

STATE OF COLORADO

DIVISION OF RECLAMATION, MINING AND SAFETY
Department of Natural Resources

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John W. Hickenlooper
Governor

Mike King
Executive Director

Loretta E. Pineda
Director

May 23, 2013

Randy McClure
Rio Grande Silver, Inc.
P.O. Box 610
Creede, CO 81130

**Re: Modification MD-1, San Juan Silver Project, File No. P-2008-037, Approved,
Awaiting Warranty Increase**

Randy McClure:

On May 23, 2013, the Division approved Modification MD-1 for the above prospect. The change involves the reopening of a previously reclaimed drill pad (BD-4) and the drilling of two new bore holes.

The existing financial warranty amount for this prospecting project is \$5,826. The additional estimated reclamation cost associated with this modification is \$18,162, for a new required total bond amount of \$23,988. The reclamation cost breakdown is shown in the enclosed packet. Please review the figures in the enclosed packet and contact me promptly if you notice any errors or omissions.

The modification is approved, but will not become final until the additional bond is received. The prospecting project currently is covered under Safeco statewide bond no. 6575235. A sufficient amount of the statewide bond is available to be obligated toward this project, or you may choose to provide the additional bond in another form of warranty. Please contact the Division's warranty specialist, Barbara Coria, to discuss which form of bonding you wish to provide, and the proper form and procedure. She may be contacted directly at 303-866-3567 x 8148. The additional bond must be provided within 60 days of this letter or the modification may be denied.

Please contact me if you have any questions, at 970-247-5193.

Sincerely,

A handwritten signature in black ink that reads "Bob Oswald".

Bob Oswald
Environmental Protection Specialist

Encl: MD-1 additional reclamation cost estimate

Ec: Barbara Coria, DRMS, Denver
Russ Means, DRMS, Grand Junction
Tom Malecek, USDA Forest Service, Monte Vista

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COST SUMMARY WORK

Task description: Cost summary

Site: San Juan Silver Project

Permit Action: MD-1

Permit/Job#: P2008037

PROJECT IDENTIFICATION

Task #: 000

State: Colorado

Abbreviation: None

Date: 5/23/2013

County: Mineral

Filename: P037-000

User: RCO

Agency or organization name: DRMS

TASK LIST (DIRECT COSTS)

Task	Description	Form Used	Fleet Size	Task Hours	Cost
001	Backfill pad sumps (BD4)	DOZER	1	0.53	\$72.76
002	Regrade drill pad (BD4)	DOZER	1	2.03	\$281.40
003	Rip compaction on pad BD4 and access road	RIPPER	1	0.88	\$122.00
004	Replace topsoil on drill pad and access road	DOZER	1	1.96	\$270.80
005	Revegetate pad BD4 and access road	REVEGE	1	4.00	\$305.51
006	Plug bore holes	BOREHOLE	1	8.00	\$9,450.00
007	Haul reclamation equipment to and from site	MOBILIZE	1	6.50	\$3,683.05
<u>SUBTOTALS:</u>				23.9	\$14,185.52

INDIRECT COSTS

OVERHEAD AND PROFIT:

Liability insurance: 2.02%

Total = \$286.55

Performance bond: 1.05%

Total = \$148.95

Job superintendent: 11.95 hrs

Total = \$781.65

Profit: 10.00%

Total = \$1,418.55

TOTAL O & P = \$2,635.70

CONTRACT AMOUNT (direct + O & P) = \$16,821.22

LEGAL - ENGINEERING - PROJECT MANAGEMENT:

