was the new principal amount of the New MIEJ Note. In addition, pursuant to the MIEJ Settlement Agreement, (a) in consideration for the PEDEVCO Senior Loan Investors releasing their security interest on the Condor Interests and PEDCO Direct Interests, MIEJ paid $500,000 to the PEDEVCO Senior Loan Investors as a principal reduction on the PEDEVCO Senior Loan, which directly benefits PEDEVCO, (b) PEDCO paid $100,000 as a principal reduction under the MIEJ-PEDCO Note, (c) each of MIEJ, Condor and the Company fully released each other, and their respective predecessors and successors in interest, parents, subsidiaries, affiliates and assigns, and their respective officers, directors, managers, members, agents, representatives, servants, employees and attorneys, from every claim, demand or cause of action arising on or before the MIEJ Closing Date, and (d) MIEJ confirmed that the MIEJ-PEDCO Note was paid in full and that PEDCO owes no amounts to MIEJ or Condor other than the principal amount due as reflected in the New MIEJ Note.

The New MIEJ Note, bears an interest rate of 10.0% per annum with no interest due until Maturity (defined below) or except as detailed below, is secured by all of the Company's current and after-acquired assets, and is subordinated in every way to the PEDEVCO Senior Loan as well as to New Senior Lending (defined below); however, MIEJ has no control over the cash flow of the Company, nor is MIEJ's consent required in connection with any disposition, sale, or use of any assets of the Company or any of its subsidiaries at any time in the future, provided that the requirements of the New MIEJ Note requiring the prepayment of interest, where applicable, as described below are followed. After the MIEJ Closing Date, the Company may enter into a loan, or a series of new loans or any other new non-equity investment or assumption of indebtedness (a "New Senior Lending") which will be senior to the New MIEJ Note, without the prior consent of MIEJ, provided that, in addition to the approximately $35 million principal balance of the PEDEVCO Senior Loan, the New Senior Lending is subject to a cap of an additional $60 million in the aggregate, such that the total lending, debt or similar investment under such cap shall not exceed $95 million in the aggregate (the "Senior Debt Cap"), with any portion of New Senior Lending in excess of the Senior Debt Cap advanced first to MIEJ until the New MIEJ Note is paid in full. The New MIEJ Note shall automatically, and without further consent from MIEJ, be subordinated in every way to any such New Senior Lending. Should the Company enter into any new financing transaction that results in raising New Senior Lending of at least $20 million in excess of the balance of the PEDEVCO Senior Loan, then MIEJ has a right to be paid all interest and fees that have accrued on the New MIEJ Note each and every time that a new financing transaction reaches or exceeds the $20 million threshold. The New MIEJ Note is due and payable on March 8, 2017, subject to automatic extensions upon the occurrence of a Long Term Financing or PEDEVCO Senior Lending Restructuring (each as defined below) (the "Maturity").

After the MIEJ Closing Date, on a onetime basis, the PEDEVCO Senior Loan may be refinanced by a new loan ("Long-Term Financing") by one or more third party replacement lenders ("Replacement Lenders"), and in such event the Company shall undertake commercially reasonable best efforts to cause the Replacement Lenders to simultaneously refinance both the PEDEVCO Senior Loan and the New MIEJ Note as part of such Long-Term Financing. Despite such efforts, should the Replacement Lenders be unable or unwilling to include the New MIEJ Note in such financing, then the Long-Term Financing may proceed without including the New MIEJ Note, and the New MIEJ Note shall remain in place and shall be automatically subordinated, without further consent of MIEJ, to such Long-Term Financing. Furthermore, upon the occurrence of a Long-Term Financing, the Maturity of the New MIEJ Note is automatically extended, without further consent of MIEJ, to the same maturity date of the Long-Term Financing (the "Extended Maturity Date"), provided that the Extended Maturity Date may not exceed March 8, 2020. Additionally, upon the closing of such Long-Term Financing: (a) the Long-Term Financing is required to be subject to the Senior Debt Cap, (b) the Company is required to make commercially reasonable best efforts for the Long-Term Financing to include adequate reserves or other payment provisions whereby MIEJ is paid all interest and fees accrued on the New MIEJ Note commencing as of March 8, 2017 (and annually thereafter, until such time as the New MIEJ Note is paid in full), but in any event the Replacement Lenders are required to agree to allow for quarterly interest payments (starting March 31, 2017) of not less than 5% per annum on the outstanding balance of the New MIEJ Note, plus a one-time payment of accrued interest (not to exceed $500,000) as of March 31, 2017 (the "Subordinated Interest Payments"), and the remaining 5% interest shall continue to accrue, and (c) MIEJ has the Right of Conversion (defined below) commencing as of March 8, 2017, the original maturity date of the New MIEJ Note. If the PEDEVCO Senior Loan and/or New Senior Lending is not refinanced by Replacement Lenders, but is instead refinanced, restructured or extended by the existing PEDEVCO Senior Loan Investors (a "PEDEVCO Senior Lending Restructuring"), the maturity of both the New MIEJ Note and the PEDEVCO Senior Loan may be extended to no later than March 8, 2019, without requiring the consent of MIEJ, provided that (i) any such extension of the maturity date of the New MIEJ Note past March 8, 2017 shall give MIEJ the Right of Conversion (described below) commencing on March 8, 2017, and (ii) such extension agreement shall include payment provisions whereby MIEJ shall be paid all interest and fees accrued on the New MIEJ Note as of March 8, 2018. The New MIEJ Note may be prepaid any time without penalty, and should the Company repay the New MIEJ Note on or before December 31, 2015, 20% of the principal of the New MIEJ Note amount is required to be forgiven by MIEJ, and should the Company repay the New MIEJ Note on or before December 31, 2016, 15% of the principal of the New MIEJ Note amount is required to be forgiven by MIEJ.

