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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period from 4-1-03 to 6-30-03

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT

For the transition period from to

Commission file number 000-31025

METALINE CONTACT MINES

(Exact name of small business issuer as specified in its charter)

Washington

91-0779945

(State or jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

6599 Prichard Creek Road, Murray, ID 83874

(Address of principal executive offices)

208-682-2217

(Issuer's telephone number)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date:
14,064,300

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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

METALINE CONTACT MINES

FINANCIAL STATEMENTS

June 30, 2003

Williams & Webster, P.S.
Certified Public Accountants
Bank of America Financial Center
601 W. Riverside, Suite 1940
Spokane, WA 99201

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The Board of Directors
Metaline Contact Mines
Murray, Idaho

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

We have reviewed the accompanying balance sheet of Metaline Contact Mines as of June 30, 2003, and the related statements of operations, stockholders' equity, and cash flows for the six months ended June 30, 2003 and 2002. All information included in these financial statements is the representation of the management of Metaline Contact Mines.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended December 31, 2002 were audited by us and we expressed an unqualified opinion on them in our report dated February 13, 2003. We have not performed any auditing procedures since that date.

Williams & Webster, P.S.
Certified Public Accountants
Spokane, Washington

July 23, 2003

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**METALINE CONTACT MINES
BALANCE SHEETS**

| | June 30, 2003 (Unaudited) | December 31, 2002 |
|--|--|------------------------------|
| | <hr/> | <hr/> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 117,181 | \$ 111,124 |
| Receivable from related party | — | 18,000 |
| Prepaid expense | 2,000 | — |
| | <hr/> | <hr/> |
| Total Current Assets | 117,181 | 129,124 |
| | <hr/> | <hr/> |
| OTHER ASSETS | | |
| Receivables from related parties | 109,413 | 109,413 |
| Accrued interest receivable | 19,149 | 15,320 |
| Investment in LLC | 34,346 | 35,109 |
| | <hr/> | <hr/> |
| Total Other Assets | 162,908 | 159,842 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 280,089 | \$ 288,966 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Deferred royalty income | \$ 3,880 | \$ 3,880 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 3,880 | 3,880 |
| | <hr/> | <hr/> |
| COMMITMENTS AND CONTINGENCIES | — | — |
| | <hr/> | <hr/> |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$0.05 par value; 20,000,000 shares authorized, 14,064,300 shares issued and outstanding | 703,222 | 703,222 |
| Additional paid-in capital | 302,165 | 302,165 |
| Stock options | 17,907 | 17,907 |
| Accumulated deficit | (745,085) | (738,208) |
| | <hr/> | <hr/> |
| Total Stockholders' Equity | 278,209 | 285,086 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 282,089 | \$ 288,966 |
| | <hr/> | <hr/> |

See accompanying notes and accountant's review report.

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**METALINE CONTACT MINES
STATEMENT OF OPERATIONS**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | June 30, 2003 (Unaudited) | June 30, 2002 (Unaudited) | June 30, 2003 (Unaudited) | June 30, 2002 (Unaudited) |
| REVENUES | | | | |
| Royalty income | \$ 3,880 | \$ 3,000 | \$ 7,760 | \$ 6,000 |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| Consulting and management fees | 1,500 | 12,614 | 3,000 | 21,614 |
| Professional fees | 3,140 | 6,465 | 9,925 | 11,694 |
| Transfer agent fees | 268 | 273 | 721 | 640 |
| Taxes, licenses, and fees | 12 | 39 | 400 | 428 |
| Office supplies and expenses | 2,886 | 4,078 | 3,902 | 5,113 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | 7,806 | 23,469 | 17,948 | 39,489 |
| OPERATING LOSS | (3,926) | (20,469) | (10,188) | (33,489) |
| OTHER INCOME | | | | |
| Dividend income | 118 | 420 | 245 | 888 |
| Interest income | 1,915 | 2,364 | 3,830 | 4,279 |
| Loss from investment in LLC | (297) | (104) | (764) | (213) |
| TOTAL OTHER INCOME | 1,736 | 2,680 | 3,311 | 4,954 |
| LOSS BEFORE TAXES | (2,190) | (17,789) | (6,877) | (28,535) |
| INCOME TAX EXPENSE | — | — | — | — |
| NET LOSS | \$ (2,190) | \$ (17,789) | \$ (6,877) | \$ (28,535) |
| NET LOSS PER COMMON SHARE, BASIC AND DILUTED | \$ nil | \$ nil | \$ nil | \$ nil |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED | 14,064,300 | 14,064,300 | 14,064,300 | 14,064,300 |

See accompanying notes and accountant's review report.

