
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2016**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: **001-33190**

MCEWEN MINING INC.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0796160
(I.R.S. Employer
Identification No.)

150 King Street West, Suite 2800, Toronto, Ontario Canada M5H 1J9
(Address of principal executive offices) (Zip code)

(866) 441-0690
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 278,997,838 shares outstanding as of August 1, 2016 (and 19,953,137 exchangeable shares).

MCEWEN MINING INC.

FORM 10-Q

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PART I

Item 1. FINANCIAL STATEMENTS

MCEWEN MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands of U.S. dollars, except per share)

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUE:				
Gold and silver sales	\$ 14,613	\$ 16,160	\$ 35,803	\$ 39,042
	<u>14,613</u>	<u>16,160</u>	<u>35,803</u>	<u>39,042</u>
COSTS AND EXPENSES				
Production costs applicable to sales	5,763	7,288	14,830	17,742
Mine development	1,316	163	2,014	337
Exploration	1,689	3,080	3,429	5,422
Property holding	258	496	1,405	1,988
General and administrative	2,600	3,277	5,368	6,485
Depreciation	258	208	497	480
Accretion of asset retirement obligation (note 4)	133	131	257	232
(Income) loss from investment in Minera Santa Cruz S.A., net of amortization (note 5)	(4,133)	2,652	(9,096)	2,323
Impairment of mineral property interests and property and equipment (note 4)	—	28,542	—	28,542
Total costs and expenses	<u>7,884</u>	<u>45,837</u>	<u>18,704</u>	<u>63,551</u>
Operating income (loss)	<u>6,729</u>	<u>(29,677)</u>	<u>17,099</u>	<u>(24,509)</u>
OTHER INCOME (EXPENSE):				
Interest income (expense) and other income (expense)	(73)	3,228	155	3,130
Gain on sale of marketable equity securities (note 2)	—	4	22	4
Other-than-temporary impairment on marketable equity securities (note 2)	(597)	—	(882)	—
Unrealized gain on derivatives (note 2)	1,719	—	1,719	—
Foreign currency (loss) gain	(281)	8	502	(204)
Total other income	<u>768</u>	<u>3,240</u>	<u>1,516</u>	<u>2,930</u>
Income (loss) before income taxes	7,497	(26,437)	18,615	(21,579)
Income tax recovery (note 10)	856	12,321	2,723	13,484
Net income (loss)	<u>8,353</u>	<u>(14,116)</u>	<u>21,338</u>	<u>(8,095)</u>
OTHER COMPREHENSIVE INCOME (LOSS):				
Other-than-temporary impairment on marketable equity securities (note 2)	597	—	882	—
Unrealized gain (loss) on marketable equity securities, net of taxes	1,624	(482)	1,500	(647)
Comprehensive income (loss)	<u>\$ 10,574</u>	<u>\$ (14,598)</u>	<u>\$ 23,720</u>	<u>\$ (8,742)</u>
Net income (loss) per share (note 11):				
Basic	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>
Diluted	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>
Weighted average common shares outstanding (thousands) (note 11):				
Basic	<u>298,237</u>	<u>300,530</u>	<u>298,239</u>	<u>300,364</u>
Diluted	<u>299,791</u>	<u>300,530</u>	<u>299,231</u>	<u>300,364</u>

The accompanying notes are an integral part of these consolidated financial statements.

MCEWEN MINING INC.
CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,749	\$ 25,874
Investments (note 2)	4,692	1,032
Value added taxes receivable	2,455	10,032
Inventories (note 3)	19,172	14,975
Other current assets	1,636	2,530
Total current assets	64,704	54,443
Mineral property interests (note 4)	243,051	237,245
Investment in Minera Santa Cruz S.A. (note 5)	170,807	167,107
Property and equipment, net (note 6)	14,011	15,759
Other assets (note 15)	531	531
TOTAL ASSETS	\$ 493,104	\$ 475,085
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 16,849	\$ 18,429
Short-term bank indebtedness (note 7)	—	3,395
Current portion of asset retirement obligation (note 4)	215	215
Total current liabilities	17,064	22,039
Asset retirement obligation, less current portion (note 4)	7,826	7,569
Deferred income tax liability (note 10)	24,641	26,899
Other liabilities (note 4)	1,270	286
Total liabilities	\$ 50,801	\$ 56,793
Shareholders' equity:		
Common stock, no par value, 500,000 shares authorized (in thousands);		
Common: 278,239 as of June 30, 2016 and 274,421 as of December 31, 2015 issued and outstanding (in thousands)		
Exchangeable: 20,648 shares as of June 30, 2016 and 24,213 shares as of December 31, 2015 issued and outstanding (in thousands)		
	1,359,435	1,359,144
Accumulated deficit	(918,689)	(940,027)
Accumulated other comprehensive income (loss)	1,557	(825)
Total shareholders' equity	442,303	418,292
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 493,104	\$ 475,085

The accompanying notes are an integral part of these consolidated financial statements.

Commitments and contingencies, note 15.

