




MINERALS PROGRAM INSPECTION REPORT
PHONE: (303) 866-3567

The Division of Reclamation, Mining and Safety has conducted an inspection of the mining operation noted below. This report documents observations concerning compliance with the terms of the permit and applicable rules and regulations of the Mined Land Reclamation Board.

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| MINE NAME: Sunnyside Gold Mine | MINE/PROSPECTING ID#: M-1977-378 | MINERAL: Lead, zinc, copper, iron | COUNTY: San Juan |
| INSPECTION TYPE: Multi Person Inspection | INSPECTOR(S): Lucas J. West | INSP. DATE: September 19, 2017 | INSP. TIME: 11:54 |
| OPERATOR: Sunnyside Gold Corp | OPERATOR REPRESENTATIVE: Larry Perino | TYPE OF OPERATION: 112 - Hard Rock Regular Operation | |
| REASON FOR INSPECTION: Normal I&E Program | BOND CALCULATION TYPE: None | BOND AMOUNT: \$60,534.00 | |
| DATE OF COMPLAINT: NA | POST INSP. CONTACTS: None | JOINT INSP. AGENCY: None | |
| WEATHER: Clear | INSPECTOR'S SIGNATURE:  | SIGNATURE DATE: October 16, 2017 | |

GENERAL INSPECTION TOPICS

This list identifies the environmental and permit parameters inspected and gives a categorical evaluation of each. No problems or possible violations were noted during the inspection. The mine operation was found to be in full compliance with Mineral Rules and Regulations of the Colorado Mined Land Reclamation Board for the Extraction of Construction Materials and/or for Hard Rock, Metal and Designated Mining Operations. Any person engaged in any mining operation shall notify the office of any failure or imminent failure, as soon as reasonably practicable after such person has knowledge of such condition or of any impoundment, embankment, or slope that poses a reasonable potential for danger to any persons or property or to the environment; or any environmental protection facility designed to contain or control chemicals or waste which are acid or toxic-forming, as identified in the permit.

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| (AR) RECORDS----- <u>Y</u> | (FN) FINANCIAL WARRANTY----- <u>N</u> | (RD) ROADS----- <u>N</u> |
| (HB) HYDROLOGIC BALANCE----- <u>Y</u> | (BG) BACKFILL & GRADING----- <u>Y</u> | (EX) EXPLOSIVES----- <u>N</u> |
| (PW) PROCESSING WASTE/TAILING---- <u>N</u> | (SF) PROCESSING FACILITIES----- <u>N</u> | (TS) TOPSOIL----- <u>N</u> |
| (MP) GENL MINE PLAN COMPLIANCE- <u>Y</u> | (FW) FISH & WILDLIFE----- <u>N</u> | (RV) REVEGETATION---- <u>Y</u> |
| (SM) SIGNS AND MARKERS----- <u>N</u> | (SP) STORM WATER MGT PLAN---- <u>N</u> | (CI) COMPLETE INSP---- <u>Y</u> |
| (ES) OVERBURDEN/DEV. WASTE----- <u>N</u> | (SC) EROSION/SEDIMENTATION--- <u>N</u> | (RS) RECL PLAN/COMP-- <u>Y</u> |
| (AT) ACID OR TOXIC MATERIALS----- <u>N</u> | (OD) OFF-SITE DAMAGE----- <u>N</u> | (ST) STIPULATIONS----- <u>Y</u> |

Y = Inspected and found in compliance / N = Not inspected / NA = Not applicable to this operation / PB = Problem cited / PV = Possible violation cited

OBSERVATIONS

This inspection was conducted as part of the normal monitoring program established by the Colorado Division of Reclamation, Mining and Safety. The Sunnyside gold mine is listed as an active 112 operation that is currently in final reclamation. The affected lands have been reclaimed to support wildlife habitat and rangeland post-mining land use. The site consists of 159 permitted acres at the Mayflower Tailings Pond #4, Terry Tunnel, Sunnyside Basin and Gladstone Areas. The areas are located in both the Animas and Cement creek watersheds, ranging from 9400 to 12,200 Feet in Elevation. The Division currently holds \$60,534.00 in financial warranty for the site and was not recalculated at this time. Along with the inspector and Operator Representative listed on page one of this report, Russ Means and Tony Waldron of the Division were present during the inspection. Ten Photos accompany this report to illustrate the current site conditions.

