Item 2. Management's Discussion and Analysi s of Financial Condition and Results of Operations

Our Company

We were incorporated in Delaware in March 2009 under the Delaware General Corporation Law. During the six months ended June 30, 2017, our principal source of revenue was from the lease of our oxide plant. We incurred net operating losses for the six months ended June 30, 2017 and 2016.

The Company remains focused on evaluating and searching for mining opportunities in North America (including Mexico) with near term prospects of mining, and particularly for properties within reasonable haulage distances of our Velardeña Properties. The Company is also reviewing strategic opportunities, focusing primarily on development or operating properties in North America, including Mexico.

This discussion should be read in conjunction with Management's Discussion and Analysis included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 28, 2017.

Highlights for the Six Months Ended June 30, 2017

Velardeña Oxide Plant Lease Agreement

In July 2015, we leased our Velardeña oxide plant to a wholly-owned subsidiary of Hecla Mining Company for an initial term of 18 months beginning July 1, 2015. The lease agreement contained several lease extension options, and in the third quarter 2016, the lease was extended through June 2017. The 2016 extension included an agreement under which Hecla would construct, at its cost, certain tailings expansion facilities to accommodate Hecla's increased use of tailings capacity in excess of an agreed amount, while preserving flexibility for future tailings expansions. The tailings expansion work began in early 2017 and is now completed. The parties agreed that Hecla would either leave unused at the end of the lease term an agreed amount of capacity in the expanded tailings facility, or construct an additional expansion at its cost. In connection with their agreement regarding tailings impoundment expansions, the parties agreed that Hecla had the right to extend the lease for an additional 18 months following June 30, 2017, or until December 31, 2018. On March 24, 2017, Hecla exercised its right to extend the lease until December 31, 2018.

On August 2, 2017, we granted Hecla an option to extend the lease for an additional period of up to two years ending no later than December 31, 2020 (the "Extension Period") in exchange for a $1.0 million cash payment and the purchase of $1.0 million, or approximately 1.8 million shares of the Company's common stock issued at par at a price of $0.55 per share, based on an undiscounted 30-day volume weighted average stock price. Hecla must exercise the option to extend the lease no later than October 3, 2018. All of the fixed fees and throughput related charges remain the same as under the original lease. Similar volume limitations apply to any required future tailings expansions, which Hecla will fund, leaving unused at the end of the lease term an agreed amount of capacity in the expanded tailings facility. Hecla will have the right to terminate the lease during the Extension Period for any reason with 120 days' notice. Hecla will also have a one-time right of first refusal to continue to lease the plant following a termination notice through December 31, 2020 if we decide to use the oxide plant for our own purposes before December 31, 2020.

Hecla is responsible for ongoing operation and maintenance of the oxide plant. During the six months ended June 30, 2017, Hecla processed approximately 68,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately $3.3 million, comprised of approximately $1.5 million for direct plant charges plus fixed fees and other net reimbursable costs totaling approximately $1.8 million. We incurred costs of approximately $1.1 million related to the services we provide under the lease and reported a net operating margin of approximately $2.3 million during the first six months of 2017. Hecla has been processing material near the intended approximately 400 tonnes per day rate during 2017. At this rate, we expect net cash payments to us, net of reimbursable costs, should total approximately $0.4 million per month, including variable and fixed fees, or nearly $4.8 million annually.

Sale of Mining Equipment

In August 2016, we sold certain mining equipment consisting of two haul trucks, two scoop trams and a compressor to Minera Indé, an indirect subsidiary of Sentient, a related party, for $687,000. The equipment sold was excess equipment held at our Velardeña Properties that we did not expect to use. We used a third party consultant with experience in the used mining equipment market in Mexico to determine a fair value. We believe the price paid was at least equal to the fair market value of the equipment had it been sold through auction or in the open market. We received 10% of the sales price at the closing of the sale in August, with the additional 90%, plus interest on the unpaid balance at an annual rate of 10%, due in February 2017.