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**METALINE CONTACT MINES
STATEMENT OF STOCKHOLDERS' EQUITY**

| | Common Stock | | Additional Paid-in Capital | Stock Options | Accumulated Deficit | Total Stockholders' Equity |
|--|--------------|-----------|----------------------------------|------------------|------------------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2001 | 14,064,300 | \$703,222 | \$302,165 | \$17,907 | \$(689,679) | \$333,615 |
| Net loss for the year ended December 31, 2002 | — | — | — | — | (48,529) | (48,529) |
| Balance, December 31, 2002 | 14,064,300 | 703,222 | 302,165 | 17,907 | (738,208) | 285,086 |
| Net loss for six months ended June 30, 2003 | — | — | — | — | (6,877) | (6,877) |
| Balance, June 30, 2003 (unaudited) | 14,064,300 | \$703,222 | \$302,165 | \$17,907 | \$(745,085) | \$278,209 |

See accompanying notes and accountant's review report.

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**METALINE CONTACT MINES
STATEMENT OF CASH FLOWS**

| | Six Months Ended | |
|---|---------------------------------|---------------------------------|
| | June 30, 2003 (Unaudited) | June 30, 2002 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (6,877) | \$ (28,535) |
| Adjustments to reconcile net loss to net cash provided (used) by operating activities: | | |
| Accrued interest on amount due from MCMLLC | — | (4,279) |
| Net loss in investment in LLC | 764 | 213 |
| Changes in assets and liabilities: | | |
| Increase in interest receivable | (3,830) | — |
| Increase in prepaid expense | (2,000) | — |
| Decrease in deferred royalty income | — | (3,000) |
| Net cash used by operating activities | <u>(11,943)</u> | <u>(35,601)</u> |
| CASH FLOWS PROVIDED BY INVESTING ACTIVITIES | | |
| Cash advance to related party | — | (18,000) |
| Cash advance repaid by related party | 18,000 | — |
| Net cash provided (used) by investing activities | <u>18,000</u> | <u>(18,000)</u> |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | | |
| | — | — |
| Net increase (decrease) in cash and cash equivalents | 6,057 | (53,601) |
| Cash and cash equivalents, beginning of period | 111,124 | 183,354 |
| Cash and cash equivalents, end of period | <u>\$117,181</u> | <u>\$129,753</u> |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Income taxes paid | \$ — | \$ — |
| Interest paid | \$ — | \$ — |
| NON-CASH TRANSACTIONS: | | |
| | \$ — | \$ — |

See accompanying notes and accountant's review report.

[Table of Contents](#)**METALINE CONTACT MINES****NOTES TO THE FINANCIAL STATEMENTS****June 30, 2003****NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS**

Metaline Contact Mines (hereinafter “Metaline”) was incorporated in November of 1928 under the laws of the State of Washington for the purpose of engaging in mining and the buying and selling of ores, metals, and minerals.

The Company was reorganized and recapitalized in 1960 and its articles of incorporation were amended to expand its business purposes to include various additional business activities. Metaline has continued its operations since its formation and has historically acquired land, mineral rights, patented lode mining claims, and timber in the Pacific Northwest.

In the last quarter of 1996, Metaline transferred substantially all of its assets to a limited liability company. See Note 4.

The Company’s year end is December 31.

NOTE 2 – 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 United States of America and have been consistently applied in the preparation of the financial statements.

Accounting Method

The Company’s financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity” (hereinafter “SFAS No. 150”). SFAS No. 150 establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in statements of financial position. Previously, many of those instruments were classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not yet determined the impact of the adoption of this statement.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (hereinafter “SFAS No. 149”). SFAS No. 149 amends and clarifies the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, “Accounting for Derivative

