

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

NON-OFFERING PROSPECTUS



August 10, 2007

STERLING MINING COMPANY

This prospectus is being filed under the *Securities Act* (Ontario) to enable Sterling Mining Company (“Sterling” or the “Company”), a company incorporated under the laws of the state of Idaho, to become a “reporting issuer” pursuant to such legislation, notwithstanding that no securities are being offered under this prospectus. No proceeds will be raised and all expenses in connection with the preparation and filing of this prospectus will be paid by the Company from its working capital. As at July 31, 2007, the Company had 30,607,925 voting shares of common stock (“Common Shares”) issued and outstanding. The Common Shares of the Company (“Shares”) trade on the OTC Bulletin Board under the symbol "SRLM" and also on the Frankfurt Stock Exchange under the trading symbol "SMX".

Upon the final receipting of this prospectus by the Ontario Securities Commission (the “OSC”), the Company will become a reporting issuer in Ontario.

The Company has received conditional approval from the Toronto Stock Exchange (“TSX”) to list its Common Shares on the TSX, subject to fulfilling all requests of the TSX and filing of customary documents on or prior to October 30, 2007.

AN INVESTMENT IN NATURAL RESOURCE ISSUERS INVOLVES A SIGNIFICANT DEGREE OF RISK. AN INVESTMENT IN SECURITIES OF THE COMPANY SHOULD ONLY BE MADE BY PERSONS WHO CAN AFFORD THE TOTAL LOSS OF THEIR INVESTMENT. SEE “RISK FACTORS”.

Unless otherwise noted, all currency amounts in this prospectus are stated in U.S. dollars. No person is authorized by the Company to provide any information or make any representations other than those contained in this prospectus.

No underwriter has been involved in the preparation of this prospectus or performed any review of the contents of this prospectus.

Sterling is incorporated under the laws of the state of Idaho, United States of America, its head office is located in the state of Idaho, and most of its directors and officers of the Company are not resident Canadians. Although Sterling has appointed Cassels Brock & Blackwell LLP, 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario M5H 3C2, as its agent for service of process in Ontario, it may not be possible for investors to collect from the Company and/or its directors and officers, judgments obtained in courts in Canada predicated on the civil liability provisions of securities legislation.

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SUMMARY OF PROSPECTUS

The Company's Business:

The Company is engaged in the business of acquiring, exploring, and developing mineral properties, primarily those containing silver and associated base and precious metals. Sterling's principal mining property is the Sunshine Mine in Idaho, United States. The Company has developed and implemented a multiphase plan to return the Sunshine Mine to long-term sustainable production. See "Mineral Projects – Sunshine Mine". The Company also has interests in the Barones project and other projects and prospects in Mexico, Montana and Idaho. See "Description of the Business of the Company and Mineral Projects."

Non-Offering Prospectus:

This prospectus does not offer for sale or distribution any shares or other securities of the Company. When the prospectus is filed the Company, will become a reporting issuer in Ontario. The Company is currently listed on the OTC Bulletin Board in the United States and files reports with the United States Securities Act of 1934 as a U.S. domestic issuer, its common shares are also listed on the Frankfurt Stock Exchange. The Company has received conditional approval from the TSX to list its Common Shares on the TSX, subject to fulfilling all requests of the TSX and filing of customary documents on or prior to October 30, 2007.

Summary of Selected Financial Information:

The following tables set forth selected financial data for each of the years in the three-year period ended December 31, 2006. The consolidated statement of operations data and balance sheet data are derived from the audited Consolidated Financial Statements of Sterling. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, including the notes thereto.

Consolidated Statement of Operations Data:

	<u>Year Ended December 31 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31 2004</u>
Net Revenues	\$887,524	\$491,716	\$62,873
Loss from operations	\$(6,568,432)	\$(4,255,611)	\$(5,001,375)
Net income (loss)	\$(5,230,395)	\$(4,548,957)	\$(5,529,707)
Net income (loss) per share:			
Basic	\$(0.24)	\$(0.26)	\$(0.36)
Diluted	\$(0.24)	\$(0.26)	\$(0.36)

Consolidated Balance Sheet Data:

	<u>Year Ended December 31 2006</u>	<u>Year Ended December 31, 2005</u>	<u>Year Ended December 31 2004</u>
Total assets	\$20,920,367	\$3,655,506	\$3,681,847
Current liabilities	\$5,861,656	\$849,378	\$1,024,579
Long-term obligations	\$519,763	\$ -	\$ -
Cash dividends per common share	\$ -	\$ -	\$ -

Quarterly Information

Selected quarterly financial data for the years ended December 31, 2006 and 2005 is as follows:

2006	Quarter				3rd	4th
	1st	2nd	3rd	4th		
Net revenues	\$ 280,524	\$ 316,509	\$ 165,062	\$ 125,429		
Loss from operations	\$ (997,852)	\$ (1,865,112)	\$ (1,701,302)	\$ (2,004,166)		
Net income/(loss)	\$ (1,226,591)	\$ (1,638,292)	\$ (1,644,472)	\$ (721,040)		
Earnings per share						
Basic	\$ (0.06)	\$ (0.08)	\$ (0.08)	\$ (0.02)		
Diluted	\$ (0.06)	\$ (0.08)	\$ (0.08)	\$ (0.02)		
2005	Quarter				3rd	4th
	1st	2nd	3rd	4th		
Net revenues	\$ 7,497	\$ 14,427	\$ 26,690	\$ 443,102		
Loss from operations	\$ (1,114,817)	\$ (1,272,744)	\$ (1,515,308)	\$ (352,742)		
Net income/(loss)	\$ (1,177,408)	\$ (1,270,400)	\$ (1,535,981)	\$ (565,168)		
Earnings per share						
Basic	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.03)		
Diluted	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.03)		

Risk Factors:

Any involvement in the securities of the Company involve a high degree of risk and is very speculative due to the nature of the Company's business and present stage of development.

- As the Company completes additional equity financings, the existing shareholders will experience dilution.
- There is limited liquidity for the Common Shares.
- The Company has limited recent operating history on which to evaluate its potential for future success. The Company has also a history of net losses.
- The Company has limited capital and has minimal revenue to date and will thus need to obtain additional capital to continue operations.
- The Company may lose rights to properties if it fails to meet payment requirements or development or production schedules.
- The Company's operations in Mexico are subject to risks associated with the conduct of business, in foreign countries.
- The Company could face environmental liabilities with respect to its Sunshine Mine that could have a significant adverse effect on the Company's results of operations.
- Some of the Company's directors and officers may have conflicts of interest as a result of their involvement with other natural resource companies.
- There can be no assurance that the Company's insurance will be sufficient.
- The Company is reliant upon key personnel.
- Mineral exploration is by its nature speculative and capital intensive.
- The title to some of the company's properties may be uncertain or defective.
- Exploration programs may not result in a commercial mining operation, resulting in expensing the Company's investments.
- The Company may be subject to risks and expenditures that may be financially

burdensome in connection with the safety regulation of operations at the Sunshine Mine.

- The Company may be subject to environmental risks and land reclamation requirements for mineral properties that may be financially burdensome.
- The Company faces competition in the acquisition of mining properties and the recruitment and retention of qualified personnel.
- Mineral reserve and mineral resource estimates may be imprecise.
- Fluctuation in the price of silver can significantly affect the Company's business and financial performance.

See "Risk Factors."

FORWARD LOOKING STATEMENTS

This non-offering prospectus (the "Prospectus") may contain certain "forward-looking" statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario) and the United States Private Securities Litigation Reform Act of 1995 and are based on expectations, estimates and projections as of the date of this Prospectus, which represent the Company's expectations or beliefs, including but not limited to, statements concerning the Company's operations, economic performance, financial condition, growth and acquisition strategies, investments, and future operational plans. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intent," "could," "estimate," "might," "plan," "predict" or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements.

This Prospectus contains forward-looking statements, many assuming that the Company secures adequate financing and is able to continue as a going concern, including statements regarding, among other things, (a) the Company's plans for bringing the Sunshine Mine in Idaho back into silver production, (b) the Company's plans for developing and producing from our properties in Mexico, (c) the Company's plans for exploring out other mineral properties, (d) the Company's growth strategies, (e) anticipated trends in the Company's industry, (f) the Company's future financing plans, (g) the Company's anticipated need for working capital, (h) the impact of environmental laws on the Company, (i) the availability of labor and equipment to the Company, and (j) title to and rights to exploit the Company's mineral properties. These statements may be found under the sections entitled "General Development of the Business," and "Management's Discussion and Analysis" as well as in this Prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks discussed under the section entitled "Risk Factors" and matters described in this Prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this non-offering prospectus will in fact occur.

Given these risks and uncertainties, readers are cautioned not to place undue reliance on the Company's forward-looking statements.

GLOSSARY OF TECHNICAL TERMS

The following is a glossary of selected mining terms used in the Prospectus that may be technical in nature:

Adit:	An opening driven horizontally into the side of a mountain or hill for providing access to a mineral deposit.
Andesite:	Dark, fine grained extrusive volcanic rock.
Anticline:	An arch or fold in layers of rock shaped like the crest of a wave.
Assay:	A chemical test performed on a sample of ores or minerals to determine the amount of valuable metals contained.
Base Metal:	Any non-precious metal (e.g. copper, lead, zinc, nickel, etc.).
Bedding:	The arrangement of sedimentary rocks in layers.
Bornite:	Copper sulfide mineral. A copper ore mineral.
Breccia:	A rock in which angular fragments are surrounded by a mass of fine-grained minerals.
Caldera:	A large basin shaped volcanic depression of a roughly circular shape.
Chalcocite:	Copper sulfide mineral. A primary copper ore mineral.
CIM:	Canadian Institute of Mining, Metallurgy, and Petroleum. An incorporated technical society of professionals in the minerals, metals, materials, and energy industries dedicated to the discovery, production, utilization and economics of minerals, metals, and petroleum.
Concentrate:	A fine, powdery product of the milling process containing a high percentage of valuable metal.
Conglomerate:	A sedimentary rock consisting of rounded, water-worn pebble or boulders cemented into a solid mass.
Contact:	A geological term used to describe the line or plane along which two different rock formations meet.
Core:	The long cylindrical piece of rock, about an inch in diameter, brought to surface by diamond drilling.
Crosscut:	A horizontal opening driven from a shaft and (or near) right angles to the strike of a vein or another ore body.
Deposit:	A natural occurrence of mineral or mineral aggregate, in such quantity and quality to invite exploitation.
Development:	Work carried out for the purpose of opening up a mineral deposit and making the actual ore extraction possible.
Diamond Drill:	A rotary type of rock drill that cuts a core of rock that is recovered in long cylindrical sections, two centimeters or more in diameter.
Dike	A tabular body of igneous rock that has been injected while molten into a fissure.

Dilution (mining):	Rock that is, by necessity, removed along with the ore in the mining process, subsequently lowering the grade of the ore.
Dip:	The angle at which a vein, structure or rock bed is inclined from the horizontal as measured at right angles to the strike.
Discordant:	Non parallel contact between rock formations.
Dore:	Unparted gold and silver poured into molds when molten to form buttons or bars. Further refining is necessary to separate the gold and silver.
Drift:	A horizontal underground opening that follows along the length of a vein or rock formation as opposed to a cross-cut which crosses the rock formation.
Due Diligence:	The degree of care and caution required before making a decision; loosely, a financial and technical investigation to determine whether an investment is sound.
EPA:	Environmental Protection Agency. A part of the United States government that enforces environmental laws and provides information and guidance to policy makers.
Epithermal:	Low temperature, hydrothermal, vein forming deposit created near the surface of the earth.
Exploration:	Work involved in searching for ore, usually by drilling or driving a drift.
Fissure:	An extensive crack, break or fracture in rocks.
Footwall:	The rock on the underside of a vein or ore structure.
Flotation:	The separation of the particles of a mass of pulverized ore according to their relative capacity for floating on a given liquid.
Fracture:	A break in the rock, the opening of which allows mineral bearing solutions to enter. A “cross-fracture” is a minor break extending at more-or-less right angles to the direction of the principal fractures.
Galena:	Lead sulfide, the most common ore mineral of lead.
Gangue:	Vein minerals that have no economic value.
Grade:	The average assay of a ton of ore, reflecting metal content.
High Grade:	Rich ore. As a verb, it refers to selective mining of the best ore in a deposit.
Host Rock:	The rock surrounding an ore deposit.
Indicated Mineral Resource:	That part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics, can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.
Inferred Mineral Resource:	That part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The

estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

Intrusive:	Igneous rocks that crystallize below Earth's surface.
Level:	The horizontal openings on a working horizon in a mine; it is customary to work mines from a shaft, establishing levels at regular intervals, generally about 50 meters or more apart.
Limestone:	A bedded, sedimentary deposit consisting chiefly of calcium carbonate.
Lode:	A mineral deposit in solid rock.
LOM:	Life of Mine. The period of time for which a mine may continue to operate.
Measured Mineral Resource:	That part of a Mineral Resource for which quantity, grade or quality, densities, shape, and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.
Mill:	A processing plant that produces a concentrate of the valuable minerals or metals contained in an ore. The concentrate must then be treated in some other type of plant, such as a smelter, to affect recovery of the pure metal.
Mineral:	A naturally occurring homogeneous substance having definite physical properties and chemical composition and, if formed under favorable conditions, a definite crystal form.
Mineral Reserve:	The economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.
Mineral Resource:	A concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
Mineralized Material or Deposit:	A mineralized body which has been delineated by appropriate drilling and/or underground sampling to support a sufficient tonnage and average grade of metal(s) for potential development. Under SEC standards, such a deposit does not qualify as a reserve until a comprehensive evaluation, based upon unit cost, grade, recoveries, and other factors, conclude economic feasibility.
Mineralization:	The presence of potentially economic minerals in a specific area or geological formation.

Net Profit Interest:	A portion of the profit remaining after all charges, including taxes and bookkeeping charges (such as depreciation) have been deducted.
NI 43-101	National Instrument 43-101. An instrument developed by the Canadian Securities Administrators and administered by the provincial securities commissions that governs how issuers disclose scientific and technical information about their mineral projects to the public.
NPDES:	National Pollutant Discharge Elimination System. A permit program of the EPA that controls water pollution by regulating point sources that discharge pollutants into waters of the United States
Orebody:	A natural concentration of valuable material that can be extracted and sold at a profit.
Ounce:	A troy ounce. There are 14.5833 troy ounces in one pound.
Patent:	The ultimate stage of holding a mineral claim in the United States, after which no more assessment work is necessary because all mineral rights have been earned.
Patented Mining Claim:	A parcel of land originally located on federal lands as an unpatented mining claim under the General Mining Law, the title of which has been conveyed from the federal government to a private party pursuant to the patenting requirements of the General Mining Law.
Qualified Person:	An individual who is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development or operation or mineral project assessment, or any combination of these; has experience relevant to the subject matter of the mineral project and the technical report; and is a member or licensee in good standing of a professional association.
Prospect:	A mining property, the value of which has not been determined by exploration.
Probable Mineral Reserve:	The economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.
Proven Mineral Reserve:	The economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.
Reclamation:	The restoration of a site after mining or exploration activity is completed.
Recovery:	The percentage of valuable metal in the ore that is recovered by metallurgical treatment.
Reserves:	See Mineral Reserve, Proven Mineral Reserves and Probable Mineral Reserves.
Resources:	See Mineral Resources, Measured Mineral Resources, Indicated Mineral Resources, and Inferred Mineral Resources.
Sample:	A small portion of rock or a mineral deposit, taken so that the metal content can be determined by assaying.

Shaft:	A vertical or steeply inclined excavation for the purpose of opening and servicing a mine. It is usually equipped with a hoist at the top which lowers and raises a conveyance for handling personnel and materials.
Shear or Shearing:	The deformation of rocks by lateral movement along numerous parallel planes, generally resulting from pressure and producing such metamorphic structures as cleavage and schistosity.
Silicified:	Pore filling and mineral replacement by silica and silica minerals.
Stope:	An underground excavation from which ore has been extracted either above or below mine level.
Stratigraphy:	Strictly, the description of bedded rock sequences; used loosely, the sequence of bedded rocks in a particular area.
Stratabound:	A mineral deposit confined to a single stratigraphic unit. Typically disseminated but can occur as veinlets.
Strike:	The direction, or bearing from true north, of a vein or rock formation measured on a horizontal surface.
Sublevel:	A level or working horizon in a mine between main working levels.
Sulfide:	A compound of sulfur and some other element.
Syngenetic:	A mineral deposit formed at the same time as the formation of the host rock.
Tetrahedrite:	A copper silver sulfide mineral. An important copper and silver ore mineral.
Ton:	A short ton. There are 2,000 pounds in a short ton.
Unpatented Mining Claim:	A parcel of property located on federal lands pursuant to the General Mining Law and the requirements of the state in which the unpatented claim is located, the paramount title of which remains with the federal government. The holder of a valid, unpatented lode mining claim is granted certain rights including the right to explore and mine such claim under the General Mining Law.
Volcanic:	Pertaining to the activities, structure, or rock types of a volcano.
Vein:	A mineralized zone having a more or less regular development in length, width and depth which clearly separates it from neighboring rock.
Wall Rocks:	Rock units on either side of an orebody. The hanging-wall and footwall rocks of an orebody.
Waste:	Barren rock in a mine, or mineralized material that is too low in grade to be mined and milled at a profit.

CURRENCY INFORMATION

Unless otherwise indicated, all currency amounts in this prospectus are stated in U.S. dollars. The following table sets out: (a) the rate of exchange for one Canadian dollar in U.S. dollars in effect at the end of each of the following periods, (b) the high and low rate of exchange during those periods, and (c) the average rate of exchange for those periods, based on the Bank of Canada noon buying rates of exchange published by the Bank of Canada:

Period	High	Low	Average	End of Period
Three months ended March 31, 2007	0.8696	0.8419	0.8535	0.8674
Year Ended December 31, 2006	0.9134	0.8479	0.8818	0.8581
Year Ended December 31, 2005	0.8751	0.7853	0.8253	0.8577
Year Ended December 31, 2004	0.8514	0.7141	0.7683	0.8304

On July 31, 2007, the noon buying rate for one Canadian dollar in U.S. dollars published by the Bank of Canada was Cdn.\$1.00 = \$0.9384.

NOTICE TO INVESTORS REGARDING GAAP

The financial statements included in this prospectus have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”), which differ in certain respects from Canadian generally accepted accounting principles.

CONTINUOUS DISCLOSURE

Upon the filing of the final prospectus with the OSC, the Company will become a reporting issuer under the securities laws of Ontario that provide for a reporting issuer regime. Pursuant to *National Instrument 71-102 Continuous disclosure and Other Exemptions Relating to Foreign Issuers*, the Company is an “SEC foreign issuer” under such instrument and is generally exempt from certain of the requirements of Ontario securities laws relating to continuous disclosure obligations and proxy solicitation, if the Company complies with certain informational requirements applicable in the U.S. instead of the continuous disclosure requirements normally applicable in Ontario, provided that the relevant documents filed with the SEC are filed with the OSC and are sent to security holders in Ontario to the extent and in the manner and within the time required by applicable U.S. requirements. In the event the Company ceases to qualify as a SEC foreign issuer under the said instrument, the Company will file continuous disclosure documents in accordance with Canadian securities law as provided in the *Securities Act* (Ontario) and National Instrument 51-102 *Continuous Disclosure Obligations*.

CORPORATE STRUCTURE

Name and Incorporation

The Company was incorporated under the laws of the State of Idaho on February 3, 1903. The head office and registered office of the Company is located at 609 Bank Street, Wallace, Idaho 83873.

Inter-Corporate Relationships

The Company has two material subsidiaries:

- i. Sterling Mining de Mexico S.A. de C.V. (Incorporated under the laws of Mexico) - 99% owned by the Company.
- ii. North American Silver, Limited (Incorporated under the laws of the State of Montana) - 100% owned by the Company.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History and Business Plan

The Company operates in two geographical locations or segments. The first is the Company’s exploration and development of mineral properties in the Northwestern part of the United States, where the Company’s principal focus is on rehabilitating and bringing back into production the Sunshine Mine in Idaho. The other geographical segment is in Mexico, where the Company is focusing on advancing the Barones project and exploration on its other prospects and projects in the state of Zacatecas, Mexico, and where the Company began processing tailings from the Barones property in 2005 to recover primarily silver.

The Company's mission is to become a significant publicly-traded primary silver mining company. The Company's corporate business plan is to (i) expand its silver assets and production; (ii) explore and develop the Sunshine Mine with an objective of eventual return to full and sustainable production; (iii) develop and implement a capitalization strategy to increase shareholder liquidity; and (iv) acquire or develop a pipeline of silver prospects and projects designed to provide leverage to silver and cash flow to support development of the Company's flagship Sunshine Mine.

The Company has identified the regional mineral geology of the Pacific Northwest, stretching from the U.S.-Canadian border south through Idaho then turning east into Montana, as a possible area for exploration and the Company has particularly focused on the Coeur d'Alene Mining District in Idaho. Within this district, the Company is seeking, through exploration or acquisition, to build a portfolio of assets ranging from exploration prospects to former producing mines. The Company has chosen silver as the prime metal that it will seek to acquire and develop for several reasons, including the current supply-demand ratio.

The Company's primary objective is to return the Sunshine Mine to long-term sustainable production. From late 2005 to date, the Company's activity with respect to the Sunshine Mine included finalization of the Phase III Mine Planning Study, infrastructure rehabilitation, underground rehabilitation of infrastructure, and expansion of the surface and underground "upper country" exploration program. The Phase III activities included the following: continued renovation and development of the Sunshine Mine; addition of experienced mining professionals with underground mining experience; assessment of the cost of putting the Mine into production; review of a conceptual mine plan by an independent engineering firm; and development of a current mine plan.

In 2004 and 2005, the Company began operations and exploration in the Zacatecas region of Mexico, acquiring several projects. In 2005, the Company produced silver from the Barones plant in Mexico and continued the rehabilitation of the Sunshine Mine. During 2006, the Company began drilling the Sterling Tunnel, which was completed in April 2007, and completed a private placement of common shares to fund the activities.

The Company's business plan for its Mexican properties includes the following: Focus on expanding production through additional process and capital improvements at the Barones property; conduct ongoing metallurgical tests; drilling and evaluation of the properties in order to develop mineral resources; and seeking joint venture partners. During 2006, the Company completed continued initial exploration activities to refine a development plan of the area.

On October 20, 2006, the Company entered into a definitive purchase agreement with Essential Metals Corporation ("EMC") to acquire the Big Creek tailings pond facility that the Company intends to use in conjunction with managing waste water from the Sunshine Mine and the operation of the ore concentrating mill for the mine. Under the agreement, the Company paid \$4.5 million and conveyed a 16-acre parcel of land to EMC in exchange for the tailings pond property and related easements, water rights and permits. The Company paid an initial deposit of \$100,000 earlier in October 2006, an additional payment of \$500,000 on October 20, 2006, and a final payment of \$3.9 million on January 22, 2007. On January 23, 2007, the Company received the title documents and related instruments pertaining to the tailings pond property and the transaction was closed.

In October 2006, the Company commenced a private offering solely to U.S. accredited investors of units at \$2.70 per unit, each unit consisting of one Common Share, one warrant to purchase a Common Share at an exercise price of \$4.25 per share that expires November 15, 2008, and one-quarter of a warrant to purchase a Common Share at an exercise price of \$3.75 per share that expires on the latter of April 20, 2007 or 90 days following the effective date of a registration statement filed to permit resale of the common stock included in the units and underlying the warrants. On January 5, 2007, the offering was closed after the sale of 2,334,908 units at a gross purchase price of \$6,304,250. The shares of common stock, warrants, and common stock underlying the warrants have not been registered under the United States Securities Act of 1933 (the "Securities Act of 1933"), or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The registration rights with respect to the units are piggy-back only, which means the Company has no obligation to register any of the common stock, whether included in the units or underlying warrants, unless it files a registration statement for someone other than an investor in the offering.

Pursuant to an agency agreement dated January 18, 2007 (“Agency Agreement”) among the Company, Blackmont Capital Inc. and TD Securities Inc. (collectively, the “Agents”), the Company completed on January 18, 2007 an \$8,498,500 private placement offering to institutional and accredited investors in Canada and the United States, consisting of 3,695,000 units at a price of \$2.30 per unit. Each unit consists of one Common Share and one Common Share purchase warrant. Each warrant is exercisable for one Common Share at an exercise price of \$4.25, and expires 24 months following the closing date of the offering. The Common Shares, warrants, and Common Shares underlying the warrants have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Common Shares sold to the purchasers and the Common Shares underlying the warrants will be registered for resale on a registration statement to be filed by the Company in the United States. Proceeds from the private placement were used to complete the purchase of the Big Creek tailings pond from EMC, and will be used to fund the ongoing rehabilitation and upgrade of the Sunshine Mine and for general working capital purposes. The Agency Agreement provided for standard representations and warranties as well as standard indemnity provisions for transactions of this kind for the benefit of the Agents. The Agents each received a commission equal to Cdn\$349,560 and compensation options to acquire 129,325 units at a price of \$2.30 per unit for a period of 18 months following the closing of the offering. Pursuant to the Agency Agreement, the Company covenanted, among other things, to file and obtain a receipt for a final non-offering prospectus in Ontario within 120 days after the closing and to file a resale registration statement with the SEC and have such registration statement effective within 180 days from closing. Failure to obtain a receipt for a final prospectus and to have the resale registration statement effective within 180 days from closing will result in the Company having to pay back the subscribers 1% per month of the amount they subscribed up to a maximum of 12% of their subscription.

On April 30, 2007, the Company closed a \$1,800,000 private placement offering consisting of 500,000 units at a price of \$3.60 per Unit. Each unit was comprised of one common share of Sterling and one-half common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.50 for 24 months following the closing date of the offering. The shares of common stock, warrants, and common stock underlying have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The shares of common stock sold to the purchasers and the shares underlying the warrants will be registered for resale on a registration statement to be filed by Sterling in the United States. Proceeds from the private placement were used to fund the ongoing rehabilitation and upgrade of the Sunshine and for general working capital purposes.

The Company completed on August 2, 2007 two private placement offerings in Canada, the United States and elsewhere for total proceeds of \$24,734,755.50. The offerings consisted of 5,585,792 special warrants, and 2,024,902 units at a price of \$3.25 per unit. The special warrant offering was completed pursuant to an agency agreement dated August 2, 2007 (“August Agency Agreement”) among the Company, TD Securities Inc. and Blackmont Capital Inc. (collectively, the “August Agents”). Each special warrant is convertible into a unit. Each unit consists of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant is exercisable for one Common Share at an exercise price of \$4.10, and expires 24 months following the closing date of the offering. The Common Shares, warrants, and Common Shares underlying the warrants have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Common Shares sold to the purchasers and the Common Shares underlying the warrants will be registered for resale on a registration statement to be filed by the Company in the United States. Proceeds from the private placement were used to fund the ongoing rehabilitation and upgrade of the Sunshine Mine and for general working capital purposes. The August Agency Agreement provided for standard representations and warranties as well as standard indemnity provisions for transactions of this kind for the benefit of the Agents. Agents, including the August Agents, received commissions equal to \$1,729,882, compensation options to acquire 400,165 units at a price of \$3.25 per unit for a period of 24 months following the closing of the offering, compensation warrants to acquire 112,574 units exercisable at a price of \$3.25 per unit for a period of 24 months following the closing of the offering, and 14,959 units. Pursuant to the August Agency Agreement, the Company covenanted, among other things, to file and obtain a receipt for a final prospectus in Canada to qualify the distribution of the units underlying the special warrants, and to file a resale registration statement with the SEC and have such registration statement effective within 90 days from closing. Failure to obtain

a receipt for a final prospectus and to have the resale registration statement effective within 90 days from closing, absent any reason beyond the reasonable control of the Company, will result in the Company having to pay subscribers 5% of the amount they subscribed, with an additional amount due of 15% if the conditions are not met within 120 days. For purposes of clarity, this non-offering prospectus does not qualify the securities from the August private placements.

DESCRIPTION OF THE BUSINESS OF THE COMPANY

General

The Company is engaged in the business of acquiring, exploring, and developing mineral properties, primarily those containing silver and associated base and precious metals.

The Company was founded in 1903 by John Presley for the purpose of acquiring, exploring and developing mineral resource properties, primarily precious and associated base metals. The Company initially staked the East-West Link claims which are still held by the Company. In the first 30 years, early exploration included the driving of six tunnels onto the property. In 1951, Day Mines and later associated entities leased the key Sterling property for exploration purposes. In 1996, Coeur d'Alene Mines Corporation (through a subsidiary) leased the original Sterling East-West link claims. In 1998, the Company embarked on an expansion program in the Silver Valley to add silver exploration prospects. Beginning with 340 acres of mining claims, this expansion program reached a total of approximately 19,000 acres under control by ownership, lease or option by 2007.

The Company was essentially dormant in 2001 and 2002, and during this period had no revenues and incurred administrative expenses of approximately \$40,000. In 2003, the Company signed a lease with an option to purchase the Sunshine Mine, opening an office at the mine site. The Company began repairs and rehabilitation, began assembling a team to develop a new mine plan and business model for the mine, and in September 2003, began a surface exploration program. The Company also acquired various mineral leases in the Silver Valley area in Idaho and also in Montana. In 2004 and 2005, the Company began operations and exploration in the Zacatecas region of Mexico, acquiring several properties. In 2005, the Company began limited production of silver from the Barones plant in Mexico and continued the rehabilitation of the Sunshine Mine. During 2006, the Company began driving the Sterling Tunnel, purchased the tailing impoundment and completed a private placement of Common Shares to fund the activities.

The Company is generally not affected by seasonality. The only seasonal affect on the Sunshine Mine could be a delay of supplies in the winter due to extreme snowfall preventing delivery of mine supplies.

The Silver Market

The Company's primary focus is on exploration, development and production of silver. The worldwide demand for silver has exceeded newly-mined production for several years, the difference between demand and supply is primarily being made up by re-melting of bullion and silver coins, and recycling. Much of the future value and/or viability of the Company will be partially dependent on the price of silver, which the Company is unable to control. However, the Company believes, and has directed its business strategy accordingly, that if the demand for silver exceeds production and this situation continues, at some point there is a possibility for silver prices to increase. However, there is no assurance this will occur.

For over 10 years the silver market has exhibited a shortfall of newly mined supply to annual industrial demand, while above-ground inventories of silver appear to be declining. The shortfall has been met by scrap metal and recycling.

According to the Silver Institute, an international industry association of miners, refiners, fabricators and silver wholesalers, demand for silver has risen the past 15 years, increasing in the last five years to over 911 million ounces in 2005. New production and the recovery from scrap metal accounts for just over 828 million ounces, resulting in a significant shortfall of the metal. Increased demand is not only from the jewelry and photographic sectors, traditionally the largest users of silver, but also from growing demand for silver's industrial uses in electrical devices and components such as computers and cellular telephones.

Approximately 71% of all newly mined silver comes as a by-product in the production of other metals such as gold or copper, thus to a certain degree this means that an increase in the price of silver does not automatically bring about an increase in production as it might other commodities.

Newly mined production in 2005, according to the Silver Institute, was 641 million ounces, thus scrap metal, melting of existing silver and other sources have been meeting the shortfall, with a corresponding decline in inventories worldwide evidently occurring annually. The principal silver-producing countries are Mexico, Poland, Peru, Chile, the United States and Canada.

The Price of Silver and Sterling Mining Company

The price of silver can affect the Company in several ways. A low price of silver may permit the Company to acquire silver assets at a lower cost than would otherwise be the case. However, a low silver price can have a depressing effect on the Company's stock price and thus reduce opportunities for selling equity to raise capital for exploration and development without unduly diluting current stockholders. An increasing price of silver can affect investors' perceptions of the value of the Company and its assets, and can render projects economical. The Company believes a sustained silver price of \$6.50 to \$10 per ounce, depending on the project, is required to permit the possibility of production by the Company.

Silver has historically served as a medium of exchange, much like gold. The current principal uses of silver are for industrial uses including electrical and electronic components, batteries, computer chips, electrical contacts, high technology printing, photography, jewelry and silverware. Silver's strength, malleability, ductility, thermal and electrical conductivity, sensitivity to light and ability to endure extreme changes in temperature combine to make silver a widely used industrial metal. Silver's anti-bacterial properties also make it usable in medical technology and in water purification.

The following table sets forth the London Metal Exchange's high and low prices of silver in U.S. dollars per ounce:

Year	Silver	
	High	Low
2000	\$ 5.45	\$ 4.57
2001	4.82	4.06
2002	5.10	4.23
2003	5.96	4.37
2004	8.29	5.49
2005	9.22	6.39
2006	14.94	8.83
2007*	\$ 14.50	\$ 12.21

* Through August 6, 2007

Employees

As of July 31, 2007, the Company had 89 full-time employees in the United States and 50 full-time employees in Mexico. As circumstances require, the Company intends to utilize the service of consultants to provide additional services to the Company.

Competition

There is aggressive competition within the minerals industry to discover and acquire properties considered to have commercial potential. The Company competes for the opportunity to participate in promising exploration projects with other entities, such as Coeur d'Alene Mines Corporation and Hecla Mining Company, many of which

have greater resources than the Company. In addition, the Company competes with such entities in efforts to obtain financing to explore and develop mineral properties.

The Company also encounters competition for the hiring of personnel, as the mining industry has a very tight labor situation for experienced mining professionals industry-wide. This competition affects the Company's operations in Idaho, Montana and Mexico. Larger companies such as Coeur d'Alene Mines Corporation, Hecla Mining Company, Stillwater Mining Company, and Kinross Gold Corporation in the Pacific Northwest can offer better employment terms as compared to smaller companies such as the Company.

The Company also competes for mine service companies, in particular drilling companies. Potential suppliers may choose to provide better terms and scheduling to larger companies in the industry.

Regulation

The Company's activities in the United States are subject to various federal, state, and local laws and regulations governing prospecting, development, production, labor standards, occupational health and mine safety, control of toxic substances and other matters involving environmental protection and taxation. It is possible that future changes in these laws or regulations could have a significant impact on the Company's business, causing those activities to be economically reevaluated at that time.

In particular, the Sunshine Mine must follow the rules and regulations of numerous agencies. The Company has hired a full-time Environmental Manager and a part-time Environmental Compliance Manager who was in a similar position at the former Sunshine Mining Company for over 30 years. The Company also has a full-time Safety Officer at the Sunshine Mine.

MINERAL PROJECTS

The Company's material mineral property is the Sunshine Mine. The Company has also mineral properties in Mexico and other properties of lesser significance at this stage of its development.

SUNSHINE MINE

The following disclosure relating to the Sunshine Mine has been derived from an independent technical report (herein referred to as the "Behre Dolbear Report") on the Sunshine Mine entitled "Technical Report on the Sunshine Mine, Big Creek, Idaho, U.S.A" authored by Derek Rance P.Eng and Dr. K. Warren Geiger P.Eng, P.Geol. at Behre Dolbear & Company, Inc., dated April 16, 2007. Mr. Rance and Dr. Geiger are "qualified persons" within the meaning of National Instrument 43-101 and are independent of the Company. The Behre Dolbear Report is available for inspection during regular business hours at the corporate head office of the Company and may also be reviewed under the Company's profile on the SEDAR website at www.sedar.com. The disclosure in the prospectus derived from the Behre Dolbear Report has been prepared with the consent of Mr. Rance, Dr. Geiger and Behre Dolbear & Company Inc.

On August 7, 2007, the Company reported that the re-engineered Silver Summit Hoist is entering the final stage of commissioning. In addition to performing design and engineering for the power supply, hoist drive and controls, oversight and testing of the hoist and its safety features is being provided by Spencer Engineering of Ontario, Canada, an internationally respected hoist engineering firm, in order to meet stringent federal mine hoist regulations. The hoist is expected to be ready for service by mid August.

Summary of the Behre Dolbear Report

Introduction

Behre Dolbear & Company Ltd. ("BD" or "Behre Dolbear") was retained by Sterling to prepare a Technical Report on the Sunshine Mine which Sterling is in the process of re-opening in order to return the mine into production.

Location

The Sunshine Mine is located within the well-known Coeur d'Alene Mining District of North Idaho at Big Creek, 40 miles east of Coeur d'Alene, Idaho, along U.S. Interstate 90.

Ownership

The mine ceased production in the first quarter of 2001 as a result of several factors, including the low price of silver and the lack of regular and consistent exploration and development activities due to the shifting cash flow from the mine to cover corporate expenses, debt and to develop other projects. Sterling acquired control of the Sunshine Mine in June 2003 through a lease with option to purchase agreement from Sunshine Precious Metals Inc.. The Sunshine Mine Property presently consists of both owned and leased blocks of 202 patented mining claims and 184 unpatented mining claims, for a mineral rights position of some 5,930 acres and 4 surface rights parcels of 423 acres.

Geology

The district is hosted by the rocks of the Pre-Cambrian Belt super group, which is divided into the Prichard group, Ravalli group, Middle Carbonate group, and Missoula group. The Ravalli group formations contain the Revett and St. Regis formations that are the preferred host rocks for silver mineralization in the district. Ore deposits are localized within the 600 ft. thick St. Regis formation and the underlying upper members of the 3,000 ft thick Revett formation. The contact between the formations is indistinct and is locally picked as being the bottom of the lower-most distinct purple-colored interval in the St. Regis. Rock types include argillite, siltite, sericitic quartzite, and vitreous quartzite.

Mineralization

Over 30 named veins have been mined at the Sunshine Mine. Principle vein systems in the mine include the Sunshine, Chester, Copper, Yankee Girl and West Chance. The Sunshine and Chester veins have each produced over 100 million ounces of silver to date. Major veins strike east-west and typically dip 60° - 70° degrees to the south. Vein strike lengths are up to 2000+ ft, with downdip length two to three times that of strike length. Major veins are located between the regional and property-wide faults at an angle of about 25 degrees to the bounding faults. Veins vary in width from a few inches to over 30 feet, but are generally between 1 to 5 feet thick. Ore minerals are principally tetrahedrite and galena with siderite and quartz as the main gangue minerals. The silver content of the tetrahedrite varies and the silver to copper ratio in the ore ranges from 40:1 (oz/t Ag: %Cu) to over 100:1. Tetrahedrite occurs as blebs, fracture fillings, or veinlets.

Mineral Reserves and Resources

The resource estimates, as stated below, are mainly based on historical drilling and from data compiled by the Sunshine Mining Company. The historical resource estimates were used by Behre Dolbear & Company, Inc. in their October 2006 Feasibility study to estimate the mineral reserves. Subsequent to Behre Dolbear's estimation a further resource estimation based on historical data was made on February 2007 by Dr. Warren Geiger P.Eng. The historical data, on which the current estimates have been made, is well documented but has not been completely verified, so the reader is duly cautioned that these historical data based estimates cannot be fully relied on.

The Sunshine Mine has a 100 year database of detailed geological, mineralogical, mineral grade and infrastructure information related to the Sunshine Mine's vein deposits that is loaded into a computer based (Auto Cad) information system which allows the modeling the mine's ore veins.

It should be noted that all underground mines typically, due to development expense, maintain only a limited amount of proven and probable reserves ahead of current stopping operations. Previously the Sunshine mine over the past 123 years of successful mining operations established an excellent record and reputation for finding both resource and reserve vein mineralization and maintained a historic average reserve of 39 million Ag ounces.

The lower reserves recently estimated by Behre Dolbear reflect the fact that, facing closure in 2001, development was curtailed in November 1999.

The historical Sunshine Mine reserves are based on the internal calculations generated by the then wholly owned Sunshine Precious Metals, Inc. ("SPMI"). These blocks include dilution and mining losses in the calculation of tons and grade. The 'Legacy' (historic) probable reserve blocks differ from the proven reserve blocks either because they are below water level or that they will require more development work before being mined, or both. These 'Legacy' (historic) reserve blocks are now being classified as mineral resources based as follows:

- Proven Reserve now **Measured mineral resource**
 - above water level
 - positioned early in the mine start up plan
- Probable Reserve now **Indicated mineral resource**
 - mostly below water level during initial mining period
 - requiring some development for mining
 - positioned later in the mine startup plan
- Probable Reserve now **Indicated mineral resource**
 - either dry or wet requiring substantial development for mining

The estimated Sunshine Mine resources are stated in the table below.

Sunshine Mine Mineral Resources⁽¹⁾⁽²⁾⁽³⁾				
Source	Block Count	Tons	Ag. Grade (opt)	Ag. Ounces
Measured	43	276,975	24.1	6,664,217
Indicated	297	1,151,438	21.3	24,490,138
Total	340	1,428,413	21.8	31,154,355

Notes:

- (1) **Cautionary note to US investors concerning estimates of Measured, Indicated and Inferred Resources.** US investors are advised that use of the terms "Measured Resource", "Indicated Resource, and "Inferred Resource" are recognized and required by Canadian Securities regulations. These terms are not recognized by the U.S. Securities and Exchange Commission. U.S. investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.
- (2) Resources, unlike reserves, do not have demonstrated economic viability. Mineral resources are subject to infill drilling, permitting, mine planning, mining dilution, metallurgy and recovery environmental, economic and other relevant factors in order to be converted into mineral reserves. Due to the uncertainty which may attach to mineral resources, it cannot be assumed that all or part of a Resource will be upgraded to a Reserve when subject to a Feasibility Study.
- (3) The resources are based on a cut-off grade of 11.0 oz per ton Ag.

Sterling has also identified locations within the mine plan that have resource potential from drilling or mining data to support estimates of tons and grade, but have less geologic confidence than the measured and indicated mineral resources. This material is identified as a Class 1, 2, and 3 inferred mineral resource, moving from greater to lower reliability. The difference between the classes is the level of geological knowledge and confidence. Class 2 has a higher level of knowledge and confidence than Class 3 but does not have the level of knowledge and confidence of the Class 1 blocks.

Sterling has evaluated the data in the mine's veins and has defined mineralized blocks with estimated tons and potential ounces of silver. The volume is calculated for these projections and tonnage is calculated using a vein tonnage factor of 8.3. Ounces are derived by using an estimated mean vein grade of the log normal distribution for a given vein. These projected vein models are then divided into Class 1, Class 2 and Class 3 categories based on the proximity to historic stoping, reserves, or significant drill intercepts. Each class is assigned a probability factor that

is used to diminish the calculated tonnage. These factors are intended to represent the probabilities for actually discovering economic mineralization within a modeled block. Class 1 is assigned a thirty percent probability factor. Class 2 is assigned a ten percent probability factor, and Class 3 is assigned a three percent factor. These mineralized blocks with no incorporated dilution are all then defined as inferred resources.