With the approval of a Special Committee of the Company's Board of Directors, the Company and Minera Indé amended the original equipment sale on March 31, 2017 to include the sale of an additional piece of excess equipment for $185,000 and extend the time for payment relating to the original equipment sale. Upon execution of the amendment, the Company received an additional payment of $100,000. The remaining principal and interest balance, plus additional interest on the unpaid balance at an annual rate of 10%, was amended to be due in August 2017. On May 2, 2017, we received approximately $750,000 from Minera Indé as payment in full for the remaining balance due related to the equipment sale, including interest through that date.

Santa Maria

During the first half of 2016, we mined from the Santa Maria mine west of Hildalgo de Parral, Chihuahua, approximately 4,500 tonnes of material as a bulk sample with grades of approximately 235 gpt silver and 0.7 gpt gold. We processed the bulk sample through a toll milling facility, generating approximately 100 tonnes of concentrates containing approximately 22,000 ounces of silver and 44 ounces of gold. The concentrates were sold to a third party for approximately $300,000 during the first half of 2016 consisting of approximately 21,000 payable ounces of silver and 40 payable ounces of gold, which offset exploration costs. The average grade of 7,500 tons mined and processed in bulk samples since 2015 is 338 gpt silver and 0.7 gpt gold. During the second half of 2016 we completed an underground drilling program of 2,200 meters in 24 drill holes.

In March 2017, a preliminary economic assessment ("PEA") was completed on our behalf by the engineering firm Tetra Tech, prepared pursuant to Canadian National Instrument 43-101, based on an updated estimate of mineralized material. The PEA presents a base case assessment of developing Santa Maria's mineral deposit. The PEA contemplates a 38-month underground mining operation at a mining rate of 200 tonnes per day using a combination of cut and fill and other mining techniques, and custom milling at a local third-party flotation mill. Based on the assumptions in the PEA, we believe there may be potential to develop a small mining operation at Santa Maria.

We have the right to acquire the Santa Maria property under an option agreement. The option agreement requires an additional approximately $0.7 million to be paid to acquire 100% of the Santa Maria property. Minimum payments of $0.1 million are due every six months in April and October and the minimum payments for 2017 have already been paid to the property owner. In addition, until the total due under the option agreement has been paid, the property owners have the right to 50% of any net profits from mining activities at the property, after reimbursement of all costs incurred by us since April 2015, to the extent that such net profit payments exceed the minimum payments.

We completed the necessary environmental study necessary to obtain the permit to operate the Santa Maria underground mine under the general plan presented in the Santa Maria PEA. We have also received the permit necessary for step-out drilling on strike along the Santa Maria vein. In the third quarter of 2017 we plan to begin a 2000 meter 10 hole drill program from surface. We have recently acquired three additional claims totaling approximately 77 hectares on strike and downdip along the vein system. The additional ground acquired adds significantly to the expansion potential of the existing deposit, which will be tested in the upcoming drill program. We have the right to acquire the three additional claims by paying $0.7 million over four years. The claims will be subject to a 2% net smelter return ("NSR") royalty on production.

Rodeo

During 2016, we completed a 2,080-meter core drilling program at the Rodeo property, approximately 80 kilometers west of the Velardeña Properties in Durango Mexico. The results from the program revealed a gold and silver bearing epithermal vein and breccia system with encouraging gold and silver values over an approximate 50 to 70 meter true width. The system is exposed at the top of a northwesterly striking ridge and dips steeply to the northeast over about one kilometer of strike length. During January 2017, the engineering firm of Tetra Tech completed an estimate of mineralized material at the Rodeo deposit, prepared pursuant to Canadian National Instrument 43-101. We believe this material, as currently identified, could provide additional mined material for our Velardeña oxide mill following the completion of the Hecla lease, currently set to expire December 31, 2020.

We have received confirmation of good gold and silver metallurgical recoveries for milled material in initial test work. Bottle roll cyanide leach testing of the high-grade samples resulted in gold extractions of 80 to 86 percent. The gold extraction is size dependent with the lowest extraction at a grind of 100 mesh and the highest extraction at a grind of 200 mesh. Silver extractions ranged from 72 to 76 percent for all tests. The gold and silver readily leached from the samples within 24 hours. Reagent consumption averaged 1.7 kilograms per metric tonne ("kg/mt") for sodium cyanide and 9.8 kg/mt for lime. Test work also indicates that the material is not suitable for gold and silver recovery by heap leaching.

