Technical Report on the Sunshine Mine
Big Creek, Idaho, U.S.A

Latitude: 47 º, 30’, 6 ”North;
Longitude: 116 º, 4’, 10 ” West.

Prepared for the

Sterling Mining Company

Prepared by:

Behre Dolbear & Company, Inc.

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16 April, 2007

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3.0 SUMMARY

3.1 Introduction

Behre Dolbear & Company Ltd. (BD or Behre Dolbear) was retained by the Sterling Mining Company (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.

3.2 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 along U.S. Interstate 90.

3.3 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 the former Sunshine Mine Company. 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 3 surface rights blocks of 423 acres.

3.4 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 Revette 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 Revette 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, serictic quartzite, and vitreous quartzite.

3.5 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.

3.6 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 Feasibilty 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 stoping operations. Previously the Sunshine mine over the past 117 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** – On plan*
  - above water level
  - positioned early in the mine start up plan

- Probable Reserve now **Indicated mineral resource** - On plan
  - 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** – Not on plan
  - either dry or wet requiring substantial development for mining

* Refers to the Sunshine internal document: "Return to Production – Critical Path Development of the Sunshine Mine." February 27, 2007

The estimated Sunshine mine resources are stated in Table 3.1 below.

Table 3.1
Sunshine Mine Mineral Resources

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**

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 Table 3.2 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.

Table 3.2
Sunshine Mine Inferred Resources.

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**

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 Table 3.3 below

Table 3.3
Sunshine Mine Reserves

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**

* Silver grades are rounded numbers

3.7 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. When the Sterling Tunnel is completed this 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.

3.8 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 Jewell Shaft and the Con Sil, or Silver Summit Shaft back to operational status. These two projects along with the reaccessing of the 3000 level of the Con Sil mine and the completion of the 5,700 foot long Silver Summit tunnel project that will accesses the Con Sil shaft hoistroom, will constitute the mine's necessary secondary escapeway and allow the Sunshine mine to resume production. This upper mine development will also provide ventilation, improve power-distribution flexibility to the mine and allow mine waste to be dumped on the Con Sil side of 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. The Con Sil hoist is now commissioned and work has commenced to rehabilitate the shaft from the top station downward to the 3000 foot level and is expected to be completed by July 1, 2007.

3.9 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 antimony concentrate. The projected silver recovery rate is 96 percent.

3.10 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 are installed and operable.

3.11 Environmental and Tailing Disposal

The current waste water NPDES discharge permit expired at September 9, 1996 and was 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 after reacting the waste water with slaked lime and recirculating a 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 permit NPDES discharge permit limitations will require treatment of the mine water in order to comply with iron and manganese limitations. The other options for wastewater are zero discharge and land disposal.

3.12 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 in Section 3.6 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.

3.12.1 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 is the purchase of the tailings dam site from Formation Capital at a cost of $4.5 million.

3.12.2 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.

3.12.3 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, and
- 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. (See Table 25.4)

3.13 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.

3.14 Recommendations

The development plan "Return to Production - Critical Path Development of the Sunshine Mine" has been well thought out and it is recommended that this plan be closely followed.

The exploration program that is built into "Return to Production - Critical Path Development of the Sunshine Mine" has been properly developed and it is recommended that plan this should be closely followed.

4.0 INTRODUCTION.

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

The purpose of this report is to provide an independent estimation of the mineral resources and reserves at the property and is written in compliance with NI 43-101 Standards of Disclosure for Mineral Projects.

There are four principal sources of the information and data contained in this report. These are:

- the current mine senior operating personnel (See Section 5);
- the resource information from current data contained in the Sunshine Mine computerized data base;
- a Technical Report on the Sunshine mine by Warren Geiger February 2007; and
- a Feasibility Study – Phase 2 by Behre Dolbear and Company (USA), Inc. October 2006.

The Qualified Person, Derek Rance P.Eng, preparing this report visited the Sunshine minesite from April 4 to April 5 2007. The Qualified Person who wrote the geological sections of the report, Dr. Warren Geiger visited the Sunshine minesite from February 4 to February 28, 2007. Both persons visited the important surface mine plant facilities including the Jewell and Silver Summit Shafts, the Jewell Shaft hoist room, compressor plant, complete concentrating mill and various storage, repair and office facilities.

5.0 RELIANCE ON OTHER EXPERTS

The current information and data contained in this report or used in its preparation were in part provided by the Mine Manager and Chief Mine Engineer, Michael E. McLean and Chief Mine Geologist, Jeffrey Moe. The Land and Property Specialist Guy Sandee supplied data on claim and surface right holdings.

The Qualified Person assumed that the declarations of legal rights to the surface rights and the owned and leased patented and unpatented claims constituting the Sunshine mine property as described in this report to be correct and no attempt was made to confirm the legality of licenses conferring the rights to mine, explore and produce silver and other metal products and accordingly disclaims any responsibility or liability in connection with such information or data.

6.0 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 along U.S. Interstate 90 (Figure. 6.1,). The Jewell shaft, the mine's main production shaft, is located in the Big Creek valley at Latitude 47 º, 30', 6 " North, Longitude 116 º, 4', 10 " West; near the base of a steep hill which lies to the east.

