

**METALINE CONTACT MINES
BALANCE SHEETS**

	31-Dec 2011 <u>(Unaudited)</u>	31-Dec 2010 <u>(Unaudited)</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188,551	\$ 117,551
Total Current Assets	<u>188,551</u>	<u>117,551</u>
OTHER ASSETS		
Prepaid Expenses	1,500	1,500
Receivables from related party	100,000	100,000
Accrued interest receivable	80,625	73,625
Investments	14,017	13,356
Machinery & equipment, net of depreciation	0	0
Golden Chest lease, net of depletion	0	0
Contract Receivable - Golden Chest LLC	1,125,000	1,200,000
Total Other Assets	<u>1,321,142</u>	<u>1,388,481</u>
TOTAL ASSETS	\$ <u>1,509,693</u>	\$ <u>1,506,032</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Deferred royalty income	5,335	5,335
Deferred Gain - Golden Chest LLC	\$ 898,184	\$ 958,064
Total current liabilities	<u>903,519</u>	<u>963,399</u>
COMMITMENTS AND CONTINGENCIES	<u>0</u>	<u>0</u>
STOCKHOLDER'S EQUITY		
Common stock, \$0.05 par value 20,000,000 shares authorized, 14,943,189 and 14,943,189 shares issued and outstanding, respectively	784,570	784,570
Additional paid-in capital	509,040	509,040
Stock options	47,907	47,907
Accumulated deficit	-735,420	-798,884
Total Stockholder's Equity	<u>606,097</u>	<u>542,479</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ <u>1,509,693</u>	\$ <u>1,506,032</u>

See accompanying notes

METALINE CONTACT MINES
STATEMENTS OF OPERATIONS

	Year End	
	31-Dec 2011 <u>(Unaudited)</u>	31-Dec 2010 <u>(Unaudited)</u>
GROSS REVENUES		
Royalty income	\$ 21,340	\$ 21,340
Less, cost of royalties	<u>0</u>	<u>0</u>
NET REVENUES	<u>21,340</u>	<u>21,340</u>
GENERAL & ADMINISTRATIVE EXPENSES		
Management and consulting fees	17,345	16,418
Professional fees	1,185	700
Administrative expenses	<u>6,822</u>	<u>14,844</u>
TOTAL EXPENSES	<u>25,352</u>	<u>31,962</u>
OPERATING GAIN (LOSS)	<u>-4,012</u>	<u>-10,622</u>
OTHER INCOME (LOSS)		
Dividend income	12	8
Interest income	7,000	7,000
Gain in LLC investment	661	2,720
Installment Gain - Golden Chest Sale	<u>59,880</u>	<u>31,936</u>
TOTAL OTHER INCOME	<u>67,553</u>	<u>41,664</u>
GAIN (LOSS) BEFORE TAXES	63,541	31,042
INCOME TAX EXPENSE	<u>0</u>	<u>0</u>
NET GAIN (LOSS)	<u>\$ 63,541</u>	<u>\$ 31,042</u>
NET GAIN (LOSS) PER COMMON SHARE		
BASIC AND DILUTED	<u>\$ nil</u>	<u>\$ nil</u>
WEIGHTED AVERAGE NUMBER		
OF COMMON SHARES OUTSTANDING,		
BASIC AND DILUTED	<u>14,943,189</u>	<u>14,943,189</u>

See accompanying notes

METALINE CONTACT MINES
STATEMENT OF CASH FLOWS

	<u>Year End</u>	
	<u>31-Dec</u> 2011 (Unaudited)	<u>31-Dec</u> 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net gain (loss)	63,541	31,042
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Prepaid expense	0	0
Investments	0	0
Gain in LLC investment	-661	496
Interest Receivable	-7,000	-7,000
Contract Receivable - Golden Chest LLC	75,000	-1,200,000
Deferred Gain - Golden Chest LLC	-59,880	958,064
 Net cash provided (used) by operating activities	 <u>71,001</u>	 <u>-217,398</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Accumulated Depreciation - Machinery & Equipment	0	119
Accumulated Depletion - Golden Chest Lease	0	0
Golden Chest Mine Lease	0	250,000
 Net cash provided (used) by investing activities	 <u>0</u>	 <u>250,119</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Common stock, \$0.05 par value	0	0
Additional paid-in capital	0	0
 Net cash provided by financing activities	 <u>0</u>	 <u>0</u>
 Net cash increase (decrease) for period	 71,001	 32,720
 Cash, beginning of period	 <u>117,551</u>	 <u>84,830</u>
 Cash, end of period	 <u>188,551</u>	 <u>117,551</u>

See accompanying notes

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Metaline Contact Mines (hereinafter “Metaline” or “the Company”) 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 re-capitalized in 1960 and its articles of incorporation were amended to expand its business purposes to include various additional business activities. Metaline has continued its business since its formation and has historically acquired land, mineral rights, patented lode mining claims, and timber in the Pacific Northwest.