In 2017 we plan to continue to evaluate the economics of mining the deposit using open pit techniques and processing the material at our Velardeña oxide plant following the termination of the lease of the plant to Minera Hecla.

Celaya Farm-out

In August 2016, our wholly owned Mexican subsidiary entered into an earn-in agreement with a 100%-owned Mexican subsidiary of Electrum Global Holdings, L.P., a privately owned company, related to our Celaya exploration property in Mexico. We received an upfront payment of $0.2 million and Electrum agreed to incur exploration expenditures totaling at least $0.5 million within the first year of the agreement, reduced by certain costs Electrum previously incurred on the property since December 2015 in its ongoing surface exploration program. Electrum, at its option, can elect to acquire an undivided 60% interest in a joint venture company to be formed to hold the Celaya project after incurring exploration expenditures totaling $2.5 million during the first three years of the agreement. Electrum would serve as manager of the joint venture. If we elect not to contribute to additional exploration or development expenditures after the initial earn-in period, Electrum, at its option, would have the right to earn an additional 20% interest in the Celaya project, for a total interest of 80%, by incurring an additional $2.5 million of exploration or development expenditures over a second three-year period. Following the second earn-in period we would have the right to maintain our 20% interest or our interest ultimately could be converted into a 10% net profits interest.

Electrum Global Holdings' Mexican subsidiary, Minera Adularia, has completed 5600 meters of drilling on the property in seven drill holes in their ongoing drill program. Results to date show intercepts of epithermal quartz vein mineralization with grades for gold, silver, lead and zinc that warrant further drill testing. In three of the seven holes, intercepts of quartz vein material carry gold and silver grades that are within the range of economic interest, if sufficient volumes can be found in a configuration amenable to exploitation.

Other Exploration

In April 2016, we entered into an option agreement under which Santacruz Silver Mining Ltd. may acquire our interest in certain nonstrategic mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico for a series of payments totaling $1.5 million. Santacruz paid the Company $0.2 million on signing the agreement and additional payments of $0.2 million and $0.3 million in October 2016 and May 2017, respectively. In order to maintain its option and acquire the Zacatecas Properties, Santacruz is required to pay additional amounts of $0.3 million and $0.5 million due in October 2017 and April 2018, respectively. Santacruz has the right to terminate the option agreement at any time, and the agreement will terminate if Santacruz fails to make a payment when due.

Financial Results of Operations

For the results of continuing operations discussed below, we compare the results from operations for the three and six months ended June 30, 2017 to the results from operations for the three and six months ended June 30, 2016.

Three Months Ended June 30, 2017

Revenue from oxide plant lease. We recorded revenue of $1.7 million and $1.6 million during the three months ended June 30, 2017 and 2016, respectively, related to the lease of our Velardeña oxide plant to a third party.

Oxide plant lease costs. We recorded $0.5 million of costs related to the oxide plant lease during each of the three-month periods ended June 30, 2017 and 2016. The costs consist primarily of reimbursable labor and utility costs which for accounting purposes are also included in revenue from the oxide plant lease.

Exploration expense. Our exploration expense, including work at the Santa Maria and Rodeo properties, property holding costs and allocated administrative expenses, totaled $0.5 million for the three months ended June 30, 2017, as compared to $1.2 million for the three months ended June 30, 2016. Exploration expense for both years was incurred primarily in Mexico. The higher exploration expenses in 2016 are primarily related to test mining activity occurring at the Santa Maria property in 2016 and drilling at the San Luis Cordero property.

Velardeña shutdown and care and maintenance costs. We recorded $0.4 million and $0.5 million for the three months ended June 30, 2017 and 2016, respectively, for expenses related to shut down and care and maintenance at our Velardeña Properties as the result of the suspension of mining and processing activities in November 2015. The 2016 expense included certain one-time repair and maintenance costs associated with the plant shut down.

El Quevar project expense. During the three months ended June 30, 2017 and 2016 we incurred $0.2 million of expenses each period, primarily related to holding costs for the Yaxtché deposit at our El Quevar project in Argentina.