These inferred resources are shown in the table below. These figures include only the estimated tonnage and grade of the vein material, unlike the measured and indicated resources above, which include in their estimation the dilution and mining loss that will be produced from the appropriate stopping method. As the vein material estimates do not include dilution or mining loss the result is the apparently high resource grade.

Sunshine Mine Inferred Resources⁽¹⁾⁽²⁾			
Vein	Tons	Grade oz/t	Ounces
Sunshine	216,729.3	75.0	16,254,699
Syndicate	489,347.5	110.1	53,879,768
Chester	512,277.4	98.1	50,238,073
Yankee Girl	893,072.1	105.7	94,403,708
Copper	167,520.7	100.0	16,752,065
Totals	2,278,947.1	101.6	231,528,312

Notes:

- (1) **Cautionary note to US investors concerning estimates of Measured, Indicated and Inferred Resources. US investors are advised that use of the terms "Measured Resource", "Indicated Resource, and "Inferred Resource" are recognized and required by Canadian Securities regulations. These terms are not recognized by the U.S. Securities and Exchange Commission. U.S. investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.**
- (2) Inferred Resources are based on limited sampling and unverified geological and grade continuity and unlike reserves, do not have demonstrated economic viability. Due to the uncertainty which may attach to Inferred mineral resources, it cannot be assumed that all or part of an Inferred Resource will be upgraded to Indicated or Measured Resources with continued exploration.

Behre Dolbear reported, based on their feasibility analysis, that there are Proven and Probable reserves present at the property. The contained ounces in these reserves include a 15% mine recovery loss deduction and are stated in the table below.

Sunshine Mine Reserves			
Reserve Category	Short Tons	Grade oz/t⁽¹⁾⁽²⁾	Ag Ounces
Proven	1,049,396	22.1	23,237,689
Probable	11,577	21.5	249,009
Total	1,060,973	22.1	23,486,698

Notes:

- (1) Silver grades are rounded numbers.
- (2) The above reserves were calculated using operating costs of \$6.92 per Ag oz and metal prices of \$6.23/Ag oz.

Exploration

Beginning in August 2003, Sterling undertook a surface exploration program, which was followed by initial drilling in the fall of 2004. To date some 7000 feet of drilling has been accomplished primarily for structural assessment. The Sterling Tunnel, which was completed in April, 2007, will enable crosscuts and drifts to be driven to diamond drill the wedge of unexplored ground that lies between the Sunshine and Polaris mines known as the "Upper Country". This target zone was bypassed by the previous owners who concentrated principally on following known silver bearing vein systems downward. As well, starting in September 2006, during the development of the Sterling Tunnel, diamond drilling access has been provided for upper level targets in the Silver Syndicate, Copper-Link, Hook, Chester, Yankee Girl, Yankee Boy and Sunshine veins.

Mine Rehabilitation

Since mid-2003, Sterling has executed a plan to rehabilitate the mine and facilities to resume production. The plan is documented in the Sunshine's "Return to Production – Critical Path Development of the Sunshine Mine." The work is now considerably advanced and it is expected that shaft-accessed production, development and exploration activities will resume in December 2007.

Critical to the startup is the rehabilitation of the Con Sil, or Silver Summit Shaft and double drum hoist back to operational status. These two projects along with accessing the 3000 level of the Con Sil mine constitute the mine's necessary secondary escapeway and allow the Sunshine mine to resume production. This upper mine development will also provide ventilation, a required secondary escapeway and improve power-distribution flexibility for the mine.

Rehabilitation work has proceeded on many fronts including surface facilities, Jewell hoists and shaft, compressed air, water and pumping systems and processing facilities. Prior to this the Silver Summit and Silver Dollar tunnels were rehabilitated to provide access and secondary escapeway for crews working on the hoist. Rehabilitation work on the Silver Summit hoist is 75% complete, and it is expected to be commissioned in June. Work will commence to rehabilitate the shaft from the top station downward to the 3000 foot level once the Silver Summit hoist is operational.

Processing

The current metallurgical facilities include a 1,000 tpd flotation mill. This facility will be operated at a maximum mill feed rate of 654 tpd on a 5-day operations schedule processing ore with an average head grade of 22.1 opt silver and minor recoverable quantities of copper to produce a bulk silver, copper and lead concentrate. The projected silver recovery rate is 96 percent.

Infrastructure

The Sunshine mine infrastructure is antiquated and will be fully serviceable after repairs and renovations are made. Water and electric supplies are sufficient for near-term future use. Property access is by a 2 mile paved county road paralleling Big Creek that intersects off US Interstate I90. Communications, including telephone and internet are installed and operable.

Environmental and Tailing Disposal

The current waste water NPDES discharge permit expired at September 9, 1996 and has been administratively extended thereafter. It included waste streams from mining and ore concentrating operations at the Sunshine Mine, and drainage water from discontinued mining operations. Beginning in the 1990s Sunshine Mining began allowing the lower mined out levels of the mine to flood, which resulted in elevated iron and manganese concentrations in the mine water. Wastewater treatment will be required to comply with existing permit limits.

The current 33-acre tailings dam was designed and installed in the 1980s and was designed to store tailings in seven lifts of ±700,000 tons each. The dam is constructed with borrow material and mine waste and was designed to include four additional lifts with a reserve capacity of 2,708,000 tons. A tailing dam lift will most likely be

required immediately in order to provide storage for pumped mine water and to comply with Idaho's dam safety requirements.

The technique of using pH adjustment for metals removal from waste water is the most common technology used in the mining industry today, normally using calcium hydroxide as the reagent. The generally accepted method for treating wastewater in the mining industry is lime sedimentation using a clarifier/thickener. The waste water reacts with slaked lime and a recirculating portion of the resulting precipitate to produce a densified sludge (HDS) for disposal. The HDS process has been demonstrated to remove arsenic. The clarifier overflow may require filtration to remove suspended solids containing metal hydroxides in order to meet permit requirements. The treatment system outlined above should comply with EPA and Idaho permit requirements.

Tailing disposal and discharge of mine wastewater to the South Fork of the Coeur d'Alene River at one discharge point, under an EPA NPDES permit, is the most critical current and future environmental issue for the mine. The current extended NPDES discharge permit limitations will require treatment of the mine water in order to comply with iron and manganese limitations. Since April 16, 2007, Sterling is currently treating mine discharge water being pumped from the mine with a Rotating Cylinder Treatment System to reduced elevated levels of iron and manganese. Additional options for wastewater are zero discharge and land applications, if necessary.

Project Economics

The economics of the Sunshine mine are based on a 7 year mine plan that fully mines all of the Proven and Probable reserve as stated above. NI 43-101 Section 2.3(1)(b) prohibits disclosing an economic analysis that includes Inferred Resources.

The financial analysis shown below includes expenditures for the development necessary to bring only the proven and probable reserves into production. It does not include the extra development expenditures necessary to replace and increase the reserves being mined. Sterling will, in fact, undertake this additional development expenditure at a cost of approximately \$1,500,000 annually to extend the life of the mine beyond 7 years.

Capital

The mine capital cost estimate includes \$13,210,338 in pre-production capital expenses and \$2, 578,187 in sustaining capital over the 7-year LOM plan. Capital costs for the re-start of operations include the refurbishment of the mine hoisting works, replacement of mining equipment, rehabilitation of shafts, underground refurbishment, replacement of filtration equipment and general rehabilitation in the mill, and the costs of water treatment facilities. A major component of the estimated capital spending was the purchase of the tailings dam site from EMC at a cost of \$4.5 million, which was completed in January, 2007.

Operating Cost

Property-wide operating costs average approximately \$22,300,000 per year over the LOM. Included in the operating costs are the lease expenses for major underground mining equipment, which averages approximately \$1,500,000 per year. The estimated average operating expense is equivalent to \$6.92 per Ag ounce.

Financial Analysis

The undiscounted net cash flow for the 7 year LOM is \$30.2 million. Using metal prices of \$10.00 Ag, \$2.00 Cu and \$0.43 Pb, the following financial parameters have been calculated.

- The after-tax rate of return is 21.64 percent.
- The net present value at a 5 percent discount rate is \$18.5 million.
- The net present value at a 10 percent discount rate is \$10.5 million.

A sensitivity analysis shows that the rate of return and NPV are particularly sensitive to metal prices, moderately sensitive to operating costs and insensitive to capital requirement.

Conclusions

There have been no new field surveys carried out by staff or the Qualified Person. The underground surveys, analytical and testing data and other relevant information used in this report are from the enormous volume of information both historic and on-going today, contained in the Sunshine Mine database including hard copy files, electronic files, and the experience and knowledge of the mine's staff.

The data density overall is excellent. The main vein structures and possible vein extensions, along with the main geological fault and fracture patterns are well established. The mineral resource and reserve estimations were all derived from the supporting documentation of maps, spreadsheets and documents, which are in storage at the Sunshine Mine.

In order to increase and sustain annual production after about two years, it will be necessary to pursue development projects to convert the indicated mineral resource blocks into mineable reserves. These indicated resources are mostly below water level at this time, and need dewatering and some development prior to mining.

The production scenario outlined in this technical report is constrained by the NI 43-101 requirement that *“prohibits the disclosure of the results of an economic analysis --- that includes inferred resources”*. As such the production estimate stated in this report considers only the exploitation of Proven and Probable Reserves. This differs greatly from the plan stated in the Sunshine internal document “Return to Production - Critical Path Development of the Sunshine Mine” which considers an aggressive development program to convert the present inferred resources to higher resource classifications. This will then allow annual mine production to progressively increase to full mill capacity and also prolong the life of the Sunshine Mine. As such the mine plan stated in this report should be considered only as an achievable economic base case.

1.0 Property Description and Location

The Sunshine Mine is located within the well-known Coeur d'Alene Mining district of North Idaho at Big Creek, 44 miles east of Coeur d'Alene, Idaho along U.S. Interstate 90 (Figure 1). The Jewell shaft, the mine's main production shaft, is located in the Big Creek valley at Latitude 47 °, 30', 6 " North, Longitude 116 °, 4', 10 " West; near the base of a steep hill which lies to the east.

The mine's mill and other infrastructure are located in proximity to the Jewell shaft.

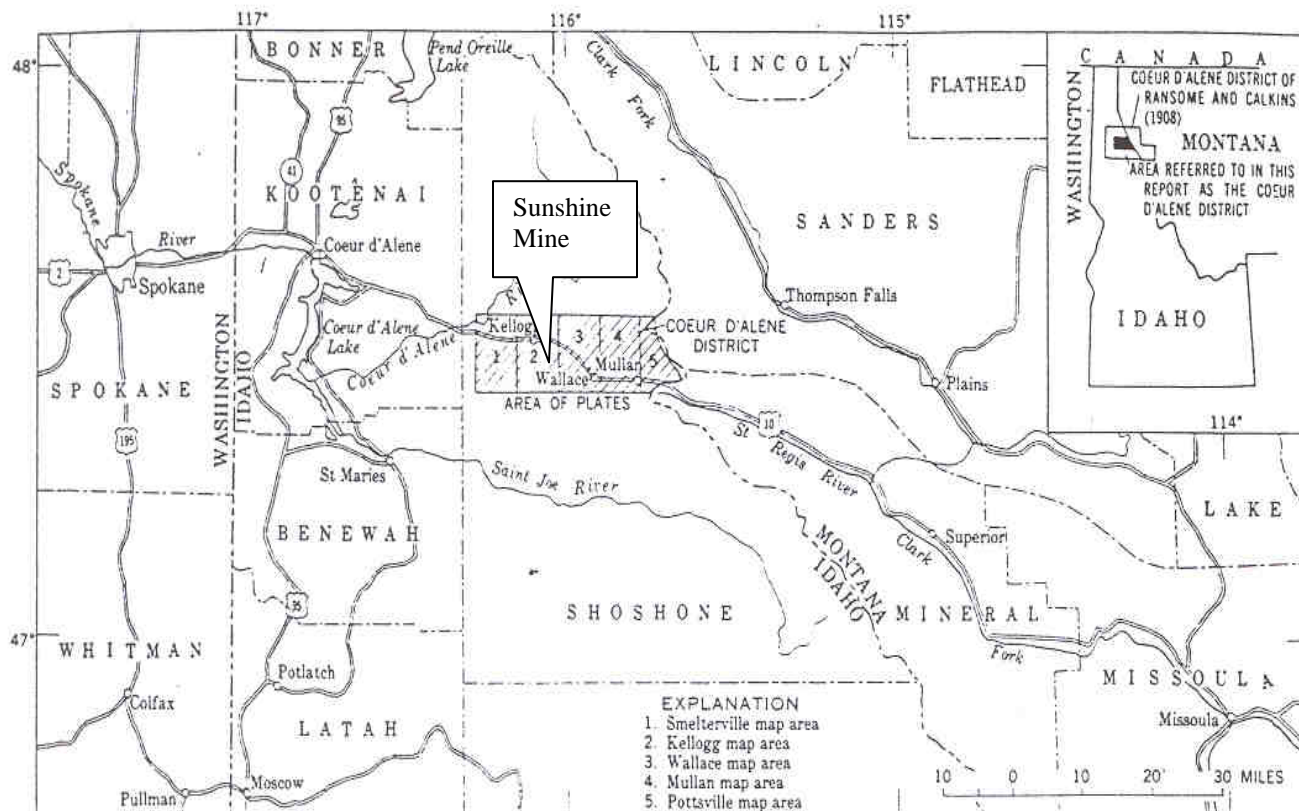


Figure 1. Map showing location of the Coeur d'Alene mining district (Area of Plates), Shoshone County, Idaho (from USGS Prof. Paper 445, 1964)

The Sunshine Mine property includes both owned and leased properties and both patented and unpatented claims with a total mineral rights area of 6930 acres. Figure 2 below shows the owned and leased claim blocks and the total of 423 acre owned surface rights. The property is situated partly or wholly in Sections 13, 14, 15, 16, 17, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28 and 29, Township 48 N. Range 03 E., Boise Meridian, Shoshone County, Idaho.

Property boundaries were initially defined by claim boundaries on the outermost claims of each individual property held. In the case of patented claims these were surveyed. In the case of unpatented claims, some of which may be very old, the boundaries were probably established by agreement between the land holders.

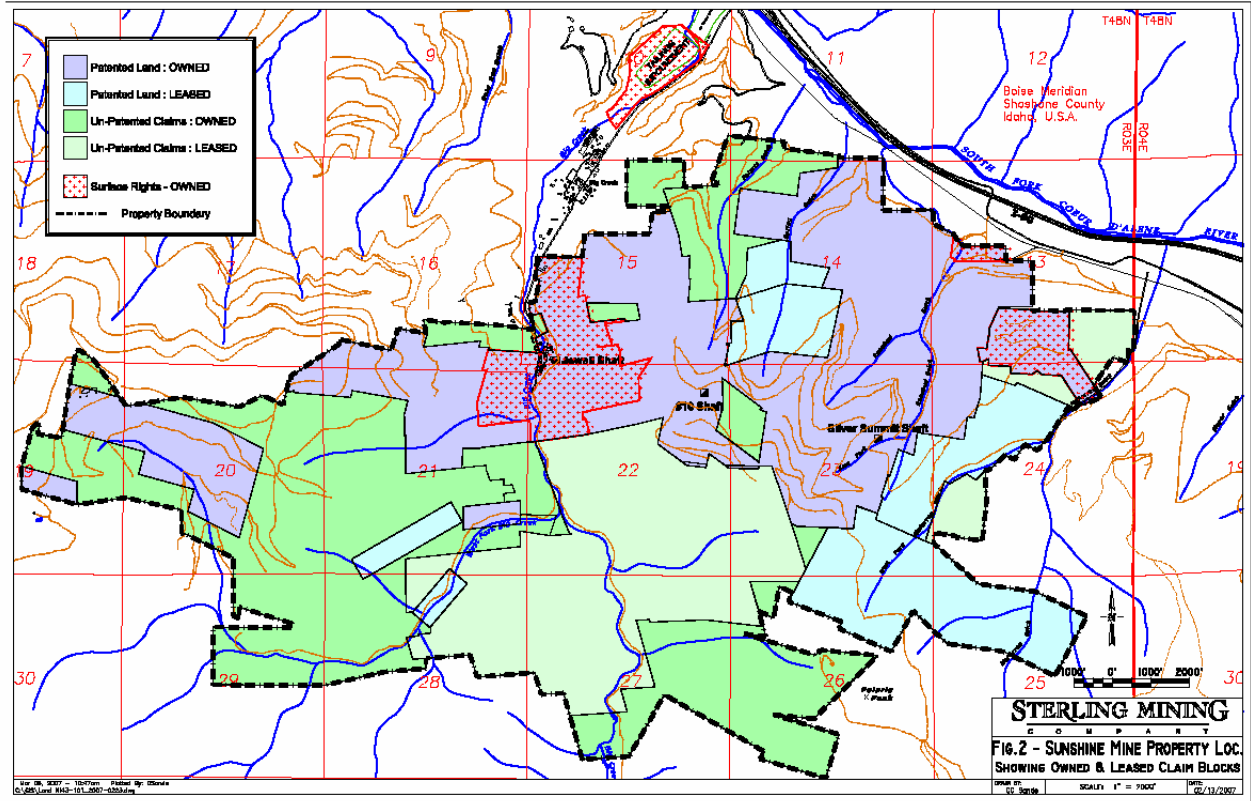


Figure 2 Sunshine Mine Owned and Leased Claim Blocks

Figure 3 below shows the leased and agreement based royalty areas.

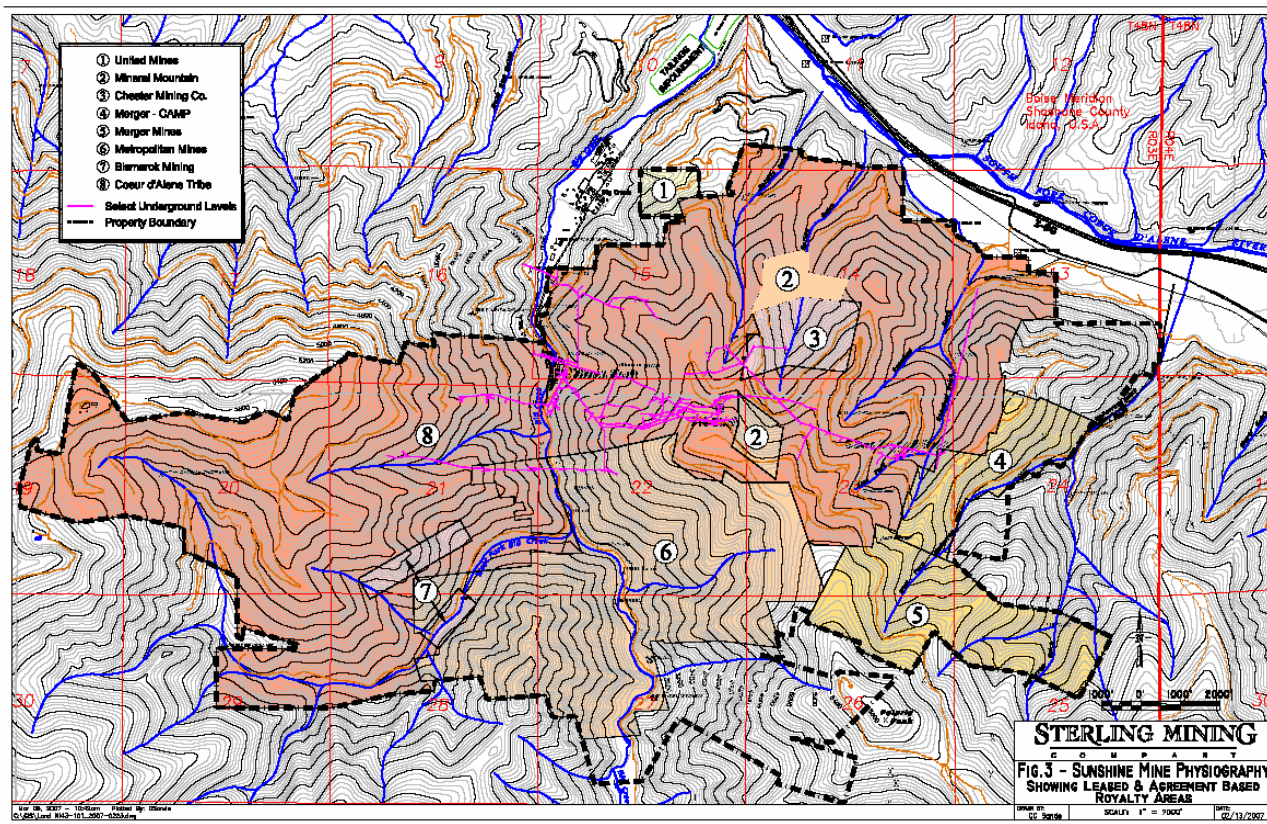


Figure 3 Leased and Agreement Based Royalty Areas

In late 1998, Sunshine implemented a Consent Agreement which settled various issues with the EPA, the State and Coeur d’Alene Tribe as Sunshine’s settlement of a Federal natural resource damage suit involving the active mining companies in some patented mining claims, the property may be subject to certain royalties.

On June 6, 2003 Sterling Mining leased the Sunshine Mine and infrastructure, including historical records, from SPMI for 15 years. Annual lease payments are \$120,000 per year, payable in monthly increments. The Company has assumed approximately \$840,000 in outstanding county property tax liabilities and, in a separate transaction, purchased various items of equipment in exchange for a cash payment of \$396,000, payable in six monthly installments. The Company has the option to purchase the property at a price ranging from \$3.0 to \$5.0 million, depending on the spot price of silver as of the date of exercise. The following Table 1 sets out the various properties that comprise the Sunshine property.

Table 1 Mineral Rights Comprising the Sunshine Mine				
Property	Owner	Patented Claims	Unpatented Claims	Acreage
Sunshine	SPMI	144	47	2940
Sunshine	Sterling	6	68	1051

Table 1 Mineral Rights Comprising the Sunshine Mine				
Property	Owner	Patented Claims	Unpatented Claims	Acreege
Metropolitan	Metropolitan	2	67	1020
Chester	Chester	6		106
Bismark	Western Continental	3		62
Mineral Mountain	Mineral Mountain	4		46
Merger	Merger	14		356
Merger Camp	Sterling Below 900	21		313
United Mines	United Mines		2	36
Total		202	184	5930

The Chester, Bismark, Merger, Mineral Mountain, Metropolitan and United Mines properties are included in the Sunshine Property group. For the most part, these properties were originally leased by SPMI prior to its bankruptcy in 2001.

Chester and Bismark Group

In 2004, the Company leased the Chester and Bismark claim groups pursuant to a 25-year lease, renewable for an additional 25 years. The lease, which expires in 2029, requires the annual payment of 50,000 shares of the Company's common stock, a \$7,200 annual advance royalty payable in monthly installments, and a 4% Net Smelter Return ("NSR"). The Company has no work obligations under the lease. Specifically, with respect to Chester Mining Company we lease six patented mining claims covering 106 acres, which are part of the Sunshine Mine property. In October 2006, the Company entered into an agreement with Chester Mining Company under which we sold 50% of our interest in the Tabasquena Mine in Mexico for 600,000 restricted common shares of Chester Mining Company. Under a separate agreement, we issued 400,000 restricted shares of our common stock to a company controlled by an officer and director of Chester Mining in exchange for 675,000 outstanding common shares of Chester Mining. As a result of these transactions we now hold approximately 43% of the issued and outstanding common shares of Chester Mining, which management believes to be to the advantage of the Company because of its leasehold interest in Chester Mining's patented mining claims described above.

Mineral Mountain Group

In 2004, the Company leased the Mineral Mountain claim groups pursuant to a 25-year lease, renewable for an additional 25 years. The lease, which expires in 2029, required the issuance to the lessor of 30,000 shares of the Company's common stock, and provides for an annual advance royalty payment of \$3,600, and a 3% NSR. The Company has no work obligations under the lease. As part of the lease, the Company received an option to buy up to 1,000,000 shares of the lessor.

Metropolitan Group

In 2004, the Company entered into an agreement pertaining to the Metropolitan claim groups, which expires when cancelled. The agreement provided for the issuance to the Company of 200,000 shares of the stock in

the owner of the Metropolitan claim groups and an annual advance royalty payment by the Company to the lessor of \$12,000.

The Metropolitan Mining Company property consists of 2 patented and 67 unpatented mineral lode claims. These claims lay immediately to the south of the primary workings of the Sunshine Mine and to the southwest of the ConSil Mine. The workings of the Metropolitan Mine are inaccessible. Several veins that have been mined at the Sunshine Mine have crossed or are projected to cross into Metropolitan property at depth.

The Metropolitan Mine is located on the south limb of the Big Creek Anticline, in the south dipping rocks of the lower Wallace Formation. There are two veins in the Metropolitan Mine. The north and south veins. The north vein is characterized by a very narrow quartz band, accompanied by a two foot zone of intensely sheared rock with loose, muddy gouge on either wall. The quartz carries pyrite, minor siderite and occasional tetrahedrite and chalcopyrite. The vein strikes east-west and dips at approximately 45 to 60 degrees. The south vein is composed of a zone a few inches to three feet in width, made up of stringers of quartz carrying siderite and pyrite. Some tetrahedrite is found in the included country rock and in the adjacent hanging wall. The property also covers the Big Creek Fault Zone that separated the rocks of the Wallace and St. Regis Formations on the footwall from rocks of the Revett Formation on the hanging wall. It is likely that the north and south veins have never been explored in the more favorable quartzite units. It has been postulated that the north vein should intersect the quartzites of the Revett Formation around 2,700 feet. The south vein is projected to intersect with the Big Creek Fault at the 1,900 foot level and may host potential ore zones in the Revett Formation.

Sunshine Mining Company explored the Metropolitan property from the 3,100 foot level with the development of the Metropolitan cross-cut. A number of narrow quartz-siderite zones were encountered, but no commercial ore-shoots were intersected.

The Yankee Girl Vein on Sunshine claims lies immediately to the north of the Metropolitan property, and dips onto Metropolitan claims. Issues regarding ownership of the Yankee Girl Vein, in the past, prevented exploration of this structure. The Yankee Girl Vein is believed to host mineralization along 10,000 feet of strike length.

The Company proposes to extend the area of existing surface exploration on the Sunshine property onto Metropolitan land holdings. The program consists of both induced polarization and resistivity geophysics. Drilling is best deferred until drill stations can be accessed underground from the Sunshine workings. Drilling will test for the down-dip projection of the Yankee Girl Vein as well as the Metropolitan North and South Veins.

Merger Group

In 2004, the Company leased the Merger claim groups pursuant to a 25-year lease, renewable for an additional 25 years. The lease, which expires in 2029, required the issuance by the Company to the lessor of 20,000 shares of the Company's common stock and the payment by the Company of annual advance royalty payments as follows: \$2,500 for each of the first five years of the lease; \$5,000 for each of the second five years of the lease; \$7,500 for each of the next ten years of the lease; and \$10,000 for each of the next five years of the lease. In addition, the Company has agreed to pay a 5% NSR. The lease is subject to minimum work obligations of approximately \$25,000 annually throughout the term of the lease.

The Merger claim groups consist of 35 patented lode claims. The northerly section of the property (21 patented claims) is part of the CAMP project between Coeur d'Alene Mines Corporation, Plainview, and Merger, leased to Silver Valley Resources, Inc. (Coeur d'Alene Mines Corporation), and the southerly section (14 patented claims) is located between Sterling's Sunshine and Link property. Production from the CAMP ground above a minus 900 feet sea level elevation is for the benefit of the CAMP interests, while production from below this elevation (approximately 3,600 foot level Sunshine) is part of the Sunshine Mine and would benefit the Company.

The Merger claims have received little exploration work, even though numerous mineralized structures strike onto the Merger ground from the ConSil property. Results of 13,200 feet of exploration geophysics performed

during 2005 indicate a high-chargeability / low-resistivity anomaly indicative of sulfide mineralization. This anomaly extended from near surface to the maximum sensitivity of the test instrumentation in a generally east-west orientation and appears to increase in depth to the east.

Geology of the Merger group is similar to that of the Silver Summit (ConSil) portion of the Sunshine Mine. However, influences by the Fort Wayne and Mineral Point faults and the intersection of the Polaris fault with the Chester fault are poorly understood and present areas for future exploration.

Prime targets for future underground exploration and development are the Silver Summit Veins explored and mined in the Silver Summit (ConSil) Mine west of the Silver Summit shaft. Additionally, the Silver Summit, Chester, Wire Silver, "D," and Chester-Polaris "Hook" Veins all originate in or extend onto Merger property at depth. An extensive underground exploration program of these structures by Hecla Mining Company was started in the 1980's on the 5,400 foot level of what is now the Silver Summit portion of the Sunshine Mine, but the program was halted and never completed.

The 2007 exploration program may include geochemical sampling, expansion of geophysics and/or surface diamond drilling. At such a time as conditions permit, underground exploration activities will resume at depth on Merger ground. Rehabilitation and development of the Sunshine Mine will be a key factor in this future exploration.

United Mines Group

In 2002, the Company leased the United Mines claim groups Big Creek 1 and Big Creek 3 pursuant to a 10-year lease. Terms for the lease, which expires in 2012, are a 1% Gross Revenue to the lessor from this property. The Company will pay the claim fees for the property.

2.0 Accessibility, Climate, Local Resources, Infrastructure and Physiography

Access to the property from Coeur d'Alene, Idaho is by Interstate highway I-90 to the Big Creek turnout and south about 2.5 miles of secondary paved road to the mine site.

The mine has a mild northern U.S. climate with snow, rain and fog in the winter.

The nearest town is Kellogg, about 4.5 miles from the mine. Many of the mine staff live in Kellogg, Idaho which has a full complement of services. The closest major airport is in Spokane WA, some 90 miles to the west.

The mine is tied into the regional power grid, water is abundant from Big Creek and the mining history of the Idaho Silver Belt ensures a ready source of manpower. Adequate waste disposal areas are present both at the Jewell and the Silver Summit shaft areas. Sterling has secured ownership of the tailings impoundment area, so are ensured of 4 to 5 years usage from the present configuration and the right to build higher lifts of the dike.

The topography is typical of Northern Idaho countryside, hilly to mountainous and forested. The Jewell shaft and mill are located above the base of a very steep mountain while the hoistroom and other infrastructure facilities are located on relatively level piece of property at the mountain base.

3.0 History

The Sunshine Mine property had its beginning in 1884 when the Blake brothers staked the Yankee Lode mining claim. Various contiguous holdings were consolidated to become the Sunshine Mining Company in 1920. The mine was then an economically marginal property consisting of 15 patented claims and one un-patented claim shipping hand-sorted ore with a silver price of \$1.00/oz.

In 1921 a 25 tons per day mill was constructed. From this modest beginning, the mill was expanded piecemeal and eventually reached a daily capacity of 500 tons.

Soon after the concentrator was commissioned, the Sunshine tunnel was driven from the surface in an exploration effort which discovered higher quality ore historically identified as “Chinatown”.

In 1926, encouraged by the production successes in the Chinatown area, (upper Sunshine Vein), the Incline shaft was sunk from the Sunshine tunnel elevation to well below the bottom of the Chinatown working areas, eventually reaching 1900 level in 1934. Soon after, drift crews discovered a bonanza vein of the first order. The No. 3 shaft was then started eventually to reach the 3100 level in 1938.

In 1935 the concentrator was upgraded with new ball mills grinding units and flotation cells increasing the capacity to 1000 tons per day while attaining a recovery of 98%. The sinking of the new four-compartment vertical Jewell shaft was started reaching the 2300 level in 1936.

In 1943 a drift crew, drifting east on 2700 level following the Silver Syndicate fault, discovered the famous Chester vein.

It was primarily the exploitation of the Sunshine vein followed by the Chester vein that determined the present configuration of the underground workings. With the discovery of the Chester on 2700 level and the ore body’s distance from the Jewell of approximately 4000 feet east - southeast, other internal shafts the No. 4, No. 5 and No. 10 shaft (more properly defined as winzes) were sunk or raised to more efficiently service the operations. The other principal internal shaft is the No. 12 shaft, servicing the Copper vein and the West Syndicate vein in the western end of the mine.

In 1960, sand-filling operations were introduced underground. The mill tailings were classified so that the coarser material, approximately 45% of the total mill feed, would be used for stope backfill.

By the end of 1988, the mine was at full production. Ore production was primarily from mining the Chester vein systems serviced by the No. 10 shaft and the remnants of the Sunshine and Rambo vein stopes referred to as the Footwall area on 3700 and 3400 levels. The 4000 and 4200 level Copper vein was under development from the No. 12 shaft.

In 1989, the mine produced 4.8 million ounces of silver. The production from the high grade Copper vein stopes began to impact the silver production volumes. During 1990, the mine produced 5.4 million ounces of silver, the highest since 1971. By now the high-grade Copper vein stopes on 4200 level were becoming substantial producers, while production from the 10 shaft stopes was dropping off.

In 1991 the silver price fell to \$3.90 per ounce and the operation was losing money. A mining plan was put together to reduce losses substantially while waiting for prices to improve. This plan was referred to as the “small mine plan” and was implemented in June 1991. The operation headings underground were centralized by shutting down the outlying, more costly production and development headings, and limiting operation to day shift only. The mining operations were consolidated in the area of the Copper vein and the most productive headings in the “Footwall Area”. The mine below 5000 level was salvaged and allowed to fill with water. Production was cut in half, while the work force was reduced by 65%.

In 1992, the West Chance vein was discovered. By late 1996 it was clear the ore body was of sufficient size and value to support the mine’s return to full production. The reserves were then developed by trackless ramp and lateral development methods using LHD (Load-Haul-Dump) equipment. The working areas outside the West Chance were shut down and salvaged in an orderly fashion and all resources were directed toward the West Chance. By July 1997, the mine workings below the 4000 level were salvaged of all usable equipment and materials and allowed to begin filling with water.

In 1995, Sunshine acquired the neighbouring Consolidated Silver (“ConSil”) property generally consisting of the surface facilities and the underground workings of the commonly known Silver Summit Mine. This mine has served as the Sunshine Mine’s second access for years. The ConSil underground mine workings are primarily accessed by an adit from the surface located about two miles east of the Jewell shaft to an internal shaft, which extends vertically 5600 feet.

The mine ceased production in the first quarter of 2001 as a result of several factors, including the low price of silver and the lack of regular and consistent exploration and development activities due to prior management shifting cash flow from the mine to sustain corporate expenses, debt and other projects.

At closure the mine reserves were 1.13 million tons containing 26.75 million ounces of silver at 23.6 ozs Ag/ton. Upon closing of the mine these 'Historic' or 'Legacy reserves' were reclassified to 'mineralized material' as required by the United States Securities and Exchange Commission (SEC) regulations. These "Legacy Resources" are now classified as being Mineral Resources under the CIM Definition Standards.

From historical records beginning in 1904 the Sunshine Mine has produced 364,893,421 ounces of silver from 12,953,045 tons of ore through 2001 when the mine was closed. From January 1, 1998 to January 1, 2004 the average reserves carried by the mine were 1.38 million tons containing 32.20 million ounces of silver at 23.3 ozs Ag/ton.

4.0 Geological Setting

Regional Geological Setting

The district is hosted by the rocks of the Pre-Cambrian Belt super group. These sedimentary rocks were deposited approximately 1.6 billion years ago. At various times these rocks were faulted, leached, altered and re-mineralized. The Belt super group has been divided into the Prichard group, Ravalli group, Middle Carbonate group, and Missoula group. Within the Coeur d'Alene district, rocks of the Prichard, Ravalli and Middle Carbonate groups can be found. The formations comprising the Ravalli group are the preferred host rocks for silver mineralization in the district. These formations are from older to younger Burke, Revett and St. Regis.

Ore deposits of the Coeur d'Alene Mining District occur in veins hosted in weakly-metamorphosed sedimentary rocks of the Belt super group. Most of the production is from the Revett and St. Regis formations of the Ravalli group. This thick sequence (up to 12.4 miles) of middle Proterozoic age strata covers a large area of Northern Idaho and Western Montana. The sedimentary rocks are predominately fine-grained siliciclastics with subordinate carbonate-bearing units. The Cretaceous Gem stocks and a few mafic dikes (pre-Cambrian?) are the only known intrusives in the District.

A major tectonic lineament, the Lewis and Clark line, defined by strike-slip, normal, and reverse faults, transects the District in a west-northwest direction, while folds north of the fault strike north-south. Early workers suggested that transcurrent movements along the Lewis and Clark line resulted in this change of orientation. Recent interpretations support the hypothesis that there were two folding episodes and that earlier workers did not recognize the N-S folds south of the line.

Rapid facies changes and variations in thickness suggest that faulting was active during deposition of the Belt sediments. The Osburn fault is the local expression of the Lewis and Clark line. The fault has 15 miles of post-ore-right-lateral strike-slip displacement and has been periodically active through geologic time.

The District has a history of intense faulting and folding of the rock formations. Two major east-west fault zones, the Osburn and Placer Creek faults, cut through the District and, although mineralization does not necessarily occur along these fault zones, the district ore bodies are intimately associated with this and other faulting. The unique geology of the district may display little or no indication of mineralization on the surface, and many of the successful silver mines in the district did not realize their full potential and best grade of ore until after a depth of at least 1700 feet was reached in their downward development and exploration. Thus, mining claims in the district, in particular if located near major mines and of similar geological setting, often require deep drilling from the surface or underground drilling to determine whether commercial grade ore bodies are present. In many silver-producing areas, a deposit may bottom out at a few thousand feet below surface. However, in the Coeur d'Alene District this is not the case, as deep extensions of primarily silver mineralization are faulted and folded, which may have caused the favorable host rocks to move deeper.

Contradictory age dates and lack of conclusive field evidence resulted in differing hypotheses as to the origin and timing of the ore deposits. A recent study suggests that zinc and lead rich veins formed from strataform

Proterozoic deposits (1500-900ma) and that silver-rich veins were formed by a late Cretaceous-early Tertiary hydrothermal event. Field relationships and laboratory age dating continue to underscore the complex nature of the ore bodies.

Property Geological Setting

Lithology

Ore deposits are localized in the 600 ft. thick St. Regis formation and the underlying upper members of the 3,000 ft thick Revett formation. The contact between the formations is indistinct and is locally picked as the bottom of the lower-most distinct purple-colored interval in the St. Regis. Rock types include argillite, siltite, sericitic quartzite, and vitreous quartzite. Siltites and argillites dominate in the St. Regis while in the Revett lithologies are gray to pale greenish-gray siltites and quartzites. Changes in lithologies are noted on the scale from a few inches to a few tens of feet. Detailed stratigraphy of the mine is poorly understood, geologic mapping by early workers focused on veins and alteration, facies changes, and subtleties between lithologies complicate correlation and identification of rock units. The stratigraphic column in the mine is continually re-interpreted, and two apparent marker beds have been identified in the West Chance area. One of these argillaceous beds is thought to be a bentonite (ash) unit, and may assist in correlations throughout the mine.

Faults

Four major west-northwest trending faults cut the mine area, and some have been mapped for several miles. The faults dip steeply to the south. The spatial relationship to the Osburn fault suggests strike-slip movement, but studies of kinematics and rock fabrics in the mine show that most movement is dip-slip. The Polaris fault has normal movement, but the Silver Syndicate, Chance and Alhambra faults have reverse movement. Offset is thought to be about 800 feet in the vertical direction

Folding

The principle fold in the Silver Belt is the Big Creek anticline. Major ore deposits are localized on its north limb south of the Osburn fault. Beds on the north limb are generally steeply dipping to overturned in the mine, but minor folds are present. On the hanging-wall side of the West Chance vein, for instance, two folds with amplitudes of about 100 ft are noted. Bedding attitudes in some places suggest that the folds plunge to the west

5.0 Exploration

All of the exploration work carried out, with the exception of work recently completed, at the Sunshine Mine created historic resources. It is necessary to describe this historic exploration work as it includes the methods practiced right up to mine closure in 2001. Exploration work presently underway is using the exact same methods as in 2001, except that defined resource and reserve categories will now be classified in accordance with the CIM Definitions of Mineral Resources and Mineral Reserves as adopted by CIM Council on November 14, 2004. Mine staff carried out most surveys and exploration work in the past and this practice is expected to continue. The new Sterling tunnel driven to join the Sunshine and Silver Summit tunnels has allowed underground diamond drilling exploration to be resumed in the upper country mine area.

Historic Exploration and Ore Reserve Calculation

Throughout the life of the Sunshine Mine from 1884 to 2001 the Sunshine Mining Company carried only one reserve estimate classification that they called proven and probable. Until recent years even the terms proven and probable were not used, they were simply 'reserves'. However, the method that was used to estimate and calculate the reserves fully corresponds to the standard practice of estimating vein type reserves that is used for both the Coeur d'Alene Mining District and for this deposit type. No proven reserves were estimated by drill hole data alone. To be classified as proven ore, at least one lineal dimension of mineralized vein had to be exposed by mine workings and adequately sampled. The long mining history at Sunshine has shown that both the main ore shoots and subsidiary ore shoots typically have vertical dimensions that are at least two times longer than the horizontal

dimensions. The ore reserve estimation technique, in the absence of limiting diamond drill hole information, was to project a block of ore above and below the developed level for a distance equal to one-half the horizontal dimension. The average grade from chip samples regularly spaced at 6 ft or 7 ft of the development length (depending on which mining method was being utilized) was assigned to the block. This method is typical of that used the Coeur d'Alene Mining District in general and originated when virtually all exploration was done by drifting on the vein. Sunshine refers to this as the "McKinstry" method, as it is adapted from the classic ore reserve estimation technique taught by McKinstry early last century when vein mining was the norm, not the exception.

With the exploration and development of the West Chance vein in the mid and late 1990's, the traditional McKinstry method was modified to incorporate the larger amount of drilling and less level development to determine the extent of the newly discovered ore. Therefore, in the West Chance area where diamond drill hole data was abundant and where actual mined grade data were being generated, a polygonal estimation approach, rather than the McKinstry method was used. After development of the sill level of the vein, chip samples of the vein were taken at six foot intervals and an assay "string" for a given strike length of vein was created. The composite grade was diluted to seven feet if the vein was less than seven feet wide. Diamond drill hole assays around this development were given a weight equal to one point in the assay string, and the area of influence of the drill hole was calculated by the polygonal technique, diluting to correspond to the mining method width in the West Chance stopes. The resulting block was then given the average grade of the string plus the one drill hole data point.