Pursuant to a planned reorganization, in the 4th quarter of 1996, Metaline transferred substantially all of its assets to a limited liability company. (See Note 3 – Investment in LLC).

The Company’s fiscal year-end is December 31.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Company is presented to assist in understanding its 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 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.

Basic and Diluted Net Loss Per Share

Net 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 they were outstanding. Outstanding options have been excluded from the calculation of diluted loss per share as they would be anti-dilutive; accordingly, basic and diluted loss per share are the same.

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.

Compensated Absences

Currently, the Company has no employees; therefore, no liability has been recorded in the accompanying financial statements. The Company’s policy will be to recognize the costs of compensated absences when there are employees who earn such benefits.

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Risk

The Company maintains its cash in one money market account, the funds which are not insured by the Federal Deposit Insurance Corporation. The balance in that account was \$188,551 and \$117,551 at December 31, 2011 and December 31, 2010, respectively. The Company's revenue sources include royalty income received under mineral property leases with Teck American Incorporated and New Jersey Mining Company. (See Note 5 – Mineral Properties).

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 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", the last of 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 designed as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with 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.

During the periods ended December 31, 2011 and 2010, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

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 December 31, 2011.

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

The Company has two investments. It accounts for its investment in Metaline Contact Mines, LLC using the equity method of accounting. (See Note 3 – Investment in LLC). The Company accounts for its investment in New Jersey Mining Company using the cost method of accounting. (See Note 4 – Investment in New Jersey Mining Company).

Revenue Recognition

The Company recognizes revenue when there is a mutually executed contract, the contract price is fixed and/or determinable, delivery of the product or service has occurred, and collectibility of the contract price is considered probable.

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.

NOTE 3 – INVESTMENT IN LLC

On October 30, 1996, the Company organized Metaline Contact Mines LLC (hereinafter “The LLC”) a Delaware limited liability company. Upon the 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.

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. At the conclusion of this share exchange, the Company wrote down its initial investment by 93% to reflect its diluted investment in The LLC. After the write down of its initial 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.

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 3 – INVESTMENT IN LLC (continued)

In November of 2004, the Company wrote down the remaining portion of its recorded membership interest in The LLC in consideration of the reacquisition of 748,065 shares of its common stock. As a result of this transaction, the Company's investment in the LLC was reduced to \$0. The LLC capital account has a balance of \$603 as of December 31, 2011.

For the year ended December 31, 2011, The LLC had a net gain of \$8,614, of which the Company's 7% share was \$661.

NOTE 4 – INVESTMENT IN NEW JERSEY MINING COMPANY

The Company owns 32,500 shares of New Jersey Mining Company's common stock (the "New Jersey Shares"), with a recorded cost basis of \$13,414. The Company owns the New Jersey Shares pursuant to the terms of the exploration agreement with New Jersey Mining Company it acquired from Paymaster Resources Incorporated.

NOTE 5 – MINERAL PROPERTIES

Pend Oreille/Metaline Zinc Mines

The Company is receiving royalty payments related to a lease agreement with Teck American Incorporated (hereinafter "Teck"). Under the terms of the agreement, Teck has the right to explore, develop, and mine the Company's underground mineral rights in Pend Oreille County, Washington for a period of twenty years with an option renewal period of the same length. Teck is currently obligated to pay the Company \$5,335 per quarter, 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 Company. The lease agreement gives Teck the option to purchase 200 surface acres of the leased property for fair market value during the lease term.

From the inception of the lease through December 31, 2011, the Company has received \$228,870 in payments from Teck.

Golden Chest Mine

In January 2004, the Company issued 466,954 shares of its common stock to Paymaster Resources Incorporated (hereinafter "Paymaster"), a related party (due to common officers and directors), in order to acquire Paymaster's interest in the Golden Chest Mine mineral lease to patented mining claims in Shoshone County, Idaho. In this transaction, the Company also acquired Paymaster's interest in an exploration agreement with New Jersey Mining Company (hereinafter "New Jersey"), which relates to the aforementioned mining claims.