MCEWEN MINING INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(in thousands of U.S. dollars)

	Common Stock		Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2014	300,100	\$ 1,360,668	\$ 124	\$ (919,577)	\$ 441,215
Stock-based compensation (note 9)	—	754	—	—	754
Shares issued for settlement of accounts payable (note 8)	430	443	—	—	443
Unrealized loss on available-for-sale securities (note 2)	—	—	(647)	—	(647)
Net loss	—	—	—	(8,095)	(8,095)
Balance, June 30, 2015	<u>300,530</u>	<u>\$ 1,361,865</u>	<u>\$ (523)</u>	<u>\$ (927,672)</u>	<u>\$ 433,670</u>
Balance, December 31, 2015	298,634	\$ 1,359,144	\$ (825)	\$ (940,027)	\$ 418,292
Stock-based compensation (note 9)	—	491	—	—	491
Return of capital distribution (note 8)	—	(1,491)	—	—	(1,491)
Share repurchase (note 8)	(558)	(582)	—	—	(582)
Exercise of stock options (note 9)	812	1,873	—	—	1,873
Other-than-temporary impairment on marketable equity securities (note 2)	—	—	882	—	882
Unrealized gain on available-for-sale securities, net of taxes (note 2)	—	—	1,500	—	1,500
Net income	—	—	—	21,338	21,338
Balance, June 30, 2016	<u>298,888</u>	<u>\$ 1,359,435</u>	<u>\$ 1,557</u>	<u>\$ (918,689)</u>	<u>\$ 442,303</u>

The accompanying notes are an integral part of these consolidated financial statements.

MCEWEN MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands of U.S. dollars)

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Cash paid to suppliers and employees	\$ (20,996)	\$ (32,379)
Cash received from gold and silver sales	34,932	37,711
Dividends received from Minera Santa Cruz S.A. (note 5)	5,397	548
Interest received	220	87
Cash provided by operating activities	<u>19,553</u>	<u>5,967</u>
Cash flows from investing activities:		
Proceeds from reimbursement of equipment deposit (note 6)	961	—
Proceeds from sale of investments (note 2)	470	—
Acquisition of mineral property interests (note 4)	(5,950)	—
Additions to property and equipment (note 6)	(252)	(433)
Acquisition of investments (note 2)	(398)	(1,114)
Cash used in investing activities	<u>(5,169)</u>	<u>(1,547)</u>
Cash flows from financing activities:		
Withdrawal of short-term bank indebtedness (note 7)	—	5,764
Repayment of short-term bank indebtedness (note 7)	(3,395)	—
Return of capital distribution (note 8)	(1,489)	—
Share repurchase (note 8)	(582)	—
Proceeds from exercise of stock options (note 9)	1,873	—
Cash (used in) provided from financing activities	<u>(3,593)</u>	<u>5,764</u>
Effect of exchange rate change on cash and cash equivalents	84	(193)
Increase in cash and cash equivalents	10,875	9,991
Cash and cash equivalents, beginning of period	25,874	12,380
Cash and cash equivalents, end of period	<u>\$ 36,749</u>	<u>\$ 22,371</u>
Reconciliation of net income (loss) to cash provided by operating activities:		
Net income (loss)	\$ 21,338	\$ (8,095)
Adjustments to reconcile net income (loss) from operating activities:		
(Income) loss from investment in Minera Santa Cruz S.A., net of amortization (note 5)	(9,096)	2,323
Loss on reimbursement of equipment deposit (note 6)	541	—
Impairment of mineral property interests and property and equipment (note 4)	—	28,542
Other-than-temporary impairment on marketable equity securities (note 2)	882	—
Recovery of deferred income taxes	(2,723)	(13,484)
Gain on sale of marketable securities (note 2)	(22)	(4)
Stock-based compensation	491	754
Depreciation	497	480
Accretion of asset retirement obligation	257	591
Amortization of mineral property interests and asset retirement obligations	1,144	644
Foreign exchange (gain) loss	(84)	193
Unrealized gain on derivative instrument (note 2)	(1,719)	—
Change in non-cash working capital items:		
Decrease in VAT taxes receivable, net of collection of \$9,523 (2015 - \$4,062)	7,577	1,284
Increase in other assets related to operations	(3,304)	(6,802)
Decrease in liabilities related to operations	(1,622)	(1,007)
Dividends received from Minera Santa Cruz S.A. (note 5)	5,396	548
Cash provided by operating activities	<u>\$ 19,553</u>	<u>\$ 5,967</u>

The accompanying notes are an integral part of these consolidated financial statements.

MCEWEN MINING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2016

(tabular amounts are in thousands of U.S. dollars, unless otherwise indicated)

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Presentation

McEwen Mining Inc. (the “Company” or “McEwen Mining”) was organized under the laws of the State of Colorado on July 24, 1979. Since inception, the Company has been engaged in the exploration for, development of, production and sale of gold and silver.

The Company operates in Mexico, Argentina, and the United States. It owns and operates the producing El Gallo 1 Mine in Sinaloa, Mexico. It also owns a 49% interest in Minera Santa Cruz S.A. (“MSC”), owner and operator of the producing San José Mine in Santa Cruz, Argentina, which is controlled by the majority owner of the joint venture, Hochschild Mining plc (“Hochschild”). In addition to its operating properties, the Company holds interests in numerous exploration stage properties and projects in Mexico, Argentina and the United States.

