

# METALINE CONTACT MINES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2008

### GENERAL

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist you in better understanding and evaluating the Company's financial condition and results of operations. The Company recommends that you read this MD&A in conjunction with its Financial Statements for the period ended December 31, 2008.

### OVERVIEW

Metaline Contact Mines (hereinafter "Metaline", "Company", "we", "us", or "our") is engaged in the business of acquiring and managing precious and base metals royalties. Royalties are passive (non-operating) interests in mining projects that provide the right to receive revenue from such projects, after deducting specified costs, if any. Substantially all of our revenues are and will be derived from royalty interests. We do not conduct mining operations at this time. During the year ended December 31, 2008, we focused primarily on gathering and evaluating exploration data from our Lessee, Teck Cominco, and marketing our interests in the Pend Oreille/Metaline Zinc Mines.

### RESULTS OF OPERATIONS

For the year ended December 31, 2008, our gross royalty revenues from operations were \$21,996, compared to \$22,832 for the year ended December 31, 2007, from our two mining projects, the Golden Chest Mine and the Pend Oreille/Metaline Zinc Mines, broken down as follows:

#### Golden Chest Mine

We received \$656 in royalties from operations at our Golden Chest Mine during the year ended December 31, 2008, compared to \$5,856 in 2007. The decrease in royalties was due to the temporary suspension of production by the mine's lessee/operator, New Jersey Mining Company ("New Jersey"), while it drives a new development ramp to the Idaho Vein's ore reserves. Our 2008 royalties were derived from the annual cleanout of the ball mill of ores mined and milled in 2007.

The cost of royalties for 2008 was \$354, compared to \$2,926 in 2007. The decrease of \$2,572 was due to the suspension of mining operations mentioned above. We record our royalty obligations under our lease agreement with the underlying property owner as a cost of revenues.

#### Pend Oreille/Metaline Zinc Mines

We received \$21,340 in advanced royalties from Teck Cominco Washington Incorporated ("Teck Cominco") for the year ended December 31, 2008, compared to \$16,975 during 2007. The increase of \$4,365 was due to an increase in the amount of advanced royalties due us under the terms of our lease agreement with Teck Cominco.

The cost of royalties for the year ended December 31 was \$9,811, versus \$7,814 for the same period in 2007. The increase in cost of royalties of \$1,997 was due to an increase in fees paid to our consulting geologist for services in evaluating the exploration data and other information provided by Teck Cominco. We record such fees as a cost of revenues.

### Operating Loss

We had an overall operating loss of \$5,038 in the year ended December 31, 2008, compared to \$17,282 in 2007.

During 2008, our general and administrative expenses decreased by \$12,506, to \$16,868 from \$29,374 in 2007, due predominately to a decrease in management and consulting fees of \$8,889, a decrease in professional accounting fees of \$1,744, and a decrease in administrative fees of \$1,873.

### Other Income

During the year ended December 31, 2008, our other income decreased to \$8,954, from \$10,455 in 2007, due to a decrease in dividend income of \$2,175, and a gain in our investment in Metaline Contact Mines LLC of \$674.

### Gain Before Taxes

We had a net gain, before taxes, of \$3,916 in the year ended December 31, 2008, compared to a net loss of \$6,827 in 2007, for the reasons discussed above. We do not expect any income tax liability on this gain.

## LIQUIDITY AND CAPITAL RESOURCES

We have traditionally funded our capital requirements from royalty revenues from operations, dividends earned on our cash accounts, and other income. As of December 31, 2008, our cash and cash equivalent position was \$73,842, compared to \$77,054 on December 31, 2007. We have no debt, and do not expect to incur any debt in the near future. General and administration expenses continue to be our most significant capital requirements.

Provided we are able to maintain our current level of operating revenues, we expect to be able to satisfy our anticipated cash expenditure requirements for the foreseeable future without the need of additional capital. If, however, our revenues should decrease considerably, depending on the circumstances thereof, we could require additional capital within 2-years. Our sources of additional capital include:

- (a) Collection of Receivables. We have a related party receivable from Nor-Pac Limited Company ("Nor-Pac") of \$100,000, with accrued interest of \$59,625, as of December 31, 2008. Nor-Pac owns approximately 81% of our outstanding shares, and has related management. Accordingly, we believe we have the ability to collect this receivable in the event of a shortfall of cash.
- (b) Increase Royalty Revenues. As a royalty-based company, increasing our royalty revenues from our current mining projects is under the control of our lessees, Teck Cominco and New Jersey. Factors that could influence our royalty revenues include: changes in precious and base metals prices; unanticipated grade, geological, metallurgical, processing or other problems; changes in project parameters as plans of the operators are refined; and other economic and market conditions.

Base metals prices, including zinc and lead, became significantly depressed in 2008, due in large part to the state of the global economy. Teck Cominco recently announced they are suspending commercial production at their nearby Pend Oreille Mine, and placing it on "care and maintenance" until the markets improve. Teck Cominco continues to maintain our lease in good standing, including the payment of royalties, but any increase in revenues from our Pend Oreille/Metaline Zinc Mines project is not a viable option at this time.

On the other hand, New Jersey Mining Company has resumed production of gold ores from our Golden Chest Mine. Although this production is relatively small in scale, and subject to many variables, it should provide us with an appreciable increase in revenues from this source during 2009, versus 2008.

- (c) Sale of Company's Common Stock. In today's economic climate, there are no assurances that we would be able to sell shares of our authorized, but unissued, common stock on acceptable terms. Such stock offerings are costly, can be legally restrictive, and dilutive to our shareholders.
- (d) Sale of Certain Assets. We own 60,000 shares of free-trading common stock in New Jersey Mining Company with a recorded value of \$25,689. The current market value of these shares is approximately \$14,400.

During the second half of 2008, we attempted to sell our Pend Oreille/Metaline Zinc Mines interests to over 100 prospective buyers. We received no offers, and there are no assurances that these interests can or will be sold on acceptable terms in the immediate future.