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

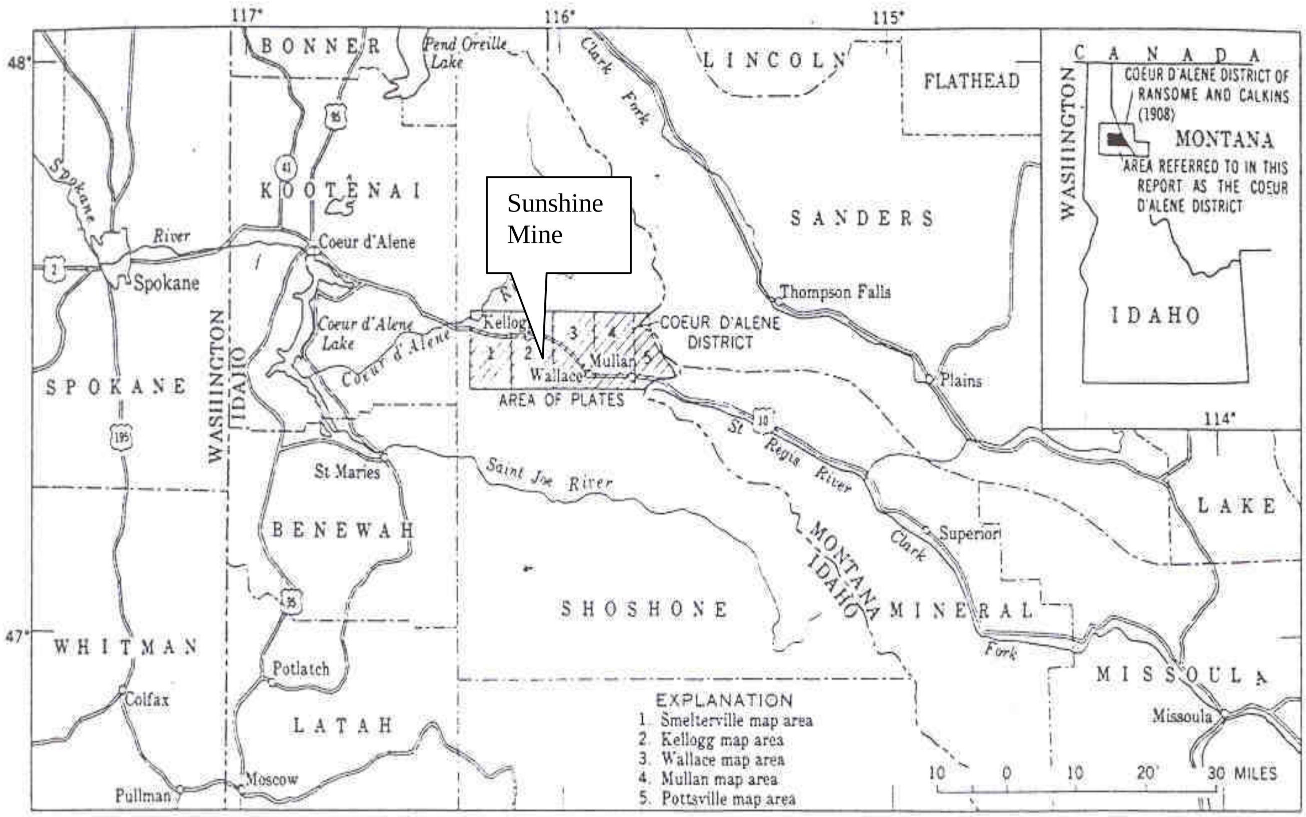

Figure 6.1. Map showing location of the Coeur d'Alene mining district (Area of Plates), Shoshone County, Idaho (from USGS Prof. Paper 445, 1964)

The Sunshine Mine property includes both owned and leased properties and both patented and unpatented claims with a total mineral rights area of 5,758 acres. Figure 6.2 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.

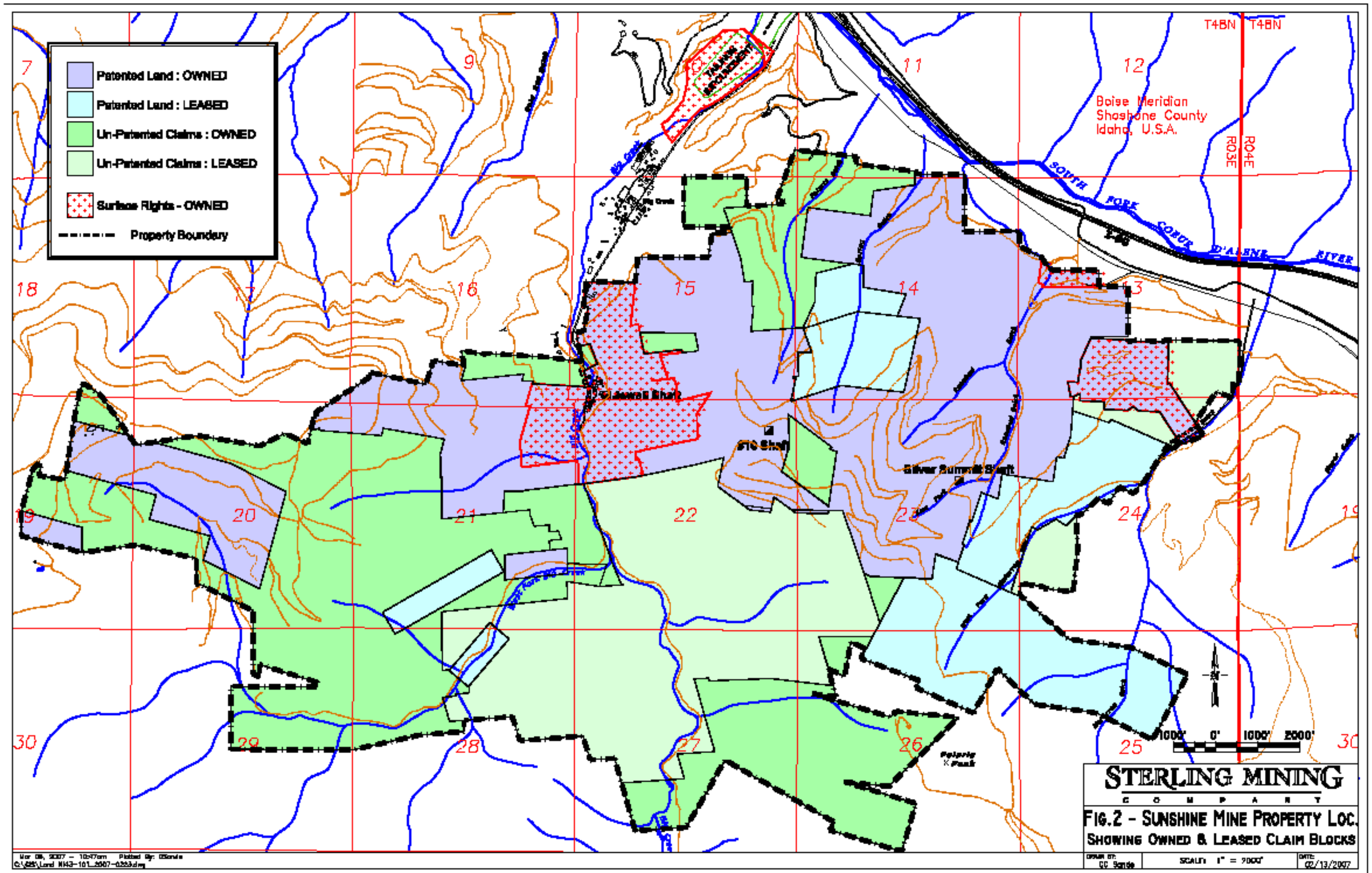

Figure 6.2 Sunshine Mine Owned and Leased Claim Blocks

Figure 6.3 below shows the leased and agreement based royalty areas.