Administrative expense. Administrative expenses totaled $0.9 million for the three months ended June 30, 2017 compared to $1.0 million for the three months ended June 30, 2016. Administrative expenses, including costs associated with being a public company, are incurred primarily by our corporate activities in support of the Velardeña Properties, El Quevar project and our exploration portfolio. The $0.9 million of administrative expenses we incurred during the second quarter 2017 is comprised of $0.4 million of employee compensation and directors' fees, $0.2 million of professional fees and $0.3 million of insurance, rents, travel expenses, utilities and other office costs. The $1.0 million of administrative expenses we incurred during the second quarter 2016 is comprised of $0.4 million of employee compensation and directors' fees, $0.3 million of professional fees and $0.3 million of insurance, rents, travel expenses, utilities and other office costs.

Stock based compensation. During the three months ended June 30, 2017 and 2016 we incurred approximately $0.2 million and $0.5 million, respectively, of stock based compensation. Stock based compensation varies from period to period depending on the number and timing of shares granted, the type of grant, the market value of the shares on the date of grant and other variables. The 2017 and 2016 second quarter stock based compensation amounts include $0.2 million and $0.4 million, respectively, related to KELTIP grants made to two officers (see Note 13 to the consolidated financial statements filed as part of this Form 10-Q for a discussion of KELTIP grants).

Reclamation and accretion expense. During the three months ended June 30, 2017 and 2016 we incurred approximately $48,000 and $46,000 of reclamation expense, respectively, related to the accretion of an asset retirement obligation at the Velardeña Properties.

Other operating income, net. We recorded $0.7 million and $0.2 million of other operating income for the three months ended June 30, 2017 and 2016, respectively. The net amount for both periods consists primarily of net gains related to the sale of certain assets and non-strategic exploration properties. The operating income for the three months ended June 30, 2017 also includes $0.2 million for a refund of Argentina value added tax paid in prior years (see Note 6).

Depreciation, depletion and amortization. During the three months ended June 30, 2017 and 2016 we incurred depreciation, depletion and amortization expense of $0.1 million and $0.4 million, respectively. The decrease in depreciation, depletion and amortization expense during the 2017 period is primarily the result of certain equipment at our Velardeña Properties having been fully depreciated.

Interest and other income. We recorded a nominal amount of interest and other income for the three months ended June 30, 2017, including accrued interest related to the sale of equipment to Minera Indé discussed above. During the three months ended June 30, 2016 we recorded only a nominal amount of interest and other income primarily related to cash balances held in banks.

Warrant derivative (loss) gain. During the three months ended June 30, 2017 we recorded a gain of approximately $0.4 million related to a decrease in the fair value of the liability recorded for warrants to acquire the Company's common stock. During the three months ended June 30, 2016 we recorded a loss of approximately $1.1 million related to an increase in the fair value of the liability recorded for warrants to acquire the Company's common stock (see Note 11 of our consolidated financial statements filed as part of this Form 10-Q).

Derivative loss. For the three months ended June 30, 2016 we recorded a $0.1 million loss related to the fair value adjustment to the beneficial conversion feature of the Sentient Note, which constitutes an imbedded derivative (see Note

11 of our consolidated financial statements filed as part of this Form 10-Q). There were no such amounts recorded for the three months ended June 30, 2017 as the Sentient Note was fully converted and no longer outstanding as of June 30, 2016.

Gain (Loss) on foreign currency. We recorded a nominal foreign currency loss and gain for the three months ended June 30, 2017 and 2016 respectively. Foreign currency gains and losses are primarily related to the effect of currency fluctuations on monetary assets net of liabilities held by our foreign subsidiaries that are denominated in currencies other than US dollars.

Income taxes. We recorded no income tax expense or benefit for the three months ended June 30, 2017 and recorded a nominal income tax benefit for the three months ended June 30, 2016.

Six Months Ended June 30, 2017

Revenue from oxide plant lease. We recorded revenue of $3.3 million and $3.0 million during the six months ended June 30, 2017 and 2016, respectively, related to the lease of our Velardeña oxide plant to a third party.

Oxide plant lease costs. We recorded $1.1 million and $0.9 million of costs related to the oxide plant lease during the six-month periods ended June 30, 2017 and 2016, respectively. The costs consist primarily of reimbursable labor and utility costs which for accounting purposes are also included in revenue from the oxide plant lease.