Once the reserve block was in production the grade of the ore reserve block was estimated from the actual grade of the last two stope cuts. The grade of the remaining block was modified by the diamond drill hole assays. Again, each drill hole assay point in the block was given a weight equal to one point in the production assay string and the proper polygonal size of the block was calculated. In this manner, the actual data from the mining was given a greater weight than the single drill hole intercept assay point.

A density factor of 10 cubic feet per ton was used for both ore and waste in reserve calculations prior to 1998. Measurements of representative ore and waste samples from the mine show tonnage factors of 8.3 and 11.4 respectively. In order to account for these differences, 1998 calculations used an ore tonnage factor of 9.4 and a waste tonnage factor of 11.4. The ore density is less than that for a pure siderite sample because some lower density wall rock is usually included in the ore interval. The tonnage factor for ore was then modified to account for the increased density contributed by the lead present in the sample. A computer program calculates the grade and width for a sample string. The program accesses the sample ticket database.

Throughout its 123-year history, the Sunshine Mine has been able to remain in production by continually discovering additional ore. Since 1934, reserves have remained between 20 to 40 million ounces, even though 365 million ounces have been produced.

Current Exploration

Beginning in August 2003, Sterling undertook a surface exploration program, which was followed by initial drilling in the fall of 2004. To date some 7000 feet of drilling has been accomplished primarily for structural assessment. Completion of the Sterling Tunnel in April 2007, enables crosscuts and drifts to be driven to diamond drill the wedge of unexplored ground that lies between the Sunshine and Polaris mines known as the "Upper Country". This target zone was bypassed by the previous owners who concentrated principally on following known silver bearing vein systems downward. As of September, 2006, during the development of the Sterling Tunnel, diamond drilling access has been provided for upper level targets in the Silver Syndicate, Copper-Link, Hook, Chester, Yankee Girl, Yankee Boy and Sunshine veins.

6.0 Mineralization

The Sunshine Mine mineral deposits are narrow high grade vein deposits, which characteristically strike east-west and dip steeply (average 65°) to the south. The combination of faults, folds, fractures and favorable host rocks created suitable conditions for mineral emplacement by silver-rich veins probably of late Cretaceous-early Tertiary hydrothermal origin and possibly related to the Idaho Batholith.

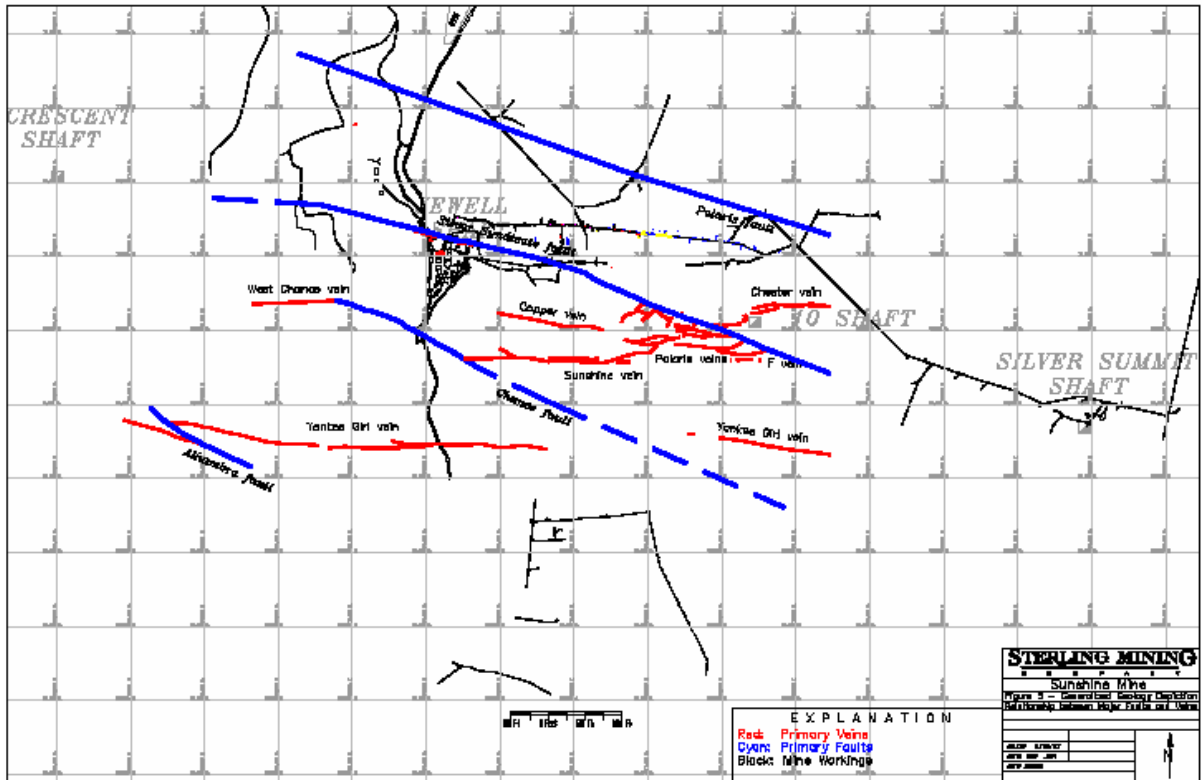


Figure 4 General Relationship Between Faults and Veins

Over 30 veins have been named and mined at the Sunshine Mine. While the initial work suggests distinct veins, some of these veins are actually offsets across post-ore structures and others represent parallel footwall or hanging wall veins. Principle vein systems in the mine include the Sunshine, Chester, Copper, Yankee girl and West Chance. The Sunshine and Chester Veins have produced over 100 million ounces of silver. Major veins strike east-west and dip about 65° to the south. Locally, dips range from 45° to 90°. Strike lengths are up to 2000+ ft and dip lengths are two to three times greater than the strike length. Major veins are located between the faults at an angle of about 25° to the bounding faults. Veins vary in width from a few inches to over 30 ft, but are generally between 1 to 5 ft. thick. Ore minerals include tetrahedrite and galena with siderite and quartz as the principal gangue minerals. The silver content of the tetrahedrite varies and the silver to copper ratio in the ore ranges from 40:1 (opt Ag:%Cu) to over 100:1. Tetrahedrite occurs as blebs, fracture fillings, or in veinlets. Samples of over 200 oz/ton (opt) silver have been collected in the mine. Other minerals include pyrite and arsenopyrite with minor to trace amounts of chalcopyrite, sphalerite, boulangerite, bourmonite, pyrrargyrite, and magnetite

Figure 4 above depicts the underground levels and geology projected on the 3700 ft level referenced to the Jewell shaft and the major faults and veins present at the Sunshine Mine with their significant and perhaps genetic inter-relationship to the mine's ore bodies.

Figure 5 below depicts a long section view looking north showing the major veins of the Sunshine mine projected onto a vertical plane.

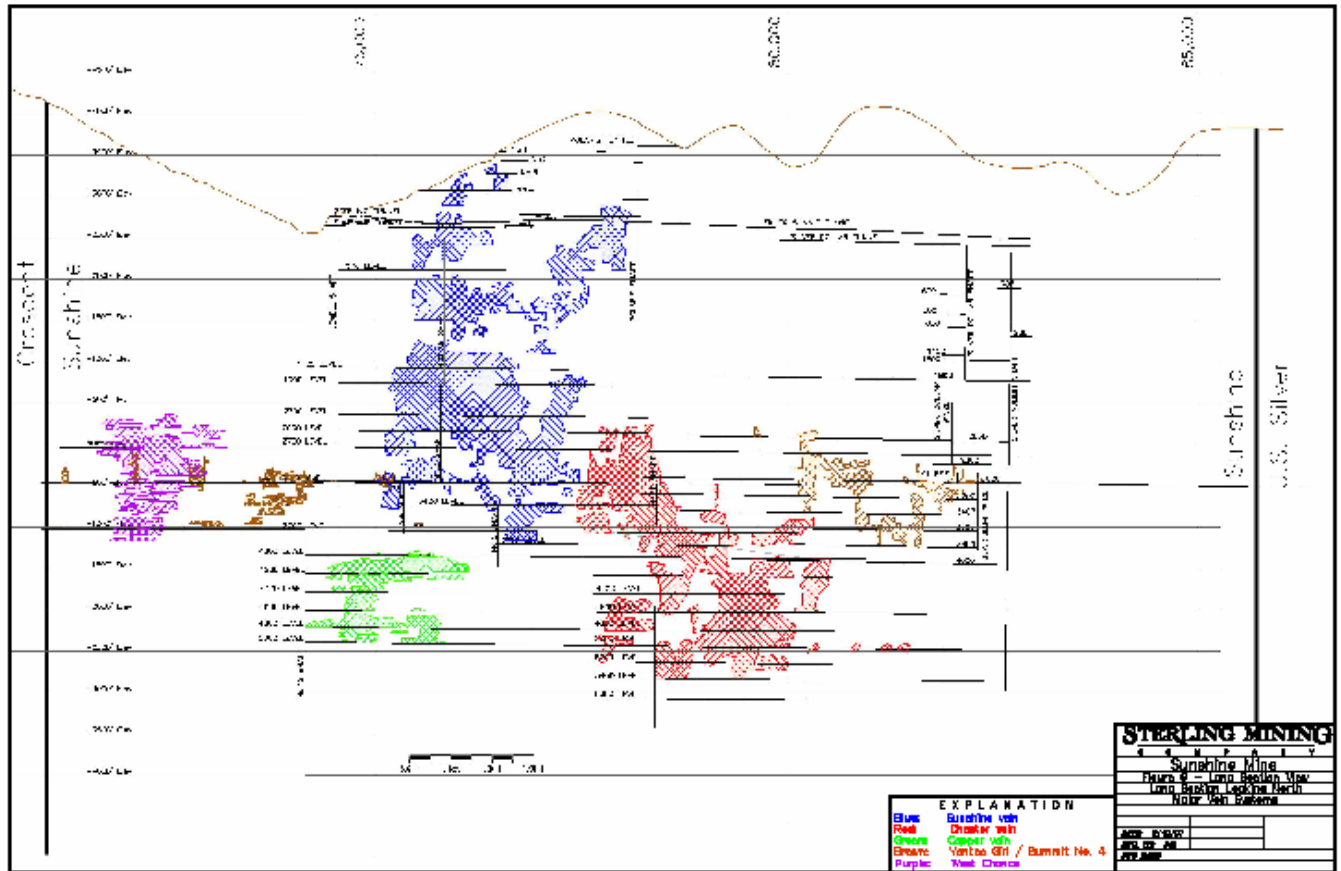


Figure 5 Long Section of Major Veins projected onto a vertical plane

7.0 Drilling

Sterling estimates that there are approximately 5,000 underground drill holes. Approximately two thirds of the footage drilled was for exploration, both for long-term and short-term mine planning and development. The longest underground hole is approximately 3,000 feet. It is not uncommon for these holes to be 1,500 to 2,000 feet long. Long underground exploration holes are required to locate structures and veins because most development, except in the West Chance deposit, has been on the veins and thus drilling platforms for shorter holes at appropriate angles to the targets have not been available.

The drilling was done by Sunshine-owned equipment and mainly by Sunshine employees. All of the previous drilling was core. The drilling was done with the following equipment:

- Pneumatic diamond drills (CP 65's), 500 foot capability, but have drilled 1,500 feet, typically obtained AQ core in the target zone;
- Hagby drills for underground long hole exploration, typically obtained BQ or NQ core in target zones.

Historical core logs with appropriate descriptions exist with the exception of the surface hole log book, which has been lost. The drill operators were competent and core recovery in the mineralized zone was generally 90 percent or higher. Given the fracturing and broken ground in the mineralized zones, core losses in some holes were significant. Sunshine began down-hole surveying of its holes when equipment to do so became available. Sterling reports that most of the holes have been down-hole surveyed. Older holes are plotted on mylar sections at a scale of 1 inch equals 50 feet. Holes drilled since 1996 are plotted on AutoCAD drawings. The core was not photographed.

Mineralized core for analyses was split in half with hydraulic splitters. One half was replaced in the core box and is stored on site with skeleton core samples from the country rock. The other half was taken to the on-site sample preparation facility for analyses.

Given the purposes of the drilling, the results have had limited use for the Sunshine mineral resource and reserve estimates in this report.

No specific examples of this historic information can be described.

8.0 Sample Method and Approach

Mining and sampling were not in progress at the time of the writer's site visit, and the actual procedures could not be observed. Based on existing records and information from Sterling, the sampling, sample locations and descriptions, and sample handling were done in accordance with accepted industry standards.

The reported method was as follows: A geologist took one-to-five pound chip sample of the vein at the bottom, middle, and top of the face as development on the vein proceeded. On the sample ticket, the location was recorded, the sample was described, and a sketch of the vein and face was made for most samples. The sample ticket was placed in the bag, and the geologist delivered the sample to the sample preparation facility. That sample data is available in the filed sample ticket books and in the electronic database beginning in 1995 and for some select samples prior to that year.

The analyses from the face samples taken during development and from samples taken as mining proceeded are the primary sources of data that Sunshine used to estimate its reserves. Those analyses are also the basis for the estimates of resources in this report.

The drifts on the veins were generally sampled at five to six foot intervals. Both raises and stopes were sampled at regular intervals that vary based on data requirements at any given time. As needed, the paper data has been digitized and entered into an electronic database. Most of the drilling data from 1972 forward and about half of that data prior to 1972 have been entered into the database. Locations and analyses from the underground face samples beginning in 1995 have been entered into the electronic database. Data from the face samples prior to 1995 have been digitized and entered into the database as needed. The initial data base system was TechBase. Since 1996, Sunshine used Microsoft Access and AutoCAD, with all graphics in AutoCAD.

Specific Gravity, Tonnage Factors and Estimates of Tons and Grade

The estimated short tons in the Sunshine reserve blocks include the actual vein materials diluted by the amount of wall rock required to mine the vein. In practice only the veins were sampled. The wall rock was assigned a zero grade. The minimum block widths are nominally five feet for slusher stopes and seven feet for LHD stopes. Vein widths generally range from one inch to five feet, but are highly variable. The average width is approximately two feet.

The veins are predominantly siderite with varying amounts of tetrahedrite and quartz. The wall rock is mostly quartz. The specific gravities of the major components and of tetrahedrite are as follows:

- Siderite: 3.8 – 3.9
- Quartz: 2.65
- Tetrahedrite: 4.6 – 5.1.

Sunshine documents provided by Sterling describe the methods that were used to estimate Sunshine 'legacy' reserves. It is stated that a tonnage factor of ten cubic feet per ton was applied to both veins and wall rock and this factor was used to represent the average calculated number of cubic feet in a ton of ore from the Sunshine mine. Whether or not this number had been actually measured is not stated. Sterling states that Sunshine had consistently used this constant tonnage factor of ten cubic feet per ton to make its historic reserve estimates, except from 1996 to 2001 for the reserve estimates of the West Chance and SR1 areas.

As expected, the tonnage factors do vary depending on the composition of the veins and wall rock. The factor for vein material will vary considerably from 8.3 cubic ft./ton (100 percent siderite), depending on the relative amounts of siderite, quartz and tetrahedrite. The factor for wall rock will be more constant, given that its composition is mostly quartz and clay minerals.

A review was undertaken by SPMI staff to determine whether to use two separate factors for vein and wall rock. That review presumably resulted in the changes in Sunshine's reserve estimating methods as stated in the following procedure:

Dilution is now estimated by assuming there is 25 percent barren waste within the vein, which is added to the normal dilution calculation of mining width minus vein width. Prior to the West Chance orebody, or 1998, a density of ten cubic feet per ton was used for both ore and waste. Since then, ore tonnage has been estimated by using 9.4 cubic feet per ton. The cumulative effect of all the above factors has been to more accurately estimate reserve and mined grades.

Since the writer is using historic reserve figures, and since no mining is being conducted at this time, there are no current descriptions or specific examples of:

- Sampling methods and related details
- Drilling, sampling or recovery factors
- Sample quality and related representativeness
- Description of rock types, geological controls and widths of mineralized zones are available.

9.0 Sample Preparation, Analyses and Security

The writer was not able to see the sample preparation and analytical procedures during his site visits because those facilities were not in operation, and the equipment has been largely dismantled and scrapped. The sample preparation and analytical procedures as described by Sterling are summarized in the following paragraphs.

Core and underground samples were delivered to the sample preparation facility on site by the geologist who logged the core or took the sample. The samples were crushed and ground and delivered to the laboratory for analyses. Sunshine employees did all of the sample preparation, analyses, and posting of results on-site. This chain of custody maintained the sample integrity.

The writer has seen the Sunshine sample preparation protocol. Although the exact crushing and grinding steps are not specified, the protocol meets accepted industry standards. Sample preparation is in many cases the place where inadequate procedures lead to biased analytical results. The original sample size is in many cases reduced at too coarse a grind, leading to samples sent to the lab that are not representative due to the nugget effect. The nugget effect, however, is not a significant problem with silver in the Sunshine tetrahedrite mineralization.

The writer has not seen the Sunshine analytical protocol. Sterling does not know of any specific quality assurance / quality control (QA/QC) procedures used by the Sunshine laboratory. Such procedures are now standard practice but have only been practiced in most labs in the last twenty to twenty-five years. There is no QA/QC data from the Sunshine lab to verify the precision and accuracy of the results, and the quality of the results may have varied over time. The writer does not, however, regard the lack of such data as a significant reason to question the analytical results for the following reasons:

- The writer does not know of anything in the history of the mine to cause it to question the analytical results;
- The large number of analyses over more than 50 years makes any errors over a short period of time or on a relatively few samples insignificant as regards the whole database; and
- As reported by Sterling, the lack of questions by the smelter and refinery of the analyses of Sunshine's concentrates indicates that the Sunshine lab produced quality analyses.

Based on information from Sterling and the analytical data produced, the writer concludes that the Sunshine sample preparation and analytical facilities produced acceptable analytical results. The writer accepts those results as valid for use in estimating the Sunshine historic reserves and for the current estimation of resources.

Data Verification

All measured and indicated resource data quoted in this report are developed from historic data that has been stored in the mine's AutoCAD database. These 'Legacy reserves' were blocks carried by Sunshine Precious Metals, Inc. as reserves until shut down. These 'Legacy' blocks are now referred to as measured and indicated mineral resource blocks.

The writer has verified the data referred to as follows:

The measured resource blocks listed in Table 1 are plotted on Figure 8 in long section at a scale of 1 inch = 1,000 ft. and in more detail at 1 inch = 300 ft. in Figure 8(a) and 8(b) showing the West Chance ramp area and the Sunshine Vein ramp area. These blocks are where mining will start and are above the mine water level. The block numbers, tonnage, grade and number of ounces in Table 1 have been cross-checked against these figures on the sections and on the spreadsheets generated by the computer database.

The indicated resource blocks listed in Table 2 are shown in Figure 9 in long section at a scale of 1 inch = 1,000 ft. These blocks are largely below mine water level and generally will require more development before mining can start. The block numbers, tonnage, grade, and number of ounces in Table 2 have been cross-checked against these figures on spreadsheets generated by the computer database.

The inferred resource blocks listed in Table 3 are shown on Figures 11, 11a), b), c), & d) in long section. Figures 10, 10a), b), c), d), e), f) g) & h) are plan views of the veins on which these blocks are modeled. The block numbers, tonnage, grade, and number of ounces in Table 3 have been checked by calculation.

The only limitation on the verification of the measured and indicated resources is that the writer is dealing with historic information. The long mine history of mining 'Legacy reserves' successfully, however, does support the authenticity of these resources.

The ability of the writer to verify the inferred resources is definitely lower in that the grade and tonnage is being projected over much larger vein lengths and widths from the areas in which the vein has been explored. These modeled resources do, however, comply with the inferred resource category.

10.0 Mineral Resources and Mineral Reserves

The resource estimates, as stated below, are mainly based on historical drilling and from data compiled by the Sunshine Mining Company. The historical resource estimates were used by Behre Dolbear & Company, Inc. in their October 2006 Feasibility study to estimate the mineral reserves. Subsequent to Behre Dolbear's estimation a further resource estimation based on historical data was made on February 2007 by Dr. Warren Geiger P.Eng. The historical data, on which the current estimates have been made, is well documented but has not been completely verified, so the reader is duly cautioned that these historical data based estimates cannot be fully relied on.

Sterling Mining staff has completed more than a year of evaluation of the Sunshine Mine's resource base. The Qualified person writing the mineral resource section has fully reviewed the methodology of the resource calculations and has audited such calculations to ensure their accuracy. He has also reviewed the categorization of the various resources and concurs with classifications that have been conferred on these resources.

Measured and Indicated Resources

The Sunshine Mine 'Legacy' reserve at mine closure of 1,113,000 tons at an average grade of 23.6 opt with 26,231,000 contained ounces of silver. These blocks are now classified as Measured and Indicated resources and are subdivided as follows:

- Measured mineral resource
 - above water level
 - positioned early in the mine startup plan
- Indicated mineral resource
 - mostly below water level during initial mining period
 - requiring some development for mining
 - positioned later in the mine startup plan
- Indicated mineral resource
 - requiring substantial development for mining
 - either dry or wet

The estimated Sunshine mine resources are stated in Table 2 below.

Table 2				
Sunshine Mine Mineral Resources⁽¹⁾⁽²⁾⁽³⁾				
Source	Block Count	Tons	Ag. Grade (opt)	Ag. Ounces
Measured	43	276,975	24.1	6,664,217
Indicated	297	1,151,438	21.3	24,490,138
Total	340	1,428,413	21.8	31,154,355

Notes:

- (1) **Cautionary note to US investors concerning estimates of Measured, Indicated and Inferred Resources. US investors are advised that use of the terms "Measured Resource", "Indicated Resource, and "Inferred Resource" are recognized and required by Canadian Securities regulations. These terms are not recognized by the U.S. Securities and Exchange Commission. U.S. investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.**
- (2) Resources, unlike reserves, do not have demonstrated economic viability. Mineral resources are subject to infill drilling, permitting, mine planning, mining dilution metallurgy and recovery environmental, economic and other relevant factors in order to be converted into mineral reserves. Due to the uncertainty which may attach to mineral resources, it cannot be assumed that all or part of a Resource will be upgraded to a Reserve when subject to a Feasibility Study.
- (3) The resources are based on a cut-off grade of 11.0 oz Ag per ton.

Inferred Resources

The 100 year database of detailed geological, mineralogical, mineral grade and infrastructure information related to the Sunshine Mine's vein deposits. This computer based (Auto Cad) information system allows the modeling of the mine's veins to develop exploration targets that have a significant potential of encountering some ore grade intersections. Three subdivisions have been developed within these exploration targets depending largely on special relationship to known mined areas. The writer classifies all three modeled subdivisions as Inferred Mineral resources.

The three classes of inferred resource have less geologic confidence than the measured and indicated mineral resources but do have resource potential but all require additional work to move them to higher resource categories. The difference between the classes is the level of geological knowledge and confidence. Class 2 has a higher level of knowledge and confidence than Class 3 but does not have the level of knowledge and confidence of the Class 1 blocks. Plans to explore and further define the geologic knowledge and confidence of these blocks will be developed as the blocks become accessible in future mine plans.

Procedures for locating and defining favourable structures and mineralization at the Sunshine mine are typical of the procedures used at almost all narrow vein underground deposits. Structures with mineralization are located and partially defined by drilling, but defining requires underground development. Therefore, sufficient reserves to meet production goals are defined in most cases only two to three years into the future, even though the mine may have potential for many more years of production.

Sterling has evaluated the data in the Class 1 inferred resource locations and has defined mineralized blocks with estimated tons and potential ounces of silver. These mineralized blocks and the veins on which they are located are:

- Chester and Hook veins
- Yankee Girl (East, West & 04) veins
- Sunshine & West Chance veins
- Silver Syndicate Fault vein.

The Chester mineralized block is based on twenty-five short horizontal drill holes collared from the far eastern Sunshine 4000 level. All twenty-five drill holes intercepted the Good Hope/ Chester vein, but only twelve holes recovered sample material. Sampled material indicate mineralization over 525 feet with values up to 3.5 feet of 32.1 ozs. Ag/t silver. The resource block was defined using these intercepts. No dilution is incorporated into the block.

The Yankee Girl estimate of tons and ounces is based on analyses of drill hole intercepts and stoping in adjacent blocks on the 4000 ConSil mine level. The block is derived from triangulated block models of the drill intercepts with a weighted average of the intercept values assigned to the block. No dilution is incorporated into the block.

Both the Chester and Yankee Girl drill hole intercept grades fit within the log normal grade distribution exhibited by drill hole intercept grades found in the West Chance vein drilling program. The mean value of the 4000 Good Hope / Chester and CSR Yankee Girl drill hole intercepts fall within one standard deviation of the mean value for the West Chance drill hole intercepts.

The mean value for the diamond drill intercept grades (≈ 310 sample points) in the West Chance deposit compared well with the mode value of the West Chance face sample population ($\approx 10,000$ sample points). The mean value of the West Chance face sample population has conservatively been used to estimate the production grade for the West Chance ore body. In light of these statistics, the drill results for Chester and Yankee Girl blocks suggest these drill programs may be sampling ore bodies that are equivalent to the West Chance ore body. Additional drilling is required to further delineate and define the veins and mineralization of these orebodies. Additional drilling requires that further development in the ConSil Ramp (CSR) and Sterling Tunnel projects be undertaken.

The Class 2 and Class 3 block modeling uses mapped geology from the Sunshine mine and adjacent properties to project both veins and bounding faults. In some cases, drill hole information is used to confirm geologic mapping. The veins are projected both on strike (horizontal) and on dip (vertical). Known boundaries including faults and land surface are also projected. The vein projections are intersected with the boundaries, and the resulting areas are given the average thickness of the particular vein. The volume is calculated for these projections and tonnage is calculated using a vein tonnage factor of 8.3. Ounces are derived by using an estimated mean vein grade of the log normal distribution for a given vein.

These projected vein models are divided into Class 2 and Class 3 categories based on their proximity to historic stoping, reserves, or significant drill intercepts. Class 2 resources are nearest to existing mining, while the Class 3 potential is farther away. Each class is assigned a probability factor representing the probability for actually discovering economic mineralization within a modeled block. These are then multiplied with the calculated tons. Class 2 is assigned a ten percent probability factor, and Class 3 is assigned a three percent factor. Class 1 was assigned a thirty percent probability factor. The intent of this modeling is to aid in the development of exploration targets and programs to locate and define future measured and indicated mineral resources.

The basic data used to assign vein widths and grades of the inferred resources is derived from the locations where mining has been previously done.

These inferred resources are shown in Table 3 below. These figures include only the estimated tonnage and grade of the vein material, unlike the measured and indicated resources above, which include in their estimation the dilution and mining loss that will be produced from the appropriate stoping method. As the vein material estimates do not include dilution or mining loss the result is the apparently high resource grade.

Vein	Tons	Grade oz/t	Ounces
Sunshine	216,729.3	75.0	16,254,699
Syndicate	489,347.5	110.1	53,879,768
Chester	512,277.4	98.1	50,238,073
Yankee Girl	893,072.1	105.7	94,403,708
Copper	167,520.7	100.0	16,752,065
Totals	2,278,947.1	101.6	231,528,312

Notes:

- (1) **Cautionary note to US investors concerning estimates of Measured, Indicated and Inferred Resources. US investors are advised that use of the terms "Measured Resource", "Indicated Resource, and "Inferred Resource" are recognized and required by Canadian Securities regulations. These terms are not recognized by the U.S. Securities and Exchange Commission. U.S. investors are cautioned not to assume that all or any part of mineral deposits in these categories will ever be converted into reserves.**
- (2) Inferred Mineral Resources are based on limited sampling and unverified geological and grade continuity and unlike reserves, do not have demonstrated economic viability. Due to the uncertainty which may attach to inferred mineral resources, it cannot be assumed that all or part of an Inferred Resource will be upgraded to Indicated or Measured Resources with continued exploration.

Mineral Reserves

The Sunshine Mining Company historically quoted reserves based on the internal calculations. The SEC does not allow a mining company to report reserves from a non-producing mine absent a feasibility study. Accordingly, in 2006 Sterling retained Behre Dolbear to prepare such a study.

The SEC does not allow the use of the term, "resource" but allows the use of the term, "Mineralized Material." The Mineralized Material classification apparently includes both Measured and Indicated resource categories with no distinction between the two.

Behre Dolbear reviewed and verified the Sunshine reserve estimating system. As many of the blocks are classified as pillars and may exist as portions of the mine that are known to present difficult ground conditions, Behre Dolbear assigned a mining recovery of 85 percent to all reserve blocks. Behre Dolbear also agreed that

mining dilution had been adequately provided for by assigning reasonable mining widths to the historical Sunshine Mine reserve blocks and so did not add further additional dilution.

Behre Dolbear reported, in their October 24, 2006 feasibility analysis, that Proven and Probable reserves are present at the property. These are stated in Table 4 below.

Table 4			
Sunshine Mine Reserves⁽¹⁾⁽²⁾			
Reserve Category	Short Tons	Grade oz/t	Ag Ounces
Proven	1,049,396	22.1	23,237,689
Probable	11,577	21.5	249,009
Total	1,060,973	22.1	23,486,698

(1) Silver grades are rounded numbers

(2) The above reserves were calculated using operating costs of \$6.92 per Ag oz and metal prices of \$6.23/Ag oz.

11.0 Exploration and Development

Return to Production – Critical Path Development of the Sunshine Mine

The Sterling Mine Manager has constructed a critical path plan for the startup and return to production of the Sunshine Mine, which is summarized below.

This plan also contains a detailed long term development plan for the entire mining property where additional ramping and drifting will be initiated to provide diamond drill stations for the further exploration of the Sunshine mine.

Critical Path Rehabilitation

Paramount to the Federal Mine Safety and Health Act of 1977 is the requirement for a mine to have an established secondary escapeway in order to produce a commodity. It is for this reason, that the critical path for returning the Sunshine Mine to sustainable production includes rehabilitation of the Con Sil, or Silver Summit, Shaft to operational status. This shaft, the 3000 level of the Con Sil and the 5300 foot Silver Summit tunnel from hoistroom to the surface will constitute the secondary escapeway of the Sunshine Mine.

While rehabilitation work has proceeded on the surface facilities, Jewell hoists and shaft, compressed air, water and pumping systems and processing facilities, it is the Con Sil hoist and subsequent shaft rehabilitation that are milestones on the mine's critical path for start-up.

The hoist work is now fully underway after nearly a year of engineering design and fabrication of new motor, electrical feed equipment and drive controls. Prior to this the Silver Summit and Silver Dollar tunnels had to be rehabilitated in order to provide access and secondary escapeway for crews working on the hoist. Upon the re-commissioning of the hoist, expected in June 2007, work will begin rehabilitating the Con Sil Shaft from the top station downward to the 3000 foot level. This rehabilitation is expected to be completed in August 2007. Work on the 3000 level is expected to be done, in part, from the Jewell 3100 level in order to minimize the time necessary to re-establish the secondary escapeway.

Dewatering

At the time of closure, the water level in the Jewell side of the mine was being held slightly below 3700 level at No. 12 Shaft and below 4000 level station in the Con Sil Shaft. Since that time water rose to the

3225 level elevation in the Jewell Shaft (4/27/07). Dewatering activities recently commenced at about 600 gallons per minute causing drawdown of about one foot per day. Water is approximately 30 feet above the 3000 level station of the Con Sil Shaft and has sealed off ventilation flows in both the Con Sil Shaft and Silver Dollar raise to the west. Water is currently making its way to the 3100 level and increasing overall inflow by an estimated 45 gpm. Infrastructure has been installed to start lowering water on the 3000 level in mid June, 2007. Total mine inflow is seasonal and ranges from 150 to 250 gpm.

Dewatering is designed to be at a rate of approximately 600 gpm with a maximum head of 1000 ft. At this dewatering rate, considering inflow and mine operations generated water, it is estimated that pumping down to 3700 level will take approximately eighteen months to two years. It is therefore necessary to perform development in elevations above 3250 level in order to successfully meet ramp-up production goals.

Pre-Development Work

Sunshine Vein Area

Upon completing the rehabilitation of the Con Sil Shaft to the 3000 level, work will immediately begin to re-establish power, water and sand fill services to the Sunshine ramp mining area. This will allow re-entry into stopes that were active at closure as well as commencing development work required for ventilation and access to mining blocks above and below 3100 level. These stopes contain 51,100 tons with silver content of approximately 1,565,200 ounces.

West Chance Area

Completion of the escapeway between the Jewell and Con Sil Shafts will allow work to begin on 3100 and 2700 levels to rehabilitate the drifts accessing the West Chance, which will be rehabilitated and services re-established in order to commence stoping activities halted at closure. Stopes accessed from the 2700 level will be the primary focus for startuyp production. These stopes contain 73,300 tons with silver content of approximately 1,546,400 ounces.

Sunshine Block Development

The mining blocks, expected to be discreet conventional stopes accessed by LHD's, will contribute to production objectives late in year 2 and in years 3 and 4 of the production schedule. These blocks accessed by the SR2 and SR3 projects contain an aggregate of 44,700 tons with silver content of approximately 1,414,100 ounces.

The SR2 incline ramp project originates slightly above 3100 level west of the SR1 load-out chutes. . The project requires 3,010 feet of primary and secondary (muck bays, substations, etc) ramp development and will take approximately 18 months to fully develop, but allows blocks to be brought into production as work progresses. In addition, the SR2 project creates exploration platforms to evaluate unexplored ground adjacent to No. 3 Shaft and west of No. 4 Shaft.

The SR3 decline ramp project originates approximately 300 feet up the SR2 incline ramp and requires 2,750 feet of primary and secondary ramp development.

3400 SR1 to S78R Project

The existing SR1 ramp will be extended downward 815 feet to connect with the existing S78R ramp extending to 3400 level from 3700 level. This connection is necessary to provide primary ventilation to the SR1 stoping area and complete the 3700 to 3100 secondary escapeway system required for production activities from 3700 level and below. This development replaces No. 10 Shaft, which is no longer usable, as the secondary escapeway from lower levels. While this development does not access new mining blocks, it will provide for early stoping of the 3700 Sunshine vein area stopes described above. It is expected that this development will take approximately 14 weeks to complete.

Other Properties

Silver Valley

In addition to the Sunshine Mine, the Company controls, by lease, ownership or option, nine claim groups in the Coeur d'Alene Mining District region, most of them close to the Sunshine property. A description of these claims groups is set forth below.

East Silver Valley

Land Position and Ownership

The East Silver Valley (“**ESV**”) region is comprised of 280 lode claims covering an area totaling 5,600 acres in the Coeur d'Alene Mining District east of a line running on the 115.875° west longitude to the intersection with Placer Creek, then downstream to the town of Wallace, Idaho, from there upstream on Camp Creek to the intersection with and then following the 115.925° west longitude within Shoshone County, Idaho.

The ESV region holdings are covered by six different claim groups: (i) Beacon Light with 11 claims and 220 acres; (ii) Boulder Creek with 4 claims and 80 acres; (iii) Bullion Creek with 2 claims and 40 acres; (iv) Rock Creek with 236 claims and 4720 acres; (v) Military Gulch with 2 claims and 40 acres; and (vi) Snowstorm with 25 claims and 500 acres. None of the claims in the ESV group are patented claims. The Company has acquired all claims and outstanding mineral rights and NSRs for these claim groups.

Beacon Light Property Option Agreement

On May 9, 2007, the Company entered into an agreement with Silver Fields Resources Inc. by granting them an option to acquire an undivided 75% interest in the Beacon Light Property, consisting of eleven mineral claims covering 220 acres, located in Shoshone County, Idaho. The agreement provides for cash payments of \$75,000 over four years, issuance of 400,000 shares of Silver Fields Resources common stock to Sterling Mining Company over four years and minimum expenditures of \$115,000 by January 2010. If and when the option is exercised, the parties will execute a Joint Venture Agreement for future exploration and development of the Property.

History

The claim groups in the ESV region have various adits and tunnels. Most groups have some surface sampling that indicates at least minor lead, silver and copper sulfide mineralization.

Geology

The ESV region is hosted by the rocks of the Pre-Cambrian Belt super group and the Prichard, Burke, Revett, Saint Regis, and Wallace formations occur both on the surface and subsurface. The Osburn fault cuts the region north of and roughly parallel to the south fork of the Coeur d'Alene River. The Osburn fault is a significant structural boundary in this region with the younger Saint Regis and Wallace formations outcropping on the south side of the fault. To the north of the Osburn fault older formations outcrop along with several igneous intrusions.

The Beacon Light, Boulder Creek, Bullion Creek, and Rock Creek claim groups are all on the south side of the Osburn fault. The Military Gulch and Snowstorm claim groups are to the north of the fault.

All of the ESV claim groups contain classic Coeur d'Alene District narrow vein replacement deposits except the Snowstorm group.

The Snowstorm property lies in the southwest corner of the Montana Copper Sulfide Belt where it overlaps the northeast corner of the Coeur d'Alene Mining District. The mineralization in this group is probably a silver-copper mineralization, Troy-type, disseminated stratabound deposit.

Work Plan

These claim groups are all considered exploration properties. Some claim groups have had more work done on them than others, but the results of these remain unknown and may be unavailable. Initial efforts will be directed towards obtaining and compiling all data for each claim group. Once all known data is compiled then coherent plans can be developed for each claim group or combinations of groups to move evaluation and exploration forward in an efficient manner. Some of the possible work that can be considered for these claim groups are: (i) perform surface geological mapping; (ii) conduct systematic surface soil sampling program to identify any areas of mineralization; (iii) conduct appropriate geophysical programs; and (iv) assess and evaluate access to any adits or other underground workings.

Central Silver Valley

Land Position and Ownership

The Central Silver Valley ("CSV") region describes all of the Company's lode claim holdings in the Coeur d'Alene Mining District between the western boundary of the East Silver Valley region and eastern boundary of the West Silver Valley region within Shoshone County, Idaho. This region contains the Company's Sunshine Mine. The Sunshine Mine land holdings are discussed separately and the claims discussed here are in addition to the Sunshine property position.

The Company's CSV region totals 84 lode claims, none of which are patented, covering an area totaling 1,680 acres, as follows: (i) East-West with 17 claims and 340 acres; (ii) Idaho-Leadville with 25 claims and 500 acres; (iii) JD with 9 claims and 180 acres; (iv) Last Chance with 28 claims and 560 acres; and (v) Royal Apex with 5 claims and 100 acres.

In April 1996, the Company signed a 20-year lease with Silver Valley Resources Corporation (also known as, Coeur Silver Valley, Inc., also known as U.S. Silver Corporation) that guarantees an annual lease payment to the Company, as well as a 15% net profits interest from eventual production from the property. For the rest of the claim groups in the CSV, the Company retains sole interest and is maintaining these claims under applicable laws and agreements.

History

The following details the history of two of these claim groups. The rest of the claim groups have had no production or significant exploration work performed.

East-West Link Claims. Coeur Silver Valley diamond drilled in excess of 15,000 feet in 2000 and 2001 and defined an ore shoot along the Silver Vein, west of historic productive areas and just east of the Link claim. Development into the area began in 2002 from the rehabilitated 2,400 foot level. In late 2003 the ore shoot was drifted on and confirmed. Additional drilling in December 2003 and January 2004 defined another potential ore shoot on the Company's Link claim. During the remainder of 2004, drilling, drifting and extraction occurred on the Link claim. A total of 1,161 feet of mechanized drift was developed on the Company's property with another 684 feet of drift driven to access ore blocks on the Company ground. The Link shoot was cut on three levels (475, 535 and 595 foot elevations) and was found to be approximately 150 feet long and from a few to over five feet wide. During 2004, Coeur Silver Valley reported mining and milling 11,145 tons of ore from the Link claim. The average grade of this ore was 11.88 ounces per ton. In 2005, 9,596 tons of ore were mined with an average grade of 9.41 ounces of silver per ton for production of approximately 90,298 ounces. The Company has not received the 2006 results from the lessee.

Royal Apex. Historical reports indicate several thin veins are found in the Burke Formation on the footwall of the Carpenter Gulch Fault. Historical assays suggest that the silver is carried by tetrahedrite, with gangue minerals consisting of quartz and siderite consistent with Silver Belt style mineralization.

Geology

The CSV region is hosted by the rocks of the Pre-Cambrian Belt super group and the Prichard, Burke, Revett, Saint Regis, and Wallace formations occur both on the surface and subsurface. The Osburn fault cuts the region roughly parallel to the south fork of the Coeur d'Alene River. The Osburn fault is a significant structural boundary in this region with the younger Saint Regis and Wallace formations outcropping on the south side of the fault. To the north of the Osburn fault, older formations outcrop along with several igneous intrusions. In the CSV region all but 100 acres of holdings are south of the Osburn fault. The central part of Coeur d'Alene Mining District's silver belt occurs to the south of the Osburn fault in the CSV region. All but the Royal Apex claim group are associated with the narrow silver vein replacement deposits of the silver belt.

Work Plan

The Company has no current plans for the CSV region, and we intend to hold the property for future exploration.

West Silver Valley

Land Position and Ownership

The West Silver Valley (WSV) region describes all of the Company's lode claim holdings in the Coeur d'Alene Mining District west of a line running north on 116.05° west longitude to the intersection with Big Creek, then downstream to the mouth of Big Creek, and then running north on the 116.072° west longitude within Shoshone County, Idaho. Total holdings in the WSV region are 167 claims and leases covering 4,281 acres. WSV region unpatented holdings are covered by three claim groups: (i) Alhambra with 8 claims and 160 acres; (ii) Highland Surprise with 17 claims and 340 acres; and (iii) Pine Creek with 116 claims and 2,320 acres. WSV region patented holdings are covered by the following three groups: (i) Silver Bowl with 2 tracts (80 acres) and 11 claims (106 acres); (ii) New Era with 5 claims (82 acres); (iii) Lookout Mountain Lease (6 government lots, 80 acres) and Idaho State Leases (2 tracts, 1,113 acres).

History

There are underground workings on many of the claim groups and some contain historic production. Most production and underground exploration have occurred on structures and veins exploited in adjacent mines.

Geology

The WSV region is hosted by the rocks of the Pre-Cambrian Belt super group and the Prichard, Burke, Revett, Saint Regis, and Wallace formations occur both on the surface and subsurface. The Osburn fault cuts the region south of and roughly parallel to the south fork of the Coeur d'Alene River. The Osburn fault is a significant structural boundary in this region with the younger Saint Regis and Wallace formations outcropping on the south side of the fault. To the north of the Osburn fault older formations outcrop along with several igneous intrusions. In the WSV region all but 80 acres of holdings are south of the Osburn fault.