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management’s opinion, the unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015, the Consolidated Balance Sheets as at June 30, 2016 (unaudited) and December 31, 2015, the unaudited Consolidated Statement of Changes in Shareholders’ Equity for the six months ended June 30, 2016 and 2015, and the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, contained herein, reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company’s financial position, results of operations and cash flows on a basis consistent with that of the Company’s prior audited consolidated financial statements. However, the results of operations for the interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto and summary of significant accounting policies included in the Company’s annual report on Form 10-K for the year ended December 31, 2015. Except as noted below, there have been no material changes in the footnotes from those accompanying the audited consolidated financial statements contained in the Company’s Form 10-K for the year ended December 31, 2015. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

Recently Issued Accounting Pronouncements

Compensation – Stock Compensation (Topic 718) – Improvements to employee Share-Based Payment Accounting:

In March 2016, the FASB Issued ASU No. 2016-09, which changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company beginning June 1, 2017, with early application permitted. The Company is currently evaluating the effect the guidance will have on its consolidated financial statements.

Investments - Equity Method and Joint Ventures (Topic 323) - Simplifying the Transition to the Equity Method of Accounting:

In March 2016 the FASB issued ASU 2016-07, which affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results

MCEWEN MINING INC.
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(tabular amounts are in thousands of U.S. dollars, unless otherwise indicated)

of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The Company is currently evaluating the potential impact this guidance will have on its consolidated financial statements.

Financial Instruments — Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities: In January 2016, the FASB issued ASU No. 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company beginning in its second quarter of 2019. The Company is currently evaluating the potential impact this guidance will have on its consolidated financial statements.

Revenue from Contracts with Customers – Deferral of the Effective Date: In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2015-09. ASU 2015-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The effective date of this pronouncement is for fiscal years beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the potential impact this guidance will have on its consolidated financial statements.

NOTE 2 INVESTMENTS

The investment portfolio of the Company consists of marketable equity securities and warrants of certain publicly-traded companies. The Company classifies the marketable equity securities as available-for-sale securities, which are recorded at fair value based upon quoted market prices. The warrants are recorded at fair value using the Black-Scholes option pricing model. The following is a summary of the balances as of June 30, 2016 and December 31, 2015:

	Opening balance	Additions during period	Disposals during period	Other Comprehensive Income (pre-tax)	Statement of Operations (Loss) Income	Fair Value end of the period
As of June 30, 2016						
Marketable equity securities	\$ 1,032	\$ 233	\$ (470)	\$ 2,873	\$ (860)	\$ 2,808
Warrants	—	165	—	—	1,719	1,884
Investments	<u>\$ 1,032</u>	<u>\$ 398</u>	<u>\$ (470)</u>	<u>\$ 2,873</u>	<u>\$ 859</u>	<u>\$ 4,692</u>
	Opening balance	Additions during year	Disposals during year	Other Comprehensive Loss (pre-tax)	Statement of Operations (Loss) Income	Fair Value end of the year
As of December 31, 2015						
Marketable equity securities	\$ 1,409	\$ 448	\$ —	\$ (825)	\$ —	\$ 1,032
Warrants	—	—	—	—	—	—
Investments	<u>\$ 1,409</u>	<u>\$ 448</u>	<u>\$ —</u>	<u>\$ (825)</u>	<u>\$ —</u>	<u>\$ 1,032</u>

As of June 30, 2016, the cost of the marketable equity securities and warrants was approximately \$1.8 million (December 31, 2015 - \$1.9 million).

On May 13, 2016, the Company participated in a private placement with Golden Predator Mining Corp. (“Golden Predator”) under which it acquired 3,125,000 units, each unit consisting of one common share and one common share

MCEWEN MINING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2016

(tabular amounts are in thousands of U.S. dollars, unless otherwise indicated)

purchase warrant (“warrant”), for a total cost of \$0.4 million. Using proportional allocation, the Company allocated \$0.2 million as the cost base for each to the common shares and warrants.

As the warrants meet the definition of derivative instruments, unrealized gains or losses arising from their revaluation are recorded in the Consolidated Statement of Operations and Comprehensive Income (Loss). During the three and six months ended June 30, 2016, the Company recorded an unrealized gain of \$1.7 million.

In addition, during the six months ended June 30, 2016, the Company sold marketable equity securities for proceeds of \$0.5 million. The Company realized a gain of \$0.1 million, which is included in the Consolidated Statement of Operations and Comprehensive Income (Loss).

During the six months ended June 30, 2016, the Company reviewed its investment portfolio to determine if any security was other-than-temporarily impaired (“OTTI”). An OTTI security would require the Company to record an impairment charge in the income statement in the period any such determination is made. In making this judgment, the Company evaluated, among other things, the duration and extent to which the fair value of a security was less than its cost; the financial condition of the issuer and any changes thereto; and the Company’s intent to sell, or whether it will more likely than not be required to sell, the security before recovery of its amortized cost basis.