Financial warranty processing (legal/related costs): 500.00

Total = 500.00

Engineering work and/or contract/bid preparation: 0.00%

Total = \$0.00

Reclamation management and/or administration: 5.00%

\$841.06

CONTINGENCY: 0.00

Total = \$0.00

TOTAL INDIRECT COST = \$3,976.76

TOTAL BOND AMOUNT (direct + indirect) = \$18,162.28

BULLDOZER WORKTask description: Backfill pad sumps (BD4)Site: San Juan Silver ProjectPermit Action: MD-1Permit/Job#: P2008037**PROJECT IDENTIFICATION**Task #: 001State: ColoradoAbbreviation: NoneDate: 5/23/2013County: MineralFilename: P037-001User: RCOAgency or organization name: DRMS**HOURLY EQUIPMENT COST**Basic Machine: Cat D6T LGPHorsepower: 200Blade Type: StraightAttachment: 3-shank ripperShift Basis: 1 per dayData Source: (CRG)**Cost Breakdown:**

		<u>Utilization %</u>
Ownership Cost/Hour:	\$35.09	NA
Operating Cost/Hour:	\$65.97	100
Ripper op. Cost/Hour:	\$0.00	0
Operator Cost/Hour:	\$37.41	NA

Total unit Cost/Hour: \$0.00Total Fleet Cost/Hour: \$138.47**MATERIAL QUANTITIES**Initial Volume: 67Swell factor: 1.165Loose volume: 78 LCYSource of estimated volume: Division of Reclamation, Mining & SafetySource of estimated swell factor: Cat Handbook**HOURLY PRODUCTION**Average push distance: 50 feetUnadjusted hourly production: 444.6 LCY/hrMaterials consistency description: Compacted fill or embankment 0.9Average push gradient: 0 %Average site altitude: 10,800 feetMaterial weight: 2,900 lbs/LCYWeight description: Decomposed rock - 50% Rock, 50% Earth**Job Condition Correction Factor**

		<u>Source</u>
Operator Skill:	0.750	(AVG.)
Material consistency:	0.900	(CAT HB))
Dozing method:	1.000	(GEN.)

Visibility:	1.000	(AVG.)
Job efficiency:	0.830	(1 SHIFT/DAY)
Spoil pile:	0.800	(FND-RF)
Push gradient:	1.000	(CAT HB)
Altitude:	0.940	(CAT HB)
Material Weight:	0.793	(CAT HB)
Blade type:	1.000	(PAT)

Net correction: 0.3341

Adjusted unit production: 148.54 LCY/hr

Adjusted fleet production: **148.54 LCY/hr**

JOB TIME AND COST

Fleet size: 1 Dozer(s)

Unit cost: \$0.932/LCY

Total job time: **0.53 Hours**

Total job cost: **\$72.76**

BULLDOZER WORKTask description: Regrade drill pad (BD4) and access roadSite: San Juan Silver ProjectPermit Action: MD-1Permit/Job#: P2008037**PROJECT IDENTIFICATION**Task #: 002State: ColoradoAbbreviation: NoneDate: 5/23/2013County: MineralFilename: P037-002User: RCOAgency or organization name: DRMS**HOURLY EQUIPMENT COST**Basic Machine: Cat D6T LGPHorsepower: 200Blade Type: StraightAttachment: 3-shank ripperShift Basis: 1 per dayData Source: (CRG)**Cost Breakdown:**

		<u>Utilization %</u>
Ownership Cost/Hour:	<u>\$35.09</u>	<u>NA</u>
Operating Cost/Hour:	<u>\$65.97</u>	<u>100</u>
Ripper op. Cost/Hour:	<u>\$0.00</u>	<u>0</u>
Operator Cost/Hour:	<u>\$37.41</u>	<u>NA</u>

Total unit Cost/Hour: \$0.00Total Fleet Cost/Hour: \$138.47**MATERIAL QUANTITIES**Initial Volume: 359Swell factor: 1.125Loose volume: 404 LCYSource of estimated volume: DRMS (0.44 ac x 6 in avg depth)Source of estimated swell factor: Cat Handbook**HOURLY PRODUCTION**Average push distance: 50 feetUnadjusted hourly production: 444.6 LCY/hrMaterials consistency description: Partly consolidated stockpile 1.1Average push gradient: 0 %Average site altitude: 10,800 feetMaterial weight: 2,650 lbs/LCYWeight description: Decomposed rock - 25% Rock, 75% Earth**Job Condition Correction Factor**