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

Instruments and Hedging Activities”. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 is not expected to have a material impact on the financial position or results of operations of the Company.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure” (hereinafter “SFAS No. 148”). SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of the statement are effective for financial statements for fiscal years ending after December 15, 2002. As the Company accounts for stock-based compensation using SFAS No. 123, the adoption of SFAS No. 148 has no material impact on the Company’s financial condition or results of operations.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (hereinafter “SFAS No. 146”). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 was issued in June 2002, effective December 31, 2002. The Company’s financial position and results of operations have not been affected by adopting SFAS No. 146.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, “Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections” (hereinafter “SFAS No. 145”) which updates, clarifies and simplifies existing accounting pronouncements. SFAS No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related tax effect was rescinded. As a result, SFAS No. 64, which amended SFAS No. 4, was rescinded, as it was no longer necessary. SFAS No. 145 amended SFAS No. 13 to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Management’s adoption of this statement has not affected the financial position or results of operations.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all short-term debt with original maturities of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying amounts for cash, receivables, investments, accounts payable and accrued liabilities approximate their fair value. All instruments are accounted for on an historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at June 30, 2003.

Concentration of Risk

The Company maintains its cash in primarily one money market account, the funds of which are not insured by the Federal Deposit Insurance Corporation. The balance in that account was \$104,073 and \$110,353 at June 30, 2003 and December 31, 2002, respectively. Further, the Company's sole source of revenues currently is royalty income received under a mineral property lease with Teck Cominco American, Inc. See Note 6.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (hereinafter "SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB No. 133", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", which is effective June 30, 2003. These statements establish and clarify accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks or for speculative purposes.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments (continued)

At June 30, 2003, the Company had not engaged in any transactions that would be considered derivative instruments or hedging activities.

Investments

The Company accounts for its investment in Metaline Contact Mines, LLC using the equity method. See Note 3.

Compensated Absences

Currently, the Company has no employees; therefore, it is impractical to estimate the amount of compensation for future absences and no liability has been recorded in the accompanying financial statements. The Company's policy will be to recognize the costs of compensated absences when actually paid to employees.

Basic and Diluted Loss Per Share

Loss per share was computed by dividing the net loss by the weighted average number of shares outstanding during the period. The weighted average number of shares was calculated by taking the number of shares outstanding and weighting them by the amount of time that they were outstanding. Outstanding options have been excluded from the calculation of diluted loss per share as they would be antidilutive; accordingly, basic and diluted loss per share are the same.

Revenue Recognition

The Company recognizes royalty revenue as earned according to contract terms.

Interim Financial Statements

The interim financial statements as of and for the quarter ended June 30, 2003, included herein, have been prepared for the Company without audit. These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the results of operations for these periods. All such adjustments are normal recurring adjustments. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full fiscal year.

NOTE 3 – INVESTMENT IN LLC

On October 30, 1996, the Company organized a Delaware limited liability company, Metaline Contact Mines, LLC (hereinafter "The LLC"). Upon organization of The LLC, the Company transferred substantially all of its assets (primarily real property surface rights and timber) to The LLC. At the time of The LLC's formation, the Company was the sole managing member in The LLC, representing 100% ownership.

In 1998, the majority of the Company's interest in The LLC was expensed in connection with the sale of the majority of The LLC's assets.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 3 – INVESTMENT IN LLC (continued)

At the beginning of 1998, the Company's former shareholders acquired 93% of The LLC by transferring their stock in the Company to The LLC in exchange for non-managing membership interests. See Note 7. At the conclusion of this share exchange, the Company's percentage of ownership in The LLC was reduced to seven percent (7%). The Company wrote down its initial investment by 93% to reflect its diluted investment in The LLC. After the write down of its investment and net change in member capital during the year 1998, the value of the Company's investment in The LLC was \$45,440 at December 31, 1998.

After the dilution of its investment in The LLC, the Company continued as the managing member of The LLC. See Note 5.

At June 30, 2003, the Company recorded a second quarter loss on its investment in The LLC of \$764, thereby reducing the Company's recorded interest in The LLC to \$34,346.

NOTE 4 – MINERAL PROPERTIES

In 1996, Metaline transferred timber and real property surface rights to The LLC (see Note 3) but retained underground mineral rights to the transferred real property and its mining claims, located in Pend Oreille County in Washington State. The timber and real property surface rights were deemed by management to have a value equal to their recorded cost and this cost was transferred to The LLC. The related mineral rights are carried at no cost on Metaline's books.

In 1997, Metaline and The LLC jointly leased certain Pend Oreille County real estate and all related mineral rights to a major mining company. See Note 6.