From this assessment the Company concluded that the fair value of certain marketable equity securities exhibited a prolonged decline in share price due to deterioration of the issuer’s results; therefore, the decline in these marketable equity securities was considered OTTI. Accordingly, the Company recognized an OTTI impairment loss of \$0.6 million and \$0.9 million on the Consolidated Statement of Operations and Comprehensive Income (Loss), for the three and six months ended June 30, 2016, respectively.

For the remaining marketable equity securities, the Company recorded a gain, net of tax, in other comprehensive income, of \$1.6 million and \$1.5 million for the three and six months ended June 30, 2016. The gain was recorded in accumulated other comprehensive income and is reported as a separate line item in the shareholders' equity section of the balance sheet.

The gains and losses for available-for-sale securities are not reported in the Consolidated Statement of Operations and Comprehensive Income (Loss) until the securities are sold or if there is an other-than-temporary decline in fair value below cost.

NOTE 3 INVENTORIES

Inventories at June 30, 2016 and December 31, 2015 consist of the following:

	June 30, 2016	December 31, 2015
Ore on leach pads	\$ 8,633	\$ 7,150
In-process inventory	3,740	2,830
Stockpiles	1,753	1,923
Precious metals	3,598	1,820
Materials and supplies	1,448	1,252
Inventories	<u>\$ 19,172</u>	<u>\$ 14,975</u>

MCEWEN MINING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2016

(tabular amounts are in thousands of U.S. dollars, unless otherwise indicated)

NOTE 4 MINERAL PROPERTY INTEREST AND ASSET RETIREMENT OBLIGATIONS

Mineral Property Interests

On April 19, 2016, the Company completed the acquisition of the sliding scale net smelter return royalty (the “Royalty”) on the El Gallo 1 Mine and El Gallo 2 project, previously requiring payment of 3.5% of gross revenue less allowable deductions, eventually reducing to 1%. The purchase price consisted of a \$5.3 million payment at closing and a deferred payment of \$1.0 million on June 30, 2018, conditional that the El Gallo 1 Mine and El Gallo 2 project are in operation at that time.

The total cost of the Royalty was accounted for as an addition to mineral property interests. The cost was allocated to El Gallo 1 Mine and El Gallo 2 project based on the relative fair value of the future royalty payments for each project. The allocation resulted in approximately \$5.1 million allocated to the El Gallo 1 Mine and \$1.2 million allocated to the El Gallo 2 project. The \$1.0 million conditional deferred payment has been included under non-current other liabilities as of June 30, 2016. The Royalty ceased accruing at the end of March 2016.

The Company conducts a review of potential triggering events for evaluation of all its mineral projects on a quarterly basis. When events or changes in circumstances indicate that the related carrying amounts may not be recoverable, the Company carries out a review and evaluation of its long-lived assets for impairment, in accordance with its accounting policy. During the six months ended June 30, 2016, the Company did not identify events or changes in circumstances affecting the carrying values of its long-lived assets.

During the quarter ended June 30, 2015, the Company performed a strategic review of its mineral property interests in Nevada. A decision was made to allow certain non-essential claims and portions of claims, included within the Gold Bar Complex and Tonkin Complex, to lapse on the September 1, 2015 renewal date and therefore reduce property holding costs that otherwise would have been incurred in the third quarter of 2015. This resulted in a pre-tax impairment charge of \$19.7 million for the Gold Bar project and \$8.9 million for the Tonkin Project, and an income tax recovery of \$10.0 million recognized in the Consolidated Statement of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2015.

Asset Retirement Obligations

The Company is responsible for reclamation of certain past and future disturbances at its properties. The two most significant properties subject to these obligations are the Tonkin property in Nevada and the El Gallo 1 Mine in Mexico.

A reconciliation of the Company’s asset retirement obligations for the six months ended June 30, 2016 and for the year ended December 31, 2015 are as follows:

	Six months ended June 30, 2016	Year ended December 31, 2015
Asset retirement obligation liability, beginning balance	\$ 7,784	\$ 7,471
Accretion of liability	257	429
Adjustment reflecting updated estimates	—	(116)
Asset retirement obligation liability, ending balance	<u>\$ 8,041</u>	<u>\$ 7,784</u>

As at June 30, 2016, the current portion of the asset retirement obligation was \$0.2 million (December 31, 2015 - \$0.2 million).

MCEWEN MINING INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2016

(tabular amounts are in thousands of U.S. dollars, unless otherwise indicated)

Amortization of Mineral Property Interests and Asset Retirement Costs

The definition of proven and probable reserves is set forth in the SEC Industry Guide 7. If proven and probable reserves exist at any of the Company's properties, the relevant capitalized mineral property interests and asset retirement costs for that property are charged to expense based on the units of production method upon commencement of production. Since the Company has not completed feasibility or other studies sufficient to characterize the mineralized material at the El Gallo 1 Mine as proven or probable reserves, the amortization of the capitalized mineral property interests and asset retirement costs are charged to the Consolidated Statement of Operations and Comprehensive Income (Loss) based on the most appropriate amortization method, which includes the straight-line or units of production method over the estimated useful life of the mine.