		<u>Source</u>
Operator Skill:	<u>0.750</u>	<u>(AVG.)</u>
Material consistency:	<u>1.100</u>	<u>(CAT HB)</u>
Dozing method:	<u>1.000</u>	<u>(GEN.)</u>

Visibility:	1.000	(AVG.)
Job efficiency:	0.830	(1 SHIFT/DAY)
Spoil pile:	0.800	(FND-RF)
Push gradient:	1.000	(CAT HB)
Altitude:	0.940	(CAT HB)
Material Weight:	0.868	(CAT HB)
Blade type:	1.000	(PAT)

Net correction: 0.4470

Adjusted unit production: 198.74 LCY/hr

Adjusted fleet production: 198.74 LCY/hr

JOB TIME AND COST

Fleet size: 1 Dozer(s)
Unit cost: \$0.697/LCY

Total job time: 2.03 Hours
Total job cost: \$281.40

BULLDOZER RIPPING WORK

Task description: Rip compaction on pad BD4 and access road

Site: San Juan Silver Project

Permit Action: MD-1

Permit/Job#: P2008037

PROJECT IDENTIFICATION

Task #: 003

State: Colorado

Abbreviation: None

Date: 5/23/2013

County: Mineral

Filename: P037-003

User: RCO

Agency or organization name: DRMS

HOURLY EQUIPMENT COST

Basic Machine: Cat D6T LGP
Ripper Attachment: 3-Shank Ripper

Horsepower: 200

Shift Basis: 1 per day

Data Source: (CRG)

Cost Breakdown:

		Utilization %
Ownership Cost/Hour:	\$35.09	NA
Operating Cost/Hour:	\$65.97	100
Ripper Operating Cost/Hour:	\$0.00	100
Operator Cost/Hour:	\$37.41	NA
Total Unit Cost/Hour:	\$138.47	
Total Fleet Cost/Hour:	\$138.47	

MATERIAL QUANTITIES

Selected estimating method: Area

Alternate Methods:

Seismic: NA Bank Volume: NA BCY NA
Area: 0.45 acres Rip Depth (ft): 1.00 Volume: 726 BCY or CCY

Source of estimated quantity: NOI plan

HOURLY PRODUCTION

Seismic:

Seismic Velocity: NA feet/second

Area:

Average Ripping Depth: 1.64 mph
Average Ripping Width: 6.58 degrees
Average Ripping Length: 100.00 feet
Average Dozer Speed: 88.00 feet
Average Maneuver Time: 0.25 feet
Production per unit area: 0.654 acres/hour

Job Condition Correction Factors

Unadjusted Hourly Unit Production: 0.654 Acres/hr
Site Altitude: 10,800 feet
Altitude Adj: 0.94 (CAT HB)
Job Efficiency: 0.83 (1 shift/day)
Net Correction: 0.78 multiplier

Adjusted Hourly Unit Production: 0.51 Acres/hr
Adjusted Hourly Fleet Production: 0.51 Acres/hr

JOB TIME AND COST

Fleet size: 1 Grader(s) Total job time: 0.88 Hours

Unit cost: \$271.480 Per acre Total job cost: \$122.00

BULLDOZER WORKTask description: Replace topsoil on drill pad and access roadSite: San Juan Silver ProjectPermit Action: MD-1Permit/Job#: P2008037**PROJECT IDENTIFICATION**Task #: 004State: ColoradoAbbreviation: NoneDate: 5/23/2013County: MineralFilename: P037-004User: RCOAgency or organization name: DRMS**HOURLY EQUIPMENT COST**Basic Machine: Cat D6T LGPHorsepower: 200Blade Type: StraightAttachment: 3-shank ripperShift Basis: 1 per dayData Source: (CRG)**Cost Breakdown:**

		<u>Utilization %</u>
Ownership Cost/Hour:	\$35.09	NA
Operating Cost/Hour:	\$65.97	100
Ripper op. Cost/Hour:	\$0.00	0
Operator Cost/Hour:	\$37.41	NA

