

# **METALINE CONTACT MINES**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **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, 2011.

### **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. Our revenues are and will be derived from royalty interests, and sale proceeds from the Golden Chest Mine. We do not conduct mining operations at this time. During the year ended December 31, 2011, we focused primarily on managing our royalty interests.

### **RESULTS OF OPERATIONS**

For the year ended December 31, 2011, our gross royalty revenues from operations were \$21,340, the same as in 2010, from the Pend Oreille/Metaline Zinc Mines. In addition, we had an installment gain of \$59,880 on the sale of the Golden Chest Mine, in 2011, versus \$31,936 in 2010.

#### **Golden Chest Mine**

We no longer receive royalties from operations at the Golden Chest Mine. The termination of royalties was due to the sale of our interests in the mine on December 15, 2010 to Golden Chest LLC, a joint-venture between New Jersey Mining Company and Marathon Gold USA Corporation, the United States subsidiary of Canadian-based Marathon Gold Corporation. Under the terms of the sale agreement, the company will receive a total of \$1,240,000, in the following installments: \$40,000 on December 15, 2010; \$75,000 on December 15, 2011; \$100,000 on December 15, 2012; \$125,000 on December 15, 2013; \$150,000 on December 15, 2014; \$200,000 on December 15, 2015; \$350,000 on December 15, 2016; and \$200,000 on December 15, 2017. The Company will co-hold (along with the property owner) a first mortgage as collateral.

#### **Pend Oreille/Metaline Zinc Mines**

We received \$21,340 in advanced royalties from Teck American Incorporated ("Teck American") for the year ended December 31, 2011, the same as in 2010.

There were no costs of royalties during the year ended December 31, 2011, or for the same period in 2010.

#### **Operating Gain**

We had an overall operating loss of \$4,012 in the year ended December 31, 2011, compared to an operating loss of \$10,622 in 2010.

During the year ended December 31, 2011, our general and administrative expenses decreased by \$6,610, to \$25,35, from \$31,962 in 2010. This decrease was primarily due to a decrease in administrative expenses of \$8,022.

#### Other Income

During the year ended December 31, 2011, we earned \$67,533 in other income, compared to \$41,664 in 2010. The increase of \$25,909 was due to the increased installment gain of \$27,944 on the sale of the Golden Chest Mine.

#### Gain Before Taxes

We had a net gain, before taxes, of \$63,541 for the year ended December 31, 2011, compared to a net gain of \$31,042 in 2010, 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, 2011, our cash and cash equivalent position was \$188,551, compared to \$117,551 on December 31, 2010. 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 revenues and other income, 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 and other income 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 \$80,625, as of December 31, 2011. 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. We will, however, be receiving annual 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 \$7,800.

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 second installment payment of \$75,000 on December 15, 2011. We are due to receive our third installment payment of \$100,000 on December 15, 2012.

#### **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.

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

#### **SUBSEQUENT EVENT**

On March 12, 2012, the Company's Board of Directors unanimously approved a ½-cent per share dividend, payable to shareholders of record on March 30, 2012 (the "Record Date").