The New MIEJ Note has a conversion feature that provides, in the event that the final maturity of the New MIEJ Note is extended beyond March 8, 2017 for whatever reason, MIEJ has the right, at its discretion, to have the outstanding balance of the New MIEJ Note plus any accrued and unpaid interest thereon converted in whole or in part into common stock of the Company at a price (the "Conversion Price") equal to 80% of the average closing price per share of common stock over the then previous 60 days from the date MIEJ exercises its conversion right (subject to adjustment for stock splits, recapitalizations and the like)(such event, a "Right of Conversion"); provided, however, that in no event shall the Conversion Price be less than $0.30 per share of common stock (the "Floor Price"). Additionally, the New MIEJ Note contains a provision preventing the conversion of the MIEJ Note to the extent that such conversion would result in more than 19.9% of the Company's outstanding common stock or voting stock being issued in aggregate upon the conversion of such note, or otherwise require shareholder approval under the NYSE MKT rules. Notwithstanding that, the Company agreed to include a proposal in its proxy statement for its 2016 annual meeting of its shareholders (the "2016 Annual Meeting") for the apprEFT: 3.75pt">— $— $—

EXPLORATION AND PROPERTY HOLDING COSTS

Exploration and property holding costs	434,965	320,289	840,864	798,388	17,765,362
Depreciation and asset write-off	51,494	43,138	94,964	88,675	970,860

TOTAL EXPLORATION AND PROPERY HOLDING COSTS

486,459 363,427 935,828 887,063 18,736,222
GENERAL AND ADMINISTRATIVE EXPENSES

Salaries and payroll expenses
253,225 461,760 532,862 839,364 13,915,586
Office and administrative expenses
133,787 69,619 221,897 135,965 2,936,486
Professional services
337,344 120,916 740,188 428,651 11,782,189
Directors fees
69,030 103,645 116,766 168,038 3,278,517
Provision for uncollectible value-added taxes
152,049 --- 152,049 --- 428,567
Depreciation
4,906 5,845 9,340 11,625 229,661
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES
950,341 761,785 1,773,102 1,583,643 32,571,006
LOSS FROM OPERATIONS
(1,436,800) (1,125,212) (2,708,930) (2,470,706) (51,307,228)
OTHER INCOME (EXPENSES)

Interest and investment income
6,649 329 7,339 1,178 844,748
Foreign currency transaction gain (loss)
1,399,478 733,120 1,346,825 (1,280,029) (2,506,149)
Miscellaneous ore sales, net of expenses
--- --- --- --- 134,242
Miscellaneous income
--- --- --- --- 82,351
Interest and financing expense
--- --- --- --- (289,230)
TOTAL OTHER INCOME (EXPENSE)
1,406,127 733,449 1,354,164 (1,278,851) (1,734,038)
LOSS BEFORE INCOME TAXES
(30,673) (391,763) (1,354,766) (3,749,557) (53,041,266)
INCOME TAXES
650 (12,979) (14,046) (9,403) 90,379
NET LOSS
$(31,323) $(378,784) $(1,340,720) $(3,740,154) $(53,131,645)
OTHER COMPREHENSIVE INCOME (LOSS) – Foreign currency translation adjustments
(1,034,464) (543,252) (1,004,512) 918,454 1,517,084
COMPREHENSIVE LOSS
$(1,065,787) $(922,036) $(2,345,232) $(2,821,700) $(51,614,561)
BASIC AND DILUTED NET LOSS PER COMMON SHARE
$ * $(0.01) $(0.02) $(0.09)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING
63,418,568 39,754,694 57,442,278 39,731,686
* Less than $.01 per share

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

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

	Six months Ended April 30, 2010	2009	Period from November 8, 1993 (Inception) to April 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,340,720)	$ (3,740,154)	$ (53,131,645)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and equipment write-off	105,488	100,235	1,204,140
Provision for uncollectible value-added taxes	149,920	—	425,052
Noncash expenses	—	—	126,864
Foreign currency transaction (gain) loss	(1,337,306)	1,204,449	2,669,856
Common stock issued for services	—	—	1,237,047
Common stock issued for compensation	—	—	1,059,946
Options issued for compensation	47,559	463,643	7,134,769
Common stock issued for directors fees	56,016	19,440	653,460
Options and warrants issued for directors fees	—	—	1,665,705
Stock options issued for services	—	—	849,892
Stock options issued for financing fees	—	—	276,000
Common stock issued for payment of expenses	—	—	326,527
Stock warrants issued for services	—	—	1,978,243
(Increase) decrease in, net of merger transaction:			
Value added tax receivable	(123,739)	(112,731)	(1,233,771)
Other receivables	7,505	129	(17,042)
Prepaid income taxes and expenses	(128,870)	(18,936)	(259,989)
Increase (decrease) in, net of merger transaction:			
Accounts payable	19,425	(69,313)	74,428
Income tax payable	(8,885)	(9,411)	3,548
Accrued liabilities and expenses	(225,805)	(7,370)	154,840
Deferred salaries and costs	(393,903)	127,134	—
Payable to joint venture partner	130,124	—	130,124

Other liabilities	—	2,349	7,649
Net cash used by operating activities	(3,043,191)	(2,040,536)	(34,664,357)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	—	—	(21,609,447)
Proceeds from investment sales	—	—	21,609,447
Cash acquired in merger with Dome Ventures (Note 4)	2,618,548	—	2,618,548
Equipment purchases	(297,400)	(4,108)	(2,621,588)
Acquisition of mining concessions	(368,730)	—	(5,000,767)
Net cash provided by (used by) investing activities	1,952,418	(4,108)	(5,003,807)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock	14,951,516	171,500	49,653,710
Proceeds from sales of options and warrants	—	—	949,890
Proceeds from exercise of warrants	40,000	—	4,737,347
Proceeds from shareholder loans	—	—	30,000
Payment of note payable	—	—	(15,783)
Net cash provided by financing activities:	14,991,516	171,500	55,355,164
Effect of exchange rates on cash	(47,664)	48,862	(350,978)
Net increase (decrease) in cash and cash equivalents	13,853,079	(1,824,282)	15,336,022
Cash and cash equivalents beginning of period	1,482,943	2,228,778	—
Cash and cash equivalents end of period	$ 15,336,022	$ 404,496	$ 15,336,022