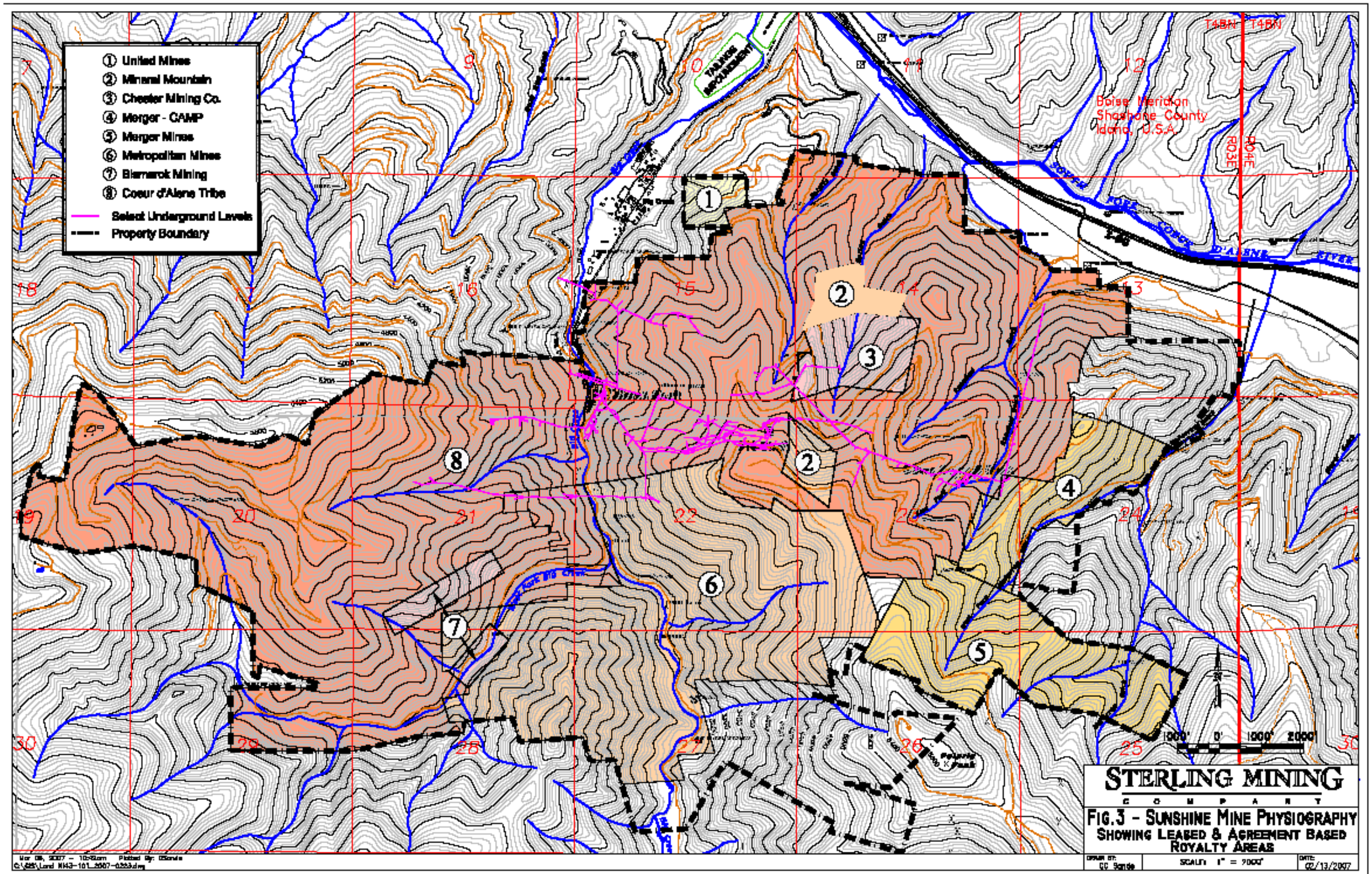

Figure 6.3 Leased and Agreement Based Royalty Areas.

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 Sunshine Precious Metals, Inc. ("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 6.1 sets out the various properties that comprise the Sunshine property

Table 6.1
Properties Comprising the Sunshine Mine

Property	Owner	Patented Claims	UnpatentedClaims	Acreage
Sunshine	SPMI	144	47	2,940
Sunshine	Sterling	6	68	1,051
Metropolitan	Metropolitan	2	67	1,020
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**	**5,930**

7.0 ACCESSIBILITY, CLIMATE, LOCAL RESOURCES, INFRASTRUCTURE AND PHYSIOGRAPHY

Access to the property from Coeur d'Alene is by Interstate highway I-90 to the Big Creek turnoff 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.

8.0 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 in1934. 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, direction 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, being 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 neighboring 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.

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9.0 GEOLOGICAL SETTING

9.1 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, Revette 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 Revette and St. Regis formations of the Ravalli group. This thick sequence (up to 12.4 miles) of middle Proterozic 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-Cambian?) 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.

9.2 Property Geological Setting

9.2.1 Lithology

Ore deposits are localized in the 600 ft. thick St. Regis formation and the underlying upper members of the 3,000 ft thick Revette 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, serictic quartzite, and vitreous quartzite. Siltites and argillites dominate in the St. Regis while in the Revette 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.

9.2.2 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

9.2.3 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

10.0 DEPOSIT TYPES

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 possible related to the Idaho Batholith.

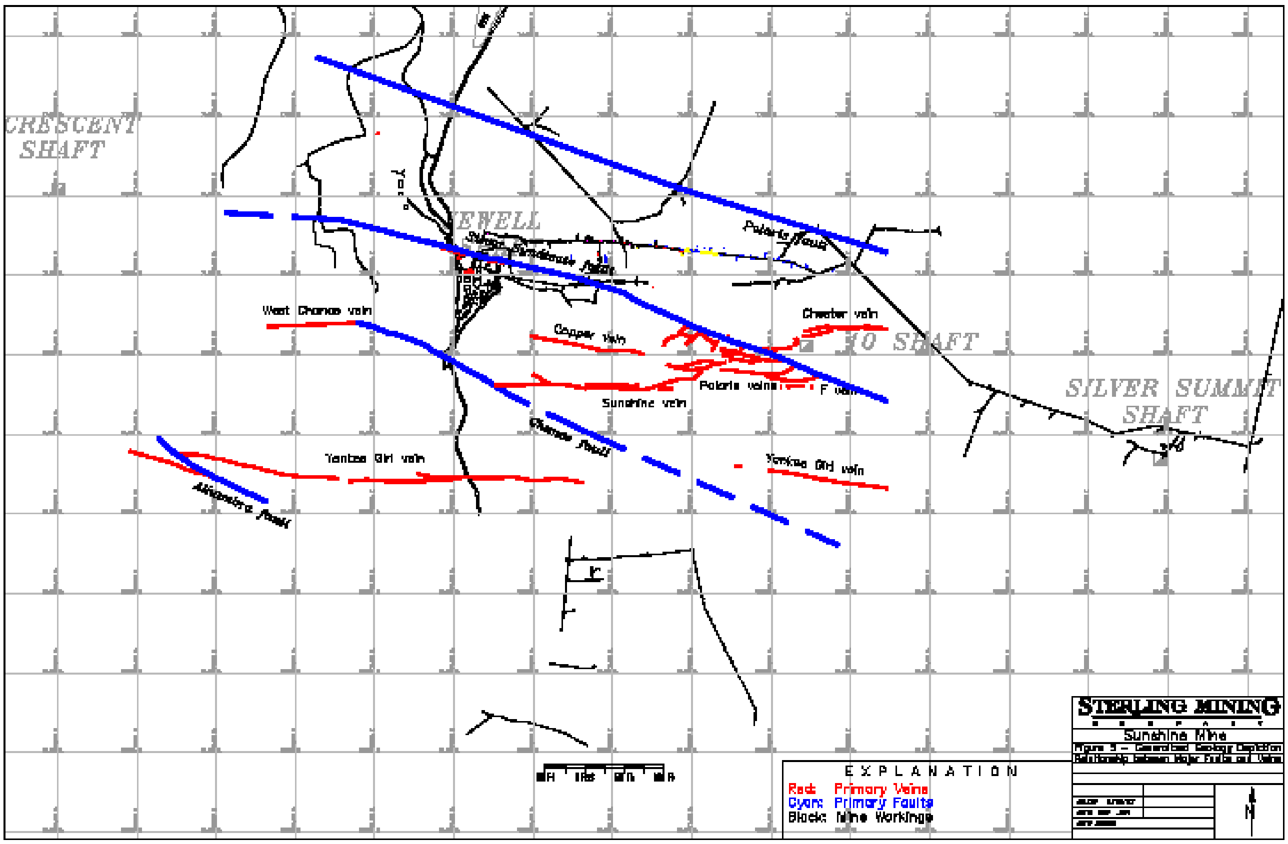

Figure 10.1 General Relationship Between Faults and Veins

11.0 MINERALIZATION

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 each of which has produced over 100 million ounces of silver. Major veins strike east-west and dip about 65º to the south. Locally, dips range from 45º to 90º. 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 25º 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, pyrargyrite, and magnetite

Figure 10.1 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 11.1 below depicts a long section view looking north showing the major veins of the Sunshine mine projected onto a vertical plane.

