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Metalline Shareholders:

I am sure all of you have concerns about the termination of the Penoles Earn-In Agreement. Consequently, I am writing this letter to clarify the situation.

Penoles, like all companies, have an exploration budget limit; the size of that budget determines how many projects can be funded and the amount for each project. In selecting which projects to fund for the coming year, Penoles decided to fund other projects and chose not to fund Sierra Mojada.

Penoles has been very successful in their precious and base metals exploration programs. They have significantly increased the size of their flagship deposit, Fresnillo – the world's highest grade silver deposit and now it looks like it is also the worlds largest. Penoles has announced capital expenditures for 2004 and they have dedicated about US\$100 million to an expansion of Fresnillo. That expenditure infers a doubling of production from 14 million ounces per year to around 30 million ounces per year. A new Fresnillo-like discovery, 15 kilometers south of Fresnillo, is also high grade and contains gold in addition to silver. They have also significantly increased the size of Francisco Madero, a very large zinc, lead, copper deposit and their largest production mine, 8000 metric tons per day.

Penoles has spent US\$3 million dollars at Sierra Mojada during the last two years. That work has been successful in progressing the Red Zinc Manto toward the required reserve. Metalline is very appreciative of having had Penoles' participation in the project. Their participation, during a period when venture capital was essentially non-existent for natural resource projects is particularly appreciated.

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 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