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Metalline Shareholders:

Metalline has been the operator of the Sierra Mojada Project since Penoles and Metalline terminated the Penoles Earn In Agreement in November, 2003.

In January 2004 Metalline activated its Hagby diamond drill and commenced a drilling program to continue to define an oxide zinc reserve. Additional drills were added April through July to the present 4 drill program. To date 160 holes have been drilled with a total of 15,602 meters completed

Drilling continues with the objective of defining the limits of the Iron Oxide (Red Zinc) Manto and to determine its grade. The projection of the Iron Oxide Manto to the west into the La Esmeralda Mine will also be drilled. The La Esmeralda hosted the largest ore bodies of the Lead Manto and from examination of old workings is known to have oxide zinc mineralization. Drilling can be done from the 4 level of the San Salvador mine to determine the westward continuation of the Iron Oxide Manto. In addition, the Smithsonite (White Zinc) manto will be drilled to determine its character and extent in the San Salvador and Encantada mines.

Reserva International of Reno, Nevada has been retained to evaluate the Sierra Mojada data. Reserva specializes in reserve evaluation for the mining industry internationally.

Tim Carew formed Reserva in 2003 and is its President. Tim was formerly the Gemcom International manager of U.S. and international operations Reno, Nevada. Tim has been with Gemcom since its inception as a mine software company under Stephen Robertson and Kirsten (SRK) in Canada in the mid 80's.

Reserva has completed a block model evaluation, using Gemcom mine modeling software, of the oxide zinc mantos diamond drill, channel sample and percussion drill data. The block model result for the Iron Oxide (Red Zinc) manto is 22.6 million metric tons grading 8.11% using a cut off grade of 5%, 1.8 million tons of contained zinc metal.

Block Modeling is the most sophisticated method of evaluating ore reserves developed by the mining industry to date. The process is done using mine modeling software and there are a number of competing versions, Gemcom, Data Mine, MedSystems, Vulcan and others. The volume of sampled mineralization is divided up into blocks of rectangular dimensions, for Sierra Mojada blocks 10 meters by 10 meters horizontally and 5 meters vertically. The average grade

of the sample data within each block is given a weighting factor than is inversely proportional to distance away from the block, the results of these calculations for all of the blocks containing mineralization results in the average grade of the mineralization. In addition statistical methods, known as Kriegering, are applied to analyze the sample data variability to determine its uniformity and continuity of the mineralization. The results of this process evaluates the grade and tons of the mineralization with a 97% statistical.

Green Team International (GTI) has been retained to do a feasibility study on Sierra Mojada. GTI conducted the first feasibility study on the Skorpion Mine, Namibia, Africa for Reunion Ltd of London. The process of solvent extraction electrowinning of zinc from oxide zinc minerals was developed during this feasibility study. Reunion was subsequently purchased by Anglo American, GTI completed a second feasibility study for Anglo and managed the construction of the Skorpion Mine for Anglo. Skorpion is now in production and the solvent extraction process and the mine are very successful, producing zinc at \$0.25 per pound (\$550 per metric ton). Essentially all, except Skorpion, Mae Sod and a few other oxide zinc mines, world zinc production is produced from sulfide ore by the smelting process at about \$0.35 per pound (\$?? per metric ton)

Termination gives Metalline control of 100% of the project again and is an excellent opportunity and a welcome change. Metalline will continue to define the required reserve and then complete the feasibility study. At successful completion of feasibility, we will have a number of options available and will select the option that maximizes shareholder value.

Fortunately, there is serious interest in natural resources again and financings are being completed on an impressive scale. The cycle has changed! Metalline's Private Placement has been very successful and we have the necessary funds to complete the reserve and start on the feasibility work

Our schedule is to finish definition of the minimum required proven reserve within 3 to 6 months. We are in the process of contracting a reserve evaluation using the current data by Behre Dolbear & Company of Denver, Colorado. The engineering studies to establish project feasibility will require approximately 1 year and the mine and plant can be completed in an additional 2 years.

Our immediate task is to complete reserve definition. During 2002 Penoles constructed underground drill stations which are ideally located to fill in the inaccessible volumes between the intensely sampled volumes and to determine that the ore is continuous. Metalline owns an underground diamond drill and is moving it underground. We plan to have it set up and ready for operation before the Christmas break. We are contracting two very experienced drillers and we will begin drilling in the first weeks of January. It is essential that the drilling returns

high quality samples and underground drilling with the best drillers offer the best avenue to this result. Additional drills will be added as required to keep to our schedule.

Metalline's management is delighted to be back in control of Sierra Mojada and our destiny and we are looking forward to a productive and successful New Year.

Sincerely

Merlin Bingham
President