NOTE 5 – RELATED PARTY TRANSACTIONS

In March 2002, the Company advanced \$18,000 on a short-term, non-interest bearing, unsecured basis to Murrayville Land Company, LLC, an affiliated company, to facilitate a real estate purchase. This receivable was repaid in May 2003.

During 1998, The LLC sold property for a net gain of \$5,958,762. Metaline's share of this gain, before adjustments of the Company's investment from The LLC's operating results and write down from its substantial decrease in ownership of The LLC, was \$507,858. See Note 3. The Company recorded a non-current, related party receivable of \$109,413 for the balance of the distribution. Due to uncertainty as to the date this receivable will be collected, this asset together with accrued interest at the rate of 7 percent per annum is recorded as a non-current asset at June 30, 2003 and December 31, 2002.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 5 – RELATED PARTY TRANSACTIONS (Continued)

In June 1998, Metaline executed an agreement with Nor-Pac Limited Company (hereinafter “Nor-Pac”), an affiliated company, wherein, for providing management and consulting services to Metaline, Nor-Pac was entitled to receive 500,000 shares of Metaline common stock in the second half of 1998, 250,000 shares of Metaline common stock quarterly in 1999 and \$10,000 per month thereafter commencing on January 1, 2000. This agreement was modified with an effective date of January 1, 2002, reducing the fee to \$3,000 per month. A further modification was made effective January 1, 2003, reducing the management fee to \$500 per month.

For additional information on related parties, see Notes 3, 6, 7 and 10.

NOTE 6 – MINING LEASE WITH PURCHASE OPTION

On September 1, 1997, Metaline and The LLC acting jointly as lessors executed an agreement with Cominco American Incorporated (hereinafter “Cominco”) wherein Cominco received the right to explore, develop, and mine Metaline’s underground mineral rights in Pend Oreille County, Washington for a period of twenty years with an option renewal period of the same length. Under this lease agreement, Cominco obligated itself to pay the lessors \$3,000 per quarter for the first five years of the lease with ascending quarterly increments at each successive five year interval.

The lease characterizes the aforementioned quarterly disbursements as “advance royalty payments” which may be fully offset against a three-percent production royalty retained by the lessors. The lease agreement gives Cominco the option to purchase 200 surface acres of the leased property for fair market value during the lease term.

During 2001, Teck Cominco Limited was formed, following the acquisition of Cominco Corporation by another mining company, Teck Corporation. The former subsidiary of Cominco Corporation, Cominco American Incorporated was renamed, Teck Cominco American, Inc., and continues as lessee under the original Cominco lease agreement.

Effective March 15, 2002, the aforementioned lease agreement was amended, thereby reducing the amount of acreage leased from the Company, and providing for an approximately three percent (3%) decrease in royalty payments.

From the inception of the lease through June 30, 2003, Metaline has received \$69,601 in payments from Cominco.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 7 – CHANGE IN LLC OWNERSHIP

On June 1, 1998, Nor-Pac Limited Company (“Nor-Pac”) purchased control of The LLC from its three principal owners at the time (Bunker Limited Partnership, Hecla Mining Company, and Metaline Mining & Leasing Company) by acquiring these entities’ non-managing membership interests in Metaline Contact Mines LLC. See Notes 1 and 5.

NOTE 8 – INCOME TAXES

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109 “Accounting for Income Taxes” (hereinafter “SFAS 109”). 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 the deferred tax asset if management does not believe the Company has met the “more likely than not” standard imposed by SFAS No. 109 to allow recognition of such an asset.

At June 30, 2003, the Company had a net deferred tax asset of approximately \$209,000 principally arising from net operating loss carryforwards for income tax purposes, which were calculated using a 34% tax rate. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the net deferred tax asset, a valuation allowance equal to the net deferred tax asset has been established.

At June 30, 2003, the Company has a net operating loss carryforward of approximately \$615,000, which expires in the years 2018 and 2023.

NOTE 9 – STOCK OPTIONS

The Company has adopted Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (hereinafter “SFAS No. 123”), which defines a fair value-based method of accounting for stock options and other equity instruments. This method measures compensation costs based on the estimated fair value of the award and recognizes that cost over the service period.