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 5 – MINERAL PROPERTIES (continued)

On July 22, 2005, the Company issued an additional 1,000,000 shares of its authorized, but unissued, common stock to Paymaster pursuant to the Company's agreement to acquire the lease on the Golden Chest Mine from Paymaster in the event the Golden Chest Mine went into commercial production. In July of 2005, the Golden Chest Mine commenced commercial production as defined in the lease.

Golden Chest Lease

The Company acquired a Mining Lease and Agreement, as amended (the "Golden Chest Lease") with J.W. Beasley Interests LLC, the owner of the Golden Chest Mine. The Golden Chest Lease continues until July 1, 2018, with options thereafter so long as there is commercial production. The Company has no advance royalty payments, work requirements, or other holding costs with regard to the lease, and is to pay J.W. Beasley Interests an "in kind" royalty of 50% of the all royalties and other consideration received from New Jersey throughout the tenure of the New Jersey agreements described below.

New Jersey Lease

Effective January 3, 2005, New Jersey Mining Company exercised its option and entered into a Mining Lease (the "New Jersey Lease") with the Company on the Golden Chest Mine. Under the terms of the New Jersey Lease, the Company was issued 100,000 shares of New Jersey's authorized, but unissued, common stock, and will receive a sliding scale Net Smelter Return (NSR) royalty of 3% if production is achieved. An additional NSR royalty, up to a maximum of 3%, is payable to the Company based on a sliding scale of increasing gold prices, adjusted to the Consumer Price Index (CPI) using June 2003 as the base, as follows:

<u>Price of Gold, \$/Troy Ounce</u> (using December 2004 CPI)	<u>Additional NSR Royalty</u>
< \$415	None
\$415 - \$467	1.0%
\$467 - \$519	1.5%
\$519 - \$570	2.0%
>\$570	3%

The Company will receive additional consideration of 50,000 shares of New Jersey's authorized, but unissued, common stock for each 10,000 ounces of gold produced from the Golden Chest Mine, and a 1% Net Profits Royalty (NPR) on any and all production from properties located within a ½-mile perimeter of the Golden Chest Mine.

For the period ended December 31, 2011, the Company received no production royalties from New Jersey Mining.

**METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Golden Chest Sale

On December 15, 2010, the Company sold its leasehold interests 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.

NOTE 6 – 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, a related party (due to common officers and directors), in order to facilitate a real estate purchase. This receivable was repaid in May 2003.

During 1998, Metaline Contact Mines, LLC (“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. The Company recorded a 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.

Over the years, Metaline has executed agreements with Nor-Pac Limited Company (hereinafter “Nor-Pac”), an affiliated company. With the Company’s consent, in November of 2004 The LLC assigned its rights, title and interest in the Company’s aforementioned related party receivable of \$109,413 and accrued interest to Nor-Pac. On June 27, 2006, Nor-Pac made a \$9,413 payment towards the principal amount, thereby reducing the receivable to \$100,000.

NOTE 7 – INCOME TAXES

At December 31, 2011, the Company has a net operating loss carry-forward of approximately \$597,798.

NOTE 8 – STOCK OPTIONS

The Company did not engage in stock option activity during the year ended December 31, 2011. Summarized information about stock options outstanding and exercisable at December 31, 2011 is as follows:

METALINE CONTACT MINES
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.06	500,000	4.62	\$ 0.06	500,000	\$ 0.06
0.125	1,000,000	4.62	0.125	1,000,000	0.125
0.15	250,000	4.62	0.15	250,000	0.15
<u>\$ 0.06-0.15</u>	<u>1,750,000</u>	<u>4.62</u>	<u>\$ 0.11</u>	<u>1,750,000</u>	<u>\$ 0.11</u>

NOTE 9 – COMMON STOCK

The Company is authorized to issue 20,000,000 shares of common stock. All shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative and therefore, the holders or more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

NOTE 10 – 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 containing hazardous materials as defined by the U.S. Environmental Protection Agency. In its suit, Stimson alleges the Company owned and/or operated the site, and is seeking the Company to pay a proportionate share of clean-up costs. The Company contends that it has neither owned, nor operated, the site, and, in fact, 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 the Company described in Note 10 above, was dismissed with prejudice.