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

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

	Six months Ended April 30, 2010	2009	Period from November 8, 1993 (Inception) to April 30, 2010
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	$ 27,024	$ 14,219	$ 116,958
Interest paid	$ —	$ —	$ 286,771
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued in merger with Dome	$ 24,840,886	$ —	$ 24,840,886
Warrants issued in merger with Dome	$ 1,895,252	$ —	$ 1,895,252
Common stock issued for equipment	$ —	$ —	$ 25,000
Common stock options issued for financing fees	$ —	$ —	$ 276,000
Common stock options issued for non-cash options	$ —	$ —	$ 59,220

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

NOTE 1 – ORGANIZATION, DESCRIPTION OF BUSINESS AND GOING CONCERN

Organization and Description of Business

Metalline Mining Company (the “Company” or “Metalline”) was incorporated in the State of Nevada on November 8, 1993 as the Cadgie Company for the purpose of acquiring and developing mineral properties. The Cadgie Company was a spin-off from its predecessor, Precious Metal Mines, Inc. On June 28, 1996, at a special directors meeting, the Company’s name was changed to Metalline Mining Company. The Company’s fiscal year-end is October 31. The Company has not realized any revenues from its planned operations and is considered an Exploration Stage Company.

The Company expects to engage in the business of mineral exploration. The Company currently owns several mining concessions in Mexico (collectively known as the Sierra Mojada Property). The Company conducts its operations in Mexico through its wholly-owned subsidiary corporations, Minera Metalin S.A. de C.V. (“Minera Metalin”) and Contratistas de Sierra Mojada S.A. de C.V. (“Contratistas”).

On April 16, 2010, Metalline Mining Delaware, Inc., a wholly-owned subsidiary of the Company, was merged with and into Dome Ventures Corporation (“Dome”). As a result, Dome became a wholly-owned subsidiary of the Company. Dome’s subsidiaries include its wholly-owned subsidiaries Dome Asia Inc., and Dome International Global Inc., which are incorporated in the British Virgin Islands. Dome International Global Inc.’s subsidiaries include its wholly-owned subsidiary, Dome Ventures SARL Gabon, as well as its 99.99%-owned subsidiary incorporated in Nigeria, Dome Minerals Nigeria Limited. Dome conducts its exploration activities in Africa through Dome Ventures SARL Gabon. We have included the financial results of Dome and its subsidiaries in our consolidated statement of operations effective April 16, 2010.

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

Going Concern

As a result of our recurring losses from operations and limited capital resources during the fiscal year ended October 31, 2009, 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 included an explanatory paragraph expressing substantial doubt about the Company’s ability to continue as a going concern.

On April 16, 2010, the Company successfully closed the Dome merger transaction and special warrant offering resulting in an increase in cash and cash equivalents of approximately $14,580,000. The increase in cash and cash equivalents has improved the Company’s working capital and management believes it has sufficient working capital to operate over the next 12 months and this additional working capital removes the substantial doubt about the Company’s ability to continue as a going concern for this time period.

NOTE 2 – BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Regulation S-K as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended October 31, 2009. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

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NOTE 2 – BASIS OF PRESENTATION (continued)

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company's financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company's financial position and results of operations. Operating results for the six-months ended April 30, 2010 are not necessarily indicative of the results that may be expected for the year ending October 31, 2010.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the U.S. and have been consistently applied in the preparation of the financial statements.

Concentration of Risk

The Company maintains its domestic cash and cash equivalents in bank and demand deposit accounts with major financial institutions with high credit standings. Although cash deposits held in domestic financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000, certain bank accounts held by the Company exceed these federally insured limits. As of April 30, 2010, the Company's domestic cash and cash equivalent balances included $13,984,055 which was not federally insured. The Company has not experienced any losses on such accounts and management believes that using major financial institutions with high credit ratings mitigates the credit risk in cash.

The Company also maintains cash in bank accounts in Mexico, Canada, and Africa. These accounts are denominated in the local currency and are considered uninsured. As of April 30, 2010 and October 31, 2009, the U.S. dollar equivalent balance for these accounts was $133,846 and $38,851, respectively.

Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were stock options and warrants in the aggregate of 19,832,994 shares and 19,395,187 shares outstanding at April 30, 2010 and 2009, respectively, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive.

Subsequent Events

The Company has evaluated events, if any, which occurred subsequent to April 30, 2010 to ensure that such events have been properly reflected in these consolidated financial statements. See Note 14 for subsequent events.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred. Exploration costs expensed during the six months ended April 30, 2010 and 2009 were $840,864 and $798,388, respectively. The exploration costs expensed to date during the Company's exploration stage amount to $17,765,362.

Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at the year-end exchange rates, and revenue and expenses are translated at the average exchange rates during the period. Exchange differences arising on translation are disclosed as a separate component of stockholders' equity. Realized gains and losses from foreign currency transactions are reflected in the results of operations. Intercompany transactions and balances with the Company's Mexican and African subsidiaries are considered to be short-term in nature and accordingly all foreign currency transaction gains and losses on intercompany loans are included in the consolidated statement of operations.

Foreign Operations

The Company has significant assets in Coahuila, Mexico and Gabon, Africa. The following table details foreign assets included in the accompanying balance sheet at April 30, 2010:

	Mexico	Gabon
Cash and cash equivalents	$ 52,051	$ 39,644
Other receivables	11,982	17,549
Prepaid expenses	234,620	—
Mining concessions	4,344,294	4,496,915
Office & mining equipment, net	1,250,997	58,034
Value-added tax receivable, net	706,936	63,704
Other assets	—	4,200
	$ 6,600,880	$ 4,680,046

Although these countries are generally considered economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations. Neither the Mexican government nor the Gabonese government requires foreign entities to maintain cash reserves in their respective country.