For the three and six months ended June 30, 2016, the Company recorded \$0.8 million and \$1.1 million, respectively (June 30, 2015, \$0.3 million and \$0.6 million, respectively), of amortization expense related to the El Gallo 1 Mine, which are included in Production Costs Applicable to Sales in the Consolidated Statement of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2016, of which \$0.1 million and \$0.1 million, respectively, related to the amortization of capitalized asset retirement costs (June 30, 2015 - \$0.1 million and \$0.1 million, respectively).

NOTE 5 INVESTMENT IN MINERA SANTA CRUZ S.A. ("MSC") – SAN JOSÉ MINE

The Company's 49% attributable share of results of operations from its investment in MSC was income of \$4.1 million and \$9.1 million for the three and six months ended June 30, 2016, respectively (June 30, 2015 – losses of \$2.7 million and \$2.3 million, respectively). These amounts include the amortization of the fair value increments arising from purchase price allocation and related income tax recovery. Included in the income tax recovery is the impact of fluctuations in the exchange rate between the Argentine peso and the U.S. dollar on the peso-denominated deferred tax liability associated with the investment in MSC recorded as part of the acquisition of Minera Andes in 2012. As a devaluation of the Argentine peso relative to the U.S. dollar results in a recovery of deferred income taxes, the impact has been an increase in the income from the Company's investment in MSC for the three and six months ended June 30, 2016.

During the three and six months ended June 30, 2016, the Company received \$2.8 million and \$5.4 million in dividends from MSC, respectively. This compares to \$0.5 million received during the three and six months ended June 30, 2015.

Changes in the Company's investment in MSC for the six months ended June 30, 2016 and year ended December 31, 2015 are as follows:

	Six months ended June 30, 2016	Year ended December 31, 2015
Investment in MSC, beginning of the period	\$ 167,107	\$ 177,018
Attributable net income (loss) from MSC	9,418	(2,859)
Amortization of fair value increments	(6,456)	(10,669)
Income tax recovery	6,134	15,942
Dividend distribution received	(5,396)	(548)
Impairment of investment in MSC	—	(11,777)
Investment in MSC, end of the period	<u>\$ 170,807</u>	<u>\$ 167,107</u>

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A summary of the operating results from MSC for the three and six months ended June 30, 2016 and 2015 is as follows:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Minera Santa Cruz S.A. (100%)				
Net Sales	\$ 58,581	\$ 49,858	\$ 110,653	\$ 95,749
Production costs applicable to sales	(38,832)	(41,310)	(76,559)	(78,173)
Net income (loss)	10,973	(3,042)	19,221	(1,810)
Portion attributable to McEwen Mining Inc. (49%)				
Net income (loss)	\$ 5,377	\$ (1,491)	\$ 9,418	\$ (887)
Amortization of fair value increments	(2,774)	(3,401)	(6,456)	(6,088)
Income tax recovery	1,530	2,240	6,134	4,652
Income (loss) from investment in MSC, net of amortization	<u>\$ 4,133</u>	<u>\$ (2,652)</u>	<u>\$ 9,096</u>	<u>\$ (2,323)</u>

As of June 30, 2016, MSC had current assets of \$107.8 million, total assets of \$484.1 million, current liabilities of \$43.7 million and total liabilities of \$135.4 million on an unaudited basis. These balances include the adjustments to fair value and amortization of the fair value increments arising from the purchase price allocation, net of impairment charges recorded in the fourth quarter of 2015. Excluding the fair value increments from the purchase price allocation, net of impairment charges, MSC had current assets of \$107.0 million, total assets of \$293.4 million, current liabilities of \$49.1 million, and total liabilities of \$81.9 million as at June 30, 2016.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment included a deposit with a contractor for the construction of certain equipment pertaining to the El Gallo 2 project, which was accounted for under construction-in-process. During the six months ended June 30, 2016, the Company reached an agreement with the contractor, whereby the Company was refunded the deposit less costs incurred for the equipment design. The total cost of the deposit was \$1.5 million, of which \$1.0 million was refunded. The remaining \$0.5 million was recorded to development costs in the Consolidated Statement of Operations and Comprehensive Income (Loss).

As of June 30, 2016, property and equipment was \$14.0 million (December 31, 2015 - \$15.8 million), net of accumulated depreciation of \$5.2 million (December 31, 2015 - \$4.7 million).

NOTE 7 SHORT-TERM BANK INDEBTEDNESS

On May 29, 2015, Compañía Minera Pangea (“CMP”), a wholly-owned subsidiary of the Company, finalized a line of credit agreement with Banco Nacional de Comercio Exterior (“Banco Nacional”), for an amount up to 90,000,000 Mexican pesos (approximately \$5.9 million as of May 29, 2015), which was secured by CMP’s Value Added Tax (“VAT”) receivable balance. The applicable interest rate was equal to: (i) two and one-half percent (2.5%) per annum plus (ii) the 91 day Interbank Equilibrium Interest Rate (“TIIE”) rate, as published by the Bank of Mexico, payable quarterly. Upon signing the agreement, CMP paid a 1% commission on the total value of the simple credit agreement to Banco Nacional.