On November 16, 1999, the Company’s board of directors approved the Metaline Contact Mines 1999 Stock Option Plan. This plan allows the Company to distribute up to 2,000,000 shares of common stock shares to officers, directors, employees and consultants through the authorization of the Company’s board of directors at an initial exercise price of \$0.125, or \$0.15, depending on the terms of the option certificate. The options may be exercised until November 16, 2009, at which time they expire.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 9 – STOCK OPTIONS (Continued)

The fair value of the options granted on November 12, 2001 was estimated using the Black-Scholes Option Price Calculation. The following assumptions were made to estimate fair value: the risk-free interest rate is 6.0%, volatility is 0.24, and the expected life of the options is eight years. Accordingly, \$4,275 of option expense was recorded in the Company's financial statements as consulting and management fees. In accordance with Financial Accounting Standard No. 123 paragraph 115, this expense was deemed to be an estimate, subject to adjustment by decreasing the expense in the period of forfeiture.

Following is a summary of the status of fixed options outstanding at December 31, 2002 and June 30, 2003:

| | Number of Shares | Weighted Average Exercise Price |
|--------------------------------|---------------------|--|
| Outstanding January 1, 2002 | 1,250,000 | \$0.13 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited | — | — |
| Expired | — | — |
| | <hr/> | <hr/> |
| Outstanding, December 31, 2002 | 1,250,000 | \$0.13 |
| | <hr/> | <hr/> |
| Exercisable, December 31, 2002 | 1,250,000 | \$0.13 |
| | <hr/> | <hr/> |
| Outstanding January 1, 2003 | 1,250,000 | \$0.13 |
| Granted | — | — |
| Exercised | — | — |
| Forfeited | — | — |
| Expired | — | — |
| | <hr/> | <hr/> |
| Outstanding, June 30, 2003 | 1,250,000 | \$0.13 |
| | <hr/> | <hr/> |
| Exercisable, June 30, 2003 | 1,250,000 | \$0.13 |
| | <hr/> | <hr/> |

NOTE 10 – COMMITMENTS AND CONTINGENCIES

All earnings from The LLC in 1997 and 1996 were attributed by The LLC's principal owners to Metaline. Accordingly, Metaline reported these earnings as its own taxable income (on both Metaline's and The LLC's federal income tax returns) with Metaline retaining only a 6.9861% interest in The LLC. For calendar years 1998 through 2001, Metaline reported only its pro rata share (6.9861%) of taxable income from The LLC, with other LLC members reporting their respective share of LLC taxable income.

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METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

The LLC has agreed, in writing, to indemnify Metaline for any prior year income distributions requested by other LLC members. As of June 30, 2003, no cash or property distributions were made by the LLC to its members for indemnification purposes. In view of the ownership changes in The LLC, future distributions are expected to be made by The LLC to its members as determined from time to time by Metaline, its managing member. See Note 7 regarding a change in LLC ownership and see Note 5 regarding related party commitment.

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[Table of Contents](#)**Item 2. Management's Discussion and Analysis or Plan of Operations**

Results of Operations

The Company had revenues from operations of \$3,880 in the second quarter of 2003 versus \$3,000 in the second quarter of 2002. The increase in revenues of \$880 was a result of an increase in the amount of advance royalties paid to the Company under the terms of the New Cominco Lease. The Company experienced a decreased operating loss of \$7,806 in the second quarter of 2003 versus \$23,469 in the second quarter of 2002. The decreased loss of \$15,663 in the second quarter of 2003 was due to reductions in management and professional fees, and office expenses and related supplies.

Management fees decreased by \$11,114, from \$12,614 in the second quarter of 2002 to \$1,500 in the second quarter of 2003. Professional fees, consisting of legal and accounting decreased by \$2,325, from \$5,465 in the second quarter of 2002 to \$3,140 in the second quarter of 2003, due to decreased accounting fees associated with the Company's audited financial statements and quarterly reviewed statements. Transfer agent fees decreased by \$5 in the second quarter of 2003, to \$268 in the second quarter of 2003 from \$273 in the second quarter of 2002 due to a slight decrease in trading volume on the Company's common stock. Office supplies and expenses decreased to \$2,886 in the second quarter of 2003 from \$4,078 in the second quarter of 2002 due to a decrease of \$1,192 in the Company's share of office expenses. Taxes, licenses and fees decreased by \$27 in the second quarter of 2003, from \$39 in 2002 to \$12 in 2003.

The Company's other income decreased by \$944 in the second quarter of 2003 to \$1,736 from \$2,680 in the second quarter of 2002. The decrease was caused by lower dividend rates earned on the Company's money market account due to lower balances, a reduction in interest income, and an increased loss of \$297 from its investment in Metaline Contact Mines LLC ("MCMLLC"). The Company's interest income of \$1,915 on its demand note with MCMLLC during the second quarter of 2003 was \$449 lower than in the second quarter of 2002.