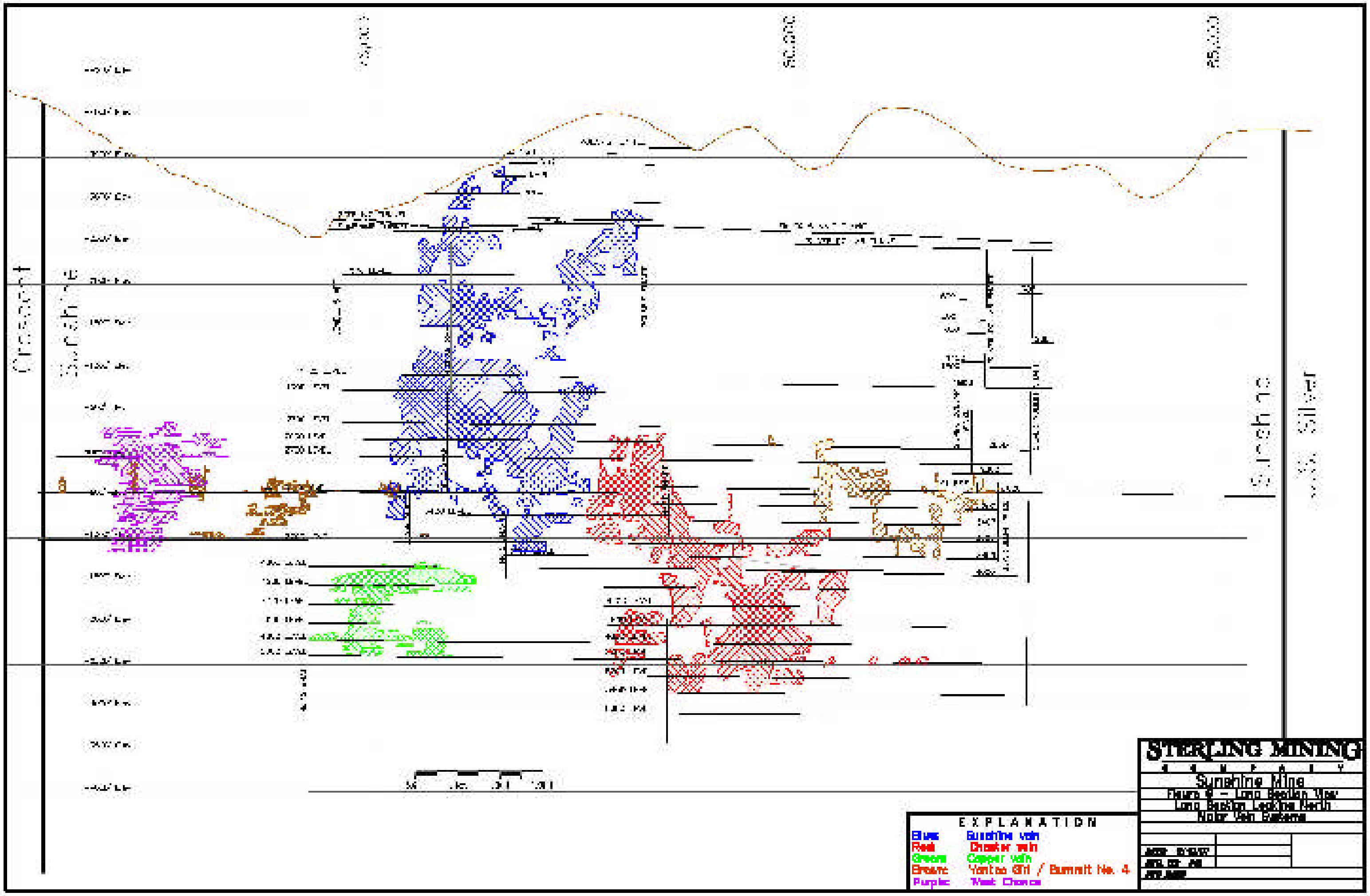

Figure 10.2 Long Section of Major Veins projected onto a vertical plane.

12.0 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 being driven to join the Sunshine and Silver Summit tunnels has allowed underground diamond drilling exploration to be resumed in the upper country mine area.

12.1 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 that 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 116-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.

12.2 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. When the Sterling Tunnel is completed this 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.

13.0 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 percussion 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.

14.0 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 that 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.

14.1 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 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 Sunshine Precious Metals, Inc. (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.

15.0 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.

16.0 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.

17.0 ADJACENT PROPERTIES

There is no available information from adjacent properties.

18.0 MINERAL PROCESSING AND METALLURGICAL TESTING

No new mineral processing or metallurgical testing has been carried out. Concentration of the ore to provide a high grade silver concentrate was being carried out in the flotation mill at mine closure. The mill will be reactivated at the start of sustained mining.

19.0 MINERAL RESOURCE MINERAL AND RESERVE ESTIMATE

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 of Section 19 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.

19.1 Cut-off Grade

The Sunshine Mine, at mine closure in early 2001, had 'Legacy' reserves that are now classified as Measured and Indicated resources. The estimated cut-off grade at that time, considering a year 2000 silver price that averaged $4.96 per ounce, was 15 opt.

The silver price used in Behre Dolbear's Phase 1 study, finalized in May of 2006, that reviewed the mineral inventory at the mine to determine if any economic reserves existed was is $6.23 per ounce. With this silver price and updated cost data, the cutoff grade for estimating mineralized material was lowered from 15 opt to 11 opt.

All of the SPMI "Legacy Blocks" were then tabulated together with those additional blocks that graded between 11 opt and 15 opt. The West Chance and the SR1 mining areas were also reviewed and five additional blocks from material not defined by SPMI in 2001 were also added.

19.2 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 – On plan*
  - above water level
  - positioned early in the mine startup plan

*Refers to the Sunshine internal document: "Return to Production – Critical Path Development of the Sunshine Mine." February 27, 2007.

- Indicated mineral resource – On plan
    - mostly below water level during initial mining period
    - requiring some development for mining
    - positioned later in the mine startup plan

- Indicated mineral resource – Not on plan
    - requiring substantial development for mining
    - either dry or wet

The estimated Sunshine mine resources are stated in Table 19.1 below.

Table 19.1
Sunshine Mine Mineral Resources

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**

19.3 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 favorable 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 (≅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 19.2 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.

Table 19.2
Sunshine Mine Inferred Resources.

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**

19.4 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.

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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 19.3 below

Table 19.3 **Sunshine Mine Reserves**			
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**

- Silver grades are rounded numbers

20.0 OTHER RELEVANT DATA AND INFORMATION

20.1 Return to Production – Critical Path Development of the Sunshine Mine February 09, 2007

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.