The extreme western end of the famed Coeur d'Alene Mining District's silver belt occurs to the south of the Osburn fault and in the eastern most part of the WSV region. The primary deposits in this region are lead-zinc type ores of the Bunker Hill Mine. Therefore, all of the claim groups in WSV are lead-zinc-silver prospects.

Work Plan

The Company plans to advance its geological knowledge of the area on its own or in joint venture exploration agreements, however no definitive plans for 2007 have been established.

Mexico Properties

Overview

In March 2004, the Company formed a 99% owned subsidiary in Mexico, Sterling Mining de Mexico S.A. de C.V., and through this subsidiary, the Company now owns interests in several mineral properties in the Zacatecas region of Mexico. The Company entered the Mexican market in 2004 with the intention of providing greater diversification of silver interests, developing mining properties for near- to medium-term production, and building a base of prospects and properties that would add to its silver assets. The Company periodically evaluates whether particular Mexican mining concessions it controls would add more value if operated with joint venture partners or if such arrangements would enhance the timing of exploration and development of these projects in support of our overall corporate objectives. The principal projects targeted were the Barones and the San Acacio. In November 2005, the Barones commissioning process began and in late March 2005, processing capability was achieved.

Under Mexico's mining claim system, mining claims/concessions are divided between exploration concessions (valid for six years) and exploitation concessions (valid for 99 years). Thus, during the exploration concession stage, certain activities must be conducted, such as the completion of a land survey of the property; then application for exploitation concession may be made.

As of July 31, 2006, the Company had 50 full-time employees in Mexico.

Regional Geography and Access

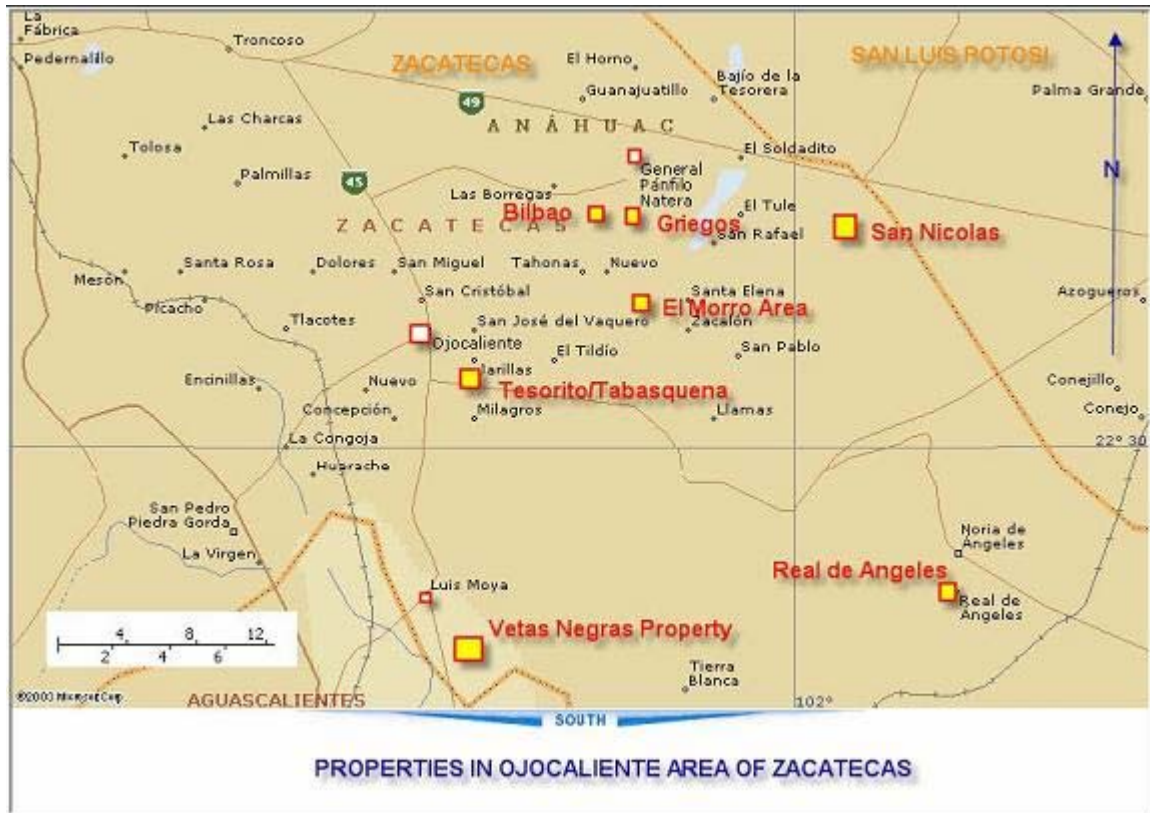
Zacatecas is one of the 31 constituent states of Mexico. It is bounded to the north by Durango and Coahuila, to the east by San Luis Potosi, to the south by Aguascalientes and Jalisco, and to the west by Jalisco and Durango. The state shares its name with its capital and chief center of population, the city of Zacatecas.

Zacatecas, the principal city in Zacatecas State, benefits from established infrastructure, an international airport, rail links to the Caribbean coastal town of Vera Cruz and highway to Mexico City and the United States border. The town was the historic center of Spanish silver production in the 15th and 16th Centuries and produced over half the total silver shipped by the Spanish during that period. Many of the mines in the surrounding areas were worked continually up to the time of the Mexican revolution in the early 20th Century, but have not worked since. Peñoles, the largest silver mining company in Mexico, operates the largest operation in Mexico in the town of Fresnillo, and there are a number of smaller operations in the Zacatecas area. There is considerable local and regional governmental interest in reviving larger scale mining operations.

Central Mexico is known for silver, lead, zinc and gold deposits. These occur as epithermal veins, locally with bonanza grades, and related manto replacement bodies. Major vein deposits in the area include those at Fresnillo and Zacatecas. Much of the epithermal mineralization is hosted by Lower Tertiary volcanic rocks and is mid-Tertiary in age. Some deposits are hosted by Upper Jurassic-Lower Cretaceous volcanic rocks (e.g., veins around Zacatecas) and Lower to Upper Cretaceous carbonates and siliciclastic sedimentary rocks (e.g., Real de Angeles), although the mineralization is still interpreted to be Tertiary. Cretaceous sedimentary rocks also host the Franciso I. Madero has been postulated to be sedex-type mineralization, although a high temperature replacement origin has also been proposed. The possible sedex origin of Franciso I. Madero was the first indication that syngenetic sulfide mineralization might exist in the Zacatecas area. Volcanic rocks in the lower part of the stratigraphy, the Upper Jurassic to Lower Cretaceous Chilitos Formation, were recognized as submarine sequence containing extensive pillow basalts, but volcanogenic massive sulfide ("VMS") deposits were not considered a serious exploration target.

Access to the Company's Barones and San Acacio properties is by paved roads to above the city of Zacatecas and extending to the small town of San Acacio near the center of the Veta Grande mine area. From this highway, gravel roads lead to the Barones area, about 4.5 kilometers south of San Acacio. From San Acacio, gravel or dirt mine roads extend to several shafts and two main adits. The Barones and San Acacio properties lie at elevations about 7,000 feet, in the subdued mountainous terrain north of Zacatecas. Access to the other exploration properties is by paved road from Zacatecas to the communities of General Panfilo Nateras, Ojocaliente and Luis Moya, from which secondary roads give good access to the properties.

The following map shows the locations of the Company's various Mexican properties:



Geology

The Zacatecas Mining District is located in the east central part of the state of Zacatecas, in north-central Mexico and covers approximately 700 square kilometers located at the transition of the eastern flank of the southern Sierra Madre Occidental province and the northwestern limit of the Mesa Central physiographic province. The Sierra Madre Occidental province, one of the most extensive volcanic fields of the world, is a massive pile of nearly horizontal volcanic rocks that underlies a vast plateau, largely of siliceous volcanic rocks of the upper volcanic series rest discordantly either on the lower volcanic series, composed mainly of intermediate lavas, or on metamorphic rocks of Precambrian or Paleozoic age and igneous or sedimentary rocks of the Mesozoic era (the Pimienta series).

Local Geology at Zacatecas

The oldest rocks in the Zacatecas District are schists which are overlain by volcanic sedimentary sequence. Tertiary conglomerate overlies basal andesites. The conglomerate is covered by tuffs and rhyolitic flows. Dikes (TR) and rhyolitic necks crosscut this rock package. This volcanic sequence is associated with a caldera lies south of Zacatecas, in which a concentric and radial system can be distinguished.

The most prominent structural features of the area are north-south trending extension faults, northwest-southeast trending tension fissures north of the caldera and radial fissures within the caldera.

The most economically significant structures are the silver-lead-zinc-copper-gold bearing vein-fracture systems that are emplaced within the NW-SE trending tension fissures. These are located north of Zacatecas and include El Bote, La Cantera, Mala Noche, Veta Grande, Panuco and La Plomosa Vein systems. South of Zacatecas, within the caldera, silver-gold bearing vein-fracture systems (Orito Veins) are orientated in a radial geometry. The fissure veins are believed to have originated as tension fractures caused by the crustal bulging related to the development of the caldera. Collapse of the caldera caused widening of the concentric fractures and development of additional minor structures. Extensional faulting and at least 500 meters of erosion followed emplacement of the veins.

Deposit Types

The San Acacio Mine is a classic epithermal silver-gold (high Sulphide) deposit in a number of parallel veins. There is no documented mineralization in the wallrock. The Veta Grande Veins are predominantly silver-bearing with minor gold and base metals.

The veins at the other concessions such as Aventurera, Nueva Andromeda, Tesorito and Tabasquena have a similar origin; all are high sulphide epithermal veins. Little information is available on their mineralogical makeup, but they are all assumed to be silver-bearing with minor base metals. These are less explored than the San Acacio, but examination of dumps supports these assumptions.

The Vetas Negras area is believed to be intermediate between low sulphide epithermal and replacement deposits in carbonate rocks.

Mineralization

The mineralized structures in the Zacatecas mining district can be divided into three vein systems, based on their orientation, age and ore assemblages: (i) the silver-base metal system, considered the most important; (ii) the silver-gold selenium system; and (iii) the fluorite bearing system. The silver-base metal system is the most extensive and economically important and has been exploited in the Panuco, Veta Grande, Mala Nocher, and Cantera zones, as well as in the Bote and San Rafael areas (the latter located south of the Cantera Vein). (In the last areas, the silver-gold selenium system is also present).

The silver-base metals system is formed by long veins with an orientation of N 45° to 85°W, and dips of 50° to 70° SW and 64° to 75° NE. The vein branches occasionally display a horsetail structure while others form zones of sheeted, essentially parallel, stringers of variable thickness. The lengths of the main veins vary from 4 to 16 kilometers with widths of 1 to 30 meters. The veins usually have a branching form, both in horizontal as well as vertical section. The branches merge and split repeatedly but intersections are rare. Sometimes the branches join with the main vein to form ellipsoidal forms but more commonly the branches diverge and pinch out. Also, the veins may double up, run parallel and either split again or become wider than what was formally the main vein. These splits are important since deviation from the general strike and dip occurs in these places and the result is a widening of the vein.

Work Program

The Company conducted ongoing data compilation and began a rehabilitation effort of the Purisima and Refugio tunnels, which was not completed as of December 31, 2006. Trenching was conducted for sampling purposes. Currently, the Company's consulting geologist is designing a drill program for 2007, and conducting ongoing data compilation review.

The Company will consider opportunities for a joint-venture or other similar arrangements to speed up the implementation of the drilling program, but no such opportunities are presently under consideration.

The Barones Silver Project

Land Position and Ownership

The Barones plant, located four kilometers north of Zacatecas, is approximately 40 hectares in size, of which the Barones tailings cover 12.5 hectares to a depth of up to 30 meters. The tailings are finely ground and readily accessible on the surface. The Barones project consists of a thiosulfite vat leaching plant designed to process the Barones tailings, and other oxide ore. An on-site 18-vat plant and supporting infrastructure has been constructed by Sterling, and this facility commenced production in late March 2005. Currently with the inclusion of San Acacio material in processing, each vat is processing 280 to 340 tons per cycle. The plant is capable of producing both precipitate and dore bars. Sterling is currently shipping the precipitate product to a local smelter.

Sterling has signed a 20-year lease agreement with the property owner and paid \$25,000 USD for the rights. There is no requirement for annual lease payments. The lease has a provision where 50% of the net profits up to a maximum of \$4.55 million USD is paid to the owner in shares of our stock valued at \$10.00 per share. Once the threshold of \$4.55 million has been paid, a 0.75% of NSR is payable for the duration of the lease.

Processing Plant

The Barones project was acquired via a long-term lease in early 2004. The original plan was to build 18 concrete vats and associated infrastructure to process tailings from the Barones and near-surface material from the San Acacio. Phase II of the plan consists of initially constructing an additional 3 concrete vats, with 15 further concrete vats to follow.

Following completion of the basic infrastructure in early 2005, processing of material began at the Barones plant. However, by 2006, it became apparent that the plant was incurring higher costs due to rising fuel prices and copper scrap costs, and more importantly, recovery rates were not achieving desired results. The project kept processing at lower rates while our personnel reviewed capital improvements necessary to increase recovery rates and volume. A total of \$461,428 was spent on capital improvements in 2006. The capital improvements consisted of installing a primary and secondary crusher, which were recently completed.

Work Plan

The Company believes the completion of the crushing plant will allow higher recovery of silver from surface material and tailings from both the Barones and San Acacio properties. In addition, a copper recovery system currently being installed will help to lower costs. Increased precipitation plant capacity is under construction with the goal of increasing recovery and mill capacity. Sterling will evaluate the current plant as it reaches a steady production output. The results of this evaluation will help determine the feasibility of developing further processing capability.

The San Acacio Mine Concession

Land Position and Ownership

The San Acacio Mine concession contains the southeastern half of the Veta Grande Vein in the Zacatecas mining district. The concession is located 6 kilometers due north of the city of Zacatecas. There are numerous underground workings in the concession but most of the historic workings are inaccessible due to caving and flooding.

In April 2007, the Company's Board of Directors approved a memorandum of understanding to enter into a Joint Venture Agreement with Source Minerals of Vancouver, Canada regarding mining at the San Acacio property located near Zacatecas, Mexico. The terms of the agreement provides Source with a 75% interest in the San Acacio project subject to a non-refundable payment of \$200,000, another payment of \$200,000 after registering a final

agreement with the Mexican authorities and a payment of \$100,000 on the first and second anniversary of the agreement, for a total cash payment of \$600,000. In addition to the cash payments, Source will also issue 3 million shares of common stock to Sterling Mining Company. One million shares vest immediately, one million shares vest on the first anniversary and one million shares vest on the second anniversary of the Agreement. Upon delivery of a National Instrument 43-101 compliant scoping study by the end of the first year or expenditures of \$1,000,000 USD, Source will earn an additional 15% interest in the project, bring their ownership to 90%. Source will reimburse Sterling Mining Company for all authorized expenditures charged to San Acacio after January 1, 2007. Source has a work commitment to expend two million dollars for the benefit of the San Acacio project over a three year period. The final agreement may be subject to regulatory approval.

History

Although complete history and production records are not available, this district has hosted mining from before colonial times. Full scale production ended in the early 1900's in response to the Mexican revolution. Sporadic mining occurred during the 1930's and 1940's. Small scale mining continued from that time until the present. Several companies have controlled and explored the concession since 1992. These companies have conducted several drill programs with generally poor results due to bad ground conditions and old workings. In spite of the problems encountered, this prior exploration has demonstrated potential for the concession.

Geology

The Veta Grande Vein is hosted by the volcanic rocks of the Chilitos formation. The numerous veins that together form the Veta Grande Vein system consist of epithermal mineralization and filling of faults and fractures in the host rock. The Veta Grande Vein strikes northwest and dips 65° southwest. The length of the identified vein is 7 kilometers, of which only 5 kilometers have been exploited. The bulk of production from the mine has occurred in the oxidized zone but some limited mining has occurred from the sulphide zone.

Work Plan

Sterling has successfully processed material from San Acacio dumps and backfill with positive results. Sterling has permitted an expansion of the Barones plant for production processing of the San Acacio material at 667 tons per day. Sterling has initiated rehabilitation efforts to gain entry to one or more adit levels of the mine. Once safe entry to the underground working is established the vein can be assessed for geologic and metallurgic purposes. Additional drill programs will be developed from both surface and underground. The goal of future drilling will be to extend the system both on strike and down dip.

El Morro Area

Land Position and Ownership

Sterling has established a property position in the Morro Hill area. This area is located west of the town of General Panfilo Nateras and south of the highway to Ojocaliente and includes the La Griega, (Melanie), Aventura, Nueva Andromeda concessions. The Company entered into a mining claim exploration agreement that expires in 2009.

History

No recent work has been done on any of these concessions. However, the area supported a number of colonial mines that produced from the near surface oxidized zone. The concessions have numerous open stopes, small shafts, and open cuts. Past production was limited and unknown. At least one other company is conducting exploration in the area.

Geology

The veins of the El Morro are typical hosted by granites. The veining is typically polymetallic replacement deposits consisting of silver veins, skarns and wollastonite deposits. The three concessions Sterling controls host silver rich epithermal veins. Geology for these concessions is not well known and limited.

Work Plan

No geological work has been done on the property as of yet.

Vetas Negras/Esperanza

Land Position and Ownership

The Vetas Negras (Black Veins) veins are located 13 kilometers to the east of the municipality of Luis Moya, and 60 kilometers from the city of Zacatecas. Access is from Zacatecas using the highway that leads to Aguascalientes, through Ojocaliente and Luis Moya. The Vetas Negras property, though small, lies adjacent to an area which has been thoroughly drilled by Mineral Frisco. It has been reported that Mineral Frisco intends to mine this adjacent property by open pit methods with an estimated production of 5000 tons per day. The property consists of La Esperanza, a small concession of 25 hectares. About eight shallow pits and three cuts are present on the property. The Company entered into a mining claim exploration agreement that expires in 2009.

History

The property has not received the benefit of modern exploration methods and so is at an early stage of exploration.

Geology

The deposit is hosted by sedimentary rocks. The sedimentary section is the Cuesta del Cura Formation and Indidura Formation of Cretaceous age, cut by Miocene rhyolites and silicified breccia. The Cuesta del Cura Formation is mainly argillic limestone with lenses of black chert. The Upper Cretaceous Indidura Formation includes alternating grey argillaceous limestone and calcareous limonite. Outcrops of Miocene rhyolite east of the area are dense rhyolite composed of quartz, feldspar, and clay. Fine sandy recent sediments cover much of the area.

The mineralized zones are bodies of silicified breccias composed of limestone fragments in a matrix of grey to black silica containing silver, and quartz veins, trending northwest-southeast and approximately 0.60 meters wide, mineralized by iron oxides and argentite in quartz gangue. The breccia bodies are from 70 to 300 meters long and 20 to 50 meters wide.

Work Plan

Similar to the Tesorito project, the drilling program was placed on hold.

Tesorito – Tabasquena

Land Position and Ownership

The Tabasqueña Mine concession is located in the Ojocaliente mining district in the state of Zacatecas, Mexico. This concession is located several kilometers east of highway 45 and north of the road between the towns of Ojo Caliente and Jarillas. The concession contains two vertical shafts and approximately 180 meters of underground workings to a depth of 50 meters. The Company entered into a mining claim exploration concession that expires in 2009.

This property consists of six separate mining concessions: La Tabasqueña; Mina Del Tesorito; La Querencia; Aracelli; Angustias; and Melania. Total surface area of the concession is 287.2 hectares. This concession lies at the north end of the Milagros Vein system. The Milagros mine at the southern end of the vein system has been mined extensively in the past.

On October 25, 2006, the Company sold a 50% interest in the project to Chester Mining Company in exchange for 600,000 shares of that company's common stock.

History

Two companies have operated in the concession since 1980, Minera Las Cuevas (“**Cuevas**”) 1981 and Servicios Industriales Peñoles (“Peñoles”) 1988 to 1989. Both companies have mapped and sampled the underground workings. Cuevas drilled five exploration holes and Peñoles drilled ten holes. In addition, Peñoles conducted surface trenching and sampling and IP geophysics surveys. Most of this data is available on various maps and cross sections.

Geology

The basal unit of the geologic section exposed in this concession is volcanic andesites of the Chillitos formation. The Chillitos formation is overlain by conglomerates of Zacatecas Red Conglomerate. The top of the exposed section are extrusive Rhyolite flows. The Milagros vein system cuts this section on a north northwest trend for approximately seventeen kilometers.

The concession hosts two veins of the Milagros Vein system, the Tabasqueña Vein and the La Ninã Vein. The Tabasqueña dips approximately 60° west and the La Ninã Vein dips 55° east. These two veins project to an intersection approximately 130 meters deep.

Work Plan

The Company is designing the balance of the exploration drilling program.

Arturo

Land Position and Ownership

On May 9, 2007, the Company entered into an agreement with Silver Fields Resources Inc. by granting them an option to acquire an undivided 75% interest in the Arturo Property, consisting of exploration concessions covering 1,615 hectares, located in Zacatecas, Mexico. The agreement provides for cash payments of \$85,000 over four years, issuance of 400,000 shares of Silver Fields Resources common stock to Sterling Mining Company over four years and minimum expenditures of \$600,000 by March 2010. If and when the option is exercised, the parties will execute a Joint Venture Agreement for future exploration and development of the Property.

History

There is no known mining or exploration history on the concession.

Geology

Geology consists of rhyolites of the lower Upper Volcanic sequence. The rhyolites are mineralized in this area.

Work Plan

Sterling will consider joint venture proposals for the property.

Bolshoi

Land Position and Ownership

The Bolshoi project consists of four lots: Bolshoi, Bolshoi II, Bolshoi III and Terrible Jim. Total surface area of the lots is 5395 hectares.

History

There is no known mining or exploration history on the concessions.

Geology

Most of the project is covered by post mineral rhyolites of the Upper Volcanics. Two windows into deeper rocks, located north of and west of the Bolshoi lot expose the Chulitos formation. There is structure controlled silver-copper mineral in one of these windows.

Work Plan

No geological work has been done on the property as of yet.

La Chapis

Land Position and Ownership

The La Chapis concession is located is located approximately five kilometres east of Ojo Caliente and approximately 60 kilometers southeast of the city of Zacatecas . Access is from Zacatecas using the highway that leads to Aguascalientes , through Ojocaliente, then east on secondary roads. The 2000 hecatere property lies less than two kilometres south of the highly mineralized Cerro El Morro area. Sterling geologists became interested in the La Chapis claim when silicified material was noted in rocks culled from cultivated land and piled along access roads to the fields. The silicified material is similar to that found in epithermal vein systems such as are present at Cerro El Morro. Some of the silver veins exposed at Cerro El Morro may project into this area.

The property consists of a single exploration concession. Sterling is purchasing the concession for \$25,000 in two annual payments. The concession holder will retain a 2% NSR. Sterling is committed to \$250,000 in work on the property over the next three years.

History

The property has not received the benefit of modern exploration methods and so is at an early stage of exploration.

Geology

There are few outcrops on the concession. Rocks culled from the fields suggest that veins and silicified zones that may be present is hosted in a combination of Indidura Formation of Cretaceous age, and slightly metamorphic rocks of the Jurassic Chulitos Formation. The Upper Cretaceous Indidura Formation includes alternating grey argillaceous limestone and calcareous limonite. Outcrops of Miocene rhyolite north of the area are dense rhyolite composed of quartz, feldspar, and clay. Loamy soils cover most of the area.

Mineralized zones are inferred based on material gleaned from cultivated land.

Work Plan

Sterling is currently drawing up plans for exploring this area using geophysics followed up by geochemical prospecting.

Jimenez de Teul

Land Position and Ownership

The project represents a major land package in western Zacatecas, consisting of 7601.45 hectares, located near the town of Jimenez de Teul, Zacatecas Mexico. It surrounds Sterling's Arturo claim, presently under joint venture with Silver Fields Resources. The acquisition gives Sterling control of most of the Jimenez de Teul mining district.

This property consists of 11 separate mining concessions: Santa Rosalia, Santa Rosalia F-1, Reyna Maria, El Tragedias, Sutti, Sutti 1, Sutti 2, Reyna Sofia, Arturo, Arturo F-1 and Karina. Note that the Arturo is not the same as the concession by the same name already controlled by Sterling in this District.

Sterling is purchasing the concessions for \$100,000 USD in cash with an additional \$150,000 in cash or Sterling Mining Company stock at a price of \$4.25/share. The concession holder will retain a 2% NSR. Sterling is committed to \$250,000 in work on the property over the next three years.

History

Precious metals were found in the area fairly recently by Mexican standards. The district was likely first exploited in the very late 19th century. The only known mining records report 1038 kilograms of silver and 25 tons of lead produced between 1983 and 1987. There are no records from the turn of the century mines.

Geology

The underlying rocks consist of limestone and shale of the Indidura Formation of Cretaceous Age. Stocks and dikes of rhyolite porphyry occur as intrusions in the Indidura Formation. Miocene age rhyolite tuffs cover much of the area.

Known mineral deposits consist of northeast striking veins of gold, silver and lead, and replacement zones along the contact of rhyolite dikes and stocks and the Indidura limestone. In addition, exploration by Kennecott in 1996-97 discovered wide zones of stockworks adjacent to rhyolite domes reportedly containing economic silver and gold values. Other zones, such as the Iron Sombrero, have gold potential, according to Kennecott reports.

Work Plans

Sterling's focus in the next few months will be on examining and sampling multiple alteration zones on the property and identifying targets for drill testing.

Cuatro Cienegas Property

Land Position and Ownership

The property consists of six mining concessions in three non-contiguous groups covering approximately 3409 hectares. The property is located near the town of Cuarto Cienegas in Central Coahuila State, Mexico. It is approximately 10 kilometers to the south by paved and graveled road, but well outside of the environmentally sensitive valley of Cuatrociénegas.

Sterling Mining signed an agreement under which it has the right to acquire the Cuatro Cienegas sandstone-hosted copper-silver deposit located in Coahuila State, Mexico. Under the terms of the agreement, Sterling has the right to acquire a 100% interest in the Property, subject to a 2.5% NSR royalty interest by making payments totaling USD \$550,000 as below:

- \$50,000 on signing (paid)
- \$100,000 on the first year anniversary of signing
- \$100,000 on the second year anniversary of signing
- \$100,000 on the third year anniversary of signing
- \$100,000 on the fourth year anniversary of signing
- \$100,000 on the fifth year anniversary of signing.

History

Previous work on the property consists of a few small exploration adits, and sampling done by the underlying land owners. There has been some sampling done by a major mining company in the region, but that data was unavailable at this time. The underlying landowner contracted with Servicios Geológico Mexicano to investigate the metallurgy of the deposit. Column leach tests have returned recovery of 71.94% using a solution of 50 g/L sulphuric acid. Cyanide column testing has yielded recoveries of 48.66% over 72 hours. Sterling intends to continue metallurgical testing on representative samples.

Geology

The Property is underlain by Early Cretaceous limestone, shale, sandstone and conglomerate related to the Early Cretaceous Coahuila terrane, a suspect tectonic block that became attached to the American continent sometime in the Early to Middle Cretaceous. Copper-silver mineralization is hosted in the lower sandstone and conglomerate units. The primary copper minerals are not known at this time.

Sterling collected 3 samples during their initial assessment of the property. All assay samples were transported directly to Sterling's production facility in Zacatecas where they were analyzed using fire assay and AA techniques. The results of these grab samples are presented below:

Sample	Description	Ag, g/t	Cu, %
IN1-1	Grab sample from the northwest part of project	176	3.33
ADR-1	Grab sample from supergene enriched zone in valley floor	51	3.23
GRA-1	5 meter channel sample from discovery outcrop	81	4.48

Work Plan

Sterling plans to map and sample the concessions in detail during the late summer and follow up sampling with a trenching program. A bulk sample will be collected for additional metallurgical testing and mineralogical studies. The goal is to quickly assess the known mineralized areas and the potential for expansion as early as possible in the life of the agreement. Assuming favorable results, additional bulk sampling, diamond drilling and exploration drifting will be planned.

Other Exploration Prospects

The Company has rights to projects that are located within the Montana Copper Sulphide Belt, a 1,600 square mile area in Sanders County, Montana.

Lucky Luke Copper-Silver Prospect

Land Position and Ownership

The Lucky Luke prospect consists of 20 unpatented lode mining claims located on U.S. Forest Service property about ten miles northwest of Thompson Falls, in Sanders County, Montana. The claims are located in Sections 17, 18, 19 and 20, Township 22 North, Range 30 West. Access is via the Little Beaver Creek Road, west of Montana State Highway 200.

The Company acquired its interest in the Lucky Luke prospect pursuant to a mineral lease agreement dated November 26, 2004 (the "Timberline Agreement"), whereby the Company acquired exploration rights for a 20-year period, with option to renew for an additional 20-year-plus period, with respect to the Lucky Luke, Minton Pass, East Bull and Standard Creek properties (see below). In consideration for the lease, the Company forgave indebtedness of approximately \$65,000, reimbursed expenses of approximately \$20,000, and agreed to annual advance royalty payments of up to \$20,000, based on the number of claims still subject to the agreement. The lease agreement also provides for a 1% NSR royalty on all minerals mined or removed from the property covered by the lease agreement.

Geology

Quartz veins at the Lucky Luke adit cut St. Regis Formation argillites and quartzites approximately 100 feet above the St. Regis/Revett contact. Revett quartzites outcrop on the ridge above the adit. Middle Revett siltites are exposed on the south slope.

Exposures near the adit are generally dipping northwest at 15 to 24 degrees. To the north and east, bedding attitudes are much steeper and the mineralized veins are near the relatively flat-lying apex of a domal structure. This dome is bounded on the west by a north-northwest trending fault that has brought the Revett up to the surface on the west side. To the south, a large-scale tear fault separates the dome from an overturned section of strata of Burke and Wallace Formations.

Geologic mapping and rock chip sampling confirmed that the copper-silver mineralization seen in the veins is dominantly chalcocite and tetrahedrite with some bornite. Revett exposures to the south also exhibit pyrite with dendritic manganese stain. Rock chip samples in this location show weak copper-silver anomalies.

It is postulated that the mineralized horizons or quartzite in the lower Revett were the source beds for the vein mineralization seen in the Lucky Luke adit. Quartz veins similar to these are regionally related to mobilization from the underlying strataform copper-silver mineralization.

History

In the mid-1920's, the Lucky Luke adit was driven on a mineralized quartz vein. Reports indicate that the adit was extended for 1,000 feet; the size of the dumps confirms this report. In 1926, the Lucky Luke reportedly produced ore containing silver, copper and gold.

The property was subsequently acquired by Luke Williams. Exploration work during this ownership included several shallow trenches that crosscut at least two quartz veins that had strike lengths in excess of 3,000 feet.

In 1983, the property was acquired by U.S. Borax, as a result of a reconnaissance exploration program conducted for Revett copper-silver deposits. U.S. Borax staked 76 claims on the prospect, and conducted mapping and sampling. U.S. Borax and its successor Kennecott Exploration Company held the property until the early 1990's.

Work Plan

The Company intends over the next year to prepare a scale geologic map of the entire project area, including the adit and trench area. Thereafter, the Company will consider adopting a plan for drilling test holes to evaluate the two mineralized Revett horizons. The Company will also evaluate reopening the caved Lucky Luke adit for underground mapping and sampling.

East Bull Copper-Silver Prospect

Land Position and Ownership

The East Bull prospect consists of 19 unpatented lode mining claims located on U.S. Forest Service property about one mile due east of Bull Lake in Lincoln County, Montana. The claims are located in Sections 2 and 11, Township 28 North, Range 32 West. Access is via Forest Service roads along the South and North Fork of the Bull River, to the east of Montana State Highway 56. The Company acquired its interest in the East Bull Prospect pursuant to the Timberline Agreement, described above.

Geology

The property has local exposures of north-striking and moderately east dipping St. Regis and Wallace Formations, both Proterozoic in age. The Burke Formation and the base of the Lower Revett Formation are exposed along the southeast shore of Bull Lake, about a mile west of the claims. The northwest-trending Bull Lake Fault crosses the east side of the property and has down-dropped Wallace Formation strata on the east. The majority of the property is covered with glacial till.

Potential for stratiform copper-silver mineralization in the Upper or Lower Revett exists on both sides of the Bull Lake Fault. The Bull Lake Fault is a major north trending structure, easily identified on the ground, with much local folding and slickensides. A major reason to pursue this target is the presence of the Bull Lake Fault - a large un-tested structure. Target depths will range from 1,000 feet on the west side to +2,000 feet on the east side.

History

In 1983, the property was acquired by U.S. Borax, as a result of a reconnaissance exploration program conducted for Revett copper-silver deposits. U.S. Borax staked 23 claims on the prospect, and conducted mapping and sampling. U.S. Borax and its successor Kennecott Exploration Company held the property until the early 1990's.

Work Plan

The only work the Company may pursue on this property over the next year is the preparation of more detailed mapping to more accurately define the location of the Wallace/St. Regis/Revett Formation rock units on the property.

Standard Creek Copper-Silver Prospect

Land Position and Ownership

The Standard Creek prospect consists of 29 unpatented lode mining claims located on U.S. Forest Service property about 6 miles due east of the Montanore deposit and 21 miles south of Libby, in Lincoln County, Montana. The claims are located in Sections 19, 20, and 30, Township 27 North, Range 30 West. Access is via Forest Service road number 231. The Company acquired its interest in the East Bull Prospect pursuant to the Timberline Agreement, described above.

Geology

The property is underlain by the Revett, St. Regis and Wallace Formations. Strata from all three formations strike northwest and dip moderately eastward with dips becoming flatter to the east. A pair of northeast-trending faults have been identified, each having down-dropped northwest sides. Displacement along these faults is in the range of 200 to 400 feet. Numerous copper, silver and lead bearing quartz veins occur in the St. Regis and Wallace Formations. The 1987 drilling by U.S. Borax encountered only trace amounts of pyrite, chalcopyrite and bornite.

The claims were staked on the basis of the high grade veins found in the overlying Wallace Formation. The presence of mineralization above the permissive underlying Revett stratigraphy was the main reason for acquiring this prospect.

History

In the early 1980's, the property was acquired by U.S. Borax, as a result of a reconnaissance exploration program conducted for Revett copper-silver deposits. U.S. Borax staked 115 claims on the prospect, and optioned 14

more from a local prospector. U.S. Borax conducted mapping and sampling and drilled one 1,450 foot core hole. U.S. Borax and its successor Kennecott Exploration Company held the property until the early 1990's.

Work Plan

Over the next year, the Company intends to prepare a geologic map of the entire project area. The Company may also pursue further sampling on the Midas dump for the purpose of defining metal ratios seen in the vein mineralization. Additional research into the geology and production from the Midas Mine may also be conducted.

Minton Pass Copper-Silver Project

Land Position and Ownership

The Minton Pass Silver-Copper prospect consists of 20 unpatented lode mining claims located on U.S. Forest Service property east of Trout Creek, Montana. The claims are located in Sections 20 and 21, Township 24 North, Range 32 West, MPM. Access is via well-maintained U.S. Forest services roads from Trout Creek. The Company acquired its interest in the East Bull Prospect pursuant to the Timberline Agreement, described above.

Geology

The Minton Creek Pass claim group hosts metasedimentary rocks of the Belt Supergroup. Vast areas of the Belt Supergroup contain stratiform silver-copper occurrences, which are hosted by quartzites of the Revett Formation. These are found primarily within the Montana Copper Sulphide Belt, which covers some 1,600 square miles.

History

The prospect was discovered in the 1960's and has been explored intermittently since that time. Kennecott maintained a core group of claims in the area from 1966 to 1992. In the early 1970's the prospect was explored by Hillside Mines, Inc. Exploration focused on two mineralized horizons. Mapping, sampling and trenching were conducted to better define the extent of the mineralization. A short adit was driven and a limited drilling program conducted.

In 1981, ASARCO expanded their land position to several hundred claims. Exploration, including some drilling, continued in an attempt to further define the extent of the mineralized zones. ASARCO abandoned the property in 1992.

Work Plan

The only work the Company may pursue on this property over the next year is the preparation of a geologic map of the entire project area.

JE Project

Land Position and Ownership

The JE Project is located along the Bull Lake Corridor, on a line between the Troy and Rock Creek deposits, roughly ten miles southeast of the Troy and three miles northwest of the Rock Creek. The Montanore (Rock Lake) deposit is roughly two miles east of the Rock Creek.

In January, 2003, the Company leased the JE Project, a set of 11 unpatented mining claims in the Montana Copper Sulfide Belt. The lease agreement provides for annual payments increasing from \$3,000 to \$20,000 by 2009 and for a 2% production royalty on sales of metals extracted from the property.

During 2006, the Company entered into an option agreement with Silver Fields (formerly Red Lake Resources) regarding the JE prospect. Under the terms of the agreement, Silver Fields may earn a 75% interest in the property for cash payments totaling US \$300,000, the issuance of 500,000 common shares of Silver Fields common stock to Sterling and \$600,000 work commitment for exploration during the next three years. Sterling will retain a 25% interest and a 2.5% net smelter return. After Red Lake has completed its earn-in, Sterling may maintain or increase its 25% carried interest by participating in future exploration and development.

Geology

The JE claim group hosts metasedimentary rocks of the Belt Supergroup. These are found primarily within the Montana Copper Sulphide Belt, which covers some 1,600 square miles. The lower member of the Revett Formation hosts Stratabound mineralization and this formation is about 1,300 feet thick in the JE project area.

At least three N-NW trending faults cut across the JE Project area. The Snake Creek-Copper Lake Fault and the Lost Girl Fault may control stratabound mineralization within the lower Revett Formation.

Significant copper/silver mineralization is not exposed on the property. U.S. Borax has drilled an exploration drill hole. This drill hole contained 265 feet of mineralization that averaged 0.32% copper and 0.41 ounces of silver per ton. Within this zone, a 90 feet interval averaged 0.47% copper and 0.70 ounces of silver per ton.

History

In the late 1980's, U.S. Borax and Santa Fe Minerals explored the Belt rocks of NW Montana for additional deposits similar to ASARCO's Troy Mine. Initial discoveries were made at surface at Montanore and Rock Creek. U.S. Borax completed detailed geological mapping at a scale of 1:6,000 over a very large area within and adjacent to the property. Santa Fe Minerals performed limited geological mapping at a scale of 1:24,000.

This mapping identified a potential target at the intersection of the Copper Lake (a controlling structure on mineralization in the Rock Creek ore-body) and the Wolf Creek faults. U.S. Borax and Santa Fe completed nine diamond drill holes in the area under investigation. Kennecott acquired the property through the acquisition of U.S. Borax. Kennecott held the property for 12 years before abandoning them.

The Company leased the JE property from the current claim holders, Jim Ebisch and Ryan Reich, and located an additional 24 lode claims to increase the property package to its current size.

Work Plan

Over the next year, the Company intends to prepare additional surface geological mapping to identify surface lithologies and rock packages.

Trout Creek Project

Land Position and Ownership

The Company has acquired lease rights to 18 claims of the Trout Creek deposit in Northwestern Montana (JESTC Group), located approximately six miles west of the town of Trout Creek. The Trout Creek property expands the Company's presence in the Montana Silver-Copper Sulfide Belt.

Geology

Trout Creek is within the Pre-Cambrian Best Basin, along the western flank of the northeast-trending anticline. An anomalously thick quartzite section identified on the Trout Creek property could coincide with a mineralized oxidation/reduction front.

History

Exploration thus far has consisted of geologic mapping, outcrop sampling and diamond drilling, results of which indicated a strong potential for the discovery of significant, economically viable Troy-type silver-copper mineralization.

Work Plan

Over the next year, the Company intends to prepare additional surface geological mapping that will identify surface lithologies and rock packages.

USE OF AVAILABLE FUNDS

Proceeds

As this Prospectus is a non-offering prospectus, no securities of the Company will be sold pursuant to it. As a result, the Company will not receive any proceeds as a result of the distribution of this Prospectus.

Funds Available

The estimated working capital as at July 31, 2007 was \$1.5 million. On August 2, 2007, the Company raised total proceeds of \$24,734,755.50 on the closing of two private placements.

Principal Purposes

The Company is not raising funds in conjunction with this Prospectus.

The proposed use of existing funds totalling \$19.0 million at the date hereof is as follows:

Description of intended use of available funds listed in order of priority	Amount (000's)
Rehabilitation of the Sunshine Mine	\$13.2
To cover legal, regulatory, and accounting fees associated with becoming a reporting issuer.	0.2
To pay estimated general and administrative costs	2.3
Exploration	0.2
To provide general working capital to fund ongoing operations.	3.1
Total:	\$19.0

The Company intends to expend funds available as set out above. There may be circumstances, however, where, for sound business reasons, a reallocation of funds may be necessary.

Other Sources of Funding

The Company has no assured sources of funding. The Company has share purchase warrants outstanding which, if fully exercised, would result in the Company issuing approximately 11 million shares and receiving proceeds of approximately \$45.8 million.

The Company may, in the future, carry out further equity or debt financings to fund its capital and operating requirements.

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Annual Information

The following tables set forth selected financial data for each of the years in the three-year period ended December 31, 2006. The consolidated statement of operations data and balance sheet data are derived from the audited Consolidated Financial Statements of Sterling. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, including the notes thereto.

