

**METALINE CONTACT MINES  
BALANCE SHEETS**

	31-Mar 2012 <u>(Unaudited)</u>	31-Mar 2011 <u>(Unaudited)</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 176,126	\$ 120,484
Total Current Assets	<u>176,126</u>	<u>120,484</u>
<b>OTHER ASSETS</b>		
Prepaid Expenses	1,500	1,500
Receivables from related party	100,000	100,000
Accrued interest receivable	82,425	75,375
Investments	14,018	13,278
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>1,322,943</u>	<u>1,390,153</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,499,991</u></b>	<b><u>\$ 1,510,637</u></b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Deferred royalty income	\$ 5,335	\$ 5,335
Deferred Gain - Golden Chest LLC	898,184	958,064
Management Fees	0	499
Total current liabilities	<u>903,519</u>	<u>963,898</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>0</u>	<u>0</u>
<b>STOCKHOLDER'S EQUITY</b>		
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	-746,045	-794,739
Total Stockholder's Equity	<u>595,472</u>	<u>546,739</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b><u>\$ 1,499,991</u></b>	<b><u>\$ 1,510,637</u></b>

See accompanying notes

**METALINE CONTACT MINES**  
**STATEMENTS OF OPERATIONS**

	3-Months Ended	
	31-Mar 2012 <u>(Unaudited)</u>	31-Mar 2011 <u>(Unaudited)</u>
<b>GROSS REVENUES</b>		
Royalty income	\$ 5,335	\$ 5,335
Less, cost of royalties	<u>0</u>	<u>0</u>
<b>NET REVENUES</b>	<u>5,335</u>	<u>5,335</u>
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>		
Management and consulting fees	1,181	525
Professional fees	720	1,095
Administrative expenses	15,863	1,284
<b>TOTAL EXPENSES</b>	<u>17,764</u>	<u>2,904</u>
<b>OPERATING GAIN (LOSS)</b>	<u>-12,429</u>	<u>2,431</u>
<b>OTHER INCOME (LOSS)</b>		
Dividend income	4	3
Interest income	1,800	1,750
Investment income	<u>0</u>	<u>0</u>
<b>TOTAL OTHER INCOME</b>	<u>1,804</u>	<u>1,753</u>
<b>GAIN (LOSS) BEFORE TAXES</b>	-10,625	4,184
<b>INCOME TAX EXPENSE</b>	<u>0</u>	<u>0</u>
<b>NET GAIN (LOSS)</b>	<u>\$ -10,625</u>	<u>\$ 4,184</u>
<b>NET GAIN (LOSS) PER COMMON SHARE</b>		
BASIC AND DILUTED	<u>\$ nil</u>	<u>\$ nil</u>
<b>WEIGHTED AVERAGE NUMBER</b>		
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**

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	<u>3-Months Ended</u>	
	<u>31-Mar</u> 2012 (Unaudited)	<u>31-Mar</u> 2011 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net gain (loss)	-10,625	4,184
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Prepaid expense	0	0
Interest Receivable	-1,800	-1,750
Management Fees	0	499
Net cash provided (used) by operating activities	<u>-12,425</u>	<u>2,933</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Accumulated Depreciation - Machinery & Equipment	0	0
Accumulated Depletion - Golden Chest Lease	0	0
Net cash provided (used) by investing activities	<u>0</u>	<u>0</u>
Net cash increase (decrease) for period	-12,425	2,933
Cash, beginning of period	<u>188,551</u>	<u>117,551</u>
Cash, end of period	<u>176,126</u>	<u>120,484</u>

See accompanying notes

**METALINE CONTACT MINES  
CONDENSED NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

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**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 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.

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 5 – Related Party Transactions below).

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

**NOTE 2 – BASIS OF PRESENTATION**

The foregoing unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments, all of which are of a normal recurring nature, necessary for a fair statement of the results for the interim period presented.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company’s financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions and could have a material effect on the reported amounts of the Company’s financial position and results of operations.

**METALINE CONTACT MINES  
CONDENSED NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

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**NOTE 3 – 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.

Concentration of Risk

The Company maintains its cash in one money market account, which funds are not insured by the Federal Deposit Insurance Corporation. The balance in that account was \$176,126 and \$120,484 at March 31, 2012 and March 31, 2011, 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 4).

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

**METALINE CONTACT MINES  
CONDENSED NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

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**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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 March 31, 2012 and 2011, 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 March 31, 2012.

Investments

The Company has two investments. It accounts for its investment in Metaline Contact Mines, LLC using the equity method of accounting. The Company accounts for its investment in New Jersey Mining Company using the cost method of accounting.

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 collectability 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.

**METALINE CONTACT MINES  
CONDENSED NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

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**NOTE 4 – MINERAL PROPERTIES**

Pend Oreille/Metaline Zinc Mines

The Company is receiving royalty payments related to a lease agreement with Teck American Incorporated (hereinafter “Teck American”). Under the terms of the agreement, Teck American 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 American 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 3% NSR royalty retained by the Company. The lease agreement gives Teck American 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 March 31, 2012, the Company has received \$234,205 in payments from Teck Cominco.

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 minerals 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. 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. The Golden Chest Mine commenced commercial production as defined in the lease in July of 2005.

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

**METALINE CONTACT MINES  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

**NOTE 5 – RELATED PARTY TRANSACTIONS (continued)**

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 6 – INCOME TAXES**

At December 31, 2011, the Company has a net operating loss carry-forward of approximately \$661,340.

**NOTE 7 – STOCK OPTIONS**

The Company did not engage in stock option activity during the first quarter of 2011. Summarized information about stock options outstanding and exercisable at September 30, 2011 is as follows:

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	6.62	\$ 0.06	500,000	\$ 0.06
0.125	1,000,000	6.62	0.125	1,000,000	0.125
0.15	250,000	6.62	0.15	250,000	0.15
<u>\$ 0.06-0.15</u>	<u>1,750,000</u>	<u>6.62</u>	<u>\$ 0.11</u>	<u>1,750,000</u>	<u>\$ 0.11</u>

**METALINE CONTACT MINES  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2012**

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**NOTE 8 – 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 of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company.

**NOTE 9 – DIVIDEND**

On March 12, 2012, the Company's Board of Directors approved a \$0.005 per share dividend for shareholders of record on March 30, 2012 (the "Record Date").