

METALINE CONTACT MINES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2009

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, 2009.

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, 2009, we focused primarily on managing our royalty interests.

RESULTS OF OPERATIONS

For the year ended December 31, 2009, our gross royalty revenues from operations were \$31,156, compared to \$21,996 for year ended December 31, 2008, 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 \$9,816 in royalties from operations at our Golden Chest Mine during the year ended December 31, 2009, compared to \$656 in 2008. The increase in royalties of \$9,160 was due to the production operations on the Claggett Vein, which was encountered by New Jersey during their Idaho Ramp development project.

The cost of royalties for the 2009 was \$4,908, compared to \$354 in 2008. The increase of \$4,554 was due to the mining operations mentioned above as 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 American Incorporated ("Teck American") for the year ended December 31, 2009, the same as in 2008.

There were no costs of royalties during the year ended December 31, 2009, versus \$9,811 for the same period in 2008. The decrease in cost of royalties of \$9,811 was due to our no longer requiring the services of our consulting geologist in collecting and evaluating the exploration data and other information provided by Teck American. We record such fees as a cost of revenues.

Operating Gain

We had an overall operating gain of \$26,248 in the year ended December 31, 2009, compared to an operating gain of \$11,830 in 2008.

During 2009, our general and administrative expenses increased by \$4,180, to \$21,048 from \$16,868. This increase was predominately due an increase in selling expenses for our Golden Chest Mine project of \$3,102, compared to the selling expenses we incurred in 2008 when we attempted to sell our interests in the Pend Oreille/Metaline Zinc Mines. In addition, we experienced an increase in listing fees for the market provider for our common stock of \$2,115 in 2009, to \$5,751, from \$3,636 in 2008, due to a change in the billing practices of the market provider. We incurred a savings in our professional, investor relations, and general office expenses of \$1,845 for the year ended December 31, 2008, versus 2008.

Other Income

During the year ended December 31, 2009, we earned \$1,145 in other income, compared to \$8,954 in 2008. The decrease of \$7,809 in other income was predominately due to a decrease in dividend income from our money market account of \$1,233, and a loss of \$5,666 in the sale of 27,500 shares of common stock in New Jersey Mining Company.

Gain Before Taxes

We had a net gain, before taxes, of \$6,345 for the year ended December 31, 2009, compared to a net gain of \$3,916 in 2008, 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, 2009, our cash and cash equivalent position was \$84,830, compared to \$73,842 on December 31, 2008. 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 \$66,625, as of December 31, 2009. 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 lessees, Teck American 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 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.

New Jersey has also suspended production of gold ores from our Golden Chest Mine pending their ability to finance continued development of and access to proven and probably ore reserves on the Idaho Vein. We do not expect to receive any royalty revenues from the Golden Chest Mine project for a minimum of 12 – 18 months.

- (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.

With gold prices remaining strong, we are continuing with our efforts to sell our interests in the Golden Chest Mine. There are no assurances, however, that we will be successful in selling said interests.

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.