Exploration Expense. Our exploration expense, including work at the Santa Maria and Rodeo properties, property holding costs and allocated administrative expenses, totaled $1.0 million for the six months ended June 30, 2017, as compared to $1.9 million for the six months ended June 30, 2016. Exploration expense for both years was incurred primarily in Mexico. The higher exploration expenses in 2016 are primarily related to test mining activity occurring at the Santa Maria property in 2016 and drilling at the San Luis Cordero property.

Velardeña shutdown and care and maintenance costs. We recorded $0.7 million and $1.1 million for the six months ended June 30, 2017 and 2016, respectively, for expenses related to shut down and care and maintenance at our Velardeña Properties as the result of the suspension of mining and processing activities in November 2015. The 2016 expense included certain one-time repair and maintenance costs associated with the plant shut down.

El Quevar project expense. During the six months ended June 30, 2017 and 2016 we incurred $0.3 million and $0.4 million, respectively, primarily related to holding costs for the Yaxtché deposit at our El Quevar project in Argentina.

Administrative expense. Administrative expenses totaled $1.9 million for the six months ended June 30, 2017 compared to $2.2 million for the six months ended June 30, 2016. Administrative expenses, including costs associated with being a public company, are incurred primarily by our corporate activities in support of the Velardeña Properties, El Quevar project and our exploration portfolio. The $1.9 million of administrative expenses we incurred during the six months ended June 30, 2017 is comprised of $0.7 million of employee compensation and directors' fees, $0.6 million of professional fees and $0.6 million of insurance, rents, travel expenses, utilities and other office costs. The $2.2 million of administrative expenses we incurred during the six months ended June 30, 2016 is comprised of $0.7 million of employee compensation and directors' fees, $0.8 million of professional fees and $0.7 million of insurance, rents, travel expenses, utilities and other office costs.

Stock based compensation. During the six months ended June 30, 2017 we incurred $0.3 million of expense related to stock based compensation compared to $0.6 million for six months ended June 30, 2016. Stock based compensation varies from period to period depending on the number and timing of shares granted, the type of grant, the market value of the shares on the date of grant and other variables. The 2017 and 2016 six-month stock based compensation amounts include $0.2 million and $0.4 million, respectively, related to KELTIP grants made to two officers (see Note 13 to the consolidated financial statements filed as part of this Form 10-Q for a discussion of KELTIP grants).

Reclamation and accretion expense. During each of the six months ended June 30, 2017 and 2016 we incurred approximately $0.1 million of reclamation expense related to the accretion of an asset retirement obligation at the Velardeña Properties.

Other operating income, net. We recorded $0.9 million and $0.2 million of other operating income for the six months ended June 30, 2017 and 2016, respectively. The net amount for the 2017 period consists primarily of net gains related to the sale of equipment to Minera Indé discussed above, a gain related to the reduction of the asset retirement obligation liability at our Velardeña Properties and the sale of certain assets and non-strategic exploration properties. The net amount for the 2016 period is primarily related to the sale of certain assets and non-strategic exploration properties. The operating income for the six months ended June 30, 2017 also includes $0.2 million for a refund of Argentina value added tax paid in prior years (see Note 6).

Depreciation, depletion and amortization. During the six months ended June 30, 2017 we incurred depreciation, depletion and amortization expense of $0.3 million compared to $1.0 million for the six months ended June 30, 2016. The decrease in depreciation, depletion and amortization expense during the 2017 period is primarily the result of certain equipment at our Velardeña Properties having been fully depreciated.

Interest and other income. We recorded a nominal amount of interest and other income for the six months ended June 30, 2017, including accrued interest related to the sale of equipment to Minera Indé discussed above. During the six months ended June 30, 2016 we recorded only a nominal amount of interest and other income primarily related to cash balances held in banks.

Warrant derivative (loss) gain. During the six months ended June 30, 2017 we recorded a gain of approximately $0.4 million related to a decrease in the fair value of the liability recorded for warrants to acquire the Company's common stock. During the six months ended June 30, 2016 we recorded a loss of approximately $2.3 million related to an increase in the fair value of the liability recorded for warrants to acquire the Company's common stock (see Note 11 of our consolidated financial statements filed as part of this Form 10-Q).