Value-Added Tax Receivable

The Company records a receivable for value added ("IVA") taxes recoverable from Mexican authorities on goods and services purchased by its Mexican subsidiaries. As of April 30, 2010, the Company has filed IVA tax returns with the Mexican authorities to recover approximately $751,000 of IVA taxes paid by its Mexican subsidiaries from 2005 through 2008. IVA tax returns for approximately $404,000 of IVA taxes paid to vendors for goods and services purchased in 2009 and 2010 have not yet been filed, but are recorded as receivable as amounts are still recoverable.

During 2008, the Mexican authorities reviewed the IVA tax returns filed and requested the Company to provide copies of supporting documentation for amounts filed. Over the last several years, the Company has worked extensively with IVA tax consultants and Mexican authorities to provide the requested documentation and answer questions related to these tax returns, but has been unable to recover the IVA tax amounts.

At October 31, 2009, management evaluated the estimated collectability of the IVA amounts and increased its allowance for uncollectible taxes to approximately 3.6 million pesos or $273,761. The allowance for uncollectible taxes was estimated by management based upon a number of factors including the length of time the returns have been outstanding, general economic conditions in Mexico and estimated net recovery after commissions.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During 2010, management continues to aggressively pursue collection of these IVA taxes. The Company has changed its fiscal reporting jurisdiction to a larger municipality and has hired a new IVA tax consultant in an effort to collect these tax receivables. Due to the continued uncertainty as to ultimate collection of the IVA tax receivable, management evaluated the IVA tax receivable at April 30, 2010 and increased the allowance for uncollectible taxes to 5.5 million pesos or $447,916. The Company continues to reflect the net IVA tax receivable as a long-term asset on the Consolidated Balance Sheet as of April 30, 2010.

Marketable Securities

The Company classifies marketable securities as trading, available-for-sale, or held-to-maturity. Marketable securities include investments with maturities greater than six months, but not exceeding twelve months. As of April 30, 2010, the Company did not own any marketable securities.

Accounting for Loss Contingencies and Legal Costs

From time to time, the Company is named as a defendant in legal actions arising from our normal business activities. The Company records an estimated loss contingency when information available prior to issuance of the financial statements indicates that it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Legal costs incurred in connection with loss contingencies are considered period costs and accordingly are expensed in the period services are provided.

Income Taxes

Income taxes are accounted for based upon the asset and liability method. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the “more likely than not” standard imposed by this guidance to allow recognition of such an asset.

Effective November 1, 2007, the Company adopted accounting guidance for uncertainty in income taxes. This guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. The Company may recognize the tax benefit from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the taxing authorities. This accounting standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

Fair Value Measurements

On November 1, 2008, the Company adopted new accounting guidance on fair value measurements. The new guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The new fair value accounting guidance is applied prospectively for financial assets and liabilities measured on a recurring basis as of November 1, 2008. The adoption of this guidance did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2008, the Financial Accounting Standards Board (“FASB”) issued further accounting guidance which delayed the effective date of applying fair value measurements for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The new accounting guidance for nonfinancial assets and nonfinancial liabilities was effective for the Company's fiscal year beginning November 1, 2009. The adoption of the new guidance applicable to non financial assets and liabilities did not have a material effect on its financial position, results of operations or cash flows.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company measures certain assets and liabilities at fair value. Fair value is defined as an "exit price" which represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in valuing an asset or liability. The new accounting guidance also requires the use of valuation techniques to measure fair value that maximize the use of observable inputs and minimize the use of unobservable inputs. As a basis for considering such assumptions and inputs, a fair value hierarchy has been established, which identifies and prioritizes three levels of inputs to be used in measuring fair value.

The three levels of the fair value hierarchy are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Under fair value accounting, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. As of April 30, 2010 and October 31, 2009, the Company had no financial or non-financial assets or liabilities required to be reported for fair value purposes.

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, other receivables, accounts payable, payable to joint venture partner, and income tax payable, approximate fair value at April 30, 2010 and October 31, 2009 due to the short maturities of these financial instruments.

On November 1, 2008, the Company adopted a pronouncement on what is now codified as Accounting Standards Codification 820, Fair Value Measurements and Disclosure. This pronouncement provides authoritative guidance regarding the fair value option for financial assets and financial liabilities. This guidance provides a choice to measure many financial instruments and certain other items at fair value on specified election dates and requires disclosures about the election of the fair value option. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company has chosen not to elect the fair value option for any financial or non financial instruments as of the adoption date, thus this authoritative guidance did not have an impact on the Company's financial position or results of operations.

Property Concessions

Costs of acquiring property concessions are capitalized by project area upon purchase or staking of the associated claims. Costs to maintain the property concessions and leases are expensed as incurred. When a property concession reaches the production stage, the related capitalized costs will be amortized, using the units of production method on the basis of periodic estimates of ore reserves. To date no concessions have reached production stage.

Property concessions are periodically assessed for impairment of value and any diminution in value is charged to operations at the time of impairment. Should a property concession be abandoned, its capitalized costs are charged to operations. The Company charges to operations the allocable portion of capitalized costs attributable to property concessions sold. Capitalized costs are allocated to property concessions abandoned or sold based on the proportion of claims abandoned or sold to the claims remaining within the project area.

Goodwill

Goodwill represents the excess, at the date of acquisition, of the purchase price of the business acquired over the fair value of the net tangible and intangible assets acquired. Annually, the Company performs a fair value and potential impairment assessment of its goodwill. An impairment analysis is done more frequently if certain events or circumstances arise that would indicate a change in the fair value of the non-financial asset has occurred (i.e., an impairment indicator).