On June 1, 2015, CMP drew down the entire 90,000,000 Mexican pesos, equivalent to \$5.2 million as of December 31, 2015, on the line of credit. During the year ended December 31, 2015, CMP collected 34,654,201 Mexican pesos (equivalent to \$2.0 million as of December 31, 2015) of VAT receivable, from which 2,903,100 Mexican pesos were applied against the accrued interest and the remaining 31,751,101 Mexican pesos (approximately \$1.8 million as of December 31, 2015) were applied against the principal.

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On January 13, 2016, CMP paid the remaining balance of the indebtedness in the amount of 58,248,899 Mexican Pesos (approximately \$3.4 million as of June 30, 2016). Upon the final payment, the line of credit agreement was terminated.

NOTE 8 SHAREHOLDERS' EQUITY

During the six months ended June 30, 2016, 3.6 million exchangeable shares were converted into common stock (June 30, 2015 – 1.4 million). At June 30, 2016, outstanding exchangeable shares not exchanged and not owned by the Company or its subsidiaries totaled 20.6 million (June 30, 2015 – 27.1 million).

During the six months ended June 30, 2016, 811,334 shares of common stock were issued upon exercise of stock options under the Equity Incentive Plan, at a weighted average exercise price of \$2.33 per share for proceeds of \$1.9 million. In comparison, there were no exercises of stock options during the same period of 2015.

On June 18, 2015, the Board of Directors declared an annual return of capital distribution of \$0.01 per share of common stock, payable semi-annually. The first semi-annual return of capital distribution payment of \$0.005 was made on August 17, 2015 and the second payment of \$0.005 was made on February 12, 2016, each for a total of \$1.5 million. Return of capital distributions are paid to holders of the Company's common stock and exchangeable shares.

On October 1, 2015, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to 15,000,000 shares of its common stock over a twelve month period, with an authorized maximum of \$15.0 million to be spent on the repurchases. Under the program, purchases of common stock may be made from time-to-time in the open market, subject to compliance with applicable U.S. and Canadian laws. The timing and amounts of any purchase are based on market conditions and other factors including share price, regulatory requirements and capital availability. Further, the repurchase program may be suspended, discontinued or modified at any time, at the discretion of the Board of Directors. During the six months ended June 30, 2016 the Company repurchased 557,991 shares of common stock (year-ended December 31, 2015 - 1,896,442) at a total cost of \$0.6 million (December 31, 2015 - \$1.8 million), all of which have been cancelled.

During the six months ended June 30, 2015, the Company issued 430,295 shares of common stock under an agreement with one of its mining contractors to settle parts of its accounts payable for services rendered. The fair value of the common stock at the time of issuance was \$0.4 million. The agreement with this mining contractor expired and was renegotiated during 2015 and under the revised agreement, the Company can no longer make share payments and instead is required to pay in cash.

At the annual meeting held on May 31, 2016, the holders of exchangeable shares of McEwen Mining-Minera Andes Acquisition Corp., a wholly-owned subsidiary of the Company ("MAQ"), voted to amend its Articles of Incorporation to allow early redemption of all outstanding exchangeable shares for common stock of the Company. On July 25, 2016, the Company announced that MAQ had established a redemption date of August 23, 2016 in respect of all of its outstanding exchangeable shares and that McEwen Mining (Alberta) ULC ("McEwen (Alberta)") elected to exercise its overriding redemption call right to acquire all of the outstanding exchangeable shares (other than exchangeable shares held by the Company and its subsidiaries) on the business day immediately prior to the redemption date, being August 22, 2016. On August 22, 2016, it is anticipated that McEwen (Alberta) will acquire all of the exchangeable shares not yet redeemed for purchase consideration of one share of the Company's common stock per exchangeable share. Following the redemption, it is expected that MAQ will apply to have the exchangeable shares delisted from the Toronto Stock Exchange ("TSX"). After August 22, 2016, former holders of exchangeable shares will not have any rights as holders thereof other than the right to receive shares of the Company's common stock.

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NOTE 9 STOCK-BASED COMPENSATION

During the six months ended June 30, 2016, no stock options were granted to employees or directors. In comparison, during the six months ended June 30, 2015, the Company granted stock options to certain employees for an aggregate of 0.1 million shares of common stock at a weighted average exercise price of \$1.07 per share. The options vest equally over a three-year period (subject to acceleration of vesting in certain events) if the individual remains affiliated with the Company and are exercisable for a period of 5 years from the date of issue.

The principal assumptions used in applying the Black-Scholes option pricing model for these awards were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Risk-free interest rate	— %	1.12 %	— %	1.10 %
Dividend yield	— %	— %	— %	— %
Volatility factor of the expected market price of common stock	— %	72.90 %	— %	74.08 %
Weighted-average expected life of option	—	3.5 years	—	3.5 years
Weighted-average grant date fair value	—	0.58	—	0.56

During the three and six months ended June 30, 2016, the Company recorded stock option expense of \$0.1 million and \$0.5 million respectively. This compares to \$0.2 million and \$0.8 million for the three and six months ended June 30, 2015.