Derivative loss. For the six months ended June 30, 2016 we recorded a $0.8 million loss related to the fair value adjustment to the beneficial conversion feature of the Sentient Note, which constitutes an imbedded derivative (see Note 11 of our consolidated financial statements filed as part of this Form 10-Q). There were no such amounts recorded for the six months ended June 30, 2017 as the Sentient Note was fully converted and no longer outstanding as of June 30, 2016.

Loss on foreign currency. We recorded a nominal foreign currency gain and loss for the six months ended June 30, 2017 and 2016 respectively. Foreign currency gains and losses are primarily related to the effect of currency fluctuations on monetary assets net of liabilities held by our foreign subsidiaries that are denominated in currencies other than US dollars.

Income taxes. We recorded no income tax expense or benefit for the six months ended June 30, 2017. We recorded a nominal income tax benefit for the six months ended June 30, 2016 related to mark-to-market held for sale investment gains recorded as other comprehensive income.

Liquidity, Capital Resources and Going Concern

At June 30, 2017, our aggregate cash and cash equivalents totaled $2.7 million, $0.1 million greater than the $2.6 million in similar assets held at December 31, 2016. The net increase is due in part from the following expenditures and cash inflows for the six months ended June 30, 2017. Expenditures totaled $4.2 million from the following:

- $1.0 million in exploration expenditures, including work at the Santa Maria and Rodeo properties;
- $0.7 million in shutdown and care and maintenance costs at the Velardeña Properties;
- $0.3 million in care and maintenance and property holding costs at the El Quevar project;
- $1.9 million in general and administrative expenses; and
- $0.3 million from an increase in working capital primarily related to trade accounts receivable and prepaid insurance.

The foregoing expenditures were offset by cash inflows of $4.3 million from the following:

- $2.3 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs);

- $0.8 million from final payments related to the sale of excess mining equipment to Minera Indé;
- $0.7 million of net proceeds received from the issuance of our common stock under the ATM Program;
- $0.3 million from the farm out of certain nonstrategic mineral claims to Santacruz: and
- $0.2 million of net proceeds from the sale of other nonstrategic exploration properties and mining equipment.

In addition to our $2.7 million cash balance at June 30, 2017, in August 2017 we expect to receive $2.0 million from granting Hecla an option to extend the Velardeña oxide plant lease for an additional period of up to two years ending no later than December 31, 2020, including $1.0 million that will be paid in exchange for the issuance of approximately 1.8 million shares of common stock of the Company. We also expect to receive approximately $4.8 million in net operating margin from the lease of the oxide plant and $0.8 million from the aforementioned exploration property farm out during the next twelve month period ending June 30, 2018. Also, in July 2017 we received $0.2 million from the refund of prior years' value added taxes related to activities at the El Quevar project. With the transactions referred to above and if no additional sales of common stock under the ATM Program occur, we project we would end 2017 with a cash balance of approximately $4.0 and end June 30, 2018 with a cash balance of approximately $3.0 million based on the following forecasted expenditures during the next twelve months ending June 30, 2018.

- Approximately $2.0 million on exploration activities and property holding costs related to our portfolio of exploration properties located primarily in Mexico, including project assessment and development costs relating to Santa Maria, Rodeo and other properties;
- Approximately $1.5 million at the Velardeña Properties for care and maintenance;
- Approximately $0.5 million at the El Quevar project to fund ongoing maintenance activities and property holding costs; and
- Approximately $3.5 million on general and administrative costs;

The actual amount of cash that we receive or the expenditures that we incur during the remainder of 2017 and the first two quarters of 2018 and the projected cash balances at December 31, 2017 and June 30, 2018 may vary significantly from the amounts specified above and will depend on a number of factors, including variations from anticipated care and maintenance costs at the Velardeña Properties and costs for continued exploration, project assessment, and development at our other exploration properties, including Santa Maria and Rodeo. Moreover, if revenues from our oxide plant lease are less than anticipated, we may reduce our planned expenditures accordingly.