Mayflower Tailings Pond #4: The Mayflower Tailings Pond #4 consist of approximately 64 total acres and is located adjacent to the Mayflower Mill Facility and it's its associated tailings ponds which have all been reclaimed and previously released. Proper mine identification signage was posted at the entrance to the site. Access to the site is controlled by a locked gate just off County Road 2.

The side slopes and top of the constructed repository appear to be stable and are in good condition. Photos One and Two show the top of the repository which is well vegetated and showing signs of self-sustainment with previous years biomass observed. The operator expressed that vegetation management is ongoing and continuous, and evidence of chemical weed treatment was observed on site. 8 monitoring wells were observed on the top of the repository, all of which were properly collared and secured. Photo Three shows an example of the covers on the wells. The repository exhibits positive drainage and no impounded storm water or erosional issues were noted. The upland diversion ditch was inspected and appeared to be functioning as designed.

Terry Tunnel Area: The permit area at Terry Tunnel includes approximately 7 acres of affected lands in final reclamation. The permit area is located adjacent to Eureka Creek at 11,600 feet in elevation. The portal and portal pad pre-date the permit and connect with the workings from the American Tunnel. Topsoil was not salvaged during the pre-law mining activities and was not available for reclamation purposes. The portal was closed with two bulkheads and backfilled in accordance with the approved reclamation plan and the conditions of the Consent Decree. The reclamation of the portal was completed in 1996 and the portal can be seen in Photo Four. The mine bench was graded to provide positive drainage, stabilize slopes, and blend with the surrounding topography. The operator imported and distributed earthen materials to support revegetation efforts. Affected lands have been reseeded several times but due to an extremely short growing season and grazing by sheep in the area, revegetation has been difficult to establish. The portal pad with limited vegetative cover can be seen in Photo Five. Although the vegetation is sparse, it has improved since the previous inspection conducted by the Division.

Sunnyside Basin Area: The permit area at Sunnyside Basin total approximately 66 acres with 49 acres affected lands. Sunnyside Basin is a historic mining district with numerous historic and pre-law mining related disturbances located at 12,280 feet in elevation. Topsoil was not salvaged during the pre-law mining activities and was not available for reclamation purposes. Reclamation activities at the area have included backfilling of the Lake Emma subsidence feature, grading of borrow areas, erosion control and revegetation. The backfilled and graded areas appear to be stable and in good condition. No evidence of settling, slumping or erosion was

noted during the inspection. Despite the extremely short growing season, grazing from sheep in the area and unrestricted tourist traffic the vegetative cover of the affected area is very well established. The vegetation appears to be adequate in both density and diversity, and shows signs of multiple year's biomass indicating that the populations are self-sufficient. No erosional issues or noxious weeds were observed in this area. The reclaimed areas can be seen in Photos Six.