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In evaluating its goodwill, the Company compares the carrying value of the net assets of each reporting unit to its respective fair value. This represents the first step of the impairment test. If the fair value of a reporting unit is less than the carrying value of its net assets, the Company must proceed to step two of the impairment test. Step two involves allocating the calculated fair value to all of the tangible and identifiable intangible assets of the reporting unit as if the calculated fair value was the purchase price in a business combination. To the extent the carrying value of the goodwill exceeds its implied fair value under step two of the impairment test, an impairment charge equal to the difference is recorded. During the quarter ended April 30, 2010, the Company did not identify an impairment indicator relative to its goodwill. As a result, the Company was not required to conduct the first step of the impairment test. However, if in future periods the Company determines that the carrying amount of the net assets of its reporting units exceeds the respective fair value as a result of step one, the application of step two of the impairment test could result in a material impairment charge to the goodwill associated with the Dome transaction. The Company will perform its annual impairment test of goodwill during the quarter ended April 30, 2011.

Recent Accounting Pronouncements

Effective July 1, 2009, the FASB Accounting Standards Codification ("ASC") became the single official source of authoritative, nongovernmental U.S. GAAP. The historical U.S. GAAP hierarchy was eliminated and the ASC became the only level of authoritative U.S. GAAP, other than guidance issued by the SEC. The Company's accounting policies were not affected by the conversion to ASC. However, references to specific accounting standards in the notes to our consolidated financial statements have been changed to refer to the appropriate section of the ASC.

In December 2007, the FASB issued a pronouncement on what is now codified as ASC 805, Business Combinations. This pronouncement revised the authoritative guidance on business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition-related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. The new accounting guidance also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The new guidance was effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and was adopted by the Company on November 1, 2009. The adoption of this new guidance had a material impact on the Company's financial position, results of operations and cash flows for the six months ended April 30, 2010 due to the acquisition of Dome.

In April 2009, the FASB issued a pronouncement on what is now codified as ASC 805, Business Combinations. This pronouncement issued authoritative guidance on accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under previously issued guidance. The authoritative guidance requires that such contingencies be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. The new guidance was effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and was adopted by the Company on November 1, 2009. The adoption of this new guidance had no material impact on the Company's financial position, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-5, Topic 820 which clarified techniques for valuing a liability in circumstances where a quoted price for an identical liability is not available. This new accounting guidance became effective for interim periods beginning after August 31, 2009 and was adopted by the Company on November 1, 2009. The adoption of this new guidance had no material impact on the Company's financial position, results of operations or cash flows.

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NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06 which provides amendments to ASC Topic 820 that will provide more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. The Company does not expect that the adoption of ASU No. 2010-06 will have a material effect on its results of operations and financial position.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force) and the United States Securities and Exchange Commission did not or are not believed to have a material impact on the Company's present or future consolidated financial statements.

NOTE 4 – MERGER WITH DOME VENTURES

On April 16, 2010 (the "Merger Date"), a wholly-owned subsidiary of the Company was merged with and into Dome, resulting in Dome becoming a wholly-owned subsidiary of the Company (the "Merger"). To effect the Merger, Dome stockholders received 0.968818 shares of the Company's common stock for each share of Dome common stock they held as of the Merger Date. Additionally, on the Merger Date, all outstanding warrants to acquire Dome common stock were exchanged for warrants to acquire the Company's common stock on equivalent terms. As a result of the merger transaction, the holders of the Company's common stock prior to the Merger Date own approximately 53% of the Company post-merger and the former Dome shareholders own approximately 47% of the Company post-merger. Dome is a resource company that holds three exploration licenses in Gabon, West Africa and recently entered into a joint venture agreement with AngloGold Ashanti Limited ("AngloGold") on two of its licenses, Ndjole and Mevang. Dome also entered into a second joint venture agreement on the Ogooue license held by AngloGold (Note 6).

Based on the closing price of the Company's common stock on the Merger Date, the consideration received by Dome shareholders in the Merger had a value of approximately $26.7 million as detailed below.

	Conversion Calculation	Estimated Fair Value
Dome common stock outstanding on the Merger Date	49,260,624	
Less: Dome common stock issued in connection with the special warrant offering (a)	(28,911,111)	
Dome common stock outstanding on the Merger Date attributable to the merger consideration	20,349,513	
Multiplied by Metalline's stock price as of the Merger Date multiplied by the exchange ratio of 0.968818 ($1.26 x 0.968818)	$ 1.2207	$ 24,840,886
Fair value of the Metalline warrants issued to replace Dome warrants as of the Merger Date (b)		1,895,252
Merger consideration transferred		$ 26,736,138

(a) In accordance with ASC Topic 805-10, Business Combinations — Overall ("ASC 805-10"), transactions entered into primarily for the benefit of the combined entity, rather than primarily for the benefit of the acquired company should be accounted for as a separate transaction. The special warrant offering described above was completed for the benefit of the combined entity and therefore the value of the

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NOTE 4 – MERGER WITH DOME VENTURES (continued)

Metalline common shares issued in exchange for the shares acquired upon the conversion of the special warrants was treated as a separate financing transaction and not included as part of the merger consideration.

(b) Represents the fair value of warrants to acquire 2,228,281 shares of Company common stock issued to replace Dome warrants outstanding as of the Merger Date. ASC 805-10 requires that the fair value of replacement warrants be included in the consideration transferred. The fair value of the Metalline equivalent warrants was estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	$1.26
Post conversion strike price	$0.41
Average expected volatility	98%
Dividend yield	None
Average risk-free interest rate	0.12%
Average contractual term	.19 years
Black-Scholes average value per warrant	$0.8505

The expected volatility of the Metalline's stock price is based on the average historical volatility which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants is based on the remaining contractual exercise term of each warrant. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the Merger Date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed:

		Estimated Fair Value
Cash and cash equivalents	$	2,618,548
Other receivables		17,942
Prepaid expenses		6,404
Property Concessions – Gabon, Africa		4,496,915
Equipment		59,331
Value-added tax receivable		65,129
Other assets		4,294
Accounts payable		(251,577)
Accrued expenses		(6,436)
Payable to joint venture partner		(13,274)
Total identifiable net assets		6,997,276
Goodwill		19,738,862
Estimated consideration expected to be transferred	$	26,736,138

As of the merger date, the expected fair value of other receivables and value-added tax receivable approximated the historical cost. Property concessions do not have a useful life pursuant to the Company's policy on property concessions described in Note 3.