NOTE 10 INCOME TAXES

The Company's income tax expense differs from the amount computed by applying the U.S. federal and state statutory corporate income tax rate of 35% to income before taxes primarily resulting from valuation allowances being applied to losses, changes in recognition of certain deferred tax assets, changes in the deferred tax liability associated with mineral property interests acquired in the Minera Andes acquisition and changes due to impairment of mineral property interests. The deferred tax liability is impacted by fluctuations in the foreign exchange rate between the Argentine peso and U.S. dollar.

For the three and six months ended June 30, 2016, the Company recorded an income tax recovery of \$0.4 million and \$2.3 million, respectively, as a result of the Argentine peso devaluation. In comparison, for the three and six months ended June 30, 2015, the Company recorded an income tax recovery of \$0.8 million and \$2.0 million, respectively, resulting from the Argentine peso devaluation.

For the three and six months ended June 30, 2015, the Company recorded an income tax recovery of \$10.0 million, corresponding to the impairment of mineral property interests described in Note 4, *Mineral Property Interest and Asset Retirement Obligations*.

NOTE 11 INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed similarly except that the weighted average number of common shares is increased to reflect all dilutive instruments.

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Below is a reconciliation of the basic and diluted weighted average number of common shares and exchangeable shares outstanding and the computations for basic and diluted net income per share for the three and six months ended June 30, 2016 and 2015:

	<u>Three months ended</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>Six months ended</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
	<u>(amounts in thousands, except net income per share)</u>			
Net income (loss)	\$ 8,353	\$ (14,116)	\$ 21,338	\$ (8,095)
Weighted average common shares outstanding:	298,237	300,530	298,239	300,364
Effect of employee stock-based awards	1,554	—	992	—
Diluted shares outstanding:	<u>299,791</u>	<u>300,530</u>	<u>299,231</u>	<u>300,364</u>
Net income (loss) per share:	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>
Diluted	<u>\$ 0.03</u>	<u>\$ (0.05)</u>	<u>\$ 0.07</u>	<u>\$ (0.03)</u>

For the three months ended June 30, 2016, options to purchase 2.3 million shares of common stock outstanding at June 30, 2016 (June 30, 2015 – 4.4 million) at an average exercise price of \$4.20 per share (June 30, 2015 – \$3.36) were not included in the computation of diluted weighted average shares because the exercise price exceeded the average price of the Company's common stock during that period.

For the six months ended June 30, 2016, options to purchase 3.0 million shares of common stock outstanding at June 30, 2016 (June 30, 2015 – 4.4 million) at an average exercise price of \$3.73 per share (June 30, 2015 – \$3.49) were not included in the computation of diluted weighted average shares because the exercise price exceeded the average price of the Company's common stock during the six months ended June 30, 2016.

NOTE 12 RELATED PARTY TRANSACTIONS

For the three and six months ended June 30, 2016, the Company incurred and paid \$50,604 and \$71,086, respectively (June 30, 2015 - \$nil and \$16,137, respectively) to an entity affiliated with the Company's Chairman and Chief Executive Officer for the use of an aircraft.

For the three and six months ended June 30, 2016, legal fees of \$27,362 and \$50,462, respectively (June 30, 2015 – \$16,020 and \$16,020, respectively) were incurred with REVlaw, a company owned by Carmen Diges, General Counsel of the Company, and an outstanding balance of \$108,262 is included within accounts payable at June 30, 2016 (December 31, 2015 - \$57,800). The services of Ms. Diges as General Counsel are provided by REVlaw. These legal fees have been recorded at their exchange amount, being the amount agreed to by the parties.

The Company agreed to share services with Lexam VG Gold Inc. ("Lexam") including rent, personnel, office expenses and other administrative services. The Company's Chairman and Chief Executive Officer is the Non-Executive Chairman of Lexam and holds 27% ownership in Lexam.

For the three and six months ended June 30, 2016, the Company reimbursed Lexam \$18,038 and \$41,383 respectively for net shared services. During the comparable period in 2015, Lexam paid \$1,716 and \$8,400, respectively to the Company. These transactions are in the normal course of business.

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NOTE 13 SEGMENTED INFORMATION

McEwen Mining is a mining and minerals exploration, development and production company focused on precious metals in Argentina, Mexico and the United States. The Company identifies its reportable segments as those consolidated operations that are currently engaged in the exploration for and/or production of precious metals. Operations not actively engaged in the exploration for, or production of precious metals are aggregated at the corporate level for segment reporting purposes.