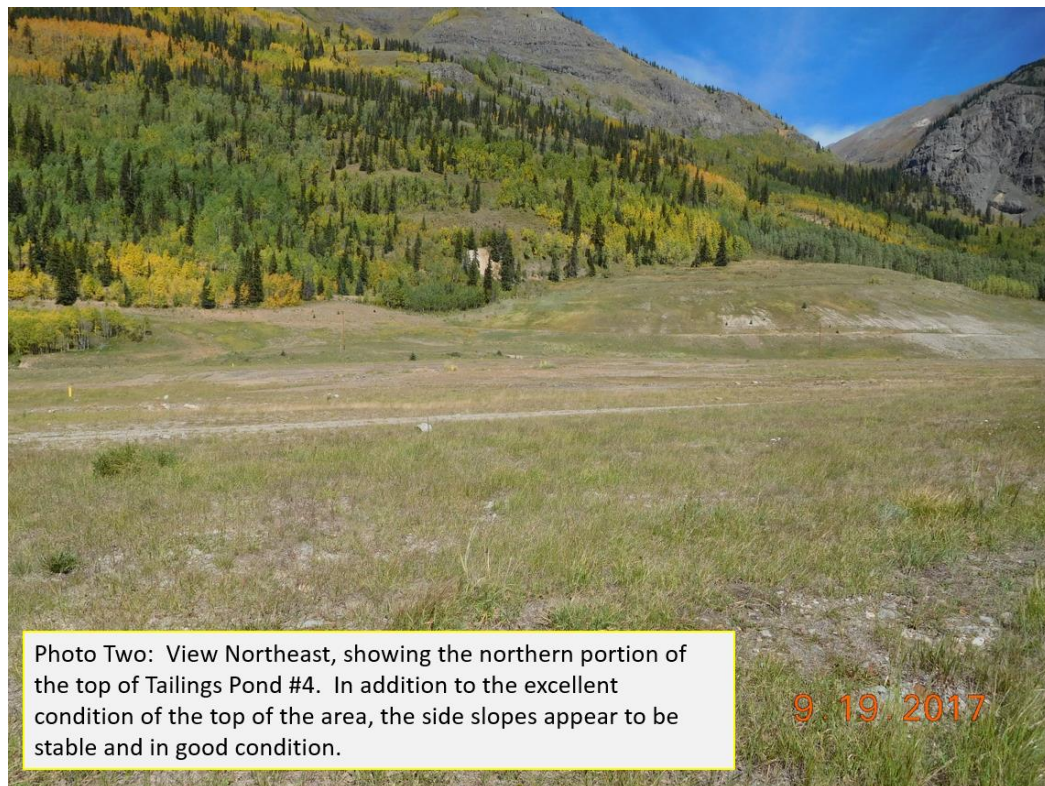
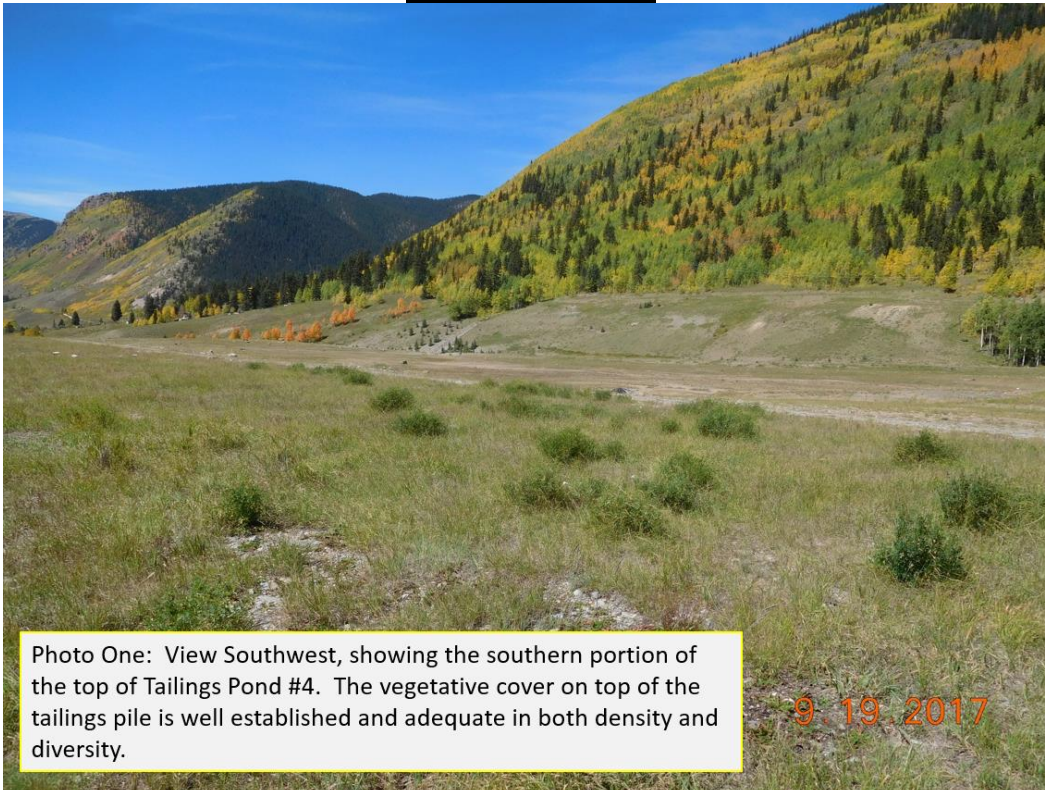
Gladstone Area: The Gladstone area consists of approximately 21 total acres and is located at the historic town site of Gladstone. The area includes the American Tunnel and Herbert Placer area. Reclamation activities were concluded by the operator in 2007. The site has been occupied by the Environmental Protection Agency (EPA) and utilized for the construction and operation of a water treatment facility to treat the discharge from the Gold King Mine. The EPA work will be on going and is not associated with any approved mining or reclamation activities under the jurisdiction of the Division.