Consolidated Statement of Operations Data:

	<u>Year Ended December 31</u>	<u>Year Ended December 31,</u>	<u>Year Ended December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Revenues	\$887,524	\$491,716	\$62,873
Loss from operations	\$(6,568,432)	\$(4,255,611)	\$(5,001,375)
Net income (loss)	\$(5,230,395)	\$(4,548,957)	\$(5,529,707)
Net income (loss) per share:			
Basic	\$(0.24)	\$(0.26)	\$(0.36)
Diluted	\$(0.24)	\$(0.26)	\$(0.36)

Consolidated Balance Sheet Data:

	<u>Year Ended December 31</u>	<u>Year Ended December 31,</u>	<u>Year Ended December 31</u>
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total assets	\$20,920,367	\$3,655,506	\$3,681,847
Current liabilities	\$5,861,656	\$849,378	\$1,024,579
Long-term obligations	\$519,763	\$ -	\$ -
Cash dividends per common share	\$ -	\$ -	\$ -

Quarterly Information

Selected quarterly financial data for the years ended December 31, 2006 and 2005 is as follows:

2006	Quarter			
	1st	2nd	3rd	4th
Net revenues	\$ 280,524	\$ 316,509	\$ 165,062	\$ 125,429
Loss from operations	\$ (997,852)	\$ (1,865,112)	\$ (1,701,302)	\$ (2,004,166)
Net income/(loss)	\$ (1,226,591)	\$ (1,638,292)	\$ (1,644,472)	\$ (721,040)
Earnings per share				-
Basic	\$ (0.06)	\$ (0.08)	\$ (0.08)	\$ (0.02)
Diluted	\$ (0.06)	\$ (0.08)	\$ (0.08)	\$ (0.02)
2005	Quarter			
	1st	2nd	3rd	4th
		\$		\$
Net revenues	\$ 7,497	\$ 14,427	\$ 26,690	\$ 443,102
Loss from operations	\$ (1,114,817)	\$ (1,272,744)	\$ (1,515,308)	\$ (352,742)
Net income/(loss)	\$ (1,177,408)	\$ (1,270,400)	\$ (1,535,981)	\$ (565,168)
Earnings per share				
Basic	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.03)
Diluted	\$ (0.07)	\$ (0.07)	\$ (0.09)	\$ (0.03)

Dividends

The Company has never paid any dividends and does not anticipate the payment of dividends in the foreseeable future.

U.S. GAAP

The preparation of financial statements in conformity with U.S. GAAP, which may differ from Canadian generally accepted accounting principles, requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the application of these estimates, including those related to the recoverability of investments, product development costs, revenue recognition and deferred revenue and accounting for income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts could differ significantly from these estimates.

Management's Discussion and Analysis

Overview

The Company is a minerals, exploration, development and a producing company traded on the over the counter market in the United States. As is typical with such companies, losses are incurred in the stages of exploration and development, which typically need to be funded through equity or debt financing. The Company has expanded rapidly its range of activities since 2003 and this has generated funding requirements for: (a) the initiation of and advancing of rehabilitation, maintenance, exploration and mine planning at the Sunshine Mine, (b) the initial entry into Mexico, acquisition costs of projects, and the financing and construction of the Barones plant, and (c) increasing both administrative and operational staff to manage the increased scope of the Company's activities.

The Company's main focus is the Sunshine Mine project where it is engaged in maintenance, rehabilitation, exploration and mine planning. The Company also has exploration interests in Idaho, Montana, and in Mexico.

The Company has a land position of early stage prospects in Idaho, Montana and Mexico that it is evaluating to determine whether to hold and explore by itself or seek the participation of industry partners.

Key work completed at the Sunshine Mine in 2006 was the initiation of the Sterling Tunnel project, working on mine planning, purchase of the tailing impoundment, and work related to rehabilitation of the mine and the Silver Summit hoist. In 2007 work proceeded and accelerated towards a projected December 2007 re-start of mine production. This work has included hiring essential employees, completing the Sterling tunnel and advancing on the rehabilitation and start up plan.

In Mexico, the Company is engaged in processing materials from its Barones property at the Barones processing plant. Besides continuing work to optimize processing capacity at the Barones project, Sterling is evaluating the potential for development of the San Acacio and Tesorito projects.

The Company has made substantial expenditures on its key projects, and will continue to do so. Thus, further progress will be heavily influenced by the Company's ability to obtain significant funding from outside sources. Should significant funding not be raised concurrently with its capital requirements, the Company may be forced to curtail key initiatives.

Sterling Mining operates in the mining sector which has numerous and significant risk factors.

Results of Operations

Fiscal Year Ended December 31, 2006, Compared to Fiscal Year Ended December 31, 2005

Revenues

Revenues in fiscal years 2006 and 2005 consisted of sales of silver and gold to the refinery in Zacatecas, Mexico, and coin revenues in the United States from the sale of coins, rounds and bullion and from contract and lease income. Revenue increased by \$395,808, or 80.5%, from \$491,716 for the year ended December 31, 2005, to \$887,524 for the year ended December 31, 2006. Nearly all of the Company's revenue in 2006 and 2005 was derived from the Company's operations in Zacatecas, Mexico. Revenues from the Company's operations in Mexico are \$829,165 in 2006 compared to \$441,160 in 2005. The Company sold 81,572 ounces of silver in 2006 compared to 58,724 ounces of silver in 2005. The Company sold 128 ounces of gold in 2006 compared to 92 ounces of gold in 2005. The average price realized for silver and gold were \$10.49 and \$598 respectively in 2006 and \$7.07 and \$423 in 2005.

The increase in Mexico revenues in 2006 versus 2005 is primarily due to the fact that the Company's Mexico segment produced silver for a full year in 2006 and for a partial year in 2005.

Cost of Revenues

Cost of revenues increased substantially from \$362,758 in 2005 to \$956,263 for the year ended December 31, 2006, which represents an increase of 263.6% year to year. The increase in cost of revenues is primarily the result of a full year of operation at the Barones plant in Mexico in 2006 versus a partial year in 2005.

Costs and Expenses

Costs and expenses increased by \$2,115,124, or 48.2%, from \$4,384,569 for the year ended December 31, 2005, to \$6,499,693 for the year ended December 31, 2006. The primary contributors to the increase in costs and expenses include the increase of \$906,976 during 2006 over 2005 in exploration costs related primarily to the Sunshine Mine, the increase in general and administrative expenses from \$1,223,312 in 2005 to \$1,902,427 in 2006 arising from the increase in employees and support services required to advance the Company's work on the Sunshine Mine and manage the Company's operation in Mexico, and the increase of \$640,732 in professional fees to \$861,568 in 2006 compared to \$220,836 in 2005.

Other Income and Expenses

Other income and expense improved dramatically in 2006. Total other income in 2006 was \$1,336,570 compared to total other expense of \$293,346 in 2005. The major components in the improvement are a gain on sale of investments of \$171,410 in 2006 compared to a loss from sale of investments of \$78,356 in 2005, a decrease in the loss on foreign exchange from a loss of \$179,251 in 2005 to a loss of \$95,149 in 2006, and the recognition of \$1,362,416 in other income from the gain on the sale of Tabasquena mineral rights in Mexico in the fourth quarter, 2006, compared to no other income recognized in 2005.

Net Loss

As a result of the foregoing factors and after taking into consideration a nominal gain of \$1,467 from the Company's investment in Chester Mining Company, the Company recognized a net loss of \$5,230,395 for the year ended December 31, 2006, compared to a net loss of \$4,548,957 for 2005. Of these amounts, in 2006 the Company's United States geographical segment contributed \$4,318,339 to the loss and the Company's Mexico segment contributed \$912,056 to the loss, and in 2005 the Company's United States geographical segment contributed \$3,537,508 to the loss and the Company's Mexico segment contributed \$1,011,449 to the loss.

Project Status

In 2005 the Company had two significant projects that were not generating operating revenue, the Sunshine Mine in Idaho and the Barones Plant in Mexico. Phase II of the Sunshine Mine Conceptual Plan was completed in March of 2005 and management concluded that the mine would be profitable with silver prices in the range of \$5.75 to \$6.50 USD. At the end of 2005 and throughout 2006 the Sunshine Mine was in a rehabilitation phase and the Barones Plant was in production.

The 2006 Sunshine Mine plan, budgeted at approximately \$7.6 million, included beginning the Silver Summit hoist renovation, rehabilitation of the Silver Summit shaft to the 3000 foot level, starting the Sterling Tunnel project, hiring additional personnel, beginning renovation of the mill, ordering underground equipment, re-establishing electric power and substations to the 3100 foot level, and renovations of compressors and surface facilities.

In January 2006, construction began on the portal for the 5,700 foot Sterling Tunnel Project. This 15-month project of approximately \$6.4 million was completed in April 2007. The project was on target at December 31, 2006 and the company spent approximately \$2.9 million during the year. The Sunshine Mine began renovations of the Silver Summit hoist and progressed on the other mine plans with expenditures of approximately \$3.2 million during the year.

Also during 2006 the Company entered into an agreement to purchase the tailing pond for \$4.5 million and completed the final payment of \$3.9 million in January 2007.

The Barones Project 2006 plan included the purchase of a crusher to improve recoveries. The crusher was purchased at mid-year at a cost of approximately \$0.4 million and the infrastructure and installation of the crusher was ongoing during the balance of the year. The crusher was commissioned in July 2007 and additional expenditures of approximately \$0.3 million were required to complete the project.

Fiscal Year Ended December 31, 2005, Compared to Fiscal Year Ended December 31, 2004

Revenues

Revenues in fiscal years 2005 and 2004 consisted of sales of silver and gold to refineries in Zacatecas, Mexico, and coin revenues in the United States from the sale of coins, rounds and bullion and from contract and lease income. Revenue increased by \$428,843, or 782%, from \$62,873 for the year ended December 31, 2004, to \$491,716 for the year ended December 31, 2005. Revenues from the Company's operations in Mexico were \$441,160 in 2005 compared to none in 2004. The Company sold 58,724 ounces of silver in 2005 compared to no ounces of silver in 2004. The Company sold 92 ounces of gold in 2005 and no ounces of gold in 2004. The average price realized for silver and gold were \$7.07 and \$423 respectively in 2005 and \$0 and \$0 in 2004.

Cost of Revenues

Cost of revenues increased substantially from \$57,060 in 2005 to \$362,758 for the year ended December 31, 2005. The increase in cost of revenues is primarily the result of the start of operations in Mexico in 2005.

Costs and Expenses

Costs and expenses decreased by \$622,619, a 12% decrease, from \$5,007,188 for the year ended December 31, 2004, to \$4,384,569 for the year ended December 31, 2005. The primary contributors to the decrease in costs and expenses were decreases in exploration costs and general and administrative costs.

Other Income and Expenses

Other income and expense improved in 2005, compared to 2004. Total other expense in 2005 was \$293,346 compared to total other expense of \$528,332 in 2004. The largest component in the improvement was a loss on sale of investments of \$78,356 in 2005 compared to a loss from sale of investments of \$466,246 in 2004.

Net Loss

As a result of the foregoing factors the Company recognized a net loss of \$4,548,957 for the year ended December 31, 2005, compared to a net loss of \$5,529,707 for 2004. Of these amounts, in 2005 the Company's United States geographical segment contributed \$3,537,508 to the loss and the Company's Mexico segment contributed \$1,011,449 to the loss, and in 2004 the Company's United States geographical segment contributed \$4,298,956 to the loss and the Company's Mexico segment contributed \$1,230,751 to the loss.

Project Status

At the beginning of 2004 the Company had one significant project that was not generating operating revenue, the Sunshine Mine in Idaho. During 2004 the Company began preparing the Barones Plant for production. At the end of 2005 the Sunshine Mine was in a rehabilitation phase and the Barones Plant was in production.

Liquidity and Capital Resources

At December 31, 2006, the Company's cash balance was \$3,054,582, current assets were \$4,690,605, current liabilities were \$5,861,656, and the working capital deficit was \$1,171,051. The Company's cash and working capital positions improved substantially during January 2007. Unaudited working capital on January 31, 2007, was \$5,540,069, as a result of two events:

On October 20, 2006, the Company entered into a definitive purchase agreement with Essential Metals Corporation (EMC) to acquire the Big Creek tailings pond facility that the Company intends to use in conjunction with managing waste water from the Sunshine Mine and the operation of the ore concentrating mill for the mine. At December 31, 2006, the Company owed to EMC \$3.9 million due on January 22, 2007, which is one of the other current liabilities carried on the Company's balance sheet and represented 66.7% of current liabilities at that date. The Company used a portion of the proceeds from the offering described above to pay the liability in full.

On January 18, 2007, the Company closed an \$8,498,500 private placement offering to institutional and accredited investors consisting of 3,695,000 units at a price of \$2.30 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.25 for 24 months following the closing date of the offering. Five of the investors are located in Canada and one in the United States. Net proceeds to the Company after sales commissions and expenses of the offering were \$7,777,526.

During the year ended December 31, 2006, net cash provided by financing activities was \$12,735,527. Cash in the amount of \$5,626,104 was used for investing activities, primarily to drive the Sterling Tunnel and to purchase equipment for the Company's ongoing rehabilitation of the Sunshine Mine. Cash in the amount of \$5,325,690, was used to fund the Company's operating activities.

The Company estimated, at January 1, 2007, that it would need approximately \$28 million in 2007 to fully implement the business plan, and fund the work plan for the Sunshine Mine of which \$10 million has been raised as of the date hereof. Management anticipates raising of additional capital through the sales of its securities to enable the Company to fund the capital and operations requirements. Management has determined that, if necessary, the Company could continue operations through December 2007 with financing of only \$1,400,000, if the Company were to curtail hiring, capital expenditures and the investment in Mexican operations.

Additional outside equity or debt financing of approximately \$18 million will be necessary to meet its obligations through the end of 2007 and beyond. A shortfall in financing would cause significant delays in the Company's schedule for re-opening the Sunshine Mine, as well as the schedules for exploring and developing other properties. There is no assurance the Company will be successful in its efforts to raise capital at the times and in the amounts required by the Company's plans.

Q1 2007 – March 31, 2007

At the Barones silver tailings project in Mexico, tons of ore processed in the first quarter was comparable to the first quarter of 2006. The cost of silver in inventory increased due to decreased recoveries. Management anticipates that by bringing the crusher facility into operation in the second quarter of 2007, recoveries and profitability will improve. As of March 31, 2007, the jaw and cone crusher had been installed and remaining infrastructure was nearing completion. Expected start-up is by the end of June. The Company is currently stockpiling San Acacio ore at the mill for processing once the crusher is fully operational.

The Company's principal project is the Sunshine Mine in the State of Idaho. Management expects to begin production in December 2007. Rehabilitation and development of the Sunshine Mine during the first quarter of 2007 included approximately \$4.1 million. Expenditures on the Sterling Tunnel were \$1.2 million in the first quarter ended March 31, 2007, all of which was capitalized.

The 5,700 foot tunnel project was completed ahead of schedule. The tunnel begins on the west side of the Mine north of the Jewell Shaft at an elevation of 2,742 feet. It connects at a point approximately 1,200 feet below the surface of the Polaris Drift-Silver Summit Tunnel which continues another 5,850 feet to the Silver Summit Shaft on the east side of the mine and then another 5,225 feet to the Silver Summit portal, or east side mine entrance. Development on the Sterling Tunnel project was initiated in January of 2006 and will provide access to exploration drill stations, ventilation, a secondary escapeway and power distribution flexibility for the mine. The Company will continue underground diamond drilling from the Sterling Tunnel during the second quarter of 2007 to explore up-dip projections of major veins and un-mined areas of the upper Sunshine workings. The Company acquired the Big Creek tailings disposal facility which serves to impound mine waste water, when in production, and a portion of tailings not used in underground mining activities.

The Company hired twelve employees at the Sunshine Mine during the quarter bringing the total workforce to forty-two. Work focused on renovation of the Silver Summit hoist which will be followed by rehabilitation of the Silver Summit shaft to establish a secondary escapeway required by law for production from "lower country" areas of the mine. Additional priority activities included power distribution and pump column work in the Jewell Shaft to begin dewatering activities and starting rehabilitation work in the processing facility to meet the projected production schedule. The Company continued to order equipment and supplies to meet its ongoing development plan, subject to delivery delays which are considered common in the industry at present.

During January, the Company completed two private placement offerings. In the first offering, the Company sold 2,334,908 Units for a total purchase price of \$6,304,250, netting approximately \$5.8 million. The majority of the sales were completed in 2006 with only 21,000 units for \$56,700 sold in 2007. In the second offering, the Company closed an \$8,498,500 private placement offering to institutional and accredited investors consisting of 3,695,000 Units, netting approximately \$7.8 million. The funds from these offerings were primarily used for the purchase of the Big Creek tailings pond, \$3.9 million, development of the Sterling Tunnel and other property, plant and equipment, \$2.3 million and approximately \$2.5 million was used for operations including mine rehabilitation, exploration, and administrative costs.

The working capital at March 31, 2007 was \$2,005,898 compared to a deficit working capital of \$1,171,051 at December 31, 2006. Based on the Company's funding success during 2006 and the first quarter of 2007, Management believes it will be successful in raising additional funds to bring the Sunshine Mine into production. The contractual obligations of the Company are detailed in Note 13 on page 113.

The Company does not have off-balance sheet arrangements.

Exploration

During the first quarter of 2007, Sterling continued assessing its exploration properties in the state of Zacatecas, Mexico. The Company intends to enter into joint ventures, with other junior exploration companies, on several of its projects, while advancing other projects by itself. The Company is currently reviewing drilling

proposals for the properties near Ojo Caliente and intends to make some decisions on furthering exploration in the near future.

Comparative Results of Operations

For the three Months Ended March 31, 2007 compared to three Months Ended March 31, 2006:

Revenues

Revenues from continuing operations in the first quarter of 2007 consisted of sales of silver and gold to the refinery in Zacatecas, Mexico and coin sales in the USA. The Company reported revenues of \$191,337 in the first quarter of 2007 and \$280,524 in the first quarter of 2006. Revenues in the first quarter in Mexico were \$183,355 in 2007 and \$269,706 in 2006. The decrease in revenue was due to fewer ounces sold in 2007 versus 2006 because of decreased recovery rates. Revenues in the first quarter in the USA were \$7,982 in 2007 and \$10,818 in 2006. The Company sold 22,047 ounces of silver in the first quarter of 2007 compared to 31,135 ounces of silver in the first quarter of 2006. The Company sold 21 ounces of gold in the first quarter of 2007 compared to 23 ounces of silver in the first quarter of 2006. The average price realized for silver and gold were \$12.75 and \$625 respectively in the first quarter of 2007 and \$9.38 and \$535 respectively in the first quarter of 2006.

Costs and Expenses

The Company reported cost of revenues of \$248,161 in the first quarter of 2007 and \$224,448 in the first quarter of 2006. "Cost of sales and other production costs" in Mexico were \$240,575 in the first quarter of 2007 and \$218,045 the first quarter of 2006. The Cost of Revenues for coin sales in the U.S. were \$7,586 in the first quarter of 2007 and \$6,403 in the first quarter of 2006.

Other Income and Expenses

Other income and expense for the three months ended March 31, 2007 and 2006 was income of \$176,078 and expense of \$228,739, respectively. The largest component of income in the first quarter of 2007 was gain on the sale of equity investments. The largest component of expense in the first quarter of 2006 was loss on convertible debt derivative instruments.

Income Taxes

The Company has a substantial net operating loss for U.S. income tax purposes. Sterling de Mexico has a net tax asset of IVA tax refundable in Mexico of approximately \$175,000.

Income (Loss) From Continuing Operations

As a result of the above, the Company's net loss from continuing operations amounted to net losses of approximately \$2.4 million and \$1.2 million in the first quarter of 2007 and 2006 respectively. The largest component of the loss in the first quarter of 2007 was mine rehabilitation expense. The largest component of the loss in the first quarter of 2006 was exploration at the Sunshine Mine.

Project Status

During the first quarter of 2006 and 2007 the Company had one significant project that was not generating operating revenue, the Sunshine Mine in Idaho. At March 31, 2006 and 2007 the Sunshine Mine was in a rehabilitation phase and the Barones Plant in Mexico was in production.

During the first quarter of 2007, the Sunshine Mine made progress on the Sterling tunnel and approximately \$2.3 million was invested in the Sterling tunnel, and other property, plant and equipment of the expected \$3.5 million to completing the project. The Sterling tunnel was completed in April 2007. Approximately

\$2.5 million was used for operations including mine rehabilitation, exploration, and administrative costs. The Mine will continue to hire additional employees and purchase equipment in preparation of being in production by December 2007. The Company expects to spend another \$16.6 million for the balance of the year to bring the Sunshine Mine into production.

On August 2, 2007, the Company completed two equity offerings which raised \$24,734,755.50 million to finance operations and to future rehabilitation of the Sunshine Mine.

Liquidity and Capital Resources

The Company's cash balance at March 31, 2007 was approximately \$2.0 million. During the first quarter of 2007, the Company closed on private equity offerings which provided approximately \$7.8 million in cash. Of the \$6.4 million used by investing activities, \$3.9 million was used to acquire the Big Creek tailings pond and approximately \$2.3 million was invested in the Sterling Tunnel, and other property, plant and equipment. Approximately \$2.5 million was used for operations including mine rehabilitation, exploration, and administrative costs.

After the end of the quarter, the Company completed a private placement in April 2007 for approximately \$2.0 million. In addition, on August 2, 2007, the Company raised total proceeds of \$24,734,755.50 on the closing of two private placements. Cash on hand at the date hereof is approximately \$19.0 million.

The existing funds totaling \$19.0 million as at the date hereof, are expected to allow the Company to bring the Sunshine Mine into production. See "Use of Available Funds".

For the year ending December 31, 2007, fixed costs and expenditures will amount to approximately \$1.1 million, while discretionary costs and expenditures (all of which related to a return to production at the Sunshine Mine) amount to approximately \$15.7 million.

Given existing cash on hand, which is expected to allow the Company to bring the Sunshine Mine into production, and assuming the commencement of production at the Sunshine Mine in December 2007, the Company is of the view that it is adequately financed to cover all capital, operational and administrative obligations of the Company until such time as profitable operations at the Sunshine Mine are achieved, and the Company is in a cash flow positive position. Should production not be commenced in December, 2007 as planned, the Company has adequate funds on hand to sustain operations until at least the end of the first quarter of 2008. To the extent production is not commenced as planned, or production or prices for silver are less, or expenses are higher than planned, the Company may be required to seek additional equity or debt financing.

Mineral Exploration and Development Costs

The Company has been engaged in exploration since its inception in 1998.

In accordance with GAAP, the Company expenses exploration costs as incurred. Significant property acquisition costs for undeveloped mineral interests that have significant potential to develop an economic ore body are capitalized. The Company will amortize the capital costs based on proven and probable ore reserves if an economic ore body is developed. If an economic ore body is not discovered previously capitalized costs are expensed in the period in which it is determined that the property does not contain an economic ore body. Costs to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines are capitalized and will be amortized on units of production basis over proven and probable reserves. Gains and losses on the sales or retirement of assets are recorded as other income or expense.

The Company expects to have reserves in the future on any development it deems commercially viable. The essential nature of any reserves acquired or discovered will be estimates based upon ore body information presented to and reviewed by professionals. The enterprise of exploration and mining are subject to substantial uncertainties in development and operations. The Company continues to recruit a team of operational professionals, with the highest standards for reporting always being in the forefront of management.

Any estimates arising out of our exploration, development and operational activities will be expected to be reviewed under current internal policies. Our current environment has had only a short period of active operations and management believes that all exploration, development and operating policies are being accurately maintained. Our future operations will be heavily dependent on the market values of precious metals and our estimated costs of production. As these determinants change we would expect analysis by management of both short-term and long-term conditions, which could have a negative impact on the Company's choices concerning development and operations of its existing and future acquired properties.

Critical accounting policies and estimates

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

At least annually, management reviews the reserves used to estimate the quantities and grades of ore at our mines which management believes can be recovered and sold economically. Management's calculations of proven and probable ore reserves are based on in-house engineering and geological assessments using current operating costs, metals prices and, when applicable, on third-party audits of our reserves.

Reserve estimates will change as existing reserves are depleted through production and as production costs and/or metals prices change. A significant drop in metals prices may reduce reserves by making some portion of such ore uneconomic to develop and produce. Changes in reserves may also reflect that actual grades of ore processed may be different from stated reserve grades because of variation in grades in areas mined, mining dilution and other factors. Estimated reserves, particularly for properties that have not yet commenced production, may require revision based on actual production experience.

Declines in the market prices of metals, increased production or capital costs, reduction in the grade or tonnage of the deposit or an increase in the dilution of the ore or reduced recovery rates may render ore reserves uneconomic to exploit. If our realized price for the metals we produce were to decline substantially below the levels set for calculation of reserves for an extended period, there could be material delays in the development of new projects, net losses, reduced cash flow, restatements or reductions in reserves and asset write-downs in the applicable accounting periods. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations. No assurance can be given that the estimate of the amount of metal or the indicated level of recovery of these metals will be realized.

Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred. Exploration costs expensed during the periods ended December 31, 2006, 2005 and 2004 were \$3,701,487, \$2,794,511, and \$3,223,737, respectively.

Mineral Development Costs

The Company will capitalize property acquisition costs for undeveloped mineral interests that have significant potential to develop an economic ore body. The Company will amortize the capital costs based on proven and probable ore reserves if an economic ore body is developed. If an economic ore body is not discovered, previously capitalized costs are expensed in the period in which it is determined that the property does not contain an economic ore body. Costs to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and will be amortized on a unit of production basis over proven and probable reserves. Gains and losses on the sales or retirement of assets are recorded as other income or expense.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement". Management is currently using fair value measurements, including the Black-Scholes pricing model, to value assets and liabilities. Management does not expect the adoption of this statement to have an impact on its consolidated financial position or results of operations when FAS 157 becomes effective, after November 15, 2007.

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (hereinafter "SFAS No. 155"). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In March 2005, the FASB issued FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations – an Interpretation of SFAS No. 143." (hereinafter "FIN No. 47"), FIN No. 47 provides clarification of the term conditional asset retirement obligation as used in paragraph A23 of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset, and states that an entity shall recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Management does not believe the adoption of this statement impacts these consolidated financial statements. However, recognition of asset retirement obligation liabilities may become necessary in the future.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29." (hereinafter "SFAS No. 153"), The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. Management does not expect the

adoption of this statement to have a material impact on its future consolidated financial position or results of operations, based upon the Company's history of transactions and exchanges of property.

Accounting pronouncements adopted prior to 2006 have been incorporated in the Company's financial statements.

CONSOLIDATED CAPITALIZATION

Issued and Outstanding

Other than the private placements effected in January, April and August 2007 disclosed under "Prior Sales" there has been no material change to the Company's share and loan capital structure. The authorized capital of the Company consists of 80 million Common Shares. As at July 31, 2007, there were 30,607,925 Common Shares of the Corporation issued and outstanding. All of the Common Shares have the same features and rank equally and *pari passu* one with the other. The Company's authorized capital does not consist of any other classes of shares. The following description of the Company's Common Share is only a summary and is subject to the terms or provisions of the Company's Articles of Incorporation, as amended, and the Bylaws.

The holders of the Company's Common Share are entitled to such dividends as the Board of Directors may declare from time to time from legally available funds, subject to the preferential rights of the holders of any shares of any preferred stock the Company may issue in the future. The holders of the Common Share are entitled to one vote per share on any matter to be voted upon by shareholders.

The Articles of Incorporation do not provide for cumulative voting in connection with the election of directors. Accordingly, directors will be elected by a plurality of the shares voting once a quorum is present. Under the Company's Articles of Incorporation and Bylaws, no holder of the Common Share has any preemptive right to subscribe for any shares of capital stock issued in the future.

Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company's affairs, the holders of Common Shares are entitled to share, on a pro rata basis, all assets remaining after payment to creditors and subject to prior distribution rights of any shares of preferred stock the Company may issue in the future.

OPTIONS TO PURCHASE COMMON SHARES

The following table shows the number of options to purchase Common Shares currently issued and outstanding.

Name	Shares Under Options Granted (#)	Exercise or Base Price (per Share)	Market Value of Shares Underlying Options on the Date of Grant (per Share)	Expiration Date
Executive officers and past executive officers as a group	595,000	\$4.00	\$2,280,000	2/28/2010 – 5/17/2010
Directors and past directors (who are not also executive officers) as a group	80,000	\$4.00	\$320,000	5/17/2010
Employees and past employees (excluding executive officers)	40,000	\$4.00	\$160,000	5/17/2010
Consultants as a group	20,000	\$4.30	\$86,000	6/15/2009
Total – All Options	735,000	\$4.00 - \$4.30	\$2,946,000	-

Employment Stock Purchase Plan

On May 17, 2007, the Company's shareholders approved the adoption of an employment share purchase plan (the "ESPP") to promote the Company's operating performance and growth potential by encouraging employees to acquire equity in the Company. The ESPP is administered by the compensation committee of the Board (the "Compensation Committee"), however, the Board may exercise the Compensation Committee's powers and duties under the ESPP.

A total of 200,000 Common Shares in the capital of the Company are authorized for purchase over the term of the ESPP. Shareholder approval is required for any increase in the number of shares authorized for purchase under the ESPP.

Under the ESPP, Common Shares are issued through a series of offerings, each of a duration designated by the plan administrator, but in no event longer than 27 months. Each participant is granted a separate option to purchase Common Shares for each offering period in which he or she participates. The Compensation Committee establishes one or more purchase dates during the offering on which shares are purchased and the maximum number of shares that may be purchased on any given purchase date, but in no event can the aggregate dollar amount of shares purchased during an offering exceed 15% of a participant's earnings for the applicable period.

Any individual who customarily works for more than 20 hours per week for more than five months per calendar year in the employ of the Company is eligible to participate in one or more offering periods. An eligible employee may only join an offering period on the start date of that period.

The purchase price per Common Share at which Common Shares are purchased on the participant's behalf for each purchase date is equal to 85% of the lower of: (i) the fair market value per share of the Company's Common Shares on the start date of that offering period or (ii) the fair market value per Common Share of the Company's Common Shares on the purchase date. The fair market value per Common Share on any relevant date will be the average of the highest "bid" quotation and lowest "asked" quotation of a Common Share on such date as reported on the OTCBB (as herein defined).

The ESPP imposes certain limitations upon a participant's rights to acquire Common Shares including:

- No purchase right may be granted to any individual who owns Common Shares (including Common Shares purchasable under any outstanding options or purchase rights) possessing 5% or more of the total combined voting power or value of all classes of shares of the Company; and
- No purchase right granted to a participant may permit such individual to purchase Common Shares at a rate greater than \$25,000 worth of such Common Shares (valued at the time such purchase right is granted) for each calendar year.

A participant's purchase right immediately terminates upon such participant's loss of eligible employee status and his or her accumulated payroll deductions for the offering period in which the purchase right terminates are promptly refunded. A participant may withdraw from an offering period at any time prior to the end of that period and elect to have his or her accumulated payroll deductions for the offering period in which such withdrawal occurs either refunded or applied to the purchase of Common Shares on the next purchase date.

No participant has any shareholder rights with respect to the Common Shares covered by his or her purchase right until the shares are actually purchased on the participant's behalf. No adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

If the Company is acquired by merger or asset sale during an offering period, the surviving entity can assume and carry over the ESPP. If the ESPP is not continued, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of the acquisition. No purchase right will be assignable or transferable and will be exercisable only by the participant.

In the event any changes is made to the outstanding Common Shares by reason of any recapitalization, share dividend, share split, combination of shares, exchange of shares or other change in corporate structure effected without the Company's receipt of consideration, appropriate adjustments will be made to: (i) the class and/ or maximum number of Common Shares issuable under the ESPP, including the class and/or maximum number of Common Shares issuable per participant or in the aggregate on any one purchase date, and (ii) the class and/or maximum number of Common Shares subject to each outstanding purchase right and the purchase price payable per Common Share thereunder.

The ESPP will terminate upon the earliest to occur of: (i) May 17, 2017, (ii) the date on which all available Common Shares are issued, or (iii) the date on which all outstanding purchase rights are exercised in connection with an acquisition of the Company.

The Board may at any time alter, suspend or discontinue the ESPP. However, the Board may not, without shareholder approval: (i) increase the number of shares issuable under the ESPP, except in connection with certain changes in the Company's capital structure, (ii) alter the purchase price formula so as to reduce the purchase price or (iii) modify the requirements for eligibility to participate in the ESPP.

Equity Incentive Plan

On May 17, 2007, the Shareholders of the Company adopted an equity incentive plan (the "Equity Plan"). The Equity Plan is intended to further the Company's growth, development and financial success by attracting and retaining talented employees, consultants and directors, and by aligning the long-term interests of such persons with those of the Shareholders by providing an opportunity to acquire an ownership interest in the Company and by providing both performance rewards and long term incentives for future contributions to the Company's success.

The Equity Plan permits the grant of incentive stock options, nonqualified stock options, restricted shares, restricted share units ("RSUs"), stock appreciation rights ("SARs") and cash awards. The Equity Plan is administered by the Compensation Committee of the Board. The Compensation Committee has full authority to adopt such rules and procedures as it may deem necessary for the proper plan administration and to interpret the provisions of the Equity Plan. The powers of the Compensation Committee to administer the Equity Plan are subject to any limitations imposed by the Board on the Compensation Committee's powers in any resolution duly adopted by the Board.

Options granted under the Equity Plan are designated as either incentive stock options or as nonqualified options, and the exercise price of such options ranges from 100% to 110% of the fair market value per share on the date of grant. Repricing of options following grant is not permitted under the Equity Plan. The term of each incentive stock option ranges from five to ten years, and the term of nonqualified options can range up to fifteen years. The Compensation Committee has the power to determine the vesting schedule and other terms applicable to options pursuant to an option award.

Grants of restricted shares or RSUs (consisting of a right to receive Common Shares in the future or their cash equivalent, or both) may be made under the Equity Plan. The terms of a specific grant will be determined by the Compensation Committee and incorporated into an award agreement with the recipient. The Compensation Committee may impose such conditions or restrictions on the restricted Common Shares or RSUs as it may determine advisable, including the achievement of specific performance goals, time based restrictions on vesting, conduct criteria or others. If the Compensation Committee established performance or other goals, the Compensation Committee shall determine whether a participant has satisfied the performance of such goals.

The Compensation Committee also has the power and authority, exercisable in its sole discretion, to grant SARs to selected participants, which SARs cover a specified number of shares and are exercisable upon such terms and conditions as the Compensation Committee may establish. Upon exercise of a SAR, the holder is entitled to receive a distribution from the Company of an amount equal to the excess of (a) the aggregate fair market value (on the exercise date) of the Common Shares underlying the exercised right over (b) the aggregate base price in effect for those Common Shares. The number of Common Shares underlying each SAR and the base price in effect for those Common Shares (which may not be less than the fair market value of the Common Shares on the date of grant) are determined by the Compensation Committee at the time the SAR is granted. The distribution with respect to an

exercised SAR may be made in Common Shares valued at fair market value on the exercise date, in cash, or partly in Common Shares and partly in cash, as the Compensation Committee shall deem appropriate.

Finally, cash awards that are intended to qualify as “performance based compensation” may be made under the Equity Plan and are paid in cash upon the achievement, in whole or part, of performance goals relating to one or more of the performance criteria selected by the Compensation Committee and specified at the time such cash awards are granted. These criteria shall be selected and calculated under a methodology established in writing by the Compensation Committee prior to the issuance of a cash award.

A total of 2,100,000 Common Shares have been reserved for issuance under the Equity Plan, subject to adjustment for certain changes in the Company’s capitalization. The reserved Common Shares may be used for any of the types of awards available under the Equity Plan. Shareholder approval is required for any increase in the number of shares authorized for issuance under the Equity Plan.

The Common Shares issuable under the Equity Plan may be drawn from the Company’s authorized but unissued Common Shares or from Common Shares reacquired by the Company, including Common Shares repurchased on the open market. Common Shares subject to any outstanding award under the Equity Plan that expire or otherwise terminate prior to the issuance of those shares will be available for subsequent awards. Unvested shares issued under the Equity Plan and subsequently cancelled or repurchased by the Company, at the exercise or purchase price paid per Common Share, pursuant to its repurchase rights under the Equity Plan, will also be available for subsequent awards.

Should the exercise price of an option under the Equity Plan be paid with Common Shares or should Common Shares otherwise issuable under the Equity Plan be withheld by the Company in satisfaction of the withholding taxes incurred in connection with the issuance, exercise or vesting of an award, the number of Common Shares available for issuance under the Equity Plan will be reduced by the gross number of fully-vested Common Shares for which the option is exercised or the gross number of fully-vested Common Shares issued under the award, and not by the net number of Common Shares issued pursuant to that award.

Employees, directors, and consultants in the service of the Company or its subsidiaries are eligible to participate in the Equity Plan. In the event the Company is acquired by merger, asset sale, or similar corporate transaction, outstanding awards may be assumed by the surviving entity. If not assumed, the Compensation Committee has discretion to resolve outstanding awards by (i) accelerating the exercise date of the award, or (ii) require surrender of the award for cancellation in exchange for payment of the spread between the value per share of the Company’s Common Shares in the corporate transaction and the amount the participant is required to pay under the award to acquire a Common Share.

The Compensation Committee will have the discretion to structure one or more awards under the Equity Plan so that those awards will vest in full either immediately upon a corporate transaction or in the event the individual’s service with the Company or the successor entity is terminated (actually or constructively) within a designated period following a corporate transaction, whether or not those awards are to be assumed or otherwise continued in effect.

The acceleration of vesting in the event of a corporate transaction, change in control or hostile take-over of the Company may be seen as an anti-takeover provision and may have the affect of discouraging a merger, a take-over attempt or other efforts to gain control of the Company.

The holder of an option or stock appreciation award will have no Shareholder’s rights with respect to the shares subject to that award unless and until such person shall have exercised the award. Awards are not assignable or transferable other than by will or the laws of inheritance following the holder’s death. The Compensation Committee, however, has discretion on awards that are not incentive stock options to permit assignment on such terms as it may determine.

A participant may have certain Shareholder’s rights with respect to the restricted Common Shares issued to him or her under RSUs, whether or not his or her interest in those Common Shares is vested, as determined by the

Compensation Committee. Such rights may include the right to vote such Common Shares and to receive any regular cash dividends paid on such Common Shares.

In the event any change is made to the outstanding Common Shares by reason of any recapitalization, dividend, share split, combination of shares, exchange of shares or other change in corporate structure effected without the Company's receipt of consideration, appropriate adjustments will be made to (i) the maximum number and/or class of securities issuable under the Equity Plan, (ii) the number and/or class of securities and the exercise or base price per Common Share in effect under each outstanding award, and (iii) the maximum number of Common Shares which may be issued pursuant to awards of restricted shares and restricted share units under the Equity Plan. All such adjustments will be designed to preclude any dilution or enlargement of benefits under the Equity Plan or the outstanding Equity Awards thereunder.

The Board may amend, modify, suspend or terminate the Equity Plan at any time, subject to Shareholder approval pursuant to applicable laws, regulations, or rules of any stock exchange (or over-the-counter market, if applicable) on which the Common Shares are then listed for trading. No such amendment, modification, suspension or termination shall adversely affect the rights and obligations with respect to stock options, unvested restricted shares or RSUs at the time outstanding under the Equity Plan unless the optionee or the participant consents to such amendment or modification. Unless sooner terminated by the Board, the Equity Plan will terminate on the earliest of (i) September 26, 2016, (ii) the date on which all Common Shares available for issuance under the Equity Plan have been issued as fully-vested Common Shares, or (iii) the termination of all outstanding options, unvested restricted shares and RSUs in connection with certain changes in control or ownership of the Company. Should the Equity Plan terminate in September 2016, all option grants, unvested restricted shares and unvested RSUs outstanding at that time shall continue to have force and effect in accordance with the provisions of the documents evidencing such grants, issuances or awards.

PRIOR SALES

Market price, stockholder matters, and unregistered sales

The Company's common stock trades in the over-the-counter market and quotations for the common stock are listed on the Over the Counter Bulletin Board ("OTCBB") and were formerly listed in the "Pink Sheets" published by the National Quotation Bureau under the symbol "SRLM." The following table sets forth, for the respective periods indicated, the prices of the Company's common stock in the over-the-counter market, as reported and summarized by the National Quotation Bureau. Such prices are based on inter-dealer bid and asked prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

<u>Calendar Quarter Ended</u>	<u>High Bid (\$)</u>	<u>Low Bid (\$)</u>
March 31, 2005	5.20	3.60
June 30, 2005	4.00	2.60
September 30, 2005	3.40	2.55
December 31, 2005	3.45	2.00
March 31, 2006	4.60	4.45
June 30, 2006	4.20	4.05
September 30, 2006	3.95	3.85

December 31, 2006	3.16	3.03
March 31, 2007	3.15	2.95
June 30, 2007	4.55	3.19

In October 2006, the Company commenced a private offering solely to U.S. accredited investors of units at \$2.70 per unit, each unit consisting of one Common Share, one warrant to purchase a Common Share at an exercise price of \$4.25 per share that expires November 15, 2008, and one-quarter of a warrant to purchase a Common Share at an exercise price of \$3.75 per share that expires on the latter of April 20, 2007 and 90 days following the effective date of a registration statement filed to permit resale of the common stock included in the units and underlying the warrants. On January 5, 2007, the offering was closed after the sale of 2,334,908 units at a gross purchase price of \$6,304,250. The shares of common stock, warrants, and common stock underlying the warrants have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The registration rights with respect to the units are piggy-back only, which means the Company has no obligation to register any of the common stock, whether included in the units or underlying warrants, unless it files a registration statement for someone other than an investor in the offering.

Pursuant to the Agency Agreement, on January 18, 2007, the Company closed an \$8,498,500 private placement offering to institutional and accredited investors in Canada and the United States, consisting of 3,695,000 units at a price of \$2.30 per unit. Each unit consists of one Common Share and one Common Share purchase warrant. Each warrant is exercisable for one Common Share at an exercise price of \$4.25 that expires 24 months following the closing date of the offering. The Common Shares, warrants, and Common Shares underlying the warrants have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Common Shares sold to the purchasers and the Common Shares underlying the warrants will be registered for resale on a registration statement to be filed by the Company in the United States. Proceeds from the private placement were used to complete the purchase of the Big Creek tailings pond from EMC, and will be used to fund the ongoing rehabilitation and upgrade of the Sunshine Mine and for general working capital purposes. Pursuant to the Agency Agreement, the Company covenanted, among other things, to file and obtain a receipt for a final non-offering prospectus in Ontario within 120 days after the closing and to file a resale registration statement with the SEC and have such registration statement effective within 180 days from closing. Failure to obtain a receipt for a final prospectus and to have the resale registration statement effective within 180 days from closing will result in the Company having to pay back the subscribers 1% per month of the amount they subscribed up to a maximum of 12% of their subscription.

On April 30, 2007, the Company closed a \$1,800,000 private placement offering consisting of 500,000 units at a price of \$3.60 per Unit with Ontario accredited investors. Each unit was comprised of one common share of Sterling and one-half common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.50 for 24 months following the closing date of the offering. The shares of common stock, warrants, and common stock underlying have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The shares of common stock sold to the purchasers and the shares underlying the warrants will be registered for resale on a registration statement to be filed by Sterling in the United States. Proceeds from the private placement were used to fund the ongoing rehabilitation and upgrade of the Sunshine and for general working capital purposes.

