OURAY SILVER MINES

March 2, 2017

VIA U.S. Mail and Email

Colorado Division of Reclamation, Mining, & Safety
1313 Sherman Street, Rm. 215
Denver, CO 80203

Dear Mr. Marshall,

Ouray Silver Mines Inc. (OSMI) received the preliminary adequacy review (PAR) for Technical Revision number 9 to Permit M2012-032 for the Revenue-Virginius Mine (Mine). The PAR raised three major points, each of which is addressed below under headings that repeat the DRMS point of clarification in italics.

1) *Page 6 of 14 states that once the mill improvements are complete and operational OSMI will sample various mill tailings and waste rock blends to determine what blend is most desirable while remaining inert. Please commit to providing the DRMS with SPLP test results 30 days prior to any material being sold for off-site use. Furthermore, variances in tailings composition may occur over time, how often will the tailings be tested to insure the material remains inert?*

> OSMI requests that synthetic precipitation leaching procedure (SPLP) criteria be established for the sale of a tailings/waste rock blend and that the criteria set to groundwater standards. Setting criteria will allow for managing changing conditions adaptively. Each batch of tailings/waste rock blend, weighing between 2,000 – 5,000 tons, will be tested upon development and stockpiled for use or sale. Batches that do not meet groundwater standards will be placed in the tailings facility. Results from SPLP testing, along with a description of each batch, will be submitted with annual reports.

2) *Please specify in greater detail the proposed water treatment for the mill discharge from the lead and zinc thickeners. What type(s) of treatment will actually be implemented? What equipment will need to be constructed / built to carry out this treatment? Is the proposed treatment able to treat mill discharge to meet the requirements of the Colorado Department of Public Health and Environments Regulation No. 41 Standards for Ground Water? In order to approve this technical revision this information must be provided.*

> OSMI has engaged Barr Engineer to complete final engineering. Confirmatory metallurgical testing is also ongoing with FLSmidth. Though samples were collected in 2016, OSMI believes that confirmatory testing is required during final Metallurgical work. Samples of various proposed effluent streams to be treated are being collected during this process. Based on pilot testing thus far, the Mill discharge is expected to

PO Box 564, 1900 Main Street, Unit 1, Ouray, Colorado, USA 81427
Tel. 970-325-9830 ~ Fax. 970-325-9824

range between 28-30 GPM, though an upper discharge limit of 60 GPM has been proposed as a factor of safety.

Early design data has indicated that a that a filtration system will be used, with real-time turbidity monitoring at the mill control room to allow for rerouting during upset conditions. High turbidity water can be routed back to the process water stream or tailing thickener instead of being discharged. While the exact equipment cannot be specified at this time, permission to discharge is needed to guide Mill design and the design and engineering of the Mill water treatment discharge equipment. OSMI commits to meeting CDPHE Regulation 41 groundwater standards, as presented in the permit, at the point of discharge from the Mill discharge treatment system.

Once final design and testing has proven an adequate final treatment design, this will be submitted under a separate TR or as part of the Annual Report as the Division requests.

3) *Please provide a reclamation cost estimate for the demolition and disposal of all mine related structures, existing and proposed.*

Please find the attached reclamation cost table, which is updated from Table L-2 in Amendment 01 (AM01) of the Permit. The table presents the information found in the previous table, along with the changes proposed in this technical revision and the new cost. Where no changes are being made to the buildings no change in cost has been calculated with one exception. During review of the table, a mistake in the thickener cost was discovered. The AM01 version of Table L-2 overestimated the Thickener reclamation cost at $23,000 and failed to include that amount in the total, which was listed as $23,700. OSMI estimates the cost of Thickener removal at $5,000 and has included the estimate in the new total of $35,100 for existing and proposed buildings.

OSMI appreciates the DRMS consideration of this technical revision.

Sincerely,

Clinton L. Fletcher
President, Ouray Silver Mine

PO Box 564, 1900 Main Street, Unit 1, Ouray, Colorado, USA 81427
Tel. 970-325-9830 ~ Fax. 970-325-9824

Table 1. Exisitng and Proposed Reclamation Cost

#	Structure	Construction	Foundation	Permanent	Post Mine Use	TR09 changes	Reclamation Cost	TR09 Reclamation Cost
1	Office/Dry Building	2 Story	6" concrete slab w/ rebar	Yes, remove certain inside items	Storage	Expansion: add 1,410 square feet (3,760 total)	$2,400	$3,600
2	Filter Building	2 story 6" concrete walls	12" concrete slab w/ rebar	Yes but remove inside equipment	Storage	Expansion: add 6,004 square feet (12,017 total)	$4,000	$8,000
3	500 gal Water Tanks (4)	Plastic 500 gallon water tanks	None	No	None	None	$600	$600
4	Snow Shed/Battery Charger Building	45' x120' metal siding with track	6"concrete slab	Yes but remove inside equipment	Storage	Expanded roofing over existing bonded buildings to connect to Switch yard building	$1,400	$1,400
5	Crusher Retaining Wall	28' long x 16 ' high	Wood and Steel Beams	No	None	None	$4,000	$4,000
6	Septic Tank/Septic Field			Yes	None	None	$0	$0
7	Access Road Retaining Wall	100 ' long gabions	None	Yes	Site Access	None	$0	$0
8	Miscellaneous Surface Cleanup	Various materials on site	None	No	None	None	$3,500	$3,500
9	10,000 Gallon Diesel Tank [a]	Steel tank on skids	None	No	None	None	$500	$500
10	Propane Tanks	tanks covered with 3 sheds	None	No	None	Covered with Sheds	$300	$1,500

Table 1. Exisitng and Proposed Reclamation Cost

11	Mine Equipment Storage/Shop	145' x 50' Quonset Hut	6" foundation to be covered/reclaimed	Building No, Slab Yes	None	Re-arranged storage with additional roofing	$2,000	$2,000
12	Switch gear Building	25' x 30'	Partial concrete slab	Yes	Electrical Use	Roof Expansion	$0	$0
13	Miscellaneous Pipes Structures, Materials					None	$5,000	$5,000
14	Thickener, foundation, and piping	28' diameter x 8 ' high steel structure on steel beams	1692 sq. ft. foundation plus 4 ' high walls with footers for beam support	No	None	None	$23,000	$5,000
						Totals	**$23,700** [b]	**$35,100**

Notes:

a Corrected from 8,000 to 10,000 to reflect the 10,0000 gallon diesel tank that was premitted and installed.

b The previously calcualted total did not include the erroneous Thickener cost.