Total unit Cost/Hour: \$0.00Total Fleet Cost/Hour: \$138.47**MATERIAL QUANTITIES**Initial Volume: 359Swell factor: 1.125Loose volume: 404 LCYSource of estimated volume: Division of Reclamation, Mining & Safety (.44 ac x 6 in dept)Source of estimated swell factor: Cat Handbook**HOURLY PRODUCTION**Average push distance: 50 feetUnadjusted hourly production: 444.6 LCY/hrMaterials consistency description: Partly consolidated stockpile 1.1Average push gradient: 0 %Average site altitude: 10,800 feetMaterial weight: 2,550 lbs/LCYWeight description: Earth - Dry packed**Job Condition Correction Factor**Operator Skill: 0.750Material consistency: 1.100Source(AVG.)(CAT HB)

Dozing method:	1.000	(GEN.)
Visibility:	1.000	(AVG.)
Job efficiency:	0.830	(1 SHIFT/DAY)
Spoil pile:	0.800	(FND-RF)
Push gradient:	1.000	(CAT HB)
Altitude:	0.940	(CAT HB)
Material Weight:	0.902	(CAT HB)
Blade type:	1.000	(PAT)

Net correction: 0.4645

Adjusted unit production: 206.52 LCY/hr

Adjusted fleet production: 206.52 LCY/hr

JOB TIME AND COST

Fleet size: 1 Dozer(s)
Unit cost: \$0.670/LCY

Total job time: 1.96 Hours
Total job cost: \$270.80

REVEGETATION WORKTask description: Revegetate pad BD4 and access roadSite: San Juan Silver ProjectPermit Action: MD-1Permit/Job#: P2008037**PROJECT IDENTIFICATION**Task #: 005State: ColoradoAbbreviation: NoneDate: 5/23/2013County: MineralFilename: P037-005User: RCOAgency or organization name: DRMS**FERTILIZING****Materials**

Description	Units / Acre	Unit	Cost / Unit	Cost /Acre
			\$	\$
			Total Fertilizer Materials Cost/Acre	\$0.00

Application

Description	Cost /Acre
	\$
Total Fertilizer Application Cost/Acre	\$0.00

TILLING

Description	Cost /Acre
Weed control spraying (MEANS 31 31 16.13 3100)	\$145.20
Total Tilling Cost/Acre	\$145.20

SEEDING

Seed Mix	Rate – PLS LBS / Acre	Seeds per SQ. FT	Cost /Acre
Mountain Brome - Bromar	3.90	6.27	\$13.26
Slender Wheatgrass - San Luis	4.40	16.06	\$16.32
Streambank Wheatgrass - Sodar	2.30	7.50	\$9.68
Fireweed	0.26	47.06	\$76.50
Totals Seed Mix	10.86	76.89	\$115.76

Application

Description	Cost /Acre
Broadcast seeding [DMG]	\$261.28

Total Seed Application Cost/Acre	\$261.28
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MULCHING and MISCELLANEOUS**Materials**

Description	Units / Acre	Unit	Cost / Unit	Cost /Acre
			\$	\$
Total Mulch Materials Cost/Acre				\$0.00

Application

Description	Cost /Acre
	\$
Total Mulch Application Cost/Acre	\$0.00

NURSERY STOCK PLANTING

Common Name	No / Acre	Type and Size	Planting Cost	Fertilizer Pellet Cost	Cost /Acre
					\$
Totals Nursery Stock Cost / Acre					\$0.00

JOB TIME AND COST

No. of Acres:	0.45	Cost /Acre:	\$522.24
Estimated Failure Rate:	30%	Cost /Acre*:	\$522.24
*Selected Replanting Work Items: <u>TILLING, SEEDING</u>			
Initial Job Cost:	<u>\$235.01</u>		
Reseeding Job Cost:	<u>\$70.50</u>		
Total Job Cost:	<u>\$305.51</u>		
Job Hours:	<u>4.00</u>		