Financial Condition

The Company's financial condition is such that it can continue at its current level of operations for an additional 2 years without the necessity of additional capital. Current level of operations includes maintaining compliance with the New Cominco Lease, and the reporting requirements of the SEC. Thereafter, the Company may require additional capital for future operating costs and working capital. Such additional capital could be obtained from either increased revenues from operations (in the event the Company's mineral rights and properties are placed into commercial production by Teck Cominco), or from the sale of shares of the Company's authorized, but unissued, common stock.

Under the New Cominco Lease, any production decision on the Company's mineral rights and properties is under the sole discretion and control of Teck Cominco. Further, there are no assurances that the Company would be able to sell shares of its authorized, but unissued, common stock on terms acceptable to the Company. Any such sales of shares could be dilutive to the Company's then-existing shareholders, and any debt financings could involve restrictive covenants with respect to future capital raising activities, and other financial and operational matters.

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Presently there are no trends, events or uncertainties that have, or are reasonably likely to have, a material impact on the Company's short-term or long-term liquidity; there are no material commitments for capital expenditures, except for the management of its own business affairs; and there are no known trends, events or uncertainties that have or that are reasonably expected to have a material impact on the revenues from operations.

As a mineral resource exploration oriented enterprise, the Company will investigate future business opportunities that are consistent with its corporate charter and field of expertise, and in the opinion of management worthy of investigation. It should be noted, however, that the Company competes with other mining companies in connection with the acquisition of mineral properties, some of which have substantially greater financial resources than the Company. Management has not recognized any such opportunities as of the date of this filing, nor does it expect to do so during the next 12-month period. In the event such an opportunity would materialize, the Company's initial due diligence process in investigating such opportunity would not involve any significant investment by the Company.

Liquidity and Capital Resources

To date, the Company has funded its capital requirements from revenues from operations, and dividends and interest earned on its cash accounts. The Company's cash position as of June 30, 2003 was \$117,181 as compared to \$147,753 as of June 30, 2002.

The Company has no debt. The Company does not expect to incur any debt in the immediate future to expand its current level of operation, nor does it expect to expand its business operation in the immediate future. The Company's most significant cash requirements are its accounting fees and financial printing expenses associated with its reporting requirements with the U.S. Securities and Exchange Commission. The Company's management fees have been reduced from \$3,000 to \$500 per month payable under the terms of its Management Agreement, as amended, with Nor-Pac. As a related party, Nor-Pac has contractually agreed in the Management Agreement to (i) review and adjust on a quarterly basis the amount of the management fees based on time spent on the Company's affairs, and (ii) convert management fees that are payable in cash into common stock in the Company in the event of a shortfall of cash (the exchange rate would be determined at the time of the shortfall). The Company also has a related party receivable from MCMLLC in the amount of \$109,413, with accrued interest of \$19,149, as of June 30, 2003. As the Managing Member of MCMLLC, the Company has the ability to collect on this receivable in the event of a shortfall of cash.

Based on the foregoing, it is management's opinion that at its current level of operations the Company can satisfy its working capital requirements internally in the immediate future without the need to seek outside sources of equity or debt funding.

Item 3. Controls and Procedures

Annual Evaluations of the Company's Disclosure Controls and Internal Controls.

Within 90 days prior to the date of this Quarterly Report on Form 10-QSB, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"), and its "internal controls and procedures for financial reporting" ("Internal Controls"). This evaluation (the "Controls Evaluation") was done under the supervision and with the participation of management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Rules adopted by the SEC require that in this section of the Quarterly Report the Company present the conclusions of the CEO and the CFO about the effectiveness of its Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

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CEO and CFO Certifications.

Appearing immediately following the Signatures section of this Quarterly Report there are two separate forms of "Certifications" of the CEO and the CFO. The second form of Certification is required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certification"). This section of the Quarterly Report, which you are currently reading, is the information concerning the Controls Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Disclosure Controls and Internal Controls.

Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 ("Exchange Act"), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission ("SEC") rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that the Company's (1) transactions are properly authorized; (2) assets are safeguarded against unauthorized or improper use; and (3) transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Limitations of the Effectiveness of Controls.