The Company completed on August 2, 2007 two private placement offerings in Canada, the United States and elsewhere for total proceeds of \$24,734,755.50. The offerings consisted of 5,585,792 special warrants, and 2,024,902 units at a price of \$3.25 per unit. The special warrant offering was completed pursuant to the August

Agency Agreement among the Company, and the August Agents. Each special warrant is convertible into a unit. Each unit consists of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant is exercisable for one Common Share at an exercise price of \$4.10, and expires 24 months following the closing date of the offering. The Common Shares, warrants, and Common Shares underlying the warrants have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Common Shares sold to the purchasers and the Common Shares underlying the warrants will be registered for resale on a registration statement to be filed by the Company in the United States. Proceeds from the private placement were used to fund the ongoing rehabilitation and upgrade of the Sunshine Mine and for general working capital purposes. The August Agency Agreement provided for standard representations and warranties as well as standard indemnity provisions for transactions of this kind for the benefit of the Agents. Agents, including the August Agents, received commissions equal to \$1,729,882, compensation options to acquire 400,165 units at a price of \$3.25 per unit for a period of 24 months following the closing of the offering, compensation warrants to acquire 112,574 units exercisable at a price of \$3.25 per unit for a period of 24 months following the closing of the offering, and 14,959 units. Pursuant to the August Agency Agreement, the Company covenanted, among other things, to file and obtain a receipt for a final prospectus in Canada to qualify the distribution of the units underlying the special warrants, and to file a resale registration statement with the SEC and have such registration statement effective within 90 days from closing. Failure to obtain a receipt for a final prospectus and to have the resale registration statement effective within 90 days from closing, absent any reason beyond the reasonable control of the Company, will result in the Company having to pay subscribers 5% of the amount they subscribed, with an additional amount due of 15% if the conditions are not met within 120 days. For purposes of clarity, this non-offering prospectus does not qualify the securities from the August private placements.

See also “General Development of the Business – Three Year History”

PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and officers of the Company, as of July 31, 2007, other than as set out below, no person or company beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying more than 10% of the outstanding voting rights attached to Common Shares:

Name of Beneficial Owner	Amount and Nature of Ownership	Percent of Outstanding Common Shares
W.D. Goodfellow	4,887,500 ⁽¹⁾	15.96%

(1) Includes 2,087,500 Common Shares issuable upon the exercise of warrants exercisable at exercise prices ranging from \$2.25 to \$8.42 per share. Mr. Goodfellow acquired these warrants as part of a series of individual private placements between the Company and Mr. Goodfellow. The terms of his outstanding warrants are as follows:

Expiry date	Warrants to be Exercised	Exercise price
09/20/07	125,000	\$ 2.60
12/27/07	62,500	\$ 2.85
12/27/07	500,000	\$ 2.25
02/23/08	250,000	\$ 4.75
03/21/08	62,500	\$ 4.20
04/19/08	250,000	\$ 8.42
06/22/08	62,500	\$ 4.03
07/17/08	100,000	\$ 4.71
07/20/08	150,000	\$ 4.97
08/21/08	150,000	\$ 5.12
09/21/08	200,000	\$ 4.99

09/27/08 175,000 \$ 4.85
2,087,500

DIRECTORS AND OFFICERS

Directors and Officers

The following table sets forth the names, municipality of residence, security holding, and positions with Sterling Mining for each of the directors and officers:

Name	Municipality of residence	Principal Occupation - 5 Preceding years	Security Holdings	Percentage of Security Holdings	Office Held	Director or Officer Since	Directors term expires
Raymond K. De Motte	Wallace, ID	CEO/President – Sterling Mining Co.	198,686	0.6%	CEO/President, Director	1998	(1)
James N. Meek	Coeur d’Alene, ID	CFO – Sterling Mining Co. SOX Consultant Treasurer – Coeur d’Alene Mining Corp	30,000	0.1%	CFO, Vice President	2005	
Kevin G. Shiehl	Columbus, MT	Mine Manager - Stillwater Mining Company	19,167	0.1%	Executive VP, Director	2003	(1)
Michael L. Mooney	Spokane, WA	Treasurer/Secretary - Sterling Mining Company, CFO - Hollisteer-Stier	31,060	0.1%	Treasurer	2005	
Carol Stephan	Wallace, ID	Self employed - Secretary/Director various mining companies	210,375	0.7%	Director	2003	(1)
Roger A. Van Voorhees	Marble Falls, TX	Broker - Lakewood Realty	1,910,324	6.2%	Director	2006	(1)
David J. Waisman	Spokane, WA	Silver Valley Labs Analytical - Business Development Manager	19,000	0.1%	Director	1998	(1)
J. Kenny Berscht	Calgary, AB	Administrator - Odyssey Management, Consultant - Quantum Management, President - Baraka Capital	5,000	Less than 0.1%	Director	2006	(1)
Total for the group			2,423,612	7.9%			

Notes:

(1) – Directors are elected at each annual meeting. Each director shall serve until the next annual meeting of shareholders and thereafter, despite the expiration of his term, until his successor is duly elected and qualifies, or until there is a decrease in the number of directors, or until his earlier death, resignation or removal.

All directors hold office until the next annual meeting of stockholders and until their successors are elected and qualify. Officers serve at the discretion of our Board. All members of management are employed by the Company. Messrs. De Motte, Meek and Mooney have entered into Sterling’s standard non-disclosure agreement. The following is information on the business experience of each director and officer.

Raymond K. De Motte, President, Chief Executive Officer and Director. Mr. De Motte has been President of Sterling Mining Co. since 1998. He has also been a director and chief financial officer of Kimberly Gold Mines, Inc. since 1999. He holds a Bachelor of Science in International Business Administration from the American College of Switzerland and a Master of Business Administration from Golden Gate University in San Francisco, California. Mr. De Motte is a member of the Canadian Institute of Mining and Metals and the Society of Economic Geologists.

James N. Meek, Vice-President and Chief Financial Officer. Mr. Meek has over 25 years of experience in accounting and asset management in the mining industry. He was appointed Chief Financial Officer of Sterling Mining on September 1, 2005, after having served as Acting Chief Financial Officer of Sterling Mining since May 26, 2005. From 2004 until joining Sterling Mining, Mr. Meek worked as an independent consultant. From 1993 to 2004, Mr. Meek served as Treasurer of Coeur d’Alene Mines Corporation. Mr. Meek has also held the positions of acting controller for Century Mining Company and Accounting Manager for ASARCO Incorporated. He holds a Bachelor of Arts in Mathematics from Rocky Mountain College, a Master of Business Administration from the University of Idaho and is a licensed CPA in the State of Idaho.

Kevin G. Shiell, Executive Vice President, Director. Mr. Shiell has been a director and Executive Vice-President of Sterling Mining since January 2003. He has also been a foreman and superintendent of Stillwater Mining Company since 1999 and President and a director of Kimberly Gold Mines, Inc. since 2003. Mr. Shiell spends approximately 5% of his time on matters relating to Sterling Mining and 95% of his time on his other professional activities. Mr. Shiell has been in the mining business for over 25 years in operation positions such as Mine Foreman, Mine Superintendent and Manager of Operations with various companies in the western United States. He has experience with safety, human relations, mine site construction and infrastructure, as well as development, production and maintenance of operating mines. Mr. Shiell is also a member of the Northwest Mining Association.

Michael L. Mooney, Corporate Treasurer/Secretary. Mr. Mooney was appointed Corporate Secretary of Sterling Mining in May 2005. Prior to joining Sterling Mining, Mr. Mooney had spent over 25 years with Hollister-Stier Laboratories LLC of Spokane, Washington, formerly Bayer Corporation, most recently serving as Chief Financial Officer from 1999 to 2004. He has a Bachelor of Science in Accounting from Gonzaga University in Spokane, Washington.

Carol Stephan, Director. Ms. Stephan serves as a corporate secretary, treasurer, and/or director for several mining companies in the Coeur d'Alene and Spokane areas. Ms. Stephan also owns and operates several businesses in Idaho. Ms. Stephan is a director of Shoshone Silver Mining Company. She has served as a director of Sterling Mining since 2003 and manager of Silver Valley Capital since 2003.

David J. Waisman, Director. Mr. Waisman has been employed as a business development manager for SVL Analytical in Kellogg, Idaho since 1993. Prior thereto, he was employed as Senior Exploration Geologist for Hecla Mining. He holds degrees in Geology from the University of Montana and Colorado State University and is a director of the Society of Inland Northwest Environmental Scientists, and is on the Advisory Board of Kimberly Gold Mines, Inc. Mr. Waisman has served as a director of Sterling Mining since 1998.

Roger A. VanVoorhees, Director. Mr. VanVoorhees graduated with a Bachelor of Science from Western Michigan University and has business and investment interests in the hospitality, real estate, oil and gas, and metal mining industries.

J. Kenney Berscht, Director. Mr. Berscht graduated with a degree in Business Administration from the University of Western Ontario, Canada, has held executive positions with a number of energy companies and is a member of the American Institute of Mining, Metallurgical and Petroleum Engineers.

Corporate Cease Trade Orders or Bankruptcies

No director, officer, promoter or other member of management of the Company is, or within the ten years prior to the date hereof has been, a director, officer, promoter or other member of management of any other issuer that, while that person was acting in the capacity of a director, officer, promoter or other member of management of that issuer, was the subject of a cease trade order or similar order or an order that denied the issuer access to any statutory exemptions for a period of more than thirty consecutive days.

Penalties or Sanctions

No director, officer, promoter or other member of management of the Company has, during the ten years prior to the date hereof, been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion, formation or management of a publicly traded company, or involving fraud or theft.

Personal Bankruptcies

No director, officer, promoter or other member of management of the Corporation has, during the ten years prior to the date hereof, been declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

Conflicts of Interest

The Company's directors and officers may become engaged in mineral exploration and development activities on their own behalf and on behalf of other companies, and situations may arise where the Company's directors and officers may be in direct competition with it. Any decision made by such directors involving the Company will be made in accordance with the duties and obligations of directors to deal fairly and in good faith with the Company and such other companies. Those of the Company's directors and officers with conflicts of interest will be subject to and will follow the procedure set out in applicable corporate and securities legislation, regulation, rules and policies.

Director Independence and Committees

The Board has determined that Carol Stephan, David J. Waisman, Roger A. Van Voorhees, and J. Kenney Berscht, who constitute a majority of the board, are "independent directors" under the criteria set forth in Rule 4200(15) of the NASDAQ Marketplace Rules and section 1.4 of the Canadian Securities Administrators Multilateral Instrument 52-110 ("MI 52-110"). The Board does not have a separately designated nominating committee, so the function of evaluating and nominating persons for election as directors is performed by the entire Board.

In September 2006, the Board formed the Compensation Committee, the current members of which are Carol Stephan (Chairperson), Roger A. Van Voorhees, and J. Kenney Berscht. The Board has determined that each of the members of the Compensation Committee is "independent" under the criteria set forth in Rule 4200(15) of the NASDAQ Marketplace Rules and section 1.4 of MI 52-110.

Also in September 2006, the Board formed the Audit Committee, the current members of which are J. Kenney Berscht (Chairperson), Carol Stephan, Roger A. Van Voorhees, and David J. Waisman. The Board has determined that each of the members of the Audit Committee is "independent" under the criteria set forth in Rule 4350(d) of the NASDAQ Marketplace Rules and section 1.4 of MI 52-110.

On October 12, 2006, Sterling Mining borrowed \$35,000 from the spouse of Carol Stephan, and borrowed \$75,000 from a company of which Ms. Stephan is an officer and director. The loans were unsecured, bore interest at the rate of 10% per annum, and were repaid in December 2006. The loans were made to provide Sterling Mining a capital bridge to other financing opportunities in late 2006 and early 2007. Although not required to be disclosed under Item 404 of Regulation S-K, the Board considered the transactions in evaluating the independence of Ms. Stephan and determined that the transactions did not give rise to a relationship or circumstance that could reasonably be expected to interfere with her exercise of independent judgment in carrying out her responsibilities as a director or member of any of the Board committees on which she serves.

Review of Transactions with Related Persons

The bylaws of Sterling Mining provide that it cannot enter into a "director's conflict of interest transaction," unless the transaction is approved through the designated "directors' action" or "shareholders' action."

A director's conflict of interest transaction is any a transaction effected or proposed to be effected by Sterling Mining, or by a subsidiary, in which

- a director knows at the time of the commitment that he or she or a related person is a party to the transaction or has a beneficial financial interest in or so closely linked to the transaction and of such financial significance to the director or a related person that the interest would reasonably be expected to exert an influence on the director's judgment if he or she were called upon to vote on the transaction; or
- the transaction is brought, or is of such character and significance that it would in the normal course be brought, before the Board of Directors for action, and the director knows at the time of commitment that any of the following persons is either a party to the transaction or has a beneficial financial interest

in or so closely linked to the transaction and of such financial significance to the person that the interest would reasonably be expected to exert an influence on the director's judgment if he or she were called upon to vote on the transaction: an entity of which the director is a director, general partner, agent or employee; a person that controls, is controlled by, or is under common control with, an entity of which the director is a director, general partner, agent or employee; or, an individual who is a general partner, principal, or employer of the director.

A director's conflict of interest transaction is effective if approved by "directors' action," which is approval by a majority (but not less than two) of the directors on a committee or, if there is no such committee, the Board of Directors who do not have a conflicting interest with respect to the transaction, or a familial, financial, professional, or employment relationship with the director the who does have a conflicting interest respecting the transaction, which relationship would, in the circumstances, reasonably be expected to exert an influence on the first director's judgment when voting on the transaction. However, such approval is not effective unless the directors giving the required approval have been informed in advance of the nature and circumstances of the conflict of interest associated with the transaction.

A director's conflict of interest transaction is effective if approved by "shareholders' action," which is approval by a majority of the outstanding shares entitled to vote that are not owned or controlled by directors or related persons who are subject to the conflict of interest. However, such approval is not effective unless the shareholders voting on the matter have been informed in advance of the nature and circumstances of the conflict of interest associated with the transaction.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

General Philosophy

At the end of September 2006, Sterling's Board of Directors adopted a Compensation Committee Charter and established the Compensation Committee through the appointment of independent, non-employee directors. The Committee is responsible for establishing and administering Sterling's executive and director compensation programs and arrangements. As the Committee is relatively new, it is still working through the process of "learning the ropes" as an effective body for managing the compensation questions and issues that Sterling has and will continue to face.

Executive Compensation

The Committee's compensation objective is designed to attract and retain the best available talent while efficiently utilizing available resources. In circumstances where Sterling has nominal revenues and is focused on bringing the Sunshine Mine back into production and applying its capital to that purpose, the challenge for the Committee is stretching limited capital resources to effectively seek out and retain executives with the education, skills, and experience necessary for restarting and running a major underground mining operation in the United States. The Committee is learning to meet that challenge by developing packages consisting of different forms of compensation that strike a balance between limiting the amounts of cash paid out for compensation and fostering commitment to Sterling through the upside potential of deferred compensation paid in the form of equity ownership or participation. The Committee seeks to compensate employees with a complete package competitive with comparable employers in the mining industry while maintaining internal and external equality and aligning senior management's compensation with the long-term interests of shareholders. The process the Committee is developing for establishing compensation consists of targeting overall compensation for each executive officer and allocating that compensation among base salary and incentive compensation. The Committee believes that a significant portion of total compensation should be earned through incentive compensation.

Allocation among Components. Under the Committee's compensation structure, the mix of base salary, cash bonus, and equity compensation varies depending upon the employment level. In allocating compensation among these elements, the Committee believes that the compensation of its senior-most levels of management, such as the Chief Executive Officer ("CEO"), the levels of management having the greatest ability to influence Sterling

Mining's performance, should be significantly performance-based. However, the Committee recognizes that certain critical control positions, such as the Chief Financial Officer ("CFO"), should receive a greater portion of their total compensation in the form of base salary versus incentive to assure sound judgment in decisions that will not be influenced by incentive payouts. At lower levels of management and staff, the Committee designs incentive compensation, which includes both cash and equity awards, to reward the achievement of specific performance goals within areas under control of the relevant employees, although company-wide performance is also a factor.

In making compensation allocations, the Committee will rely in part upon an evaluation of aggressive exploration companies. The allocation made by the Committee is consistent with the results in their evaluation, which showed the peer group providing their executive management with targeted cash incentive opportunities.

Base Salaries. The Committee provides its executive management with a level of assured cash compensation in the form of base salary that is competitive in the market, is based upon the experience level of the individual executive, is consistent with other companies with similar performance characteristics, and promotes sound judgment in daily decision making. The Committee concluded that for 2007, the appropriate base salary for the CEO is \$150,000 and the appropriate base salary for the CFO is \$180,000. These salaries were determined based upon the evaluation and analysis performed by the Committee relative to targeted overall compensation.

Incentive Bonuses. The Committee will award incentive cash bonuses based upon performance objectives. For 2006, the performance goals achieved by Sterling's CEO and CFO were viewed as being instrumental in obtaining financing for advancing rehabilitation of the Sunshine Mine.

Equity Compensation. The primary form of equity compensation consists of stock options. Beginning in 2006, the accounting treatment for stock options changed as a result of Statement of Financial Accounting Standards No. 123(R), making the accounting treatment of stock options somewhat less attractive. Nevertheless, it should be expected the Committee will continue to use options as a compensation tool and will evaluate opportunities to use other forms of stock and equity awards in the future.

Executive Agreements. The Committee believes that employment agreements, severance and change of control agreements are appropriate for its senior management and top executives.

Retirement Plans. Sterling Mining has no defined pension plan. Sterling Mining does maintain a 401(k) "Safe Harbor" Plan in which Sterling Mining matches employee contributions up to 100% of the employee's contribution, with a maximum equal to three percent of eligible compensation, and 50% of the next two percent of eligible compensation.

Perquisites and Other Benefits. The Committee annually reviews the perquisites that executive management receives. The current available perquisite for executive management is the lease payment for vehicles. The Committee recognizes this automobile allowance pursuant to the employment agreements of the CEO and CFO.

Board Process. The Compensation Committee of the Board of Directors approves all compensation awards to executive officers. The Compensation Committee will review the performance and compensation of the executive officers, and following discussions with those individuals and the members of the Board of Directors and, where it deems appropriate, other advisors, will establish their compensation levels. The Chair of the Committee reports to the full board the actions of the Committee. With respect to employee equity compensation awards, the Committee will recommend awards to the full Board of Directors for discussion and approval.

Director Compensation

Director compensation is evaluated and recommended by the Committee and approved by the full Board of Directors. Sterling does pay directors who are also employees for their service as directors, so all directors are compensated similarly for their service as directors. Currently Sterling does not provide for incentive cash bonuses, defined pension benefits, deferred compensation, medical or dental benefits, or perquisites for its non-employee directors.

Summary Compensation Table

The following table sets forth the compensation paid or accrued for the benefit of the principal executive officer and principal financial officer of Sterling, who are the only executive officers whose total compensation exceeded \$100,000 for the year ended December 31, 2006.

STERLING MINING COMPANY-EXECUTIVE COMPENSATION TABLE					
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)	Total (\$)
Raymond K. De Motte, CEO ⁽¹⁾	2006	\$ 98,333	\$ 103,727	\$ -	\$ 202,060
James N. Meek, CFO ⁽²⁾	2006	\$ 120,000	\$ 25,556	\$ -	\$ 145,556
Raymond K. De Motte, CEO	2005	\$ 58,000	\$ 2,090	\$ 140,789	\$ 200,879
James N. Meek, CFO ⁽²⁾	2005	\$ 35,000	\$ 25,607	\$ 52,550	\$ 113,157
Raymond K. De Motte, CEO	2004	\$ 45,500	\$ -	\$ 39,120	\$ 84,620
James N. Meek, CFO ⁽³⁾	2004	\$ -	\$ -	\$ -	\$ -
⁽¹⁾ The figure in the "Bonus" column includes \$85,000 paid in February 2007.					
⁽²⁾ The figure in the "Bonus" column includes \$25,000 for 2005 and \$25,000 for 2006, paid in March 2007.					
⁽³⁾ Mr. Meek's employment began September 1, 2005.					

Raymond K. De Motte Employment Agreement

Sterling entered into an employment agreement with Raymond K. De Motte, Sterling's President and Chairman of the Board, on January 1, 2004. The agreement has a ten-year term. The annual salary under the agreement is presently \$150,000, and may be adjusted at the discretion of the Board of Directors. The agreement also provides for standard health insurance and vacation benefits. The agreement provides for payment of a vehicle allowance that Mr. De Motte has waived to date, but which may be paid in the future upon Mr. De Motte's request and approval of the Board. Mr. De Motte is entitled to receive each year stock options on 100,000 shares of Sterling common stock under his employment agreement, but no stock plan has been adopted to date and no options issued to Mr. De Motte. The agreement also provides for a single lump-sum payment of \$600,000, net of taxes, in the event Mr. De Motte's employment is terminated by Sterling for reasons other than cause, or if Mr. De Motte terminates his employment for good reason (as defined in the agreement). In addition, pursuant to his employment agreement Mr. De Motte is entitled to put all of his Sterling stock to Sterling for an aggregate amount of \$200,000 or the aggregate market price of such stock, whichever is greater. In the event Mr. De Motte's employment is terminated for cause, or if he resigns for reasons other than a good reason, then Mr. De Motte is entitled to a single lump-sum payment, net of taxes, of \$100,000.

James N. Meek Employment Agreement

During 2005, Sterling entered into an Employment Agreement with James N. Meek, who was elected and appointed Vice President and Chief Financial Officer for Sterling in 2005. The agreement is for a term of three years, expiring on September 1, 2008, and the current annual salary is \$180,000, and may be adjusted at the discretion of the Board of Directors. The agreement also provides for standard health insurance and vacation benefits. The agreement provides for payment of a vehicle allowance that Mr. Meek has waived to date, but which may be paid in the future upon Mr. Meek's request and approval of the Board. As provided in his employment

agreement, Mr. Meek earned a bonus of \$25,000 in 2005 when Sterling filed its registration statement on Form 10 with the Securities and Exchange Commission and earned an additional bonus of \$25,000 in 2006 when quotations for the common stock of Sterling were approved for publication on the OTC Bulletin Board, but payment of these bonuses was not made until 2007 when the Board determined there was sufficient capital to make the expenditures. Mr. Meek's agreement further provides that a bonus of \$20,000 will be paid when Sterling files an application for listing on the American Stock Exchange and a bonus of \$50,000 will be paid when Sterling is approved for trading on the American Stock Exchange. Mr. Meek is entitled to receive each year stock options on 100,000 shares of Sterling common stock under his employment agreement, but no stock plan has been adopted to date and no options issued to Mr. Meek. Discretionary performance bonuses may be awarded as determined by the Board.

Equity Awards and Benefits in 2006

Neither the CEO nor the CFO exercised any stock options or realized any monetary amount on stock rights or awards during 2006. Sterling did not have any stock options or stock awards outstanding at the end of 2006 held by the CEO or CFO. In September 2006, the Board of Directors adopted an Employee Stock Purchase Plan and Equity Incentive Plan, in each case subject to stockholder approval. No awards have been granted under either plan, and Sterling will submit each plan to its stockholders for approval at the next annual meeting of stockholders to be held in the spring of 2007.

Nonqualified Deferred Compensation

Raymond K. De Motte Employment Agreement

Under his employment agreement, Mr. De Motte is entitled to receive a single lump-sum payment of \$600,000, net of taxes, in the event his employment is terminated by Sterling for reasons other than cause, or if Mr. De Motte terminates his employment for good reason as defined in the agreement, which includes a change in control of Sterling. In addition, pursuant to his employment agreement Mr. De Motte is entitled to put all of his Sterling stock to Sterling for an aggregate amount of \$200,000 or the aggregate market price of such stock, whichever is greater. Based on a market price of \$3.15 at December 31, 2006, the amount that would have been paid for 153,686 shares of common stock owned by Mr. De Motte would be \$484,111. In the event Mr. De Motte's employment is terminated for cause, or if he resigns for reasons other than a good reason, then Mr. De Motte is entitled to a single lump-sum payment, net of taxes, of \$100,000. In the event termination is a result of disability, Mr. De Motte would receive full salary for three months, one-half salary for an additional three months, and payment of health insurance premiums for 12 months. Based on his current level of compensation, the aggregate payments on termination for disability would be \$47,808.

James N. Meek Employment Agreement

Under his employment agreement, if Mr. Meek is terminated without cause or if there is a change in control of Sterling, he is entitled to receive 36 months of salary, any stock options granted will vest immediately, he will receive a payment equal to 100% or the greater of any target bonus or bonus actually earned during the preceding 24-month period, and he will receive payment of health insurance premiums for a period of two years. On a change in control Mr. Meek will also receive an additional bonus equal to 40% of his salary and receive additional equity equivalent to the type an amount of equity held prior to the change in control. Mr. Meek does not have any stock options at present. Based on his current compensation arrangement, he would receive \$616,476 if terminated without cause, and \$686,476 plus 20,000 shares of common stock if there is a change in control. For the purpose of calculating such payments, all Federal and State taxes and Federal excise taxes shall be grossed-up such that Mr. Meek receives the amount specified after all taxes have been paid.

Director Compensation

The following table shows compensation paid or accrued for the last fiscal year to Sterling's directors.

Name and Principal Position	Year	Fees Earned or Paid in Cash (\$)	Total (\$)
Raymond K. De Motte ⁽¹⁾	2006	\$ 16,504	\$ 16,504
Carol Stephan ⁽¹⁾	2006	\$ 16,504	\$ 16,504
Kevin G. Shiell ⁽¹⁾	2006	\$ 16,504	\$ 16,504
David J. Waisman ⁽¹⁾	2006	\$ 16,504	\$ 16,504
Roger A. VanVoorhees	2006	\$ 10,672	\$ 10,672
J. Kenney Berscht	2006	\$ 4,002	\$ 4,002

⁽¹⁾ These directors' 2005 compensation of \$16,504 was also paid in 2006.

In September 2006, the Board of Directors adopted a compensation plan for directors. Under the plan, each director receives as an annual fee \$16,000 paid monthly in cash. In addition, Directors are compensated at a rate of \$75 per hour for additional director work outside of the preparation for and attendance of Board meetings. As additional consideration for services in years prior to 2006, the Board approved a one time payment of \$16,000 for each Director who served throughout 2005.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee formed in September 2006 are Carol Stephan, Roger A. Van Voorhees, and J. Kenney Berscht, and no other directors served on the Compensation Committee during 2006. No interlocking relationship exists between our Compensation Committee and the board of directors or compensation committee of any other company.

Prior to September 2006, executive compensation decisions were made by the entire Board. Raymond K. De Motte, a director and our President and Chief Executive Officer, and Kevin G. Shiell, a director and our Executive Vice President, participated in deliberations on executive compensation prior to the formation of the Compensation Committee. Mr. De Motte is a director and Chief Financial Officer and Mr. Shiell is a director and President of Kimberly Gold Mines, Inc.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date of this prospectus, no amount is owed to the Company by any director or executive officer other than in respect of routine indebtedness.

RISK FACTORS

Risks Related to the Common Shares

As the Company completes additional equity financings, the existing shareholders will experience dilution.

The Company expects that, for the next year, and beyond, it will continue to rely upon the sale of additional Common Shares in order to finance its operations. Any additional equity financing that it obtains would involve the sale of Common Shares and/or sales of securities that are convertible or exercisable into Common Shares, such as share purchase warrants or convertible notes and the issuance of such securities would have the effect of diluting existing shareholders.

There is limited liquidity for the Common Shares.

The Common Shares are not currently listed on any exchange in Canada and there is no market in Canada through which the securities of the Company may be sold. Quotations for the Common Shares are published on the Over the Counter Bulletin Board. The OTC Bulletin Board is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than other markets. Purchasers of the Common Shares may therefore have difficulty selling their shares should they desire to do so, and the lack of liquidity could adversely affect the market price for the common stock.

Risks Related to the Business of the Company

The Company has a limited recent operating history on which to evaluate its potential for future success. The Company also has a history of net losses.

Although the Company was founded in 1903, the Company was reactivated in 1998 with substantial activity beginning in 2003. The Company's business since that time represents a limited operating history upon which shareholders or prospective shareholders can evaluate the Company's business and prospects. The Company has a history of net losses. Furthermore, since its reactivation in 2003, the Company has not generated sufficient revenues to cover its expenses and costs. There is no assurance that the Company will ever be able to generate sufficient revenues to render its operations profitable.

The Company has limited capital and has minimal revenue to date and will thus need to obtain additional capital to continue operations.

Cumulative revenues over the five-year period ended December 31, 2006, were \$1,454,761. During this period, we did not have significant revenues from operations until 2005. As a mineral exploration and development company, the Company will sustain operating expenses without corresponding revenues. This will result in the Company incurring significant net operating losses until the Company can bring a property into production or lease, joint venture or sell any property it may acquire. The Company will need to obtain additional financing in the future to fund future exploration and development activities or acquisitions of additional properties or other interests that may be appropriate to enhance the Company's financial or operating interests. If the Company's exploration programs successfully locate an economic ore body, additional funds will be required to place it into commercial production. Substantial expenditures would be required to establish ore reserves through drilling, to develop metallurgical processes to extract the metals from the ore and to construct the mining and processing facilities at any site chosen for mining.

If the Company fails to obtain additional financing, it will have to delay or cancel further exploration of properties it may acquire, and it could lose all of its interest in its properties. The Company has historically raised capital through equity financing and in the future may raise capital through equity or additional debt financing, joint ventures, production sharing arrangements or other means. There can be no assurance that the Company will be able to obtain necessary financing in a timely manner on acceptable terms, if at all. If additional financing is not available, it may have to postpone the development of, or sell, one or more of its property interests.

The Company may lose rights to properties if it fails to meet payment requirements or development or production schedules.

The Company derives the rights to most of its mineral properties from unpatented mining claims, leaseholds, joint ventures or purchase option agreements, which require the payment of maintenance fees, rents, or

purchase price installments, exploration expenditures, or other fees. In 2004, 2005 and 2006, these fees totaled \$301,300, \$302,800 and \$332,800, respectively, and, based on properties in which the Company currently has an interest, are expected to total \$348,800 for 2007. If the Company fails to make these payments when they are due, the rights to the various properties may lapse. There can be no assurance that the Company will always make payments by the requisite payment dates. In addition, some contracts with respect to the mineral properties require development or production schedules. There can be no assurance that the Company will be able to meet any or all of the development or production schedules. The Company's ability to purchase, transfer or sell rights to mineral properties may require government approvals or third party consents, which may not be granted.

The Company's operations in Mexico are subject to risks associated with the conduct of business in foreign countries.

The Company conducts mining, development or exploration activities in the United States and Mexico. The Company's foreign mining investments are subject to the risks normally associated with the conduct of business in foreign countries. These risks may include invalidation of governmental permits, uncertain political and economic environments, arbitrary changes in laws or policies and limitations on foreign ownership. The occurrence of one or more of these risks could have a material and adverse effect on the Company's earnings or the viability of its affected foreign operations.

The Company could face environmental liabilities with respect to its Sunshine Mine that could have a significant adverse effect on the Company's results of operations.

In 1994, Sunshine Mining and Refining Company (former owner of the Sunshine Mine) determined it was a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), and entered into a Consent Decree with the Environmental Protection Agency ("EPA") and the State of Idaho concerning environmental remediation obligations at the Bunker Hill Superfund site, a 21-square mile site located near Kellogg, Idaho. The 1994 Consent Decree (the "1994 Decree") settled their response-cost responsibility under CERCLA at the Bunker Hill site. In August 2000, Sunshine Mining and Refining Company filed for Chapter 11 bankruptcy and in January 2001, the United States Federal District Court in Idaho approved a new Consent Decree between Sunshine Mining and Refining Company, the U.S. Government and the Coeur d'Alene Indian Tribe, which settled its environmental liabilities in the Coeur d'Alene River Basin and released it from further obligations under the 1994 Decree. The Company inherited the Sunshine Mine obligations under the new Consent Decree when it acquired its interest in the property, which means the Company may be required to pay royalties if the price of silver is at certain levels and the Company begins recovering silver from the mine. Other properties acquired by Sterling which surround the Sunshine Mine, are not subject to the royalty as Sterling is not a party to the Consent Decree. While the Company does not expect the royalty payments will be significant in relation to operation of the mine or the Company's results of operations if and when production commences, this history highlights the fact that environmental regulation and litigation for past, present, or future mining operations can have significant effects on a mining company and its ability to operate successfully.

Some of the Company's directors and officers may have conflicts of interest as a result of their involvement with other natural resource companies.

Some of the Company's directors and officers are directors or officers of other natural resource or mining-related companies. These associations may give rise to conflicts of interest from time to time. As a result of these conflicts of interest, the Company may miss the opportunity to participate in certain transactions, which may have an adverse material effect on its financial position.

There can be no assurance that the Company's insurance will be sufficient.

There can be no assurance that insurance will be available at economically feasible premiums. The Company's insurance may not provide sufficient insurance coverage for losses related to property, business interruption, or liability. In addition, the Company does not have coverage for certain environmental losses and other risks, as such coverage cannot be purchased at a commercially reasonable cost. The lack of, or insufficiency of, insurance coverage could adversely affect the Company's cash flow and overall profitability.

The Company is reliant upon key personnel.

The success of the Company is highly dependent on the services of certain management personnel. The loss of the services of such personnel could have an adverse effect on the Company.

Risks Related to the Company's Industry

Mineral exploration is by its nature highly speculative and capital intensive.

Most of the Company's properties are considered mineral exploration properties. Mineral exploration is highly speculative and capital intensive. Most exploration efforts are not successful, in that they do not result in the discovery of mineralization of sufficient quantity or quality to be profitably mined. The operations of the Company are also indirectly subject to all of the hazards and risks normally incident to mineral exploration. These risks include: insufficient ore reserves, fluctuations in production costs that may make mining of reserves uneconomic, significant environmental and other regulatory restrictions, labor disputes, geological problems, failure of pit walls or dams and the risks of injury to persons, property or the environment.

The titles to some of the Company's properties may be uncertain or defective, thus risking the Company's investment in such properties.

Certain of the Company's United States mineral rights consist of "patented" and "unpatented" mining claims created and maintained in accordance with the U.S. General Mining Law of 1872. Unpatented mining claims are unique U.S. property interests, and are generally considered to be subject to greater title risk than other real property interests because the validity of unpatented mining claims is often uncertain. This uncertainty arises, in part, out of the complex federal and state laws and regulations that supplement the General Mining Law. Also, unpatented mining claims and related rights, including rights to use the surface, are subject to possible challenges by third parties or contests by the federal government. The validity of an unpatented mining claim, in terms of both its location and its maintenance, is dependent on strict compliance with a complex body of federal and state statutory and decisional law. In addition, there are few public records that definitively control the issues of validity and ownership of unpatented mining claims. While the Company has no reason to believe that the existence and extent of any of the Company's properties are in doubt, title to mining properties are subject to potential claims by third parties claiming an interest in them.

Exploration programs may not result in a commercial mining operation, resulting in expensing the Company's investment.

Mineral exploration involves significant risk because few explored properties contain bodies of ore that would be commercially economic to develop into producing mines. The determination of whether the extraction and production of mineral deposits are economic is affected by numerous factors beyond the Company's control. These factors include market price fluctuations for precious metals, the proximity and capacity of natural resource markets, processing equipment and government regulations. If exploration programs do not result in the discovery of commercial ore, our investments in the properties will be expensed.

The Company may be subject to risks and expenditures that may be financially burdensome in connection with the safety and regulation of operations at the Sunshine Mine.

The Company's U.S. mining operations are subject to inspection and regulation by the Mine Safety and Health Administration of the United States Department of Labor ("MSHA") under the provisions of the Mine Safety and Health Act of 1977. The Occupational Safety and Health Administration ("OSHA") also has jurisdiction over safety and health standards not covered by MSHA. The Company's policy is to comply with applicable directives and regulations of MSHA and OSHA. The Company has made and expects to make in the future, significant expenditures to comply with these laws and regulations. Changes to the current laws and regulations governing the operations and activities of mining companies, including changes to the U.S. General Mining Law of 1872, and

permitting, environmental, title, health and safety, labor and tax laws, are actively considered from time to time. The Company cannot predict which changes may be considered or adopted and changes in these laws and regulations could have a material adverse impact on the Company's business. Expenses associated with the compliance with new laws or regulations could be material. Further, increased expenses could prevent or delay exploration or mine development projects and could therefore affect future levels of mineral production.

The Company may be subject to environment risks and land reclamation requirements for mineral properties that may be financially burdensome.

The Company is subject to potential risks and liabilities associated with environmental compliance and the disposal of waste rock and materials that could occur as a result of its mineral exploration and production. To the extent that the Company is subject to environmental liabilities, the payment of such liabilities or the costs that the Company may incur to remedy any non-compliance with environmental laws would reduce funds otherwise available to the Company and could have a material adverse effect on the Company's financial condition or results of operations. If the Company is unable to fully remedy an environmental problem, it might be required to suspend operations or enter into interim compliance measures pending completion of the required remedy. The potential exposure may be significant and could have a material adverse effect on the Company. The Company has not purchased insurance for environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) because it is not generally available at a reasonable price or at all.

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies in order to minimize long term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and to reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with its mineral exploration, the Company must allocate financial resources that might otherwise be spent on further exploration programs.

The Company faces competition in the acquisition of mining properties and the recruitment and retention of qualified personnel.

The Company competes with other mineral exploration and mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel. If the Company requires and is unsuccessful in acquiring additional mineral properties or personnel, it will not be able to grow at the rate it desires or at all.

Mineral Reserve and Mineral Resource estimates may be imprecise.

Mineral Reserve and Mineral Resource figures are estimates and no assurances can be given that the indicated levels of minerals will be produced or that the Company will receive the price assumed in determining its reserves. Such estimates are expressions of judgment based on knowledge, mining experience, success of planned mining methods, analysis of drilling results, and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the reserve and resource estimates included are well established and reflects management's best estimates, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. Furthermore, market price fluctuations in minerals, as well as increased capital or production costs or reduced recovery rates, may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. The evaluation of reserves or resources is always influenced by economic and technological factors, which may change over time, and the experience gained in use of a mining method. If the Company's reserve or resource estimates for its properties are inaccurate or are reduced in the future, this could have a material adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

The Company may be significantly affected by fluctuations in the price of silver.

The business and financial performance of the Company will be significantly affected by fluctuations in the price of silver. The price of silver is volatile, can fluctuate substantially and is affected by numerous factors that are beyond the control of Sterling, including industrial and jewelry demand around the world, the strength of U.S. dollars and of other currencies, inflation and regional and global politics. If silver prices should decline and remain at low market levels for a sustained period, the Company could determine that it is not economic to commence or continue mining activities.

Investors may be unable to enforce Canadian statutory remedies against the Company.

Securities legislation in certain of the provinces and territories of Canada provides investors with various rights and remedies where a public disclosure contains a misrepresentation. The Company is organized under the laws of a foreign jurisdiction and holds the majority of its assets outside of Canada. It may be difficult for investors to collect from the Company judgments obtained in courts in Canada predicated on the civil liability provisions of Canadian securities legislation.

LEGAL PROCEEDINGS

There are no legal proceedings material to the Company to which the Company or a subsidiary of the Company is a party or of which any of their respective property is the subject matter, and the Company is not aware of any such proceedings to be contemplated, other than as disclosed below:

In September 2005, James D. Christianson and several small entities whom Christianson represents filed a lawsuit in the United States District Court for the Western District of Washington against several parties, including two directors of the Company, Carol Stephan and Ray De Motte. Mr. De Motte is also an officer of the Company. The original complaint alleged, among other things, that De Motte and Stephan made misrepresentations and omitted information in connection with the plaintiffs' purchases of stock in the Company and in other entities with which they alleged De Motte and/or Stephan are associated. The Company was not a party to the original complaint. Claims against several parties were dismissed without prejudice on jurisdictional grounds and venue of the case was later transferred to the Northern Division of the District of Idaho.

The plaintiffs requested and were granted leave to amend their complaint, and their amended complaint included new claims against the Company and others. The plaintiffs' amended complaint asserts with respect to the Company that it and others made misrepresentations and omitted information in connection with the plaintiffs' purchases of the Company's stock. It asserts claims for civil RICO under Idaho law, and for securities fraud, misrepresentation and other causes of action. The Company and the other defendants responded by moving to dismiss the amended complaint on various grounds. The motions to dismiss remain pending. Plaintiffs have, in March 2007 filed a motion for a second amendment to their complaint adding several third parties. If the case is not dismissed and settlement is not reached in the short term the Company intends to aggressively defend and is likely to bring counterclaims against Mr. Christianson and the other plaintiffs. If trial is required, it is currently scheduled to begin on June 10, 2008. The Company is of the view of these claims are without merit.

In October 2006, the Company learned that the U.S. Attorney for the District of Idaho issued a grand jury subpoena to Mr. Christianson to provide testimony and documents relating to the defending directors and other businesses with which they are associated. The Company cannot predict at this time whether the grand jury will engage in any investigation of the directors or the Company beyond the subpoena issued to Mr. Christianson or what the nature or outcome of any investigation would be.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the Company's directors, executive officers or principal shareholders or its associates or affiliates, have had any material interest, direct or indirect, in any transaction within the three year period preceding the date of this prospectus, or in any proposed transaction, that has materially affected or will materially affect the Company.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The Company's auditors are Williams & Webster, P.S.

The transfer agent and registrar of the Company's Common Shares is Columbia Stock Transfer Company 601 E. Seltice Way, Ste 202 Post Falls, ID 83854. A Canadian transfer agent will be appointed by the Company as part of its listing on the TSX.

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, no contract entered into by the Company within the two years before the date of this prospectus is considered material as of the date hereof other than:

1. August Agency Agreement dated August 2, 2007, among the Company, TD Securities Inc., and Blackmont Capital Inc. See "General Development of the Business – Three Year History and Business Plan".
2. Agency Agreement dated January 18, 2007, among the Company, Blackmont Capital Inc. and TD Securities Inc. See "General Development of the Business - Three Year History and Business Plan".
3. Purchase and Sale Agreement dated October 20, 2006 between the Company and EMC. See "General Development of The Business – Three Year History and Business Plan".

Other material contracts that are still in effect which are considered material contracts by the Company are as follows:

1. Mining Lease and Agreement dated June 3, 2003 between the Company and SPMI. See "Mineral Projects – Sunshine Mine – Property Description and Location".
2. Agreement between Minera San Acacio, S.A. De C.V., Amado Howard with Martin Bernardo Sutti Courtade and Sterling Mining de Mexico, S.A. De C.V. dated May 17, 2004. See "Mineral Projects – Mexico Properties – The San Acacio Mine Concession".