20.1.1 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, in March 2007, work began rehabilitating the Con Sil Shaft from the top station downward to the 3000 foot level. This rehabilitation is expected to be completed in May 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.

20.1.2 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 has risen to the 3246 level elevation in the Jewell Shaft (2/7/07). 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 25 gpm. Total mine inflow is seasonal and ranges from 150 to 250 gpm. Dewatering activities recently commenced at about 600 gallons per minute, causing draw down of about 1ft/day.

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.

20.1.3 Pre-Development Work

20.1.3.1 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 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 44,380 tons with silver content of approximately 1,124,100 ounces.

20.1.3.2 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. These stopes contain 89,670 tons with silver content of approximately 1,833,500 ounces.

20.1.4 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 53,880 tons with silver content of approximately 1,583,100 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.

21.0 REFERENCES

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22.0 CONCLUSIONS

There have been no new field surveys carried out by staff or the writer. 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.

Sterling has planned a phased approach to achieving the planned production rate of 1,000 tpd. This production plan incorporates yet-to-be-identified mineralization in previously productive mine workings. Behre Dolbear has not included unidentified mineralization in the mining reserve and has restricted the economic analysis to Proven and Probable ore reserves.

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 will 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 that is portrayed in the Sunshine internal document "Return to Production - Critical Path Development of the Sunshine Mine", which considers an aggressive development program that will 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.

23.0 RECOMMENDATIONS

The development plan "Return to Production - Critical Path Development of the Sunshine Mine" has been well thought out and it is recommended that this plan be closely followed.

The exploration program that is built into "Return to Production - Critical Path Development of the Sunshine Mine" has been properly developed and it is recommended that plan this should be closely followed.

The Capital Cost of the development and preliminary exploration plan is estimated to be $8,520,000.

24.0 DATE AND SIGNATURE PAGE

The undersigned prepared this Technical Report, titled Technical Report on the Sunshine Mine, Big Creek, Idaho, U.S.A; dated 16 April 2007.

The format and content of the report are intended to conform to Form 43-101F1 of National Instrument 43–101 (NI 43–101) of the Canadian Securities Administrators.

Signed and Sealed

Derek Rance P.Eng 16 April 2007.

Dr. Warren Geiger P.Eng, P.Geol 16 April 2007

25.0 ADDITIONAL REQUIREMENTS FOR TECHNICAL REPORTS ON DEVELOPMENT PROPERTIES AND PRODUCTION PROPERTIES

25.1 Mining Operations

25.1.1 Mine Operations

The Sunshine Mine is a hard rock underground mine. Primary access to the lower levels of the mine is through the 4 compartment Jewell Shaft The shaft extends vertically downward 4,000 feet with primary haulage ways connecting on the 3100 and 3700 levels. The shaft has a nominal hoisting capacity of 1,500 tpd.

The Silver Summit tunnel and vertical shaft (winze) provide a secondary escape way and could possibly be used to augment the haulage of ore and waste from the mine. The number 12 shaft (winze) will be rehabilitated and service the mine to the 5000 level on the west end of the mine. The number 10 shaft that crosses the Chester vein will be abandoned because of poor ground conditions. Access to areas of the mine served by the number 10 shaft will be replaced by LHD ramps descending from the east end of the 3700 level (CSR) ramp system.

Sterling Mining Company plans to begin production in December 2007 at a rate of 250 tpd and will incrementally increase production annually until it reaches 1,000 tpd by 2011, according to the current forecast. Sterling will use both conventional (jackleg drilled, slusher excavated) and trackless or Load-Haul-Dump (LHD) (jackleg drilled and LHD excavated), cut and fill stoping methods depending upon the location of the stope in the mine and the size of the orebody being mined. The LHD stopes are backfilled with development waste, and the conventional stopes are backfilled with sand to provide ground support. The sand is produced from the concentrator tailings. The mine plan provides for approximately 56% of production to be provided by the LHD method of mining.

The ore and some of the waste will be hauled to Jewell Shaft ore and waste pockets and hoisted to the surface via the Jewell Shaft. The ore will be dumped into the concentrator's coarse ore bin, and the waste will be hauled to waste rock sites at the mine.

The mining methods have a long history of being practiced by the previous operator and are well developed and understood by the Sterling personnel, many of whom were employed by the previous operator.

25.1.2 Milling

Sterling's plan is to employ the nominal 1,000 tpd rehabilitated flotation concentrator facilities used by the previous operator. The concentrator facilities allow for the production of more than one concentrate product. However, the current mine plan is for a single copper/silver sulfide concentrate ready for shipment to smelters. The hoisted ore is dumped from the Jewell Shaft skips into a 650 ton coarse ore storage bin. The ore is crushed in a two stage crushing plant utilizing a 3 foot gyratory primary crusher. The primary crusher discharge is screened with two vibrating screens using ½ inch wire mesh. The oversize is fed to a 4 foot cone crusher and the undersize is conveyed to a 1,200 ton multi-compartment fine ore bin.

Grinding of the fine ore is performed by three primary ball mills (two Hardinge 8' x 4', and one Denver 8' x 8') operating in closed circuit with a combination of screw and cyclone classifiers. Classifier overflow is fed to the primary flotation circuit. The primary flotation circuit consists of two cleaner, four rougher, and four scavenger cells. The tails from the primary circuit are sent to the second flotation circuit, which is configured in the same manner as the primary circuit. The tails from the second circuit are sent to the third flotation circuit, which is configured as the other two circuits. The tailings of the third circuit are classified by cyclone with about 50% of the coarse fraction being pumped to the sand storage tanks to be used for sand fill underground, and the other 50% being piped by gravity to a 33 acre tailing pond which is located about one mile below the mill in the Big Creek valley.

The concentrates from the cleaner cells of the primary circuit are sent to a silver re-treatment circuit, which consists of six cleaner and two re-cleaner flotation cells. Concentrates from the second circuit are sent to a regrind mill operating in closed circuit with cyclone classifiers. Concentrates from the third circuit are fed to the second circuit. The silver re-treatment circuit suppresses the iron and upgrades the concentrate, which is sent to disc filters for dewatering to achieve nominal 90% solids. Tails from the re-treatment circuit are returned to the second flotation circuit.

The metallurgical processes were well developed by the previous operator, tailored to the type of ore being mined, and is well understood by the Sterling personnel, some of whom were employed by the previous operator.

25.2 Recoverability

A review of production records from December 1, 1998 through May 30, 1999 indicates that the mill consistently yielded a tailing averaging 0.86 opt Ag. With an average head grade of 26.1 opt Ag the indicated silver recovery is 96.7 percent. On a projected head grade of 22.1 opt Ag as indicated in the 7-year LOM plan, the average silver recovery over the current mine life is estimated by Behre Dolbear at 96.1 percent.

The lead recovery, as published by Sunshine in their 10K form, indicates a recovery from mine ores of approximately 92.5 percent. This value has not been verified by a review of actual production records in as much as Sunshine did not publish monthly results of ore grades for metals other than silver. The recoveries projected in the 7-year plan seem reasonable when compared with actual experience.