BOREHOLE SEALING WORK

Task description: Plug bore holes

Site: San Juan Silver Project

Permit Action: MD-1

Permit/Job#: P2008037

PROJECT IDENTIFICATION

Task #: 006

State: Colorado

Abbreviation: None

Date: 5/23/2013

County: Mineral

Filename: P037-006

User: RCO

Agency or organization name: DRMS

UNIT COSTS

Borehole Description	Sealing/Item Method	Diameter	Length	Quantity	Unit	Unit Cost	Total Cost
Plug boreholes	Cement bore hole	6	4500	4,500.00	LF	\$2.10	\$9450.00

Job Hours: 8.00

Total Cost: \$9,450.00

Notes:

Cement to be tremied through entire bore hole depth.

Since both holes are at same drill pad, and one drill will be used, operator will have only one drill hole open at a time.

EQUIPMENT MOBILIZATION/DEMobilIZATIONTask description: **Haul reclamation equipment to and from site**Site: **San Juan Silver Project**Permit Action: **MD-1**Permit/Job#: **P2008037****PROJECT IDENTIFICATION**Task #: **007**State: **Colorado**Abbreviation: **None**Date: **5/23/2013**County: **Mineral**Filename: **P037-007**User: **RCO**Agency or organization name: **DRMS****EQUIPMENT TRANSPORT RIG COST**Shift basis: **1 per day**
Cost Data Source: **CRG Data**Truck Tractor Description: **GENERIC ON-HIGHWAY TRUCK TRACTOR, 6X4, DIESEL POWERED,
400 HP (2ND HALF, 2006)**Truck Trailer Description: **GENERIC FOLDING GOOSENECK, DROP DECK EQUIPMENT TRAILER
(25T, 50T, AND 100T)****Cost Breakdown:**

Available Rig Capacities	0-25 Tons	26-50 Tons	51+ Tons
Ownership Cost/Hour:	\$16.63	\$18.37	\$22.33
Operating Cost/Hour:	\$44.38	\$46.13	\$50.07
Operator Cost/Hour:	\$27.66	\$27.66	\$27.66
Helper Cost/Hour:	\$0.00	\$25.39	\$25.39
Total Unit Cost/Hour:	\$88.67	\$117.55	\$125.45

NON ROADABLE EQUIPMENT:

Machine Description	Weight/ Unit (TONS)	Owner ship Cost/hr/ unit	Haul Rig Cost/hr/unit	Fleet Size	Haul Trip Cost/hr/ fleet	Return Trip Cost/hr/ fleet	DOT Permit Cost/ fleet
Cat D6T LGP	28.63	\$0.00	\$117.55	1	\$117.55	\$117.55	\$250.00
Drill/Broadcast Seeder with Tractor	25.00	\$41.85	\$88.67	1	\$130.52	\$88.67	\$250.00
Water Tanker, 5,000 Gal.	15.00	\$20.80	\$88.67	1	\$109.47	\$88.67	\$250.00

Subtotals: **\$357.54** **\$294.89** **\$750.00****ROADABLE EQUIPMENT:**

Machine Description	Total Cost/hr/ unit	Fleet Size	Haul Trip Cost/hr/ fleet	Return Trip Cost/hr/ fleet
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Subtotals: **\$0.00** **\$0.00**

EQUIPMENT HAUL DISTANCE and Time

Nearest Major City or Town within project area region:	DEL NORTE	
Total one-way travel distance:	45.00	miles
Average Travel Speed:	40.00	mph

Total Non-Roadable Mob/Demob Cost *	\$3,683.05
** two round trips with haul rig:	
Total Roadable Mob/Demob Cost **	\$0.00
** one round trip, no haul rig:	

Transportation Cycle Time:

	Non-Roadable Equipment	Roadable Equipment
Haul Time (Hours):	1.13	1.13
Return Time (Hours):	1.13	1.13
Loading Time (Hours):	0.50	NA
Unloading Time (Hours):	0.50	NA
Subtotals:	3.25	2.25

JOB TIME AND COST

Total job time:	6.50	Hours
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Total job cost:	\$3,683.05
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Note: Water tanker is for batching cement to backfill boreholes.