The consolidated financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business. However, our continuing long-term operations are dependent upon our ability to secure sufficient funding and to generate future profitable operations. The underlying value and recoverability of the amounts shown as property, plant and equipment in our consolidated financial statements are dependent on our ability to generate positive cash flows from operations and to continue to fund exploration and development activities that would lead to profitable mining activities or to generate proceeds from the disposition of property, plant and equipment. There can be no assurance that we will be successful in generating future profitable operations or securing additional funding in the future on terms acceptable to us or at all. We believe the continuing cash flow from the lease of the oxide plant and prior asset dispositions make it probable that we will have sufficient cash to meet our financial obligations and continue our business strategy beyond one year from the filing of our consolidated financial statements for the period ended June 30, 2017.

Recent Accounting Pronouncements

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part 1) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Non public Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception ("ASU

2017-11"). Part I relates to the accounting for certain financial instruments with down round features in Subtopic 815-40, which is considered in determining whether an equity-linked financial instrument qualifies for a scope exception from derivative accounting. An entity still is required to determine whether instruments would be classified in equity under the guidance in Subtopic 815-40 in determining whether they qualify for that scope exception. If they do qualify, freestanding instruments with down round features are no longer classified as liabilities. For us, ASU 2017-11 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted, including in an interim period. If adopted in an interim period, any adjustments would be reflected as of the beginning of the fiscal year that includes the interim period. We currently report the fair value of our 2012 and 2014 warrants (see Notes 11 and 13 to the consolidated financial statements filed as part of this Form 10-Q) as liabilities on the balance sheet as a result of anti-dilution clauses in the warrant agreements that could result in a resetting of the warrant exercise price and the number of warrant shares outstanding in the event we were to issue additional shares of our common stock in a future transaction at an offering price lower than the current exercise price of the warrants. We are currently evaluating whether the scope exception under ASU 2017-11 applies to the 2012 and 2014 warrants and whether the warrants should no longer be classified as liabilities but rather in equity. We had recorded a "*Warrant liability*" of $1.5 million on our Condensed Consolidated Balance Sheets as of June 30, 2017 and reported a "*Warrant derivative gain*" of $0.4 million for the six months ended June 30, 2017 on our Condensed Consolidated Statements of Operation and Comprehensive Loss.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08"), which clarifies principal versus agent when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606, *Revenue from Contracts with Customers,* requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). ASU 2016-08 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. As our current accounting practices per the guidance of ASC 605 are comparable to the requirements of ASU 2016-08, we do not expect the adoption of this update to result in a material impact on our consolidated financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"), which will require lessees to recognize a right-of-use asset and a lease liability for all leases that are not short-term in nature. For a lessor, the accounting applied is also largely unchanged from previous guidance. The new rules will be effective for us in the first quarter of 2019. We do not anticipate early adoption. We do not expect the adoption of ASU 2016-02 to materially change the amounts related to leases that are currently recorded and therefore the we do not expect the adoption to have a material impact on our consolidated financial position and results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01") which amended its standards related to the accounting of certain financial instruments. This amendment addresses certain aspects of recognition, measurement, presentation and disclosure. The new rules will become effective for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted. We are in the process of evaluating the impact the amendment will have on our consolidated financial position or results of operations.

In May 2014, FASB and the International Accounting Standards Board issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 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. In addition, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized and the related cash flows. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017; early adoption is not permitted. ASU 2014-09 was originally effective December 15, 2016 but ASU 2015-14 deferred the effective date by one year. As are current accounting practices per the guidance of ASU 2014-09 are comparable to the requirements of ASU 2014-09, we do not expect the adoption of this update to result in a material impact to our consolidated financial position or results of operations.

Forward-Looking Statements

Some information contained in or incorporated by reference into this Quarterly Report on Form 10-Q may contain forward-looking statements. These statements include comments relating to our plans, expectations and assumptions concerning the oxide plant lease, including revenues, receipt of full payment under the recently granted lease extension option and potential future tailings expansion; the Santa Maria property, including the PEA results (including life of mine and production expectations), and other expectations regarding the project, including future drilling plans and cost expectations; the Rodeo property, including the Company's general expectations regarding the Rodeo deposit and cost expectations; the Celaya property, including the Company’s general expectations for exploitation; our financial outlook for the remainder of 2017 and through the end of the second quarter 2018, including anticipated income and expenditures during those periods; expected need for external financing; costs and expectations related to our El Quevar project; and statements concerning our financial condition, business strategies and business and legal risks.