The contracts listed above can be inspected at the offices of the Company's legal counsel, Cassels Brock & Blackwell LLP, 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2, upon request to Mr. David Poynton.

EXPERTS

The following persons or companies whose profession or business gives authority to a statement made by the person or company are named in the prospectus as having prepared or certified a part of that document or a report or valuation described in the prospectus:

Derek Rance P.Eng and Dr. K. Warren Geiger P.Eng, an independent consulting geologist and "qualified person" as defined in National Instrument 43-101 Standards of Disclosure for Mineral Projects, is the author responsible for the preparation of the Sunshine Mine Report.

The audited financial statements of the Company included with this prospectus have been subject to audit by Williams & Webster, P.S., Chartered Accountants, and their audit report is included herein.

Based on information provided by the relevant persons listed above, none of such persons or companies have received or will receive direct or indirect interests in the property of the Company or have any beneficial ownership, direct or indirect, of securities of the Company.

Board of Directors
Sterling Mining Company
Coeur d'Alene, Idaho

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheets of Sterling Mining Company as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive loss, consolidated statement of stockholders' equity and consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sterling Mining Company as of December 31, 2006 and 2005 and the results of its operations and comprehensive loss, consolidated statement of stockholders' equity and consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

Williams & Webster, P.S.

Williams & Webster, P.S.
Certified Public Accountants
Spokane, Washington
February 26, 2007

**STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

	December 31, 2006	December 31, 2005
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,054,582	\$ 1,270,849
Marketable securities	790,514	288,715
Accounts receivable	64,043	42,934
Notes receivable	—	25,000
Inventories	313,467	252,275
Prepaid expenses and deposits	225,787	82,645
Other current assets	242,211	58,581
Total current assets	4,690,605	2,020,999
INVESTMENTS		
Investment in Chester Mining Company	2,808,238	16,975
Investments-other	782,253	707,878
Total investments	3,590,491	724,853
PROPERTY AND EQUIPMENT		
Property, plant and equipment	11,720,178	506,240
Less accumulated depreciation	(72,603)	(38,392)
Total property and equipment	11,647,575	467,848
OTHER ASSETS		
Prepaid leases	991,696	441,806
TOTAL ASSETS	\$ 20,920,367	\$ 3,655,506
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,464,102	\$ 403,001
Accrued expenses	192,206	365,492
Notes payable-current portion	13,931	—
Unearned revenue	134,172	80,885
Other current liabilities	4,057,245	—
Total current liabilities	5,861,656	849,378
LONG-TERM LIABILITIES		
Notes payable, net of current portion	519,763	—
Total long-term liabilities	519,763	—
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.05 par value; 40,000,000 shares authorized. 24,877,568 and 18,477,419 shares issued and outstanding respectively	1,243,878	923,871
Additional paid-in capital	32,674,757	16,871,941
Common stock Issuable	400,000	—
Accumulated deficit	(19,955,554)	(14,725,159)
Accumulated other comprehensive income	175,867	(264,525)
TOTAL STOCKHOLDERS' EQUITY	14,538,948	2,806,128
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 20,920,367	\$ 3,655,506

The accompanying notes are an integral part of these financial statements.

**STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

	Year Ended December 31,		
	2006	2005	2004
REVENUES	\$ 887,524	\$ 491,716	\$ 62,873
COST OF REVENUES (Exclusive of Depreciation Shown Separately Below)	956,263	362,758	57,060
COSTS AND EXPENSES			
Exploration	3,701,487	2,794,511	3,223,737
Pre-production costs	—	124,029	—
General and administrative	1,902,427	1,223,312	1,657,933
Depreciation and amortization	34,211	21,881	15,038
Professional services	861,569	220,836	110,480
Total Expenses	6,499,693	4,384,569	5,007,188
LOSS FROM OPERATIONS	(6,568,432)	(4,255,611)	(5,001,375)
OTHER INCOME (EXPENSE)			
Gain (loss) on sale of investments	171,410	(78,356)	(466,246)
Interest and dividends	25,603	7,162	8,402
Interest expense	(62,676)	(42,901)	(79,150)
Gain (loss) on derivative instruments	(65,035)	—	—
Gain (loss) on exchange	(95,149)	(179,251)	8,662
Other income	1,362,416	—	—
Total Other Income (Expense)	1,336,570	(293,346)	(528,332)
LOSS BEFORE INCOME TAXES	(5,231,862)	(4,548,957)	(5,529,707)
INCOME TAXES	—	—	—
LOSS FROM CONTINUING OPERATIONS	(5,231,862)	(4,548,957)	(5,529,707)
GAIN (LOSS) FROM INVESTMENT IN CHESTER MINING COMPANY	1,467	—	—
NET LOSS	(5,230,395)	(4,548,957)	(5,529,707)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gain (loss) on investments	440,393	(878,736)	(810,302)
COMPREHENSIVE LOSS	\$ (4,790,002)	\$ (5,427,693)	\$ (6,340,009)
Basic and Diluted Net Loss per Share	\$ (0.24)	\$ (0.26)	\$ (0.36)
Basic and diluted weighted average number of shares outstanding	<u>21,907,400</u>	<u>17,461,808</u>	<u>15,298,200</u>

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
STERLING MINING COMPANY AND SUBSIDIARY**

	Common Stock		Additional Paid-In Capital	Common Stock Issuable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Number of Shares	Amount					
Balances, December 31, 2003	12,451,627	\$ 622,581	\$ 4,842,781	\$ —	\$ (4,646,495)	\$ 1,424,513	\$ 2,243,380
Issuances of common stock:							
—for cash at an average of \$3.23 per share less offering expenses of \$208,195	523,125	26,156	1,453,767	—	—	—	1,479,923
—for services at an average of \$6.04 per share	42,598	2,130	255,356	—	—	—	257,486
—for leases at an average of \$7.31 per share	30,000	1,500	217,700	—	—	—	219,200
—for investments at an average of \$12.67	80,000	4,000	1,244,620	—	—	—	1,248,620
—for accrued expenses at \$0.99 per share	24,397	1,220	22,979	—	—	—	24,199
Retirements of common stock as follows:							—
—for investments at \$10.00 per share	(100)	(5)	(995)	—	—	—	(1,000)
Stock option activity:							—
—granted for payment of expenses at \$6.00 per share	—	—	517,690	—	—	—	517,690
—exercised at an average of \$0.75 per share	672,809	33,640	470,967	—	—	—	504,607
—repurchased from option holders	—	—	(27,897)	—	—	—	(27,897)
Warrant activity:							—
—issued with common shares	—	—	604,348	—	—	—	604,348
—exercised at an average of \$0.76 per share	2,234,672	111,734	1,585,035	—	—	—	1,696,769
—issued for payment of expenses	—	—	229,952	—	—	—	229,952
Net loss for the year	—	—	—	—	(5,529,707)	—	(5,529,707)

ended December 31, 2004								
Other comprehensive loss	—	—	—	—	—	(810,302)	(810,302)	
Balances, December 31, 2004	16,059,128	802,956	11,416,303	—	(10,176,202)	614,211	2,657,268	
Issuances of common stock:								
—for cash at an average of \$2.33 per share	325,000	16,250	633,750	—	—	—	650,000	
—for services at an average of \$3.32 per share	82,300	4,115	268,835	—	—	—	272,950	
—for leases at an average of \$3.91 per share	151,500	7,575	584,700	—	—	—	592,275	
Stock option activity as follows:								
—exercised at \$0.75 per share	347,693	17,385	243,385	—	—	—	260,770	
Warrant activity as follows:								
—issued with common stock shares	1,470,477	73,524	3,518,476	—	—	—	3,592,000	
—exercised at an average of \$3.00 per share	69,444	3,472	204,860	—	—	—	208,332	
Other adjustments	(28,123)	(1,406)	1,631	—	—	—	225	
Net loss for the year ended December 31, 2005	—	—	—	—	(4,548,957)	—	(4,548,957)	
Other comprehensive loss	—	—	—	—	—	(878,736)	(878,736)	
Balances, December 31, 2005	18,477,419	923,871	16,871,941	—	(14,725,159)	(264,525)	2,806,128	
Issuances of common stock:								
—for cash								
—for cash, with warrants attached at an average of \$2.84 per share	4,180,401	209,020	7,865,443	—	—	—	8,074,463	
—for investments	400,000	20,000	1,440,000	—	—	—	1,460,000	
—for land	190,000	9,500	670,500	—	—	—	680,000	
—for services	6,000	300	23,950	—	—	—	24,250	
—for leases and	290,000	14,500	1,080,500	—	—	—	1,095,000	

equipment							
—for commissions	296,530	14,827	—	—	—	—	14,827
—upon conversion of convertible debentures	288,594	14,430	860,570	—	—	—	875,000
—less financing costs	—	—	(449,913)	—	—	—	(449,913)
Stock option activity as follows:							
—exercised at \$0.75 per share	683,108	34,155	478,176	—	—	—	512,331
Warrant activity as follows:							
—issued with common shares	—	—	3,795,636	—	—	—	3,795,636
—issued with convertible debentures	—	—	206,256	—	—	—	206,256
—issued with commission shares	—	—	(274,026)	—	—	—	(274,026)
—exercised at an average of \$4.00 per share	17,500	875	69,125	—	—	—	70,000
Other adjustments	48,016	2,401	36,599	—	—	—	39,000
Common stock issuable	—	—	—	400,000	—	—	400,000
Net loss for the year ended December 31, 2006	—	—	—	—	(5,230,395)	—	(5,230,395)
Other comprehensive income (loss)	—	—	—	—	—	440,393	440,393
Balances, December 31, 2006	<u>24,877,568</u>	<u>\$1,243,878</u>	<u>\$32,674,757</u>	<u>\$400,000</u>	<u>\$(19,955,554)</u>	<u>\$ 175,867</u>	<u>\$14,538,949</u>

The accompanying notes are an integral part of these financial statements.

**STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (5,230,395)	\$ (4,548,957)	\$ (5,529,707)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	34,211	21,881	15,038
Amortization of discount on debentures	—	—	—
Gain (loss) on investments	(171,410)	78,356	466,246
Gain (loss) on derivatives	65,035	—	—
Gain (loss) on foreign exchange	95,149	—	—
Miscellaneous equity adjustments	39,000	225	—
Common stock issued for lease expense	1,005,000	592,275	219,200
Common stock issued for general and administrative expenses	24,250	272,950	257,486
Gain on nonmonetary exchange	(1,297,778)	—	—
Payment of expenses with stock warrants	—	—	229,952
Payment of expenses with stock options	—	—	517,690
(Increase) decrease in:			
Accounts receivable	(21,109)	(22,872)	20,098
Accounts receivable-related party	—	9,065	—
Notes receivable	25,000	(20,000)	(5,000)
Inventories	(61,193)	(163,501)	(88,774)
Prepaid expenses	(693,033)	7,962	(410,051)
Other current assets	(183,630)	17,732	(105,619)
Increase (decrease) in:			
Accounts payable	1,061,102	322,787	54,921
Accounts payable-related party	—	—	(9,644)
Accrued expenses	(173,134)	(418,871)	(85,786)
Other current liabilities	157,245	80,885	—
Net cash used by operating activities	(5,325,690)	(3,770,083)	(4,453,950)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(371,105)	(50,922)	(509,721)
Proceeds from investments	355,245	205,555	199,585
Investment in property and equipment	(5,610,244)	(28,267)	(40,924)
Net cash provided (used) by investing activities	(5,626,104)	126,366	(351,060)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sales of common stock net of costs	11,278,196	4,242,000	2,084,272
Proceeds from exercise of stock options and warrants	582,331	469,102	2,201,376
Proceeds from notes payable	—	—	200,000
Payment of notes payable	—	(160,000)	(40,000)
Proceeds from debentures payable	875,000	—	—
Stock options purchased from option holders	—	—	(43,750)
Net cash provided by financing activities:	12,735,527	4,551,102	4,401,898
Net increase (decrease) in cash and cash equivalents	1,783,733	907,385	(403,112)
Cash beginning of period	1,270,849	363,464	766,576
Cash at end of period	\$ 3,054,582	\$ 1,270,849	\$ 363,464

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Income taxes paid	\$	—	\$	—	\$	—
Interest paid	\$	62,676	\$	124	\$	—

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued for investments	\$	1,460,000	\$	—	\$	1,248,620
Common stock issued for equipment	\$	90,000	\$	—	\$	—
Common stock issued for accrued expense	\$	—	\$	—	\$	24,198
Common stock issued for commissions and convertible debt	\$	875,000	\$	—	\$	—
Common stock issued for land	\$	680,000	\$	—	\$	—
Investment in stock in exchange for forgiveness of debt	\$	33,875	\$	—	\$	—
Land purchase by accrued expense	\$	3,900,000	\$	—	\$	—
Land acquired through issuance of notes payable	\$	450,000	\$	—	\$	—
Retirement of common stock from investments	\$	—	\$	—	\$	1,000
Equipment acquired through issuance of notes payable	\$	83,694	\$	—	\$	—

The accompanying notes are an integral part of these financial statements.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS

Sterling Mining Company was incorporated in the State of Idaho on February 18, 1903, for the purpose of exploring and developing mineral properties through the sale, leasing or joint venture of such properties. The consolidated financial statements presented herein include those of Sterling Mining Company and its majority-owned subsidiary, Sterling Mining de Mexico S.A. de C.V., collectively herein referred to as “the Company.” Sterling Mining de Mexico S.A. de C.V. was incorporated in Mexico on February 27, 2004, to engage in the business of exploring and developing mining properties in Mexico.

The Company is engaged in the exploration of and mining of properties in the Coeur d’Alene Mining District region in North Idaho, in Montana and in the State of Zacatecas, Mexico.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Accounts Receivable

The Company carries its accounts receivable at net realizable value. On a periodic basis, the Company evaluates its accounts receivable and determines if an allowance for doubtful accounts is necessary, based on a history of past write-offs and collections and current credit conditions. At December 31, 2006, the Company’s accounts receivable balance includes an allowance for doubtful accounts of \$10,925.

Asset Retirement Obligations

The Company accounts for asset retirement obligations according to SFAS 143 and Interpretation 47. The Company recognizes a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Compensated Absences

Employees of the Company may be paid vacation, sick, and personal days off. The Company did not accrue compensated absences expense during the year because no policy on compensated absences had been adopted at December 31, 2006, and management has deemed that any liability arising from these provisions in the future would be immaterial.

Concentration of Risk

The Company maintains its domestic cash in several commercial banks in Coeur d’Alene, Idaho. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. \$2.77 million of the Company’s

cash in U.S. bank accounts was not FDIC insured at December 31, 2006. The Company also maintains cash in a Mexican bank. The Mexican accounts, which had a U.S. dollar balance of \$58,247 at December 31, 2006, one denominated in pesos and one denominated in U.S. dollars, are considered uninsured.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (hereinafter "SFAS No. 133") as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the 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." These statements establish 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 consolidated balance sheet and measure those instruments at fair value. In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140." See Recent Accounting Pronouncements.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the 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 derivative contracts to hedge existing risks.

The Company issued three convertible debentures in 2006 which gave rise to derivative instruments. Because all three debentures were converted to common stock during the year, there were no derivative instruments reported on the balance sheet at December 31, 2006.

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were common stock equivalents outstanding December 31, 2006, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive.

As of December 31, 2006, the Company had outstanding options, warrants and convertible debt for a total of 6,223,225 shares which were considered anti-dilutive.

Equity Method

The Company applies the equity method to account for investments for which it has significant influence upon the investee, according to APB Opinion 18 and subsequent pronouncements. During 2006 the Company acquired significant influence in Chester Mining Company and began accounting for its investment in Chester Mining Company using the equity method. The value of the Company's investment in Chester Mining Company increased to approximately \$2.8 million during 2006. Sterling owns 43% of the voting shares of common stock issued and outstanding by Chester. The difference between the carrying value of the investment in Chester and the underlying equity in the net assets of Chester Mining Company is \$1,781,085. Consequently, management considers \$ 1,781,085 of its investment in Chester to be goodwill. Management has evaluated the investment in Chester Mining Company and does not consider it to be impaired.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

At least annually, management reviews the reserves used to estimate the quantities and grades of ore at our mines which management believes can be recovered and sold economically. Management's calculations of proven and probable ore reserves are based on in-house engineering and geological assessments using current operating costs, metals prices and, when applicable, on third-party audits of our reserves.

Reserve estimates will change as existing reserves are depleted through production and as production costs and/or metals prices change. A significant drop in metals prices may reduce reserves by making some portion of such ore uneconomic to develop and produce. Changes in reserves may also reflect that actual grades of ore processed may be different from stated reserve grades because of variation in grades in areas mined, mining dilution and other factors. Estimated reserves, particularly for properties that have not yet commenced production, may require revision based on actual production experience.

Declines in the market prices of metals, increased production or capital costs, reduction in the grade or tonnage of the deposit or an increase in the dilution of the ore or reduced recovery rates may render ore reserves uneconomic to exploit. If our realized price for the metals we produce were to decline substantially below the levels set for calculation of reserves for an extended period, there could be material delays in the development of new projects, net losses, reduced cash flow, restatements or reductions in reserves and asset write-downs in the applicable accounting periods. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations. No assurance can be given that the estimate of the amount of metal or the indicated level of recovery of these metals will be realized.

Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred. Exploration costs expensed during the years ended December 31, 2006, 2005 and 2004 were \$3,701,487, \$2,794,511, and \$3,223,737, respectively.

Fair Value of Financial Instruments

The Company's financial instruments, as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, marketable securities, investments in stocks, purchase options, purchase warrants, receivables, payables and accrued expenses. Cash, receivables, payables and accrued expenses are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at December 31, 2006 and 2005. Marketable securities, investments in stocks, purchase options and purchase warrants are accounted for by market prices when available, or by other valuation methods described in these notes when market prices are not available.

Foreign Currency Transactions

The Company created a Mexican subsidiary during 2004 for the purpose of exploration and exploitation of silver bearing minerals in Mexico. The Company translates into United States dollars the assets and liabilities of its Mexico subsidiary according to generally accepted accounting principles. The Company translates into United States dollars the revenues, expenses, gains and losses of its Mexican subsidiary at the transaction date and records them according to generally accepted accounting principles. Management has concluded that for the purposes of

financial reporting, the functional currency of the Mexican subsidiary is the United States dollar. Consequently, management uses the temporal method of foreign currency translation.

STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

Inventories

Metals inventories are carried at the lower of current market value or average unit cost. Production costs include the cost of direct labor and materials, depreciation, amortization, and overhead costs relating to mining and processing activities. Materials and supplies inventories are valued at the lower of average cost or fair market value. The inventories balance at December 31, 2006 represented supplies inventory in the U.S. and Mexico, minerals inventory in Mexico and silver coins and other inventory in Idaho.

Mineral Development Costs

The Company will capitalize property acquisition costs for undeveloped mineral interests that have significant potential to develop an economic ore body. The Company will amortize the capital costs based on proven and probable ore reserves if an economic ore body is developed. If an economic ore body is not discovered, previously capitalized costs are expensed in the period in which it is determined that the property does not contain an economic ore body. Costs to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and will be amortized on a unit of production basis over proven and probable reserves. Gains and losses on the sales or retirement of assets are recorded as other income or expense.

Prepaid Expenses

The Company's current prepaid expenses primarily consist of prepaid insurance premiums and prepaid lease payments which are paid for up to a year in advance. Prepaid lease payments for periods beyond one year are considered other non-current assets. Non-current assets are primarily comprised of the 20 year Barones lease which was prepaid in 2004 and is being amortized over the 20-year lease term. See Note 5.

Minority Interest

The Company owns 99% of its Mexico subsidiary, Sterling Mining de Mexico S.A. de C.V. The 1% minority in the subsidiary is owned by an individual. A minority interest is not shown on the balance sheet because there is a negative value to the capital account of the minority interest holder. Additionally, the minority holder is not expected to make additional capital contributions.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary after elimination of intercompany accounts and transactions. The majority-owned subsidiary of the Company is named above.

Property and Equipment

Property and equipment is recorded at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years. See Note 4.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

At December 31, 2006, the Company had deferred tax assets, calculated at an expected rate of 34%, of approximately \$4,860,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the deferred tax assets, a valuation allowance equal to the deferred tax asset has been recorded.

The Company's deferred tax assets are estimated as follows:

	December 31, 2006	December 31, 2005
Net operating loss carryforward	\$14,290,000	\$ 9,970,000
Deferred tax asset	\$ 4,860,000	\$ 3,390,000
Deferred tax asset valuation allowance	<u>\$ (4,860,000)</u>	<u>\$ (3,390,000)</u>

At December 31, 2006, the Company has net operating loss carryforwards of approximately \$14,290,000 from U.S. operations, which expire in the years 2017 through 2026. The change in the allowance account from December 31, 2005 to December 31, 2006, was approximately \$1,470,000.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement." Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations when FAS 157 becomes effective, after November 15, 2007.

In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140" (hereinafter "SFAS No. 155"). This statement established the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation under SFAS No. 133 as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially and subsequently measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter "SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements – An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In March 2005, the Financial Accounting Standards Board issued FASB Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations – an Interpretation of SFAS No. 143," (hereinafter "FIN No. 47"). FIN No. 47 provides clarification of the term conditional asset retirement obligation as used in paragraph A23 of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset, and states that an entity shall recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. The term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Thus, the timing and/or method of settlement may be conditional on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Management does not believe the adoption of this statement impacts these consolidated financial statements. However, recognition of asset retirement obligation liabilities may become necessary in the future.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29." (hereinafter "SFAS No. 153"). The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges in fiscal periods beginning after June 15, 2005. Management does not expect the adoption of this statement to have a material impact on its future consolidated financial position or results of operations, based upon the Company's history of transactions and exchanges of property.

Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period financial statement presentation. This reclassification has not resulted in changes to the Company's accumulated deficit or net losses presented.

Revenue Recognition Policy

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain and collectibility is considered reasonably assured. The passing of title to the customer is based on terms of sales contracts. Revenues from leases are recognized when realized and earned according to the lease provisions and receipt of the lease payments. The Company recognizes revenue from coin sales when title passes, which is typically when cash is received in exchange for the coins. When the Mexican subsidiary sells precipitate, revenue is recognized when payment is reported by the refining plant. Advance payments are recorded as deferred revenue.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (R), "Share-Based Payments." The Company has adopted this statement, as previously discussed.

Treasury Stock

The Company may endeavor to reacquire common stock from shareholders. When such stock is reacquired, it is cancelled and is no longer considered outstanding.

NOTE 3 – MARKETABLE SECURITIES AND INVESTMENTS

Investment in Securities

The Company's investment portfolio consists primarily of small-cap mining stocks, options and warrants.

The Company's investments in securities are classified as either trading, held to maturity, or available-for-sale in accordance with Statement of Financial Accounting Standards No. 115. During the years ended December 31, 2006 and 2005, the Company did not own any securities classified as trading or held to maturity, but did own securities classified as available-for-sale. Available-for-sale securities consist of equity securities not classified as trading securities or as securities to be held to maturity. Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the average cost method and are included in earnings. The Company uses the average cost method to determine the gain or loss on investment securities held as available-for-sale, based upon the accumulated cost bases of specific investment accounts.

Certain "long-term investments" are in companies with limited volume. Other investments are in options and warrants, which are recorded at fair market value, calculated using a conventional Black Scholes pricing model. Assumptions made in estimating the fair value include the risk-free interest rate, volatility and expected life. In 2006, the volatility ranged from 47% to 158%. Expected life used was the number of days to expiration. The risk-free interest rate used was the Federal Reserve Board's risk-free rate most closely corresponding to the option or warrant lifetime. On the Company's balance sheet, short-term available for sale securities are classified as "marketable securities." Long-term available-for-sale securities and other investments are classified as "investments."

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

The changes in marketable securities, long-term investments, and investments-other during the twelve months ended December 31, 2006 and 2005, are as follows:

12 Months ended December 31, 2006	Fair Value at Dec. 31, 2005	Plus Purchases	Less Sales at Cost	Plus (Less) Unrealized Gain (Loss)	(Less) Impairments	Fair Value at Dec 31, 2006
Investments Long-Term	\$ 335,389	\$ 33,875	\$ (14,666)	\$ 77,732	\$ —	\$ 432,329
Investment in Chester Mining Company	46,150	2,775,585	—	(14,942)	—	2,808,238
Investments Other	343,314	125,393	(108,081)	(10,702)	—	349,924
Total-Investments	724,853	2,934,853	(122,747)	53,533	—	3,590,491
Marketable Securities	288,715	282,641	(106,260)	388,327	(62,908)	790,514
Total-Marketable Securities and Investments	\$1,013,568	\$3,217,494	\$(229,008)	\$ 440,393	\$ —	\$4,381,005
12 Months ended December 31, 2005	Fair Value at Dec. 31, 2004	Plus Purchases	Less Sales at Cost	Plus (Less) Unrealized Gain (Loss)	(Less) Impairments	Fair Value at Dec. 31, 2005
Investments Long-Term	\$ 772,633	\$ 388	\$ (742)	\$(436,890)	\$ —	\$ 335,389
Investment in Chester Mining Company	28,000	4,008	—	14,142	—	46,150
Investments Other	658,420	—	—	(156,454)	(158,652)	343,314
Total-Investments	1,459,053	4,396	(742)	(579,202)	(158,652)	724,853
Marketable Securities	666,241	46,525	(105,860)	(318,192)	(15,796)	288,715
Total-Marketable Securities and Investments	<u>\$2,125,294</u>	<u>\$ 50,921</u>	<u>\$(106,602)</u>	<u>\$(878,736)</u>	<u>\$(177,310)</u>	<u>\$1,013,568</u>

The value of the Company's marketable securities and long-term investments increased during the period from December 31, 2005 to December 31, 2006, primarily due to the acquisition of shares in Chester Mining Company and also due to an increase in the market prices for small-cap stocks in the precious metals industry. Marketable securities increased by approximately \$502,000 and long-term investments increased by approximately \$97,000. The Company adjusts the value of its securities to current market prices at the end of each reporting period.

The value of the Company's investment in Chester Mining Company increased to approximately \$2.8 million during 2006. Sterling owns approximately 43% of the voting shares of Chester Mining Company's common stock issued and outstanding at December 31, 2006. The difference between the carrying value of the investment in Chester and the underlying equity in the net assets of Chester Mining Company is \$1,781,085. Consequently, management considers \$ 1,781,085 of its investment in Chester to be goodwill. Management has evaluated the investment in Chester Mining Company and does not consider it to be impaired.

The value of other investments which include stock purchase options and stock purchase warrants also increased during the period from December 31, 2005 to December 31, 2006 by approximately \$7,000. The Company adjusts the balance of its options and warrants at the end of each reporting period using the Black-Scholes options pricing model. The values of these instruments are expected to decrease over time as their expiration dates approach. However, the valuations are subject to market prices, and there may be periods in which the values of certain instruments rise. During 2006, 1,080,380 warrants were acquired, 43,437 warrants were exercised, and 10,000 warrants expired.

NOTE 4 – PROPERTY AND EQUIPMENT

Equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The useful lives of equipment for purposes of computing depreciation are three to ten years.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006**

The following summarizes capitalized equipment and accumulated depreciation:

	December 31, 2006	December 31, 2005
United States:		
Land	\$ 6,684,076	\$ —
Projects in progress	4,049,792	—
Mining equipment	411,059	411,059
Automobile	49,138	21,260
Office equipment	64,718	28,125
Other equipment	8,517	8,517
	11,267,301	468,961
Less: accumulated depreciation	(58,994)	(32,757)
	11,208,307	436,204
Mexico:		
Office equipment	39,532	37,279
Crusher	413,346	—
	452,878	37,279
Less: accumulated depreciation	(13,609)	(5,635)
	439,269	31,644
Total :	<u>\$11,647,575</u>	<u>\$ 467,848</u>

Depreciation expense for the years ended December 31, 2006, 2005 and 2004, was \$34,211, \$21,881 and \$15,038, respectively. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. The Company determines impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts, or other acceptable measures. Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

NOTE 5 – MINERAL PROPERTIES

The Company conducts exploration activities on patented and unpatented mining claims, and where appropriate, seeks joint-venture partners to lease or sell such properties.

Sunshine Mine

On June 6, 2003, the Company leased the Sunshine Mine, which includes approximately 150 patented and 115 unpatented mining claims and related infrastructure buildings and equipment. The property includes the Sunshine Mine and Mill and all of the proximate support buildings, including the shops, dry, assay office, mine office, warehouse, hoist house, compressor building and surface and underground equipment. The leased property also includes the ConSil Mine and Mill and related infrastructure buildings and equipment. The lease, with a term of 15 years, provides an option for the Company to purchase the property for an amount between \$3 and \$5 million, indexed to the price of silver. The Company issued two million shares of common stock, assumed certain property tax payments in arrears and made other cash payments to secure the lease. The Company pays a monthly lease fee of \$10,000 per month and is subject to certain royalty interests payable to third parties when the mine is in production.

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There are no work requirements included in the lease other than to comply with applicable laws and regulations. The Company is developing a plan to put the mine back into production and is concurrently engaging in surface exploration that has consisted of geochemical and geophysical studies and core diamond drilling. The Company has subsequently acquired by lease, several adjacent properties to the Sunshine Mine that are accessible from the underground workings of the mine.

Galena-East/West Claims

The Company owns, by right of location, 17 unpatented mining claims in the Coeur d' Alene Mining District Region which are adjacent to the Galena Mine property of U.S. Silver. In 1996, a 20-year lease was signed on the claim group which requires payment to the Company of an annual royalty of \$4,200 and a 15% net profit interest.

Chester Group of Mining Claims

On February 4, 2004, the Company leased the Chester Group which consists of nine patented mining claims and a 1/3 interest in four other patented mining claims that are adjacent to the mining claims of the Sunshine Mill. The lease term is for 25 years and is renewable for an additional 25 years. The lease is subject to an advance royalty payable by the Company of \$600 per month until such time as a royalty of 4% on net returns or a royalty of 20% of net profits is payable. The Company is also obligated by the lease to issue to Chester Mining Company 50,000 shares of restricted Sterling Mining Company common stock on each anniversary date that the lease is in effect. In 2006, the Company acquired an ownership of 43% of Chester's voting stock, giving Sterling significant influence in Chester Mining Company. In 2006, the Company began using the equity method to account for its investment in Chester.

JE Prospect

On January 15, 2003, the Company signed a lease on the JE Prospect covering 220 acres in northwest Montana. Pursuant to the agreement, in year 1 of the lease the Company located 17 claims covering an additional 340 acres. The lease payment schedule is as follows:

- \$1,000 upon execution of the agreement, and upon 30 day and 10 month anniversaries
- \$12,500 by October 31, 2007 and \$15,000 by October 31, 2008
- \$20,000 per year on all subsequent October 31st dates

A production royalty of 2% gross returns will be paid to lessors on the total dollar value of the sales price of metals recovered from the property. During years 1-10 of the agreement, 0.5% of the aforementioned production royalty may be bought by the Company for \$500,000. The remaining 1.5% royalty will remain effective through the life of the agreement, unless another buyout is negotiated. In year 2 of the lease, there is no work commitment other than the minimum requirement for claim maintenance unless the Company elects to withdraw from the project. In year 3, the Company is obligated for one drill hole, a minimum of 1,200 feet deep. In years 4 through 10, the Company is required to do a minimum of 1,000 feet of drilling per year.

During 2006, the Company entered into an option agreement with Silver Fields (formerly Red Lake Resources) regarding the JE prospect. Under the terms of the agreement, Silver Fields may earn a 75% interest in the property for cash payments totaling US \$300,000, the issuance of 500,000 common shares of Silver Fields common stock to Sterling and \$600,000 work commitment for exploration during the next three years. Sterling will retain a 25% interest and a 2.5% net smelter return. After Red Lake has completed its earn-in, Sterling may maintain or increase its 25% carried interest by participating in future exploration and development.

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Merger Mines Mining Claims

The Company leased the Merger Mines group of thirty five patented mining claims that are adjacent to the mining claims of the Sunshine Mine on July 6, 2004. The lease term is for 25 years and is renewable for an additional 25 years. The lease is subject to an advance royalty payable by the Company of \$2,500 per year until such time as a royalty of 5% on NSRs is payable. The advance royalty increases to \$5,000 per year at the beginning of the sixth year, increases to \$7,500 per year at the beginning of the eleventh year, and increases to \$10,000 at the beginning of the twenty-first year. The Company also issued to Merger Mines Corporation 20,000 shares of restricted Sterling Mining Company common stock as required by the lease at the beginning of the lease term. The Company is required to perform certain exploration activities during the first 18 months with minimal costs to be incurred of \$25,000, during the second 18 months with minimal costs to be incurred of \$100,000, and following the first 36 months a minimum of \$25,000 per year.

Metropolitan Mines Mining Claims

The Company leased on September 16, 2004 the Metropolitan Mines Corporation's group of forty unpatented mining claims and Metropolitan's partial interest in two patented claims that are adjacent to the mining claims of the Sunshine Mine. The Company also conveyed to and leased back from Metropolitan Mines Corporation 37 unpatented mining claims. The lease term is indefinite until cancelled. The lease is subject to an advance royalty payable by the Company of \$1,000 per month until such time as ore is produced from the Metropolitan property. Net proceeds, when ore is produced, are to be split between Metropolitan (16% or 50%) and the Company (84% or 50%) depending upon the location of the production. Metropolitan Mines Corporation also delivered 200,000 shares of their restricted common stock to the Company as part of the aforementioned lease transactions.

Mineral Mountain Mining Claims

The Company leased the Mineral Mountain Mining and Milling Company group of four patented mining claims that are adjacent to the mining claims of the Sunshine Mine on February 25, 2004. The lease term is for 25 years and is renewable for an additional 25 years. The lease is subject to an advance royalty payable by the Company of \$3,600 per year until such time as net profits royalties of 3% are payable. The Company also issued to Mineral Mountain 30,000 shares of restricted Sterling Mining Company common stock as required by the lease at the beginning of the lease term.

Northwest Montana Group Claims ("Timberline Resources")

The Company leased four groups of unpatented mining claims located in Lincoln and Sanders Counties in Western Montana from Timberline Resources Corporation. Each claim group has the potential to host stratabound silver/copper deposits in the favorable Revett rock formation. The Lucky Luke Claim Group consists of twenty unpatented mining claims in Sanders County, the Standard Creek Claim Group consists of twenty nine unpatented mining claims in Lincoln County, the Minton Pass Claim Group consists of twenty unpatented mining claims in Sanders County, and the East Bull Claim Group consists of twenty six unpatented mining claims in Lincoln County, Montana. The lease was dated November 26, 2004, has a term of 20 years and is renewable for an additional twenty years. The lease is subject to an advance royalty of \$5,000 for each of the above claim groups that remain subject to the lease on June 1 of each year beginning in 2007. The Company will be obligated for a payment of \$20,000 on June 1, 2007 if it then continues to hold by lease all four groups. Consideration provided to Timberline by the Company consisted of recognizing as paid a \$65,500 receivable, and a cash payment to Timberline of \$19,600.

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Rock Creek

The Company leased twenty six unpatented claims and one patented claim. The Rock Creek (Idaho) lease was signed by the Company on March 1, 2006, with a term of 25 years, with a 25% net profits royalty and an advance minimum royalty of \$500 per month applied against net profits royalty when operational. Contained within the lease is a work commitment of \$50,000 per every 5-year period. As part of the lease transaction, the Company issued to Rock Creek 20,000 shares of Sterling stock and 500,000 Rock Creek shares were issued to Sterling. Sterling is obligated to pay all future taxes relating to the leased property and Sterling may cancel the lease with 30 days notification.

Other U.S. Exploration Prospects

The Company has numerous exploration prospects held by ownership, lease or lease option in the states of Idaho and Montana comprising over 4,000 acres of unpatented mining claims. Generally mining properties are leased for 10 to 25 year terms with a net smelter return of 1% to 2%, or an operating profit interest up to 50% due to the owner. Owned properties are unpatented mining claims subject to the paramount title of the federal government, subject to annual work requirements and annual fees.

Sterling Mining De Mexico, S.A. De C.V. Properties

The Company formed Sterling Mining De Mexico, S.A. De C.V. in February, 2004, to engage in the exploration and exploitation of silver minerals in Mexico. Sterling Mining De Mexico is a 99% owned subsidiary of Sterling Mining Company. As of December 31, 2006, the Company had invested approximately \$4.33 million USD in its Mexican subsidiary, of which a significant portion has been used to lease and construct the Barones plant and acquire the following silver bearing mineral concessions and leases near the plant.

These properties include:

Barones Lease

The Barones property is located approximately three kilometers northeast of the city of Zacatecas, in the state of Zacatecas, Mexico. The Barones project consists of a vat leach plant for the treatment of silver bearing tailings at the plant site and silver bearing minerals from other properties near the site. The property consists of approximately five hectares (12 acres). The lease agreement requires payments of 50% of net profits up to a maximum of \$4.55 million USD. Payments are in shares of the Company's common stock at a price of \$10.00 USD per share.

San Acacio Lease

The San Acacio lease is located approximately five kilometers northeast of the City of Zacatecas and two kilometers from the Barones Plant. The property consists of approximately ten exploitation concessions containing approximately 745 hectares (1,840 acres).

Other Mexico Mineral Concessions

Sterling Mining De Mexico, S.A. De C.V. holds several exploration mineral concessions that are situated approximately 60 kilometers to the southeast of the city of Zacatecas. These include the Tesorito Group, the Esperanza Group, the La Aventurera Group and the Bolshoi. These properties comprise approximately 5,000 hectares (12,350 acres). Properties include La Blanca, Cuauhtemoc, Bilbao, Arturo, La Leona, Pinos, and Pico de Treyo.

In 2006 the Company entered into an agreement with Silver Fields (formerly Red Lake Resources) regarding the Bolshoi property. Silver Fields has the right to earn a 100% interest in the Bolshoi Property. The agreement requires Red Lake to make total payments to Sterling of \$75,000 USD, issue 400,000 shares, and complete \$300,000

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USD in exploration over a period of 3 years. The property is subject to a royalty of 2.5% of net smelter returns. This agreement has since expired.

The Company entered into an agreement with Chester Mining Company regarding the Tesorito Group. The Company sold 50% of its interest in the Tabasquena Mine (Tesorito) in Mexico for 600,000 restricted common shares of Chester Mining Company, as disclosed in the Company's Form 10-Q filed on November 15, 2006.

NOTE 6 – RELATED PARTY TRANSACTIONS

During the fourth quarter of 2006, the Company received loans from various related parties. All loans were paid in full by December 31, 2006.

In December of 2006, the mine manager of the Mexican subsidiary purchased in advance three lots of precipitate. The terms of the sale are identical to the terms of sales to the refinery.

NOTE 7 – COMMON STOCK

During the year ended December 31, 2006, the Company issued 6,400,149 shares of common stock as follows; 4,180,401 shares with warrants attached for cash of \$11,869,099, 400,000 shares in exchange for equity investments; 190,000 shares for land; 6,000 shares for services; 290,000 shares for leases and equipment; 296,530 shares for commissions; 288,594 shares upon the conversion of debentures; 683,108 shares upon the exercise of options; 17,500 shares upon the exercise of \$4.00 warrants and miscellaneous equity adjustments of 48,016 shares.

During the year ended December 31, 2005, the Company issued 325,000 shares of common stock for cash proceeds of \$650,000; issued 82,300 shares of common stock for services valued at \$272,950 and issued 151,500 shares of common stock for lease expenses valued at \$592,275. Additionally, the Company issued 1,470,477 shares of common stock with attached warrants for total cash proceeds of \$3,592,000. These warrants were valued at \$577,754. The Company issued 69,444 shares of common stock upon the exercise of warrants for cash proceeds of \$208,332 and issued 387,167 shares of common stock upon the exercise of stock options for cash proceeds of \$260,770.

During the year ended December 31, 2004, the Company issued 523,125 shares of common stock for cash of \$1,688,119, issued 24,397 shares of common stock for accrued expenses valued at \$24,199, issued 42,598 shares of common stock for services valued at \$257,486, issued 80,000 shares of common stock for securities investments of \$1,013,500, and issued 30,000 shares of common stock for lease expenses valued at \$219,200. Additionally, the Company issued 2,234,672 shares of common stock upon the exercise of warrants valued at \$537,918 and the receipt of \$1,696,769; issued 672,809 shares of common stock upon the exercise of stock options valued at \$338,862 and the receipt of \$504,607; and retired 100 shares of purchased common stock valued at \$1,000.

NOTE 8 – STOCK OPTIONS

On April 16, 1999, the Company's board of directors approved a stock option plan. The number of shares eligible for issuance under the plan is to be determined by the Company's board of directors.

During the year ended December 31, 2006, 683,108 stock options were exercised for cash proceeds of \$512,331. There were no stock options granted during 2006.

During the year ended December 31, 2005, 347,693 stock options were exercised for cash proceeds of \$260,770. There were no stock options granted during 2005.

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During the year ended December 31, 2004, the Company granted 100,000 options with an exercise price of \$6.00 and an expiration date of June 6, 2006 for consulting services. The fair value of the options was estimated on the date of issuance at \$517,690 using the Black-Scholes option pricing model. The following assumptions were made in estimating the options' fair value: a risk free interest rate of 2.70%, volatility of 154.22%, an expected life of 2 years, and no dividend yields. Also, during the year ended December 31, 2004, 424 options valued at \$93 expired and 672,809 options were exercised for cash of \$504,607.

At December 31, 2006, the Company had 25,000 options at \$0.75 outstanding with an expiration date of June 6, 2008.

Following is a summary of stock option activity during the years ending December 31, 2004, 2005 and 2006:

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2003	1,821,700	\$ 0.75
Granted	100,000	6.00
Exercised	(672,809)	0.75
Expired	(424)	0.75
Purchased from option holders	(65,000)	0.75
Options outstanding at December 31, 2004	1,183,467	1.19
Granted	—	—
Exercised	(347,693)	0.75
Expired	—	—
Options outstanding at December 31, 2005	835,774	1.38
Granted	—	—
Exercised	(683,108)	0.75
Expired	(127,666)	4.86
Options outstanding at December 31, 2006	<u>25,000</u>	<u>\$ 0.75</u>

NOTE 9 – COMMON STOCK WARRANTS

During the year ended December 31, 2006, the Company granted 5,205,408 warrants with exercise prices ranging from \$2.60 to \$8.42 and expirations at various dates through 2008. The total value of the warrants was \$3,795,636 as determined by a Black Scholes pricing model.