25.3 Markets

The high antimony (approx. 18%) and arsenic (approx. 0.7%) silver concentrates that Sunshine will produce are attractive thus far to only H&H Metals in Onsan Korea and Xstrata's Horne smelter in Noranda, Quebec Previously, the Sunshine Mine (without the permanently shutdown antimony plant), railed concentrates directly to ASARCO's East Helena Montana Smelter (now closed), 236 miles east of Wallace. Concentrates destined for export to Korea will be put into "supersacks" at the mine and trucked to Spokane, where ocean containers will be loaded and trucked to Seattle's container port. Horne smelter concentrates will be shipped in dump trucks to Superior, Montana 60 miles east, or Spokane, Washington 80 miles northwest, for gondola car loading bound for Canada.

Sterling has not yet entered into any contracts for the sale of its concentrates, but will enter into such contracts when the production schedule reaches a high level of certainty (at or near the date production begins). The terms that have been quoted to Sterling for the sale of the Sunshine concentrate will provide for payment of 83.5% of gross metals value from one smelter and a payment of 88.1% of gross metals value from another smelter after deductions for freight, insurance and miscellaneous charges to ship the concentrates to the smelters.

25.4 Contracts ....

Sterling has not yet entered into any smelting, refining, concentrate transportation, sales, hedging or forward sales contracts or arrangements as of the date of this report. However, Sterling is planning to enter into contracts for many of these services in the near future. It is reasonable to expect that Sterling will apply the same criteria to future contracts that it has applied in the past and that it is applying currently, and that such contracts will be within industry norms.

25.5 Environmental Consideration

The mine has operated almost continuously since 1885, with various changes in production levels and extraction, beneficiation, and processing methods since that time. As such, many process emissions, discharges and waste management activities may be grandfathered under the state and federal regulatory framework. Further, the land position involves mostly patented claims, and therefore surface and underground operations have not been subject to federal agency plan of operations approvals and completion of environmental impact statements. The U.S. Environmental Protection Agency (EPA), Region X, Seattle and the Idaho Department of Environmental Quality inspections have mostly focused on water discharges.

Since the 1999 Behre Dolbear Due Diligence investigation, the Sunshine Mine has ceased operation and changed ownership, with assets being controlled by different owners or lessees. Sterling is currently leasing the orebody, mining, milling, and ancillary facilities from American Reclamation, Inc. and has purchased the 33 acre tailings repository and assumed the NPDES permit from Formation Capital Inc.

Formation Capital controls the remains of the historical Sunshine silver and antimony refineries. There are numerous water discharges into the Sunshine tailing impoundment area from inactive mining operations, septic tank discharges, and storm water. However, there have been no apparent discharges to the South Fork of the Coeur d'Alene River from NPDES discharge permit point 001 since cessation of operations in early 2001. The current NPDES Permit, issued August 8 and effective September 9, 1991, expired September 9, 1996. It was administratively extended thereafter. It included waste streams from mining, crushing, milling, and concentrating ore from the Sunshine Mine, and ancillary facilities. It also included waste streams from the antimony refinery, the silver refinery, Price Tunnel drainage through the Sunshine Jewell adit, and drainage water from the Bunker Hill Crescent Mine. The permit allowed three discharge points:

- ♦ Outfall 001 permitted decant water discharge from Sunshine Mine Tailings Pond No. 2 into the South Fork of the Coeur d'Alene River.
- ♦ Outfall 002 permitted non-contact compressor cooling water from the Sunshine Mine compressor plant into Big Creek.
- ♦ Outfall 003 permitted discharge of mine drainage water from the abandoned Price Tunnel into Big Creek.

Modifications during the life of the 1991 Permit, approved by EPA Region 10, allowed Sunshine Mine to discharge Outfall 003 (Price Tunnel) mine drainage water into the Sunshine Mine pump discharge water line connected to the mill tailing line. Also allowed was connecting Outfall 002 non-contact compressor cooling water overflow from the Sunshine silver refinery head tank into the Sunshine Mine tailing line.

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 permit NPDES discharge permit limitations will require treatment of the mine water in order to comply with iron and manganese limitations. The other options for waste water are zero discharge and land disposal.

Other permits and documentation are in good order and the Sunshine staff is attentive to proper environmental management and compliance. Sterling has a Storm Water Pollution Prevention Plan, NPDES Permit IDRO5A541, dated April 2004 and revised May 2005 which is in compliance with Idaho and Federal regulations. In addition to the SWPPP, a Spill Prevention Control and Countermeasures (SPCC) Plan under Section 311 of the Clean Water Act was prepared in 1994 and has been updated. Materials Safety Data Sheets (MSDS) were collected and organized to characterize all of the chemical compounds used on site. Sunshine has complied with Toxic Release Inventory (TRI) reporting, that required mining companies to file TRI reports by July 1999 for mining companies under the federal Emergency Planning and Community Right to Know Act. The data were released to the public.

The tailings dam, through the use of additional lifts is estimated to have a current capacity of approximately 2.5 million tons (7 to 8 year life at full production) before reaching its engineered capacity. Sterling's current plans are to add a lift in 2008, which will provide an approximate 700,000 ton capacity. Other lifts will be added as needed.

Water in the Sunshine Mine has risen to below the 3100 level since the mine was shut down in 2001. Samples collected from the flooded portions of the Sunshine Mine have been analyzed and confirm the presence of manganese and iron in elevated levels. Currently iron, manganese and "total suspended solids" are the elements which may require treatment to meet discharge standards dictated in the 1991 National Pollutant Discharge Elimination System (NPDES) Permit issued by the EPA.

Sterling has retained Cascade Earth Sciences (CES) to review and evaluate those treatment technologies identified as most effective and efficient for treating the wastewater at the Sunshine Mine.

A new technology identified as Rotating Cylinder Treatment System (RCTS) is reported to be exceptionally effective in the removal of iron. In-situ testing of RCTS is reported to have been performed at a mine located near the Sunshine Mine, and is reported also to have been effective at removing manganese. Construction, installation, and first year operation of the RCTS, modified to treat the Sunshine Mine water in quantities of up to 1000 gallons per minute (gpm) has been estimated to cost $581,500. Sustained annual operating costs have not yet been determined, but are expected by Sterling to be less than the first year installation and operating costs. The RCTS option would use retention of the treated wastewater in the tailings impoundment as the mechanism for the removal of total suspended solids.

CES has recommended a multimedia treatment system (permanganate and zeolite, also known as "greensand") coupled to an ultra-filtration system for the long term treatment of the wastewater. CES estimates this system will cost approximately $820,000 to install. Annual operation costs have not been developed, but are expected to be less than the installation costs. The bulk of the RCTS equipment is largely portable and can be mounted on trailers or skids. Both the RCTS and the multimedia treatment systems are reported to meet the NPDES permit discharge criteria at reasonable costs.

25.6 Taxes

25.6.1 Taxes

There is a Federal graduated income tax and an Idaho State income tax that apply to Sterling Mining Company including the operations from the Sunshine Mine. There is also an Idaho mine license tax that applies to mining in the State of Idaho. Shoshone County, Idaho levies real and personal property taxes on the mine properties. There are sales and uses taxes that apply to some of the materials purchased by Sterling for the Sunshine mine.

United States Federal corporate income tax rates are applied to Federal taxable income to arrive at Federal tax before credits. The taxable income is the net revenue (NSR and any other appropriate income) less the allowable deductions that include operating costs, administrative costs, royalties, depreciation, amortization and the allowable depletion. The Idaho state taxable income is developed from the Federal taxable income with minor modifications. The income taxes are developed by applying the tax rate to the taxable income and deducting all credits the entity is entitled to.