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the expected cost synergies of the combined business, assembled workforce, and the going concern nature of Dome and its subsidiaries. The Company estimates that the $19.7 million of goodwill, relating to Dome's pre-merger historical tax basis, will be not deductible for tax purposes.

NOTE 4 – MERGER WITH DOME VENTURES (continued)

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results from operations. The Company's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Dome's tangible and identifiable assets and liabilities. The amount allocated to the property concessions was based on a valuation report prepared by a third party appraisal firm. The allocation is not considered final as of the date of this report as management is still reviewing certain of the underlying assumptions and calculations used in the allocation relating primarily to the current assets and liabilities of Dome that were acquired. However, the Company believes the final purchase price allocation will not be materially different than presented herein

During the six months ended April 30, 2010, the Company incurred merger related transaction costs consisting primarily of legal and accounting fees of $253,025. These costs are included in professional fees on the consolidated statement of operations.

Actual and Pro-forma Impact of the Merger

Dome's net loss of $35,234 for the period from the Merger Date through April 30, 2010 is included in the Company's consolidated statement of operations for the three and six months ended April 30, 2010. The net loss for Dome represents a net loss per share of less than $0.01 per share for the Company during the three and six months ended April 30, 2010.

The following table presents supplemental pro forma information as if the Merger had occurred on November 1, 2009 for the three and six months ended April 30, 2010 and November 1, 2008 for the three and six months ended April 30, 2009. As such, all periods presented include merger related charges. The pro forma consolidated results are not necessarily indicative of what the Company's consolidated net loss would have been had the Company completed the Merger on November 1, 2009, or November 1, 2008. In addition, the pro forma consolidated results do not purport to project the future results of the combined Company nor do they reflect the expected realization of any cost savings associated with the Merger.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Revenues	$ —	$ —	$ —	$ —
Net loss	(371,000)	(979,000)	(1,587,000)	(5,469,000)
Loss per share	$ *	$ (0.01)	$ (0.02)	$ (0.06)

*Less than $0.01 per share

2010 Pro forma Results

The 2010 pro forma results were calculated by combining the results of Metalline with the stand-alone historical results of Dome for the three and six months ended March 31, 2010. Additionally the following adjustments were made to account for certain costs which would have been incurred had the acquisition commenced on November 1, 2009:

- Record additional depreciation for $60,000 estimated fair value of fixed assets identified in the merger using an estimated remaining life of two years.

- Eliminate historical compensation costs for Dome officers/directors incurred during the period and record additional directors fees for the chairman and two additional independent directors added in conjunction with the merger.

2009 Pro forma Results

The 2009 pro forma results were calculated by combining the historical financial results of Metalline with the stand-alone historical results of Dome for the three and six months ended March 31, 2009. Additionally, the following adjustments were made to account for certain costs that would have

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NOTE 4 – MERGER WITH DOME VENTURES (continued)

been incurred had the acquisition commenced on November 1, 2008:

- Recorded additional depreciation for $60,000 estimated fair value of fixed assets identified in the merger using an estimated remaining life of two years.

- Eliminated historical compensation costs for Dome officers/directors incurred during the period and record additional directors' fees for the chairman and two additional independent directors added in conjunction with the merger.

- Added $278,000 and $635,000 of transaction costs that were incurred to consummate the merger during the three and six months ended April 30, 2010, respectively.

NOTE 5 – MINING CONCESSIONS

Sierra Mojada Mining Concessions

The Company owns or has an option to acquire 27 mining concessions consisting of 19,580 hectares (about 48,385 acres) in the mining region known as the Sierra Mojada District located in Sierra Mojada, Coahuila, Mexico. The mining concessions are considered one prospect area and are collectively referred to as the Sierra Mojada Project.

During the quarter ended, April 30, 2010, the Company entered into agreements with several Mexican individuals to acquire seven mining concessions in the Sierra Mojada prospect area. The agreements are considered option purchase agreements and give the Company the option, but not the obligation, to acquire the seven concessions at established prices over the next 3-5 years. Pursuant to the option purchase agreements, the Company is required to make certain payments on a semi-annual or annual basis over the terms of these contracts. The Company will record these payments as mining concession assets. In the event the Company elects not to move forward with the purchase option outlined in the agreements, the Company will expense all cumulative costs deferred for each respective concession. As of April 30, 2010, the Company has capitalized $385,000 of payments pursuant to these option purchase agreements.

The Company purchased eleven of the concessions from Mexican entities and/or Mexican individuals and nine concessions were granted by the Mexican government. Each mining concession enables the Company to explore the underlying concession in consideration for the payment of a semi-annual fee to the Mexican government and completion of certain annual assessment work. Annual assessment work in excess of statutory annual requirements can be carried forward and applied to future periods. The Company has completed sufficient work to meet future requirements for many years.

Gabon Mining Concessions

The Company, through its wholly-owned subsidiary Dome, owns three exploration licenses (Ndjole, Mevang, and Mitzic) each covering approximately 2,000 square kilometers in Gabon, Africa. The exploration licenses were granted in July 2008 and entitle the Company to employ sub-surface exploration methods, such as drilling and trial mining.

As discussed in Note 6, two of Dome's licenses, Ndjole and Mevang, are in subject to a joint venture agreement with AngloGold, whereby AngloGold has a right to earn certain interests in these licenses. Dome also has a joint venture interest in the Ogooue license that is owned by AngloGold. Dome's third license, the Mitzic license, has iron ore potential and the Company, through Dome, is looking for a joint venture partner on this license.

The exploration licenses are valid for three years and are renewable twice with each renewal lasting for three years. The Company must spend 200,000,000 CFA francs in order to renew each exploration license for a second term of three years and 400,000,000 CFA francs in order to renew the license for a third term of three years. The Company must spend 800,000,000 CFA francs in the third term. Dome may apply for a mining license at any time during these periods. As of April 30, 2010, one United States dollar approximates 505 CFA francs.