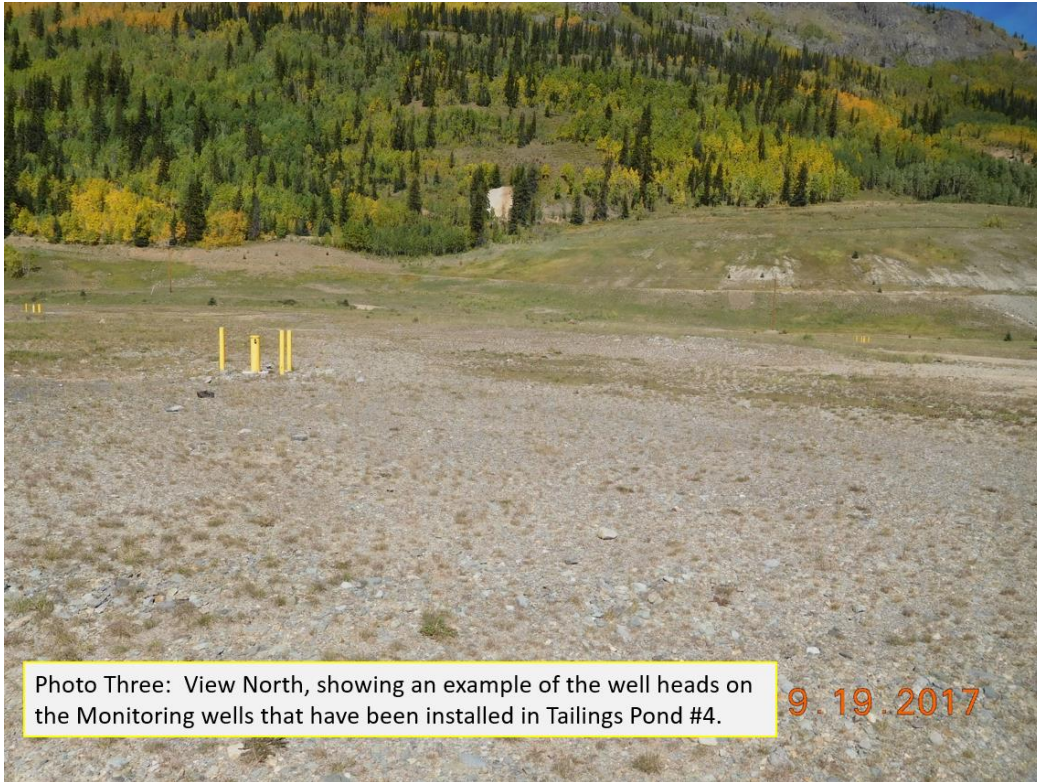
The entirety of the Gladstone area has been re-disturbed for use in the EPA cleanup efforts. Photos Seven, Eight and Nine show the recently constructed facilities that include settling ponds, storage facilities, large Quonset hut and other out buildings, filter bags with secondary containment, as well as a sludge drying area. Almost 100% of the permitted lands at the Gladstone area have been disturbed. Records kept by the Division demonstrate that the Operator had nearly completed the surface reclamation of the site prior to the Gold King Mine Spill. The subsequent re-disturbance of the permitted areas by the EPA have been done post reclamation and without consultation with the Operator. The EPA work will be on going and is not associated with any approved mining or reclamation activities under the jurisdiction of the Division.

The previously backfilled American Tunnel has been re-opened by the EPA as seen in Photo Ten. The tunnel was opened to conduct an inspection of the near surface bulkhead. Discussions with the EPA representative on site indicate that further work will be required to inspect the other bulkheads in the tunnel. The discharge from the tunnel is being routed into a settling pond that feeds into the treatment system that has been established to treat waters from the Gold King Mine. The discharge from the American Tunnel into the EPA treatment system was visually estimated at approximately 100 GPM. The EPA work will be on going and is not associated with any approved mining or reclamation activities under the jurisdiction of the Division.

There were no problems or possible violations observed during this inspection. All responses to this report should be directed to Lucas West at the Colorado Division of Reclamation, Mining and Safety at 1313 Sherman Street, Room 215, Denver CO, 80203, by phone at (970)243-6368 or by email at lucas.west@state.co.us.

