# METALINE CONTACT MINES

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2010

### 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 year ended December 31, 2010.

### OVERVIEW

Metaline Contact Mines (hereinafter "Metaline", "Company", "we", "us", or "our") is engaged in the business of acquiring, owning 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, 2010, we focused primarily on managing our royalty interests.

### RESULTS OF OPERATIONS

For the year ended December 31, 2010, our gross royalty revenues from operations were $21,340, compared to $31,156 for year ended December 31, 2009, from our two mining projects, the Golden Chest Mine and the Pend Oreille/Metaline Zinc Mines, broken down as follows:

<u>Golden Chest Mine</u>

We received no royalties from operations at our Golden Chest Mine during the year ended December 31, 2010, compared to $9,816 in 2009. The decrease in royalties of $9,816 was due to New Jersey ceasing production operations while they explore available financing options to drive a new ramp to access ore reserves on the Idaho Vein, and conduct a feasibility study of construction a new mill at the Golden Chest.

The cost of royalties for 2010 was nil, compared to $4,908 in 2009. The decrease of $4,908 was due to the halting of mining operations mentioned above as we record our royalty obligations under our lease agreement with the underlying property owner as a cost of revenues.

<u>Pend Oreille/Metaline Zinc Mines</u>

We received $21,340 in advanced royalties from Teck American Incorporated ("Teck American") for the year ended December 31, 2010, the same as in 2009.

There were no costs of royalties during the year ended December 31, 2010, or for the same period in 2009.

<u>Operating Loss</u>

We had an overall operating loss of $10,622 in the year ended December 31, 2010, compared to an operating gain of $5,200 in 2009.

During the year ended December 31, 2010, our general and administrative expenses increased by $10,914, to $31,962 from $21,048 in 2009. This increase was predominately due an increase in management fees of $14,729, related to the negotiation and approval of the sale of our interest in the Golden Chest Mine, and a decrease in administrative expenses of $4,135.

Other Income

During the year ended December 31, 2010, we earned $41,664 in other income, compared to $1,145 in 2009. The increase of $40,519 was directly related to the sale of our leasehold interests in the Golden Chest Mine, on December 15, 2010, when we received the initial installment payment of $40,000. We will receive a total of $1,200,000 in additional installment payments each December 15th, through 2017.

Also during the year ended December 31, 2010, we received a cash distribution of $3,216 from Metaline Contact Mines LLC ("MCMLLC") from MCMLLC's sale of certain real property in Pend Oreille County, State of Washington. We own a 7% membership interest in MCMLLC.

Gain Before Taxes

We had a net gain, before taxes, of $31,042 for the year ended December 31, 2010, compared to a net gain of $6,345 in 2009, for the reasons discussed above.

**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, 2010, our cash and cash equivalent position was $117,551, compared to $84,830 on December 31, 2009. 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, or our expenses increase dramatically, depending on the circumstances thereof, we could require additional capital within 12 - 18 months. 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 $73,625, as of December 31, 2010. Nor-Pac owns approximately 81% of our outstanding shares, and has related management. Accordingly, we believe we have the ability to collect portions of 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 lessee, Teck American. 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.

    Teck American has suspended commercial production at their nearby Pend Oreille Mine, and placed it on "care and maintenance" until the markets improve. Teck American continues to maintain our lease in good standing, including the payment of advanced royalties. However, any increase in revenues from our Pend Oreille/Metaline Zinc Mines project is not a viable option at this time.

As mentioned above, we sold our interests in the Golden Chest Mine and will be receiving no future royalty payments from New Jersey. However, we will be receiving installment payments from the sale thereof as mentioned above.

(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 32,500 shares of free-trading common stock in New Jersey Mining Company with a recorded value of $14,089. The current market value of these shares is approximately $8,125.

On December 15, 2010, we sold our leasehold interest in the Golden Chest Mine to Golden Chest LLC, a joint venture company owned by New Jersey Mining Company and the U.S. subsidiary of Canadian-based Marathon Gold Corporation. Under the terms of the sale, we will receive a total of $1,240,000, in installment payments through 2017. We received our first installment payment of $40,000 on December 15, 2010.

**LITIGATION**

In December of 2009, the Company was named as a co-defendant in a lawsuit initiated by Stimson Lumber Company ("Stimson"). Stimson is the owner of certain real property, located in Pend Oreille County, Washington, a portion of which is a site that contains hazardous materials as defined by the U.S. Environmental Protection Agency. In its suit, Stimson alleges the Company, at one time, either owned and/or operated the site, and is demanding the Company to pay its proportionate share of clean-up costs. The Company contends that it has neither owned, nor operated, the site, and, in fact, has never had anything whatsoever to do with the site, and has retained legal counsel to respond to the Stimson allegations. During the quarter ended September 30, 2010, we have incurred $2,526 in costs associated with this litigation.

**SUBSEQUENT EVENT**

On March 25, 2011, the lawsuit by Stimson Lumber Company against us described above was dismissed.