The Company's management, including the CEO and CFO, does not expect that its Disclosure Controls or its Internal Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation .

The CEO/CFO evaluation of the Company's Disclosure Controls and our Internal Controls include a review of the controls' objectives and design, the controls' implementation by the Company and the effect of the controls' on the information generated for use in this Quarterly Report. In the course of the Controls Evaluation, management sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in the Company's Quarterly Reports on Form 10-QSB and Annual Report on Form 10-KSB. The Company's Internal Controls are also evaluated on an on-going basis by its independent auditors in connection with their audit and review activities. The overall goals of these various evaluation activities

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are to monitor our Disclosure Controls and our Internal Controls and make modifications as necessary; our intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including the improvements and corrections) as conditions warrant.

Among other matters, the Company sought in its evaluation to determine whether there were any “significant deficiencies” or “material weaknesses” in the Company’s Internal Controls, or whether the Company had identified any acts of fraud involving personnel who have a significant role in the Company’s Internal Controls. This information was important both for the Controls Evaluation generally and because items 5 and 6 in the Section 302 Certifications of the CEO and CFO require that the CEO and CFO disclose that information to our Board’s Audit Committee and to our independent auditors and to report on related matters in this section of the Annual Report. In the professional auditing literature, “significant deficiencies” are referred to as “reportable conditions”; these are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A “material weakness” is defined in the auditing literature as a particularly serious condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and may not be detected within a timely period by employees in the normal course of performing their assigned functions. The Company also sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, management considered what revision, improvement and/or correction to make in accord with our on-going procedures.

In accord with SEC requirements, the CEO and CFO note that, since the date of the Controls Evaluation to the date of this Quarterly Report, there have been no significant changes in Internal Controls or in other factors that could significantly affect Internal Controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

Conclusions.

Based upon the Controls Evaluation, the Company’s CEO and CFO have concluded that, subject to the limitations noted above, its Disclosure Controls are effective to ensure that material information relating to the Company is made known to management, including the CEO and CFO, particularly during the period when its periodic reports are being prepared, and that its Internal Controls are effective to provide reasonable assurance that the Company’s financial statements are fairly presented in conformity with generally accepted accounting principles.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any legal proceedings, and management is not aware of any threatened litigation, claims or assessments.

Item 2. Changes in Securities

There has been no change in securities for the quarter ending June 30, 2003.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

[Table of Contents](#)**Item 5. Other Information**

None.

Item 6. Exhibits and Reports on Form 8-K

Exhibit 31.1 – Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 – Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 – Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 – Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

There were no reports filed on Form 8-K during the three month period ended June 30, 2003.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED this the 18th day of August, 2003

METALINE CONTACT MINES

By: /s/ John W. Beasley

John W. Beasley
Secretary/Treasurer/CFO

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EXHIBIT 31.1**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard I. Howell, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB being filed for Metaline Contact Mines (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows

of the Registrant as of, and for, the periods presented in this quarterly report;

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weakness in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's controls.

Exhibit 31.1 - Page 1

6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 18, 2003

/s/ Richard L. Howell

Richard L. Howell, Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATION PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John W. Beasley, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB being filed for Metaline Contact Mines (the "Registrant");
2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report.
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:
 - (i) designed such disclosure controls and procedures to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made to us by others within those entities, particularly during the period in which this quarterly report is being prepared.
 - (ii) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (iii) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures on our evaluation as of the Evaluation Date;
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weakness in internal controls; and
 - (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's controls; and

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6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 18, 2003

/s/ John W. Beasley

John W. Beasley, Secretary/Treasurer &
Chief Financial Officer

Exhibit 31.2 - Page 2

EXHIBIT 32.1

METALINE CONTACT MINES

**CERTIFICATION PURSUANT TO
18 U.S.C. OF SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Metaline Contact Mines (the "Company") on Form 10-QSB for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard L. Howell, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard L. Howell

By: _____

Richard L. Howell
President & Chief Executive Officer
August 18, 2003

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EXHIBIT 32.2

METALINE CONTACT MINES

**CERTIFICATION PURSUANT TO
18 U.S.C. OF SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Metaline Contact Mines (the "Company") on Form 10-QSB for the period ending June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John W. Beasley, Secretary, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John W. Beasley
By: _____
John W. Beasley
Secretary, Treasurer & Chief Executive
Officer
August 18, 2003

Exhibit 32.2 - Page 1

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