The Federal corporate income tax rate is 15% for taxable income less than $50,000 increasing to 35% for taxable income over $10 million. The Idaho corporate income tax rate is 7.6% of taxable income. The Idaho mine tax rate is 1% of the net income of the mine reduced by the allowable Federal depletion for the mine. Personal and real property taxes apply to all real and personal property at the mine other than intangible and other exempt properties. The mine is located in multiple tax districts, and the current average property tax rate is about 1.3% of assessed values. The sales and use tax rates are 6% of the price of the items purchased. Personal property that is directly and primarily used in the production process is exempt from the sales and use taxes.

25.6.2 Royalties

Many parts of the Sunshine Mine are subject to royalties that are payable to parties from whom mineral rights are leased or to others who have a right to royalties on certain areas of the Mine. The royalties are based on Net Smelter Returns (proceeds paid by smelters less costs incurred to transport the concentrates to the smelters) for ore produced in the area of the mine subject to the royalties. In one instance, the NSR royalty is tied to the price of silver. The NSR royalties range from 1% to 7% of the NSR. The royalties are mutually exclusive, that is each area of the mine bears only a single royalty, and there are no areas for which more than a single royalty is paid.

There is a net profit sharing agreement on some areas of the mine where Sterling will share profits with the property owners. The net profit sharing agreement provides that Sterling is to pay the property owner up to 50% of the profits for ore mined in that area of the mine. The current plan does not include any ores being mined from the property subject to profit sharing.

25.7 Capital and Operating Costs Estimates

25.7.1 Capital Costs Estimates

The mine capital cost estimate used in the financial analysis in Behre Dolbear's feasibility study includes $13,210,338 in pre-production capital expenses and $2, 578,187 in sustaining capital over the 7-year LOM plan. The pre-production capital estimate is listed in Table 25. 1 below.

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 is the purchase of the tailings dam site from Essential Metals Coporation at a cost of $4.5 million.

Table 25.1 Estimated Pre-Production Capital			
Item	**Year**		
	Total	**–2**	**–1**
Main Mine Fan	3		3
Jewell Hoist MG Sets and Brakes	50	50	
Shafts and Ropes	166	41	125
Silver Summit Power and Hoist	1,100	1,100	
Silver Summit Shaft and Level Cable	358	256	102
Site Repair and Maintenance	54	54	
Compressors – Renovate No. 9 and 5	130	130	
Tailings Line	18	18	
Shop Tools	46	46	
Mine Rescue Equipment	60		60
Jewell Fire System	40	40	
Mine Plant Fire System	50	50	
Mine/Mill Heating System	180	180	
Mine/Mill Hot Water and Gas System	180	180	
Renovation of Rock House – Mill	183	183	
Surface Communication System	30	17	13
U.G. Communication System	75		75
Rock Burst Monitoring System	50		50
Water Treatment Plant	1,000	1,000	
Purchase Tailings Dam	4,500	600	3,900
RaiseTailings Impoundment	2,500	2,500	
Main Substation Transformers	64	64	
Shaft Pump Repairs	80	80	
Sterling Tunnel Power	51	51	
Restock Warehouse	250	50	200
Mine Development	4,195	633	1,360
Total Facilities	**13,211**	**7,323**	**5,888**

25.7.2 Operating Cost Estimates:

The property-wide operating cost used in the feasibility study is shown in Table 25.2 below. It should be noted that these costs are based on a mining rate where only the Proven and Probable reserves are exploited and that new reserves are not created.

Table 25.2 Sunshine Mine Operating Cost Summary									
Account Operations	**Units**	**Total**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Operating Days	Days	**260**	260	260	260	260	260	260	260
Tons Mined/Milled	dst/d	**583**	479	646	654	654	654	547	447
Ton Milled	dst	**1,060,955**	124,565	168,055	170,000	170,000	170,000	142,129	116,206
Ore Grade									
Ag	opt	**22.06**	23.5	24.1	21.3	21.3	20.4	21.7	22.7
Cu	%	**0.44**	0.44	0.44	0.44	0.44	0.44	0.44	0.44
Tailings Grade									
Ag	opt	**0.86**	0.86	0.86	0.86	0.86	0.86	0.86	0.86
Cu	%	**0.02**	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Recovery									
Ag	%	**96.10**	96.34	96.43	95.96	96.06	95.78	96.04	96.21
Cu	%	**96.36**	96.36	96.36	96.36	96.36	96.36	96.36	96.36
Concentrates									
Bulk Concentrate	dst	**17,478**	2,183	3,023	2,689	2,755	2,571	2,293	1,964
Concentrate Grade									
Ag	opt	**1,292**	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Cu	%	**21.0**	21.00	21.00	21.00	21.00	21.00	21.00	21.00
As	%	**0.84**	0.84	0.84	0.84	0.84	0.84	0.84	0.84
Pb	%	**18.00**	18.20	18.20	18.20	18.20	18.20	18.20	18.20
Sb	%	**18.00**	17.57	17.57	17.57	17.57	17.57	17.57	17.57
Bi	%	**0.10**	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Metal Recovered									
Ag	ozt	**22,582,035**	2,820,152	3,905,598	3,474,800	3,559,800	3,321,800	2,961,968	2,537,917
Cu	lbs	**8,998,890**	1,056,311	1,425,106	1,441,600	1,441,600	1,441,600	1,205,254	985,418
Pb	lbs	**6,362,121**	794,532	1,100,339	978,968	1,002,916	935,863	834,486	715,017
Operating Costs									
Mine	$	**105,309,383**	13,260,644	16,551,770	16,982,097	16,304,716	16,148,968	13,934,678	12,126,510
Mill/Surface	$	**25,173,755**	3,439,279	3,692,121	3,703,429	3,703,429	3,703,429	3,541,393	3,390,676
General and Administrative	$	**25,749,990**	3,979,441	4,013,253	4,093,107	3,422,907	3,422,907	3,413,542	3,404,832
Total	**$**	**156,233,128**	**20,679,363**	**24,257,144**	**24,778,633**	**23,431,052**	**23,275,304**	**20,889,613**	**18,922,017**
Mine	$/t Ore	**99.26**	106.46	98.49	99.89	95.91	94.99	98.04	104.35
Mill/Surface	$/t Ore	**23.73**	27.61	21.97	21.78	21.78	21.78	24.92	29.18
General and Administrative	$/t Ore	**24.27**	31.95	23.88	24.08	20.13	20.13	24.02	29.30
Total	**$/t Ore**	**147.26**	**166.01**	**144.34**	**145.76**	**137.83**	**136.91**	**146.98**	**162.83**
Mine	$/oz	**4.66**	4.70	4.24	4.89	4.58	4.86	4.70	4.78
Mill/Surface	$/oz	**1.11**	1.22	0.95	1.07	1.04	1.11	1.20	1.34
General and Administrative	$/oz	**1.14**	1.41	1.03	1.18	0.96	1.03	1.15	1.34
Total	**$/oz**	**6.92**	**7.33**	**6.21**	**7.13**	**6.58**	**7.01**	**7.05**	**7.46**

25.8 Economic Analysis

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 in Section 19. 3 above. NI 43-101 in Section 2.3(b) prohibits the disclosure of an economic analysis that includes Inferred Resources.