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NOTE 6 – JOINT VENTURE AGREEMENTS

In October 2009, Dome and AngloGold entered into two joint venture agreements; the Ogooue Joint Venture Agreement and Ndjole and Mevang Joint Venture Agreement.

Ogooue Joint Venture Agreement

AngloGold acquired a reconnaissance license over an area comprising 8,295 square kilometers in Gabon, Africa. This license was acquired by AngloGold for its gold potential. The joint venture is an 80/20 joint venture in favor of AngloGold. AngloGold has made a firm commitment to spend $100,000 on exploration and will solely fund the first $3 million of exploration expenditures, after which the parties will contribute on an 80/20 basis. Joint venture dilution provisions apply whereby if Dome is diluted in the future to a joint venture interest of 5% or less due to lack of contribution to exploration budgets, its interest will be converted to a 2% Net Smelter Return which can be purchased at an appraised value 14 months after commencement of commercial production. Should AngloGold elect not to spend the aforesaid $3 million, the lease shall be assigned to Dome.

Ndjole and Mevang Joint Venture Agreement

Dome is the owner of the Ndjole and Mevang exploration licenses, each comprised of 2,000 square kilometers. Under the terms of the joint venture, AngloGold earned a 20% interest by paying Dome $400,000 upon signing of the joint venture agreement in October 2009. AngloGold can earn an additional 40% interest by paying Dome $100,000 per year over the next three years and by incurring exploration expenditures in the amount of $3.7 million over the next three years at the rate of $1 million in the first year, $1.2 million in the second year and $1.5 million in the third year. As of April 30, 2010, AngloGold has paid approximately $839,000 of exploration costs pursuant to the provision above.

Once it has earned a 60% interest, AngloGold can earn an additional 10% interest (70% total) by spending $5 million on exploration expenditures within two years of earning into a 60% interest as set out above. When the parties have a 70/30 joint venture, if Dome elects not to contribute to work programs and budgets, AngloGold can elect to earn an additional 15% interest (85% total) by carrying the project to a completed pre-feasibility study. Should AngloGold fail to perform as set out above, a 100% interest in the licenses shall revert to Dome and the joint venture will cease. AngloGold shall be entitled to withdraw from the joint venture after it has spent $1 million on exploration expenditures.

Joint venture dilution provisions apply whereby if Dome is diluted in the future to a joint venture interest of 5% or less due to lack of contribution to exploration budgets, its interests will be converted to a 2% Net Smelter Return which can be purchased at appraised value 14 months after commencement of commercial production.

Dome is operating the exploration program on behalf of AngloGold and receives funds from time-to-time to continue the joint venture operations in Gabon. As at April 30, 2010 Dome had a balance of $143,398 received from Anglo for ongoing exploration costs. These funds are reflected as a payable to joint venture partner on the Company’s consolidated balance sheet.

NOTE 7 - EQUIPMENT

The following is a summary of the Company's property and equipment at April 30, 2010 and October 31, 2009, respectively:

	April 30, 2010	October 31, 2009
Mining equipment	$ 1,477,592	$ 1,209,471
Well equipment	42,055	31,239
Communication equipment	7,772	7,288
Buildings and structures	148,970	139,679
Vehicles	216,409	114,369
Computer equipment and software	198,489	160,629
Office equipment	23,212	10,238
Assets under construction	40,923	12,479
	2,155,422	1,685,392
Less: Accumulated depreciation	(825,063)	(679,659)
	$ 1,330,359	$ 1,005,733

Depreciation expense for the six months ended April 30, 2010 and 2009 was $104,304 and $100,300 respectively. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

NOTE 8 - COMMON STOCK

On December 22, 2009, the Company closed a private placement of 6,500,000 units, at a price of $0.46 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 entitled the holder to purchase one share of common stock. As a result of the closing of the Merger on April 16, 2010, the warrants issued as part of this private placement were terminated in accordance with their terms. Total proceeds from this private placement were $2,990,000.

On January 10, 2010, Dome raised $13,010,000 through a private placement of special warrants. The private placement was completed through a syndicate of Canadian investment dealers and each special warrant automatically converted into one share of Dome common stock immediately prior to the closing of the Merger. The funds were held in escrow pending the closing.

On April 16, 2010, the Company completed the Merger and issued a total of 47,724,583 shares of common stock for all the issued and outstanding shares of Dome. Based upon the closing exchange ratio of 0.968818 shares of Metalline common shares for each single share of Dome common stock, the Company determined that 28,009,594 common shares of Metalline were issued pursuant to the special warrant offering and 19,714,989 common shares of Metalline were issued for merger consideration. After deducting offering costs of $1,048,484, the total net proceeds from the special warrant offering were $11,961,516.

Pursuant to ASC 805-10, the 19,714,989 shares issued for merger consideration was measured at $1.26, the closing market price of the Company’s common stock on April 16, 2010.

Also during six months ended April 30, 2010, the Company issued 80,000 shares of common stock upon the exercise of warrants at an average cash consideration of $0.50 per share and issued 64,800 shares of common stock at an average market price of $0.82 per share to its independent directors for services provided.