PHOTOGRAPHS





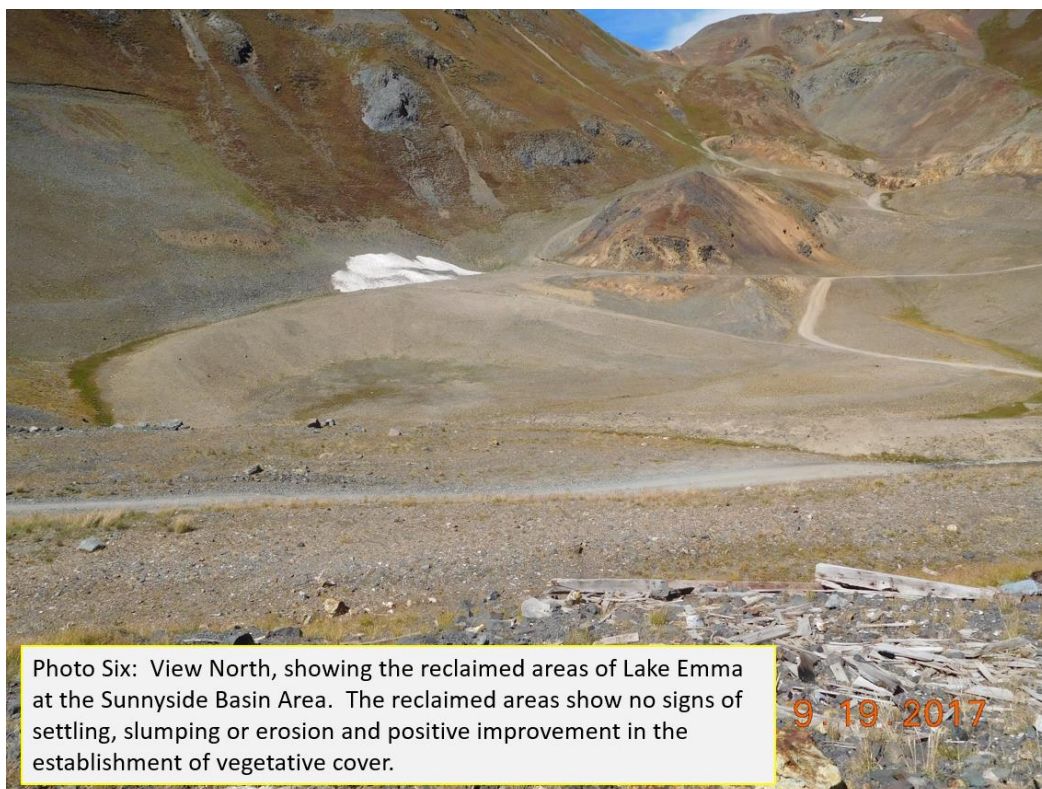
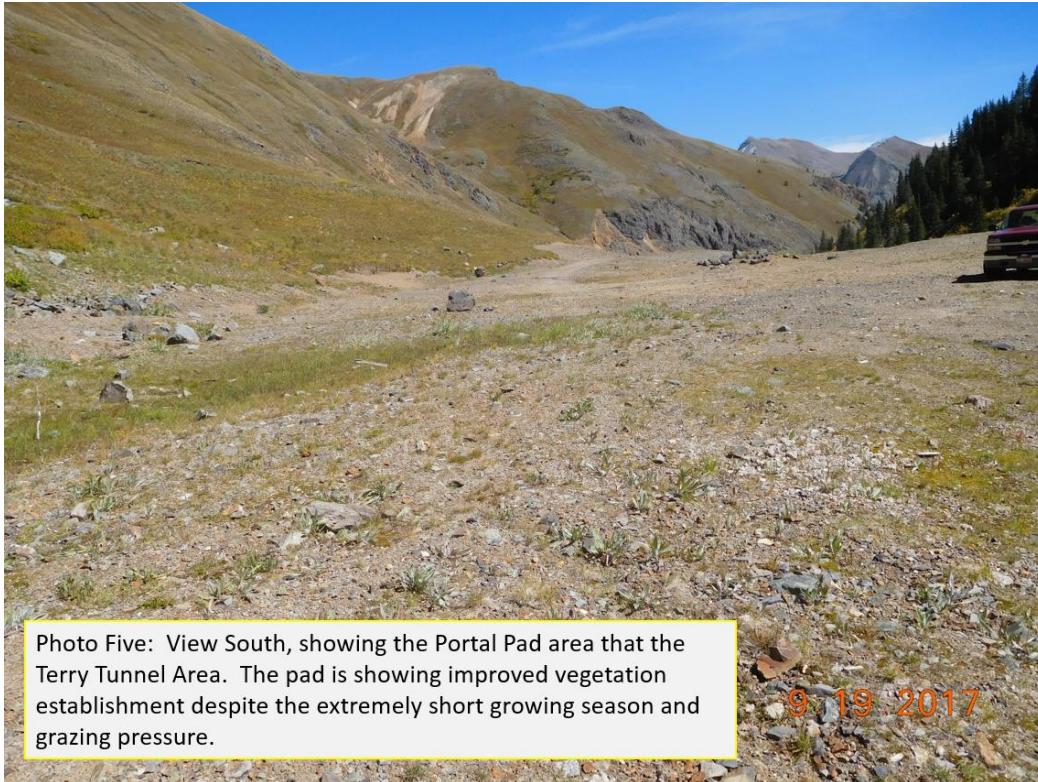
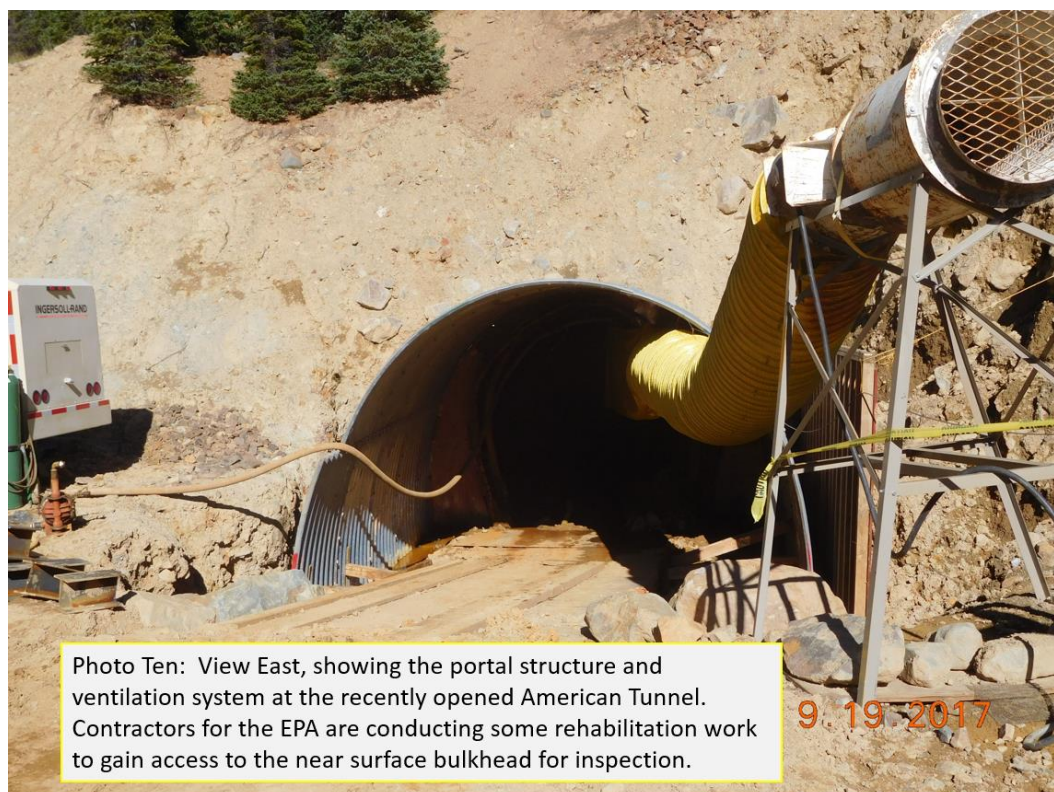




Photo Seven: View Southeast, showing the facilities of the EPA's water treatment facility that has been constructed within the permitted area at Gladstone.



Photo Eight: View Southeast, showing the Quonset hut, various outbuildings, unlined sludge drying repository, and other facilities constructed by the EPA.



Inspection Contact Address

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Enclosure

CC: Russ Means Senior Environmental Protection Specialist