The financial analysis shown 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.

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, and
- the net present value at a 10 percent discount rate is $10.5 million.

Sensitivity analyses have been performed on three variables: metal prices, on-site direct operating costs, and capital investment. Results are presented as Table 25.3

For the metal price sensitivity, the highest prices are the London Metal Exchange cash prices on August 30, 2006. The next-highest prices are the January through August 2006 average prices (8 months). The lowest prices are the 3-year average prices for the period from September 2003 through August 2006.

For the operating cost sensitivity, all operating costs for mining, milling and general and administrative are increased or decreased by the given percentage, for all years.

For the capital investment sensitivity, all capital investments are increased or decreased by the given percentage, for all years.

The results of the sensitivity analysis are shown in Table 25.4 below

Table 25.4 Sensitivity Analysis 7-year Production Period					
Variable			**Rate of Return (%)**	**NPV, 5% ($)**	**NPV, 10% ($)**
Metal Price					
Ag	**Cu**	**Pb**			
$12.22	$3.38	$0.56	43.60	$49.7	$34.7
$11.22	$2.94	$0.52	35.53	$37.2	$25.0
$10.00	$2.00	$0.43	21.64	$18.5	$10.5
$8.84	$1.87	$0.43	7.43	$2.4	<0
$7.68	$1.74	$0.43	<0	<0	<0
Operating Cost					
+15%			7.36	$2.6	<0
+10%			12.45	$8.1	$2.2
+5%			17.13	$13.4	$6.4
Base			21.64	$18.5	$10.5
–5%			25.91	$23.3	$14.4
–10%			29.88	$27.8	$17.9
–15%			33.61	$31.9	$21.2
Capital Investment (tailings dam acquisition price is not varied)					
+15%			19.89	$17.2	$9.3
+10%			20.46	$17.7	$9.7
+5%			21.04	$18.1	$10.1
Base			21.64	$18.5	$10.5
–5%			22.26	$18.9	$10.9
–10%			22.90	$19.3	$11.3
–15%			23.56	$19.7	$11.7

25.9 Payback

The payback for the approximately $28 million that Sterling will have spent in Capital and expenses on the Sunshine Mine prior to production will be recovered in slightly less three years using base case capital, cost and metal price estimates.

25.10 Mine Life

The Sunshine Mine dates back over 100 years. During that time, it has produced over 300 million ounces of silver. The mine often maintained as few as 5 years of proven and probable reserves while it was in operation. Underground mines normally do not maintain large mineral reserves due to the high cost of development. As well, in narrow vein mines development is usually pursued along the vein structures, which, does not create a properly sited drill base that will allow meaningful exploration drilling

The Sunshine Mine has considerable potential to add resources and reserves. There are many areas of the mine that previously had only perfunctory exploration performed on them. This situation resulted from property boundary issues in some early years, and from the difficulty in performing exploration on the veins of the neighboring properties that are now leased by Sterling. The country is mountainous and some of the veins do not crop out at the surface or are hidden by heavy overburden and dense vegetation. Many of the property owners that adjoined the Sunshine Mine were financially unable to fund exploration on their properties.

It should be expected therefore, in light of the previous long mining history of the Sunshine mine, that additional resources and reserves will be discovered.

CERTIFICATE OF QUALIFICATIONS

Derek Rance

I, Derek Rance, P.Eng do hereby certify that:

1. I am Chairman and Senior Associate Behre Dolbear and Company Ltd.
67 Yonge Street, Toronto, On M5E 1J8

2. I am a graduate of The University of the Witwatersrand. B.Sc (Min Eng.) 1959
University of Western Ontario, MBA 1963

3. I am registered as a Professional Engineer with Professional Engineers Ontario #38087011

4. I have worked as a Mining Engineer for a total of 45 years since my graduation. My relevant experience for the purpose of the Technical Report is:

    - Mine Manager of Dickenson Mines (a deep underground narrow vein gold mine that incorporated a flotation circuit in its milling process) for 9 years.

5. I have read the definition of "qualified person" as set out in National Instrument 43-101 ("NI 43-101") and certify that by reason of my education, affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, I fulfill the requirements to be a "qualified person" for the purposes of NI 43-101.

6. I am responsible for the preparation of Sections 3-8,17-18, 19.3 20-25. of the Technical Report on the Sunshine Mine, Big Creek, Idaho, USA dated 16 April, 2007 (the Technical Report).

7. I visited the Property on April 4-5, 2007

8. I have had no prior involvement with the property that is the subject of the Technical Report.

9. To the best of my knowledge, information and belief, my section of Technical Report contains all scientific and technical information that is required to be disclosed to make the report not misleading.

10. I am independent of Sunshine Mining Company as set out in section 1.4 of National Instrument 43-101.

11. I have read National Instrument 43-101, and the Technical Report has been prepared in compliance with National Instrument 43-101 and Form 43-101F1.

12. I consent to the filing of this Technical Report with any stock exchange and other regulatory authority and any publication by them, including electronic publication in the public company files on their websites accessible by the public.

Dated April 16, 2007

“Signed and sealed”
Derek Rance P.Eng

CERTIFICATE OF QUALIFICATIONS

K. Warren Geiger

I, K. Warren Geiger of 29 Capri Avenue, N.W., Calgary, Alberta certify that:

1. I am an independent consulting geologist providing exploration services to the mineral exploration community.

2. I graduated from the University of Alberta with a B.Sc. degree in mining engineering in 1955 and subsequently obtained a M.Sc. degree in economic geology from Cornell University in 1959 and a Ph.D. degree in economic geology from Cornell University in 1961.

3. I am a member of the Association of Professional Engineers and Geoscientists of British Columbia (P.Eng.) and a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (P.Geol.).

4. I have practiced my profession continuously since 1961 and have been involved in projects and evaluations exploring for precious and base metals and non-metallic minerals in Canada, United States of America, Mexico and Ecuador. As a result of my experience and qualifications I am a Qualified Person as defined by National instrument 43-101 and am the Qualified Person for this Instrument.

5. I have read the definition of "qualified person" as set out in National Instrument 43-101 ("NI 43-101") and certify that by reason of my education, affiliation with a professional association (as defined in NI 43-101) and past relevant work experience, I fulfill the requirements to be a "qualified person" for the purposes of NI 43-101.

6. I am responsible for the preparation of Sections 9-16, 19.1-19.2. of the Technical Report on the Sunshine Mine, Big Creek, Idaho, USA 16 April, 2007 (the Technical Report).

7. I visited the Sunshine Mine property for a week in August 2006 and from February 4 to February 28, 2007.

8. I have had no prior involvement with the property that is the subject of the Technical Report.

9. To the best of my knowledge, information and belief, my section of Technical Report contains all scientific and technical information that is required to be disclosed to make the report not misleading.

10. I am independent of Sunshine Mining Company as set out in section 1.4 of National Instrument 43-101.

11. I have read National Instrument 43-101, and the Technical Report has been prepared in compliance with National Instrument 43-101 and Form 43-101F1.

12. I consent to the filing of this Technical Report with any stock exchange and other regulatory authority and any publication by them, including electronic publication in the public company files on their websites accessible by the public.

Dated April 16, 2007

"Signed and sealed"
K. Warren Geiger P.Eng