During the year ended December 31, 2005, the Company granted 1,018,317 common stock warrants with exercise prices ranging from \$2.25 to \$5.00 and expirations at various dates through 2008. The total Black Scholes value of the warrants issued was estimated at \$577,754. During 2005, the Company cancelled 150,000 previously issued warrants. These warrants were replaced with 100,000 warrants at a reduced exercise price and a prolonged exercise term. Based upon a comparison of the fair value of the modified award with the fair value of the award immediately before the modification, an adjustment was deemed unnecessary.

During the year ended December 31, 2004, the Company granted 374,178 common stock warrants with exercise prices ranging from \$1.93 to \$7.00 and expirations at various dates through 2008. The total value of the warrants issued was estimated at \$834,300.

STERLING MINING COMPANY AND SUBSIDIARY
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Following is a summary of stock warrant activity for the years ended December 31, 2005 and 2006:

	Common Shares Under Warrants	Exercise Price Per Share	Fair Value Per Share At Grant Date	Expiration Date
Outstanding at December 31, 2004	500,889	\$ 5.43	\$3.50 - \$13.40	1/05 - 5/08
Warrants issued in connection with sale of common stock	1,018,317	\$ 3.03	\$ 2.25 - \$5.00	3/06 - 2/08
Warrants issued as replacement for cancellation	100,000	\$ 3.50	\$ 3.60	2/07
Warrants exercised	(69,444)	\$ 3.00	\$ 3.00	1/07
Warrants expired	(256,445)	\$ 1.00	\$ 3.00 - \$7.00	6/05 - 9/05
Warrants cancelled	(150,000)	\$ 7.00	\$ 2.12	2/07
Outstanding at December 31, 2005	1,143,317	\$ 3.12	\$ 2.25 - \$7.00	2006-2008
Warrants issued in connection with sale of common stock	5,205,408	\$ 4.67	\$ 3.50-\$8.42	2007-2008
Warrants exercised	(17,500)			
Warrants expired	(113,000)	\$ 4.73	\$ 0.03-\$1.97	2006
Outstanding at December 31, 2006	<u>6,218,225</u>	<u>\$ 4.09</u>	<u>\$ 0.14-\$5.40</u>	<u>2007-2008</u>

The weighted average fair value of warrants granted during the years ended December 31, 2006 and 2005 was \$0.70, and \$0.47.

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NOTE 10 – COMMITMENTS AND CONTINGENCIES

Mineral Leases

The Company has secured leases of several mineral properties. Each of the leases is subject to lease payments as shown in the table below:

<u>Mineral Leases</u>	Production Royalties Payable (1)	2007 Annual Lease Fees
Barones Concession (2)	Yes	\$ —
Chester Claim Group (3)	Yes	7,200
J.E. Prospect	Yes	12,500
Jestec	Yes	15,000
Merger Mines Claim Group	Yes	2,500
Metropolitan Mines Claim Group	Yes	12,000
Mineral Mountain Claim Group	Yes	3,600
Montana Revett Claim Group (4)	Yes	—
San Acacio Concession (5)	Yes	150,000
Sunshine Mine and Infrastructure, ARI lease	Yes	120,000
Timberline Resources	Yes	20,000
Rock Creek-Idaho	Yes	6,000

- (1) All leases are subject to production royalties.
- (2) \$375,000 in cash and \$100,000 in the Company's common stock were prepaid in 2004 to apply to the life of the Barones lease of 225 months. There are no annual lease fees.
- (3) The Chester Claim Group lease also requires an annual payment of 50,000 shares of the Company's common stock.
- (4) Montana Revett Claim Group annual lease fee of \$20,000 commences on June 1, 2007.
- (5) San Acacio production royalties are not payable to lessor, but are payable to third parties.

Other Leases

The Company has entered into a lease for office space near the Sunshine Mine site at \$1,250 per month through September 2007. The Company has entered into a lease for office space in Coeur d'Alene, Idaho for \$902 from December 2006 through November 2007.

The Company's future obligations under mineral and office space operating lease agreements are as follows:

<u>Year Ending:</u>	
December 31, 2007	\$ 405,176
December 31, 2008	425,176
December 31, 2009	450,176
December 31, 2010	450,176
December 31, 2011	450,176
Total minimum lease payments	<u>\$2,180,880</u>

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Compliance with Environmental Regulations

The Company is subject to a variety of federal, state and local statutes, rules and regulations designed to protect the quality of the water and air, and threatened or endangered species, in the vicinity of many of its mining operations. These regulations include “permitting” or pre-operating approval requirements designed to ensure the environmental integrity of a proposed mining facility, operating requirements to mitigate the effects of discharges into the environment during mining operations, and reclamation or post-operation requirements designed to remediate the lands affected by a mining facility. The Company is investigating the necessary environmental requirements and any bonding necessary to comply with the regulations.

Employment Agreements

During 2004, a key employee was granted a severance pay agreement that is effective through January 1, 2014, and another key employee was granted a severance pay agreement effective through January 31, 2009. These agreements provide compensation to the employees in the event of termination of employment at various compensation levels, depending upon the reason for termination. The maximum termination compensation payable to one employee is \$250,000. The maximum termination compensation payable to the other employee was raised from \$350,000 to \$600,000 effective January 28, 2005.

During 2005, two additional key employees were hired by the Company. Both key employees have employment agreements and received shares of common stock.

Contingent Liabilities

The Company has been named in legal proceedings. Management has not recorded a contingent liability for the following reasons:

As initially reported in our report on Form 10-Q for the quarter ended June 30, 2006, in September 2005 James D. Christianson and a small group of shareholders affiliated with Mr. Christianson filed a lawsuit against two directors of the Company, Carol Stephan and Ray De Motte, in the United States District Court, Western District of Washington at Tacoma, Case No. CV05-5590 RBL. The plaintiffs requested permission to amend the original complaint to add claims against the Company. During the second quarter of 2006 the motion was approved and the Company was added as a party. The Company subsequently filed a motion to dismiss the complaint on the grounds that the complaint fails to state a viable claim against Sterling Mining even if the alleged facts are taken as true, which motion is pending. In a separate motion, a director moved to change the venue of the lawsuit from Washington to Idaho, which motion was granted September 21, 2006. Trial is scheduled to begin June 10, 2008, in the United States District Court for the District of Idaho, Case No. CV06-429-N-EJL. The Company and the other parties have been ordered by the Court to attend mediation to attempt to voluntarily resolve the claims asserted in this matter.

The Company does not consider the matter to be material. Management believes that the case is without merit and that any liability resulting from the case is neither estimable nor probable. The Company intends to aggressively defend itself in this matter unless an acceptable settlement can be achieved. If the litigation does proceed, the Company intends to assert counterclaims against Mr. Christianson alleging, among other things, that Mr. Christianson made certain material misrepresentations and omitted material information in conjunction with soliciting the purchase of Company stock, and engaged in other conduct to the Company’s detriment.”

STERLING MINING COMPANY AND SUBSIDIARY
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Other Taxes

The Company assumed certain property taxes in arrears as part of the Company's obligation in the lease of the Sunshine Mine. The Company has paid property taxes in arrears for the years 1999 through 2004. Estimated tax liabilities including penalties and interest outstanding at December 31, 2006 are shown below:

Tax Year:	
2005	\$37,762
2006	38,400
Accrued Penalties and Interest	5,378
Balance, December 31, 2006	<u>\$81,540</u>

The Company has corrected some earlier payroll tax and information returns, and has accrued a liability for taxes and penalties that may result from the underpayment of those taxes. There may be other penalties the Company has not sufficiently provided for, and the Company expects to pay those penalties if they are assessed. Any further assessments are not expected to be material to the Company and its estimates.

STERLING MINING COMPANY AND SUBSIDIARY
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NOTE 11- SEGMENT REPORTING

The Company began developing in two business segments during 2004. One segment is the exploration and mining segment in the United States of America. The Company engages in the acquisition and exploration of mineral properties in the U.S. in this segment and is preparing the Sunshine mine for production. The Company's other segment is the Mexico segment, which includes the Company's 99% owned subsidiary Sterling Mining De Mexico, S.A. De C.V. The Mexico segment engages in the acquisition and exploration of mineral properties in Mexico and has been operating the Barones tailings project since mid-year 2005. The Company's objective in each segment is to place those properties that can be operated at a profit into production.

The following table presents information about reportable segments for the twelve months ended December 31, 2006, 2005 and 2004, respectively:

	2006	2005	2004
Revenues:			
United States	\$ 58,359	\$ 50,556	\$ 62,873
Mexico	829,165	441,160	—
Total	\$ 887,524	\$ 491,716	\$ 62,873
Income (loss) from operations			
United States	\$(5,756,871)	\$(3,423,413)	\$(3,795,756)
Mexico	(811,561)	(832,198)	(1,205,619)
Total	\$(6,568,432)	\$(4,255,611)	\$(5,001,375)
Net Income (Loss)			
United States	\$(4,318,339)	\$(3,537,508)	\$(4,298,956)
Mexico	(912,056)	(1,011,449)	(1,230,751)
Total	\$(5,230,395)	\$(4,548,957)	\$(5,529,707)
Identifiable Assets:			
United States	\$19,616,336	\$ 2,833,503	\$ 3,015,872
Mexico	1,304,031	822,003	665,975
Total	\$20,920,367	\$ 3,655,506	\$ 3,681,847
Capital Expenditures:			
United States	\$10,752,510	\$ 27,899	\$ 22,987
Mexico	461,428	368	17,937
Total	<u>\$11,213,938</u>	<u>\$ 28,267</u>	<u>\$ 40,924</u>

**STERLING MINING COMPANY AND SUBSIDIARY
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NOTE 12 – NOTES PAYABLE

At December 31, 2006, the Company had three notes payable as follows: \$400,000 to Western Continental for a land purchase, \$50,000 to Diversified Machine Technology for a land purchase and \$83,694 to Microsoft Corporation for the purchase of computer hardware and software. Notes payable-current portion on the balance sheet is \$13,931, the current portion of the Microsoft note. Notes payable-long term on the balance sheet is \$519,763, the sum of the \$400,000 Western Continental note, the \$50,000 DMT note and \$69,733, the long-term portion of the Microsoft note.

The notes payable have the following terms: The Western Continental note has a 7.25% interest rate, monthly interest payments of \$2,417 and payment of the principal is due in full on November 6 of 2008. The DMT note has a maturity date of October 6, 2008, when the principal is due in full. The Microsoft Note has monthly payments of \$50.00 per month for six months and then \$2,803.05 for the succeeding 36 months. Interest and principal are scheduled to be paid in full on July 1, 2010. Each note is collateralized by the asset acquired.

**STERLING MINING COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 – SUBSEQUENT EVENTS

Investments

The Company made final payment of \$3.9 million on January 22, 2007 to acquire the Big Creek tailings pond facility that the Company intends to use in conjunction with managing waste water from the Sunshine Mine and the operation of the ore concentrating mill for the mine. On January 23, 2007, the Company received the title documents and related instruments pertaining to the tailings pond property.

Financing

On January 18, 2007, the Company closed an \$8,498,500 USD private placement offering to institutional and accredited investors consisting of 3,695,000 units at a price of \$2.30 USD per unit. Each unit is comprised of one common share of Sterling and one common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.25 USD for 24 months following the closing date of the offering. Five of the investors are located in Canada and one in the United States. The shares of common stock, warrants, and common stock underlying have not been registered under the Securities Act of 1933, or any state securities laws, and unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. The shares of common stock sold to the purchasers and the shares underlying the warrants will be registered for resale on a registration statement to be filed by Sterling in the United States. The offering was completed on a best-efforts basis with Blackmont Capital Inc. and TD Securities Inc. of Toronto, Canada, engaged as co-agents. In connection with the private placement, Sterling paid a cash commission of 7% of the gross proceeds of the private placement, and issued non-transferable compensation options to purchase 258,650 of units (equal to 7% of the units sold under the private placement), exercisable at \$2.30 USD per unit for a period of 18 months after the closing date of the offering.

On February 20, 2007, the holder of 25,000 options, issued at \$0.75 in 2003, exercised the options leaving the Company with no further outstanding options.

Joint Venture

In February 2006, the Company signed a letter of intent and is considering entering into a joint venture with Source Minerals of Vancouver, Canada regarding mining at the San Acacio property in Mexico. Source Minerals is a related party because one of Sterling's directors is a director of Source Minerals.

**STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

	March 31 2007 (unaudited)	December 31 2006
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,975,902	\$ 3,054,582
Marketable securities	1,073,379	790,514
Accounts receivable	20,874	64,043
Inventories	339,527	313,467
Prepaid expenses and deposits	520,343	225,787
Other current assets	185,069	242,211
Total current assets	4,115,094	4,690,605
INVESTMENTS		
Investments in Chester Mining Company	2,859,510	2,808,238
Other investments	1,062,299	782,253
	3,921,809	3,590,491
PROPERTY AND EQUIPMENT, NET		
Total property and equipment	13,888,699	11,647,575
OTHER ASSETS		
Prepaid long-term leases	967,464	990,096
Other assets	18,252	1,600
TOTAL ASSETS	\$ 22,911,318	\$ 20,920,367
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 1,668,582	\$ 1,464,102
Accrued expenses	249,040	192,206
Notes payable-current portion	18,574	13,931
Unearned revenue	173,000	134,172
Other current liabilities	—	4,057,245
Total current liabilities	2,109,196	5,861,656
LONG-TERM LIABILITIES		
Notes payable, net of current portion	515,119	519,763
Total long-term liabilities	515,119	519,763
STOCKHOLDERS' EQUITY		
Common stock, \$0.05 par value; 40,000,000 shares authorized, 28,768,568 and 24,877,568 shares issued and outstanding, respectively	1,438,428	1,243,878
Additional paid-in capital	40,869,077	32,674,757
Common stock issuable	—	400,000
Accumulated deficit	(22,337,436)	(19,955,554)
Accumulated comprehensive income	316,934	175,867
TOTAL STOCKHOLDERS' EQUITY	20,287,003	14,538,948
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 22,911,318</u>	<u>\$ 20,920,367</u>

See accompanying condensed notes to interim financial statements.

STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Three Months Ended March 31	
	2007	2006
	(unaudited)	(unaudited)
REVENUES	\$ 191,337	\$ 280,524
COST AND EXPENSES		
Cost of revenues	248,161	224,448
Exploration	297,383	548,404
Mine rehabilitation	1,244,349	—
General and administrative	818,960	406,661
Depreciation and amortization	14,249	5,894
Professional services	127,812	92,969
Total expenses	2,750,914	1,278,376
LOSS FROM OPERATIONS	(2,559,577)	(997,852)
OTHER INCOME (EXPENSES)		
Gain on investments	237,345	40,032
Interest and dividends	36,087	3,723
Interest expense	(16,585)	(8,329)
Gain (loss) on derivative instruments	—	(206,425)
Gain (loss) on exchange	(80,023)	(57,740)
Miscellaneous income	(746)	—
Total Other Income (Expense)	176,078	(228,739)
LOSS BEFORE INCOME TAXES	(2,383,499)	(1,226,591)
INCOME TAXES	—	—
LOSS FROM CONTINUING OPERATIONS	(2,383,499)	(1,226,591)
GAIN FROM INVESTMENT IN CHESTER MINING CO	1,616	—
NET LOSS	(2,381,882)	(1,226,591)
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on investments	141,067	447,701
COMPREHENSIVE LOSS	\$ (2,240,815)	\$ (778,890)
Basic and Fully Diluted Loss per Share	\$ (0.09)	\$ (0.06)
Basic and fully diluted weighted average shares outstanding	27,443,579	19,108,600

See accompanying condensed notes to interim financial statements.

**STERLING MINING COMPANY AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended March 31	
	2007	2006
	(unaudited)	(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(2,381,882)	\$(1,226,591)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	14,249	5,894
Gain (loss) on investments	(237,345)	(40,032)
Gain (loss) on derivatives	—	206,425
Expenses paid with stock	39,125	887,500
Exchange gain (loss)	80,023	—
(Increase) decrease in:		
Accounts receivable	43,169	(37,862)
Inventories	(26,060)	(129,805)
Prepaid expenses	(271,923)	(865,612)
Other current assets	57,142	(84,746)
Increase (decrease) in:		
Accounts payable	204,480	(84,568)
Accrued expenses	56,834	(176,065)
Other current liabilities	(102,525)	23,904
Net cash used by operating activities	(2,524,713)	(1,521,558)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(547,059)	(145,442)
Proceeds from investments	316,633	56,319
Investment in property, plant and equipment	(6,155,912)	(172,711)
Net cash provided (used) by investing activities	(6,386,337)	(261,834)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sales of common stock net of costs	7,813,620	1,360,000
Proceeds from exercise of stock options and warrants	18,750	13,500
Proceeds from notes payable	—	575,000
Net cash provided by financing activities:	7,832,370	1,389,374
Net increase (decrease) in cash and cash equivalents	(1,078,680)	165,108
Cash beginning of period	3,054,582	1,270,849
Cash at end of period	\$ 1,975,902	\$ 1,435,957
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Income taxes paid	\$ —	\$ —
Interest paid	\$ 16,585	\$ 8,329
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for leases	\$ 156,500	\$ 887,500
Common stock issued for land	\$ 400,000	\$ —

See accompanying condensed notes to interim financial statements.

STERLING MINING COMPANY AND SUBSIDIARY
CONDENSED NOTES TO FINANCIAL STATEMENTS, MARCH 31, 2007

Note 1: Basis of Presentation of Financial Statements

In the opinion of management, the accompanying unaudited consolidated balance sheet, consolidated statements of operations and comprehensive income (loss), consolidated statements of cash flows and notes to interim consolidated financial statements contain all adjustments necessary to present fairly, in all material respects, the financial position of Sterling Mining Company and its consolidated subsidiary. Management has made all adjustments necessary for a fair statement of the results for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2006, as it may be amended from time to time.

The results of operations for the periods presented may not be indicative of those which may be expected for a full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted as permitted by GAAP.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the disclosures of contingent liabilities. Accordingly, ultimate results could differ materially from those estimates.

Note 2: Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the 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 of America 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 GAAP.

Accounts Receivable

The Company carries its accounts receivable at net realizable value. On a periodic basis, the Company evaluates its accounts receivable and determines if an allowance for doubtful accounts is necessary, based on a history of past write-offs and collections and current credit conditions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Compensated Absences

Employees of the Company may be paid vacation, sick, and personal days off. The Company did not accrue compensated absences expense during the quarter because no policy on compensated absences had been adopted at March 31, 2007 and 2006, and management has deemed that any liability arising from these provisions in the future would be immaterial.

Concentration of Risk

The Company maintains its domestic cash in several commercial banks in Coeur d'Alene, Idaho. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Company also maintains cash in a Mexican bank. The Mexican accounts, one denominated in dollars and one denominated in pesos, are considered to be uninsured.

Derivative Instruments

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (hereinafter "SFAS No. 133") as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the 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". These statements establish 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 consolidated balance sheet and measure those instruments at fair value. In February 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments, an Amendment of FASB Standards No. 133 and 140." (See Recent Accounting Pronouncements.)

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the 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 as income in the period of change.

Historically, the Company has not entered into derivatives contracts to hedge existing risks.

The Company has issued convertible debt and accounted for that debt according to SFAS 133 and subsequent pronouncements. Consequently, management recognized the convertible debt contract as a derivative instrument and accounted for the derivative according to GAAP. The Company had no derivative instruments at March 31, 2007 or December 31, 2006.

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of "basic" and "diluted" earnings per share.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

At least annually, management reviews the reserves used to estimate the quantities and grades of ore at our mines which management believes can be recovered and sold economically. Management's calculations of proven and probable ore reserves are based on in-house engineering and geological assessments using current operating costs, metals prices and, when applicable, third-party audits of our reserves.

Reserve estimates will change as existing reserves are depleted through production and as production costs and/or metals prices change. A significant drop in metals prices may reduce reserves by making some portion of such ore uneconomic to develop and produce. Changes in reserves may also reflect that actual grades of ore processed may be different from stated reserve grades because of variation in grades in the areas mined, mining dilution and other factors. Estimated reserves, particularly for properties that have not yet commenced production, may require revision based on actual production experience.

Declines in the market prices of metals, increased production or capital costs, reduction in the grade or tonnage of the deposit, an increase in the dilution of the ore or reduced recovery rates may render ore reserves uneconomic to exploit. If our realized price for the metals we produce were to decline substantially below the levels set for calculation of reserves for an extended period, there could be material delays in the development of new projects, net losses, reduced cash flow, restatements or reductions in reserves and asset write-downs in the applicable accounting periods. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations. No assurance can be given that the estimate of the amount of metal or the indicated level of recovery of these metals will be realized.

Exploration Costs

In accordance with GAAP, the Company expenses exploration costs as incurred.

Fair Value of Financial Instruments

The Company's financial instruments, as defined by Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, marketable securities, investments in stocks, purchase options, purchase warrants, receivables, payables and accrued expenses. Cash, receivables, payables and accrued expenses are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximate fair value at March 31, 2007 and 2006. Marketable securities, investments in stocks, purchase options and purchase warrants are accounted for by market prices when available, or by other valuation methods described in these notes when market prices are not available.

Foreign Currency Transactions

The Company created a Mexican subsidiary during 2004 for the purpose of exploration and exploitation of silver bearing minerals in Mexico. The Company translates into United States dollars the assets and liabilities of its Mexico subsidiary according to GAAP. The Company translates into United States dollars the revenues, expenses, gains and losses of its Mexican subsidiary at the transaction date and records them according to GAAP. Management has concluded that for the purposes of financial reporting, the functional currency of the Mexican subsidiary is the United States dollar. Consequently, management uses the temporal method of foreign currency translation.

Inventories

Metals inventories are carried at the lower of current market value or average unit cost. Production costs include the cost of direct labor and materials, depreciation, amortization, and overhead costs relating to mining and processing activities. Materials and supplies inventories are valued at the lower of average cost or fair market value. The inventories balance at March 31, 2007 and 2006 represented supplies inventory in Mexico, minerals inventory in Mexico and silver coins and other inventory in Idaho.

Mineral Development Costs

The Company will capitalize property acquisition costs for undeveloped mineral interests that have significant potential to develop an economic ore body. The Company will amortize the capital costs based on proven and probable ore reserves if an economic ore body is developed. If an economic ore body is not discovered, previously capitalized costs are expensed in the period in which it is determined that the property does not contain an economic ore body. Costs to develop new mines, to define further mineralization in existing ore bodies, and to expand the capacity of operating mines, are capitalized and will be amortized on a unit of production basis over proven and probable reserves. Gains and losses on the sales or retirement of assets are recorded as other income or expense.

Prepaid Expenses

The Company's current prepaid expenses primarily consist of prepaid insurance premiums, pre-payment to the utility company, and prepaid lease payments which are paid for up to a year in advance. Prepaid lease payments for periods beyond one year are considered other non-current assets. Non-current assets are primarily comprised of the Sunshine Mine lease and the 20 year Barones lease which was prepaid in 2004 and is being amortized over the 20 year lease term.

Minority Interest

The Company owns 99% of its Mexico subsidiary, Sterling Mining de Mexico S.A. de C.V. The 1% minority in the subsidiary is owned by an individual. A minority interest is not shown on the balance sheet because there is a negative value to the capital account of the minority interest holder. Additionally, the minority holder is not expected to make additional capital contributions.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiary after elimination of inter-company accounts and transactions. The majority-owned subsidiary of the Company is named above.

Property and Equipment

Property and equipment is recorded at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurement". Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations when FAS 157 becomes effective, after November 15, 2007.

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments," which amends SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 resolves issues addressed in Statement 133 Implementation Issue No. D1 "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets," and permits:

- Fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation;
- Clarifies which interest-only strips are not subject to the requirements of SFAS 133;
- Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;
- Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and
- Amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

FAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2007. The adoption of SFAS No. 155 is not expected to have a material effect on our consolidated financial statements.

In February 2006, the FASB issued FSP No. 123(R)-4 "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of Contingent Event." FSP 123(R)-4 amends paragraphs 32 and A229 of SFAS No. 123(R) to incorporate the concept that a cash settlement feature that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not meet the condition in paragraphs 32 and A229 until it becomes probable that the event will occur, and that an option or similar instrument that is classified as equity, but subsequently becomes a liability because the contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from an equity to liability award. FSP 123(R)-4 became effective when the Company adopted SFAS 123(R) and is not expected to have a material effect on the Company's consolidated financial statements.

In September 2005, the FASB issued Emerging Issues Task Force (“EITF”) Issue No. 04-13 “Accounting for Purchases and Sales of Inventory with the same Counterparty.” The scope of EITF No. 04-13 includes guidance on the circumstances under which two or more inventory purchases and sales transactions with the same counterparty should be viewed as a single exchange transaction under the scope of Opinion 29 “Accounting for Nonmonetary Transactions,” and whether there are circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. EITF No. 04-13 is effective for new arrangements entered into, or modifications or renegotiations of existing arrangements, beginning in the first interim or annual reporting period beginning after March 15, 2006. The adoption of EITF Issue No. 04-13 is not expected to have a material effect on our consolidated financial statements.

Note 3: Marketable Securities and Investments

The Company’s investment portfolio consists primarily of small-cap mining stocks, options and warrants.

The Company’s investments in securities are classified as either trading, held to maturity, or available-for-sale in accordance with Statement of Financial Accounting Standards No. 115. During the three months ended March 31, 2007 and 2006, the Company did not own any securities classified as trading or held to maturity, but did own securities classified as available-for-sale. Available-for-sale securities consist of equity securities not classified as trading securities or as securities to be held to maturity.

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as a net amount in a separate component of other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the average cost method and are included in earnings. The Company determines the gain or loss on investment securities held as available-for-sale, based upon the accumulated cost basis of specific investment accounts. Certain “other investments” are in companies with very limited volume and stable trading prices. Thus, fair market values tend to shift only fractionally.

On the Company’s balance sheet, short-term available for sale securities are classified as “marketable securities.” Long-term available-for-sale securities and other investments are classified as “investments.”

Options and warrants are recorded at fair market value, calculated using a conventional Black Scholes pricing model. Assumptions made in estimating the fair value include the risk-free interest rate, volatility and expected life. For the three months ended March 31, 2007, the average volatility ranged from 50% to 66%. Expected life used was the number of days to expiration. The risk-free interest rate used was the Federal Reserve Board’s risk-free rate most closely corresponding to the option or warrant lifetime. Management used risk free rates between 4.81% and 4.92% for the periods presented.

The changes in marketable securities, long-term investments, and investments-other during the three months ended March 31, 2007 are as follows:

<u>Three Months Ended March 31, 2007</u>	Fair Value at Dec. 31, 2006	Plus Purchases	Less Sales at Cost	Plus (Less) Unrealized Gain (Loss)	(Less) Impairments	Fair Value at March 31, 2007
Investments Long-Term	\$ 432,329	\$138,164	\$ —	\$ 62,448	\$ —	\$ 638,286
Investment in Chester	2,808,238	51,123	—	149	—	2,859,510
Investments Other	349,924	—	—	74,090	—	424,014
Total Investments	3,590,491	189,287	—	136,687	—	3,921,810
Marketable Securities	790,514	357,772	(65,074)	4,380	—	1,073,379
Total-Marketable Investments	\$4,381,005	\$547,059	\$(65,074)	\$141,067	\$ —	\$4,995,189

At March 31, 2007, the total basis of marketable securities and investments was \$4,678,256. Total accumulated unrealized gains were \$316,934 and the total fair market value was \$4,995,189.

At March 31, 2006, the total basis of marketable securities and investments was \$1,394,829. Total accumulated unrealized gains were \$183,176 and the total fair market value was \$1,578,005.

Note 4: Income Tax

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

At March 31, 2007, the Company had deferred tax assets, calculated at an expected rate of 34%, of approximately \$5,670,000, principally arising from net operating loss carryforwards for income tax purposes. As management of the Company cannot determine that it is more likely than not that the Company will realize the benefit of the deferred tax asset, a valuation allowance equal to the deferred tax asset has been established at March 31, 2007.

The Company's deferred tax assets are estimated as follows:

	March 31, 2007	December 31, 2006
Net operating loss carryforward	\$16,670,000	\$14,290,000
Deferred tax asset	\$ 5,670,000	\$ 4,860,000
Deferred tax asset valuation allowance	(5,670,000)	(4,860,000)
Net deferred tax asset	\$ —	\$ —

At March 31, 2007, the Company has net operating loss carryforwards of approximately \$16,670,000, which expire in the years 2017 through 2026. The change in the allowance account from December 31, 2006 to March 31, 2007 was approximately \$810,000.

Note 5: Inventories

The Company uses the first-in-first-out method of inventory valuation.

Inventories in the United States consist of silver coins for sale. Inventories in Mexico consist primarily of silver in precipitate form. Other components of inventory are gold in precipitate form as well as copper and thiosulfite used in the processing of mineral bearing ore. At March 31, 2007 and December 31, 2006 the Company reported the following inventories:

	March 31, 2007	December 31, 2006
United States		
Coins, round and bullion	\$ 61,957	\$ 62,829
Pyromorphite	40,000	20,000
Supply inventory for the Sunshine Mine	31,471	58,456
US Total	\$ 133,428	\$ 141,375
Mexico		
Silver and Gold precipitate	\$ 147,158	\$ 108,809
Supplies and other inventory	58,941	63,283
Mexico Total	206,099	172,092
Consolidated Total	\$ 339,527	\$ 313,467

At March 31, 2007 and December 31, 2006, the precipitate in Mexico was either on-site, in transit, or at the refinery.

Note 6: Commitments and Contingencies

Mineral Leases

The Company has secured leases of several mineral properties. Each of the leases is subject to lease payments as shown in the table below.

<u>Mineral Lease:</u>	Production Royalties Payable (1)	2007 Annual Lease Fees
Barones Plant (2)	Yes	\$ —
Chester Claim Group (3)	Yes	7,200
J.E. Prospect	Yes	12,500
Jestec	Yes	15,000
Merger Mines Claim Group	Yes	2,500
Metropolitan Mines Claim Group	Yes	12,000
Mineral Mountain Claim Group	Yes	3,600
San Acacio Concession	Yes	150,000
Sunshine Mine and Infrastructure, ARI Lease (4)	Yes	120,000
Timberline Resources (5)	Yes	20,000
Rock Creek – Idaho (6)	Yes	6,000

- (1) All leases are subject to production royalties.
- (2) \$375,000 in cash and \$100,000 in the Company's common stock were prepaid in 2004 to apply to the life of the Barones lease of 240 months. There are no annual lease fees.
- (3) The Chester Claim Group lease also requires an annual payment of 50,000 shares of the Company's common stock.
- (4) Production royalties are not payable to lessor, but are payable to third parties.
- (5) Timberline annual lease fee of \$20,000 commences on June 1, 2007.
- (6) The lease includes a \$50,000 per year work commitment and payments of \$500 a month, which can be credited against the 25% net profits royalty.

Other Leases

The Company has entered into a lease for office space in Coeur d'Alene, Idaho for \$1,763 per month through November, 2007.

The Company's obligations under mineral agreements and office space operating lease agreements as of March 31, 2007 are as follows:

<u>Year Ending:</u>	
December 31, 2007	\$ 405,176
December 31, 2008	425,176
December 31, 2009	450,176
December 31, 2010	450,176
December 31, 2011	450,176
Total minimum lease payments	\$2,180,880

Compliance with Environmental Regulations

The Company is subject to a variety of federal, state and local statutes, rules and regulations designed to protect human health and the environment in the vicinity of its mining operations. Activities at the Company's mining operations include continual efforts to meet or exceed these statutes, rules and regulations. These regulations include "permitting" or pre-operating approval requirements designed to ensure the environmental integrity of a proposed

mining facility, operating requirements to mitigate the effects of discharges into the environment during mining operations, and reclamation or post-operation requirements designed to remediate the lands affected by a mining facility. The Company is diligently working with the regulatory agencies for the necessary environmental and bonding requirements to comply with the regulations.

Other Taxes

The Company assumed certain property taxes in arrears as part of the Company's obligation in the lease of the Sunshine Mine. The Company has paid all property taxes in arrears for the years 1999 through 2004. Estimated tax liabilities including penalties and interest outstanding at March 31, 2007 are shown below.

<u>Tax Year:</u>	
2005	\$37,762
2006	38,400
2007	12,661
Accrued Penalties and Interest	5,378
Balance, March 31, 2007	\$94,201

The total liability for 2007 is expected to be \$50,645.

Note 7: Notes Payable

At March 31, 2007, the Company had three notes payable as follows: \$400,000 to Western Continental for a land purchase, \$50,000 to Diversified Machine Technology (DMT) for a land purchase and \$83,694 to Microsoft Corporation for the purchase of computer hardware and software. The notes payable current portion on the balance sheet is \$18,574 representing the current portion of the Microsoft note. Notes payable long-term on the balance sheet is \$515,119, the sum of the \$400,000 Western Continental note, the \$50,000 DMT note and \$65,119 from the long-term portion of the Microsoft note.

The notes payable have the following terms: The Western Continental note has a 7.25% interest rate, monthly interest payments of \$2,417, with payment of the principal due in full on November 6, 2008. The DMT note has a maturity date of October 6, 2008, when the principal is due in full. No payment is due until the maturity date. The Microsoft note has monthly payments of \$50 for six months and then \$2,803 for the succeeding 36 months. Interest and principal are scheduled to be paid in full on July 1, 2010. Each note is collateralized by the asset acquired.

Note 8: Common Stock, Options and Warrants

During the first quarter of 2007 the Company issued 3,891,000 shares of common stock as follows: 3,716,000 shares, with warrants attached, for \$7,813,620; 50,000 shares for lease expense; 25,000 shares upon the exercise of stock options at \$0.75 per share; and 100,000 shares for land. No warrants were exercised during the quarter and 3,979,900 warrants were granted. The warrants were valued at \$2,327,790 at March 31, 2006 and the weighted average exercise price of the warrants is \$4.12. The Company did not grant any options during the quarter.

During the year ended December 31, 2006, the Company issued 6,400,149 shares of common stock as follows; 4,180,401 shares with warrants attached for cash of \$11,869,099, 400,000 shares in exchange for equity investments; 190,000 shares for land; 6,000 shares for services; 290,000 shares for leases and equipment; 296,530 shares for commissions; 288,594 shares upon the conversion of debentures; 683,108 shares upon the exercise of options; 17,500 shares upon the exercise of \$4.00 warrants and miscellaneous equity adjustments of 48,016 shares.

During the year ended December 31, 2006 the Company did not grant any options.

During the year ended December 31, 2006, the Company granted 5,205,408 warrants with exercise prices ranging from \$2.60 to \$8.42 and expirations at various dates through 2008. The total value of the warrants was \$3,795,636 as determined by a Black Scholes pricing model.

Note 9: Loss per Common Share

The Company is authorized to issue 40,000,000 shares of common stock, \$0.05 par value per share, of which 28,768,568 shares were issued at March 31, 2007. The number of weighted average shares of common stock outstanding at March 31, 2007 is 27,443,579.

The Company has adopted Statement of Financial Accounting Standards No. 128, which provides for calculation of “basic” and “diluted” earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Although there were common stock equivalents outstanding March 31, 2007, they were not included in the calculation of earnings per share because they would have been considered anti-dilutive.

As of March 31, 2007, the Company had issued and outstanding 10,101,990 warrants, and convertible debt that could be converted to 80,000 shares of common stock. Earnings would be fully diluted by 10,181,990 shares if the Company had earnings to report.

Note 10: Business Segments

The Company began reporting two business segments during 2004. One segment is the exploration and development segment in the United States of America. The Company engages in the acquisition, exploration and development of mineral properties in the U.S.A. in this segment.

The Company’s other segment, acquired in 2004, is the Mexico exploration segment. That segment includes the Company’s 99% owned subsidiary Sterling Mining De Mexico, S.A. De C.V. The Mexico segment engages in the acquisition exploration and operation of mineral properties in Mexico. The Company’s objective in each segment is to place those properties that can be operated at a profit into production.

The following table presents information about reportable segments for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Revenues:		
United States	\$ 7,982	\$ 10,818
Mexico	183,355	269,706
Total	\$ 191,337	\$ 280,524
Income (loss) from operations		
United States	\$ (2,370,812)	\$ (982,821)
Mexico	(188,765)	(15,031)
Total	\$ (2,559,577)	\$ (997,852)
Net income (loss)		
United States	\$ (2,112,066)	\$ (1,193,954)
Mexico	(269,816)	(32,637)
Total	\$ (2,381,882)	\$ (1,226,591)
Identifiable assets:		
United States	\$21,814,863	\$ 5,068,128
Mexico	1,096,455	601,765
Total	\$22,911,318	\$ 5,669,893
Capital expenditures:		
United States	\$ 2,036,507	\$ 170,305
Mexico	219,405	2,406
Total	\$ 2,255,912	\$ 172,711

Note 11: Significant Customers

Sterling de Mexico, the Mexican subsidiary, has sold its precipitate to two refineries. During the three months ended March 31, 2007, all sales were to one refinery, Met-Mex Penoles.

Note 12: Subsequent Events

Source agreement approval in April 2007

In April 2007, the Company's Board of Directors approved a memorandum of understanding to enter into a Joint Venture Agreement with Source Minerals of Vancouver, Canada regarding mining at the San Acacio property located near Zacatecas, Mexico. The terms of the agreement provides Source with a 75% interest in the San Acacio project subject to a non-refundable payment of \$200,000, another payment of \$200,000 after registering a final agreement with the Mexican authorities and a payment of \$100,000 on the first and second anniversary of the agreement, for a total cash payment of \$600,000. In addition to the cash payments, Source will also issue 3 million shares of common stock to Sterling Mining Company. One million shares vest immediately, one million shares vest on the first anniversary and one million shares vest on the second anniversary of the Agreement. Upon delivery of a 43-101 compliant scoping study by the end of the first year or expenditures of \$1,000,000 USD, Source will earn an additional 15% interest in the project, bring their ownership to 90%. Source will reimburse Sterling Mining Company for all authorized expenditures charged to San Acacio after January 1, 2007. Source has a work commitment to expend two million dollars for the benefit of the San Acacio project over a three year period. The final agreement may be subject to regulatory approval.

Private Placement Offering in May 2007

On May 3, 2007, the Company closed a \$180,000 private placement offering to a foreign investor consisting of 50,000 units ("Units") at a price of \$3.60 per unit. Each Unit is comprised of one common share of Sterling and one-half common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.50 for 24 months following the closing date of the offering.

In connection with the private placement, Sterling paid a finder's fee of 6% of the gross proceeds of the offering in cash.

Exercise of Warrants

As previously reported, Sterling Mining Company closed an offering of common stock and warrants in January 2007, which was made in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933. The warrants sold included warrants to purchase common stock at an exercise price of \$3.75 per share that will expire on the later of April 20, 2007 and 90 days following the effective date of a registration statement filed to permit resale of the common stock underlying the warrants. In April 2007, sixteen of the original investors exercised warrants to purchase a total of 100,046 common shares at a total purchase price of \$375,172.50.

In April 2005, as previously reported by Sterling Mining Company, in an offshore transaction in reliance on Regulation S adopted under the Securities Act of 1933, a warrant to purchase 100,000 shares of common stock at an exercise price of \$4.00 per share was issued to a foreign investor. The warrant was exercised in full by the foreign investor on April 20, 2007. The shares issued on exercise of the warrant were issued in reliance on Regulation S.

Financing

On April 30, 2007, the Company closed a \$1,800,000 private placement offering to a small group of institutional investors consisting of 500,000 units ("Units") at a price of \$3.60 per unit. Each Unit is comprised of one common share of Sterling and one-half common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.50 for 24 months following the closing date of the offering.

In connection with the private placement, Sterling paid a finder's fee of 7% of the gross proceeds of the offering by issuing 35,000 units to Blackmont Capital Inc. and TD Securities Inc. of Toronto, Canada.

On May 3, 2007, the Company closed a \$180,000 private placement offering to a foreign investor consisting of 50,000 units ("Units") at a price of \$3.60 per unit. Each Unit is comprised of one common share of Sterling and one-half common share purchase warrant. Each warrant is exercisable for one common share at an exercise price of \$4.50 for 24 months following the closing date of the offering.

In connection with the private placement, Sterling paid a finder's fee of 6% of the gross proceeds of the offering in cash.

Arturo Property Option Agreement

On May 9, 2007, the Company entered into an agreement with Silver Fields Resources Inc. by granting them an option to acquire an undivided 75% interest in the Arturo Property, consisting of exploration concessions covering 589.24 hectares, located in Zacatecas, Mexico. The agreement provides for cash payments of \$85,000 over four years, issuance of 400,000 shares of Silver Fields Resources common stock to Sterling Mining Company over four years and minimum expenditures of \$600,000 by March 2010. If and when the option is exercised, the parties will execute a Joint Venture Agreement for future exploration and development of the Property.

Beacon Light Property Option Agreement

On May 9, 2007, the Company entered into an agreement with Silver Fields Resources Inc. by granting them an option to acquire an undivided 75% interest in the Beacon Light Property, consisting of eleven mineral claims covering 220 acres, located in Shoshone County, Idaho. The agreement provides for cash payments of \$75,000 over four years, issuance of 400,000 shares of Silver Fields Resources common stock to Sterling Mining Company over four years and minimum expenditures of \$115,000 by January 2010. If and when the option is exercised, the parties will execute a Joint Venture Agreement for future exploration and development of the Property.

AUDITORS' CONSENT

We have read the non-offering prospectus of Sterling Mining Company (the "Company"), dated August 10, 2007. We have complied with United States generally accepted standards for an auditors' involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of operations and comprehensive loss, consolidated statement of stockholders' equity and consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004. Our report is dated February 26, 2007.

Signed: Williams & Webster, P.S.
Williams & Webster, P.S.
Certified Public Accountants
Spokane, WA

August 10, 2007

CERTIFICATE OF THE ISSUER

Dated: August 10, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Issuer as required by Part XV of the *Securities Act* and the regulations thereunder.

STERLING MINING COMPANY

(Signed) RAYMOND K. DE MOTTE
President and Chief Executive Officer

(Signed) JAMES N. MEEK
Vice-President and Chief Financial
Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(Signed) DAVID J. WAISMAN
Director

(Signed) ROGER A. VANVOORHEES
Director