NOTE 8 - COMMON STOCK (continued)

A summary of the common stock and additional paid in capital activity for the six months ended April 30, 2010 is as follows:

	Common Shares Issued	Common Share Amount	Additional Paid-In Capital	Total Capital
Balance, October 31, 2009	48,834,429	$ 488,344	$ 55,144,214	$ 55,632,558
Common stock issued in private placement at average price of $0.46 per share	6,500,000	65,000	2,925,000	2,990,000
Common stock issued in special warrant offering at average price of $0.46 per share less offering costs of $1,048,484	28,009,594	280,096	11,681,420	11,961,516
Common stock issued for Dome merger consideration at $1.26 per share	19,714,989	197,150	24,643,736	24,840,886
Common stock issued for exercise of warrants at an average price of $0.50 per share	80,000	800	39,200	40,000
Common stock issued for directors fees at an average price of $0.82 per share	68,400	684	55,332	56,016
Warrants issued for replacement of Dome warrants at merger	—	—	1,895,252	1,895,252
Stock based compensation for options	—	—	47,559	47,559
Balance, April 30, 2010	103,207,412	$ 1,032,074	$ 96,431,713	$ 97,463,787

During the comparative six months ended April 30, 2009, the Company completed a private placement of 686,000 units at $0.25 per unit. Each unit consisted of one share of restricted common stock and one half of a warrant. Each whole warrant is exercisable at $0.50 per share and has a term of 3 years. Net proceeds from these placements were $171,500. Also during the six months ended April 30, 2009, the Company issued 64,800 shares of common stock at an average market price of $0.30 per share to its independent directors for services provided.

Shareholder Rights Plan

On June 11, 2007, the Board of Directors adopted a Shareholders' Right Plan through the adoption of a Rights Agreement, which became effective immediately. In connection with the adoption of the Rights Agreement, the

Board of Directors declared a distribution of one Right for each outstanding share of the Company's common stock, payable to shareholders of record at the close of business on June 22, 2007. The Right is attached to the underlying common share and will remain with the common share if the share is sold or transferred.

In certain circumstances, in the event that any person acquires beneficial ownership of 20% or more of the outstanding shares of the Company's common stock, each holder of a Right, other than the acquirer, would be entitled to receive, upon payment of the purchase price, which is initially set at $20 per Right, a number of shares of the Company's common stock having a value equal to two times such purchase price. The anti-takeover mechanisms of the Rights Agreement were not triggered by the merger transaction with Dome and no holders of the Rights were entitled to exercise their Rights as a result of that transaction or any events described in the Merger Agreement. The Rights will expire on June 11, 2017.

NOTE 9 - STOCK OPTIONS

The Company has three existing qualified stock option plans. Under the 2006 Stock Option Plan (the "2006 Plan') the Company may grant non-statutory and incentive options to employees, directors and consultants for up to a total of 5,000,000 shares of common stock. Under the 2000 Equity Incentive Plan (the "2000 Plan") the Company may grant non-statutory and incentive options to employees, directors, and consultants for up to a total of 1,000,000 shares of common stock. Under the 2010 Stock Option and Stock Bonus Plan (the"2010 Plan"), the lesser of (i) 30,000,000 shares or (ii) 10% of the total shares outstanding will be reserved to be issued upon the exercise of options or the grant of stock bonuses. As of April 30, 2010, 10,300,000 shares are available for issuance under the 2010 Plan.

Options are typically granted with an exercise price equal to the closing market price of the Company's stock at the date of grant and have a contractual term of 9 to 10 years. Prior to October 31, 2006, most stock option grants were immediately vested at date of grant. Subsequent grants have typically been issued with a graded vesting schedule over approximately 2 to 3 years. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the 2006 Plan). New shares are issued upon exercise of stock options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatility is based upon weighted average of historical volatility over the expected term of the option and implied volatility. The expected term of stock options is based upon historical exercise behavior and expected exercised behavior. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield is assumed to be none as the Company does not anticipate paying any dividends in the foreseeable future.

No options were granted or exercised during the six months ended April 30, 2010 and April 30, 2009.

The following is a summary of stock option activity for the six months ended April 30, 2010 is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 1, 2009	5,005,623	$ 2.27		
Granted	--	--		
Exercised	--	--		
Forfeited or Expired	(200,000)	2.15		
Outstanding at April 30, 2010	4,805,623	$ 2.27	6.71	$ 451,596
Vested or Expected to Vest at April 30, 2010	4,805,623	$ 2.27	6.71	$ 451,596
Exercisable at April 30, 2010	4,738,955	$ 2.28	6.69	$ 451,596

The Company recognized stock-based compensation costs for stock options of $47,559 and $463,644 for the six months ended April 30, 2010 and 2009, respectively. The Company typically does not recognize any tax benefits for stock options due to the Company's recurring losses. The Company currently expects all outstanding options to vest. Compensation cost is revised if subsequent information indicates that the actual number of options vested is likely to differ from previous estimates.

NOTE 9 - STOCK OPTIONS (continued)

Summarized information about stock options outstanding and exercisable at April 30, 2010 is as follows:

Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Weighted Ave. Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.34	705,619	8.79	$ 0.34	705,619	$ 0.34
1.25-1.32	100,000	0.43	1.32	100,000	1.32
2.18-2.85	3,750,004	6.46	2.53	3,683,336	2.53
4.30	250,000	7.14	4.30	250,000	4.30
$ 0.34-4.30	4,805,623	6.71	$ 2.27	4,738,955	$ 2.28

A summary of the nonvested shares as of April 30, 2010 and changes during the six months ended April 30, 2010 is as follows:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at November 1, 2009	266,670	$ 1.69
Granted	-	-
Vested	(200,002)	1.67
Forfeited	-	-
Nonvested at April 30, 2010	66,668	$ 1.73

As of April 30, 2010, there was $26,012 of total unrecognized compensation costs related to nonvested share based compensation arrangements granted under the qualified stock option plans. That cost is expected to be recognized over a weighted average period of 0.67 years.

NOTE 10 - WARRANTS

At times the Company has issued warrants to investors in connection with private placements of Company stock or in consideration for financial services. Warrants issued in consideration for financial services are typically granted with an exercise price equal to the market price of the Company's stock at the date of grant. The fair value of each warrant is estimated on the date of grant using the Black-Scholes-Merton valuation model. Expected volatility is based upon weighted average of historical volatility over the contractual term of the warrant and implied volatility. The risk-free interest rate is based upon implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The dividend yield is assumed to be none as the Company has not paid dividends nor does not anticipate paying any dividends in the foreseeable future.

NOTE 10 – WARRANTS (continued)

A summary of warrant activity for the six months ended April 30, 2010 is as follows:

Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)