The financial information relating to the Company's operating segments as of, and for the three and six months ended June 30, 2016 and 2015 is as follows:

	Argentina	Mexico	U.S.	Corporate & Other	Total
For the three months ended June 30, 2016					
Gold and silver sales	\$ —	\$ 14,613	\$ —	\$ —	\$ 14,613
Production costs applicable to sales	—	(5,763)	—	—	(5,763)
Mine development costs	—	(619)	(697)	—	(1,316)
Exploration costs	(193)	(860)	(599)	(37)	(1,689)
General and administrative expenses	(146)	(770)	(52)	(1,632)	(2,600)
Income from investment in Minera Santa Cruz S.A. (net of amortization)	4,133	—	—	—	4,133
Operating income (loss)	3,667	5,869	(1,571)	(1,236)	6,729
For the six months ended June 30, 2016					
Gold and silver sales	\$ —	\$ 35,803	\$ —	\$ —	\$ 35,803
Production costs applicable to sales	—	(14,830)	—	—	(14,830)
Mine development costs	—	(697)	(1,317)	—	(2,014)
Exploration costs	(503)	(1,645)	(1,187)	(94)	(3,429)
General and administrative expenses	(185)	(1,489)	(107)	(3,587)	(5,368)
Income from investment in Minera Santa Cruz S.A. (net of amortization)	9,096	—	—	—	9,096
Operating income (loss)	8,144	15,365	(3,098)	(3,312)	17,099
As at June 30, 2016					
Investment in Minera Santa Cruz S.A.	\$ 170,807	\$ —	\$ —	\$ —	\$ 170,807
Mineral property interests	191,490	14,763	36,798	#REF!	#REF!
Total assets	369,615	65,023	37,642	20,824	493,104

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	Argentina	Mexico	U.S.	Corporate & Other	Total
For the three months ended June 30, 2015					
Gold and silver sales	\$ —	\$ 16,160	\$ —	\$ —	\$ 16,160
Production costs applicable to sales	—	(7,288)	—	—	(7,288)
Mine development costs	—	(163)	—	—	(163)
Exploration costs	(659)	(1,275)	(1,065)	(81)	(3,080)
General and administrative expenses	(173)	(1,141)	(49)	(1,914)	(3,277)
Loss from investment in Minera Santa Cruz S.A. (net of amortization)	(2,652)	—	—	—	(2,652)
Impairment of mineral property interests and property and equipment	—	—	(28,542)	—	(28,542)
Operating (loss) income	(3,634)	5,863	(29,846)	(2,060)	(29,677)
For the six months ended June 30, 2015					
Gold and silver sales	\$ —	\$ 39,042	\$ —	\$ —	\$ 39,042
Production costs applicable to sales	—	(17,742)	—	—	(17,742)
Mine development costs	—	(337)	—	—	(337)
Exploration costs	(922)	(2,874)	(1,454)	(172)	(5,422)
General and administrative expenses	(320)	(2,014)	(108)	(4,043)	(6,485)
Loss on investment in Minera Santa Cruz S.A. (net of amortization)	(2,323)	—	—	—	(2,323)
Impairment of mineral property interests and property and equipment	—	—	(28,542)	—	(28,542)
Operating (loss) income	(3,853)	14,210	(30,527)	(4,339)	(24,509)
As at June 30, 2015					
Investment in Minera Santa Cruz S.A.	\$ 174,147	\$ —	\$ —	\$ —	\$ 174,147
Mineral property interests	202,889	10,051	45,685	—	258,625
Total assets	379,987	67,946	46,435	12,247	506,615

NOTE 14 FAIR VALUE ACCOUNTING

Fair value accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

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Assets and liabilities measured at fair value on a recurring basis

The following table identifies the fair value of the Company's financial assets and liabilities as reported in the Consolidated Balance Sheets at June 30, 2016 and December 31, 2015 by level within the fair value hierarchy. As required by accounting guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value as at June 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 4,692	\$ 2,808	\$ 1,884	\$ —
	<u>\$ 4,692</u>	<u>\$ 2,808</u>	<u>\$ 1,884</u>	<u>\$ —</u>

	Fair Value as at December 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments	\$ 1,032	\$ 1,032	\$ —	\$ —
	<u>\$ 1,032</u>	<u>\$ 1,032</u>	<u>\$ —</u>	<u>\$ —</u>

The Company's investments mainly consist of marketable equity securities which are exchange traded, and which are valued using quoted market prices in active markets and are classified within Level 1 of the fair value hierarchy. The fair value of the investments is calculated as the quoted market price of the marketable equity security multiplied by the number of shares held by the Company.

Further, as noted in Note 2, *Investments*, the Company's investments also include warrants to purchase common stock of Golden Predator. Since these warrants are not traded on an active market, they are valued using the Black-Scholes option pricing model, and classified within Level 2 of the fair value hierarchy.

The fair value of other financial assets and liabilities approximate their carrying values due to their short-term nature and historically negligible credit losses.

NOTE 15 COMMITMENTS AND CONTINGENCIES

Surety Bonds

As part of its ongoing business and operations, the Company is required to provide bonding for its environmental reclamation obligations in the United States. These surety bonds are available for draw down by the Bureau of Land Management ("BLM") in the event the Company does not perform its reclamation obligations. When the specific reclamation requirements are met, the beneficiary of the surety bonds will cancel and/or return the instrument to the issuing entity. The Company believes it is in compliance with all applicable bonding obligations and will be able to satisfy future bonding requirements, through existing or alternative means, as they arise.

As at June 30, 2016, there were \$4.8 million of surety bonds outstanding (December 31, 2015 - \$4.8 million). The annual financing fees are 1.5% of the value of the surety bonds, with a required initial deposit of 10% (\$0.5 million), which is included in Other Assets in the Consolidated Balance Sheet.