The use of any of the words “anticipate,” “continues,” “estimate,” “expect,” “may,” “will,” “project,” “should,” “believe” and similar expressions are intended to identify uncertainties. We believe the expectations reflected in those forward-looking statements are reasonable. However, we cannot assure that these expectations will prove to be correct. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the factors set forth below and other factors set forth in, or incorporated by reference into this report:

- Lower revenue than anticipated from the oxide lease, which could result from delays or problems at the third party’s mine or at the oxide plant, permitting problems at the third party’s mine or the oxide plant, delays in constructing additional tailings capacity at the oxide plant, earlier than expected termination of the lease or other causes;
- Higher than anticipated care and maintenance costs at the Velardeña Properties in Mexico or at El Quevar in Argentina;
- Continued decreases or insufficient increases in silver and gold prices ;
- Whether we are able to raise the necessary capital required to continue our business on terms acceptable to us or at all, and the likely negative effect of continued low silver and gold prices or unfavorable exploration results;
- Unfavorable results from exploration at the Santa Maria, Rodeo or other exploration properties and whether we will be able to advance these or other exploration properties;
- Risks related to the El Quevar project in Argentina, including whether we will be able to find a joint venture partner to advance the project, the feasibility and economic viability and unexpected costs of maintaining the project;
- Variations in the nature, quality and quantity of any mineral deposits that are or may be located at the Velardeña Properties or the Company’s exploration properties, changes in interpretations of geological information, and unfavorable results of metallurgical and other tests;
- Whether we will be able to mine and sell minerals successfully or profitably at any of our current properties at current or future silver and gold prices and achieve our objective of becoming a mid-tier mining company;
- Potential delays in our exploration activities or other activities to advance properties towards mining resulting from environmental consents or permitting delays or problems, accidents, problems with contractors, disputes under agreements related to exploration properties, unanticipated costs and other unexpected events;
- Our ability to retain key management and mining personnel necessary to successfully operate and grow our business;
- Economic and political events affecting the market prices for gold, silver, zinc, lead and other minerals that may be found on our exploration properties;
- Political and economic instability in Mexico, Argentina, and other countries in which we conduct our business and future actions of any of these governments with respect to nationalization of natural resources or other changes in mining or taxation policies;
- Volatility in the market price of our common stock; and

- The factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and item 1A of this Report on Form 10-Q.

Many of these factors are beyond our ability to control or predict. You should not unduly rely on these forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect future events or developments.

Cautionary Statement Regarding Mineralized Material

"Mineralized material" as used in this Quarterly Report on Form 10-Q, although permissible under the SEC Industry Guide 7, does not indicate "reserves" by SEC standards. We cannot be certain that any deposits at the Rodeo property or any deposits at our other exploration properties, will ever be confirmed or converted into SEC Industry Guide 7 compliant "reserves". Investors are cautioned not to assume that all or any part of the disclosed mineralized material estimates will ever be confirmed or converted into reserves or that mineralized material can be economically or legally extracted.

Item 3. Quantitative and Qualitative Disclosures About Market Ris k

Interest Rate Risk

We invest substantially all of our excess cash in U.S. government and debt securities rated "investment grade" or better. The rates received on such investments may fluctuate with changes in economic conditions. Based on the average cash and investment balances outstanding during the first six months of 2017, a 1% decrease in interest rates would have resulted in only a nominal reduction in interest income for the period.

Foreign Currency Exchange Risk

Although most of our expenditures are in U.S. dollars, certain purchases of labor, supplies and capital assets are denominated in other currencies, primarily in Mexico. As a result, currency exchange fluctuations may impact the costs of our exploration and mining activities. To reduce this risk, we maintain minimum cash balances in foreign currencies and complete most of our purchases in U.S. dollars.

Commodity Price Risk

We are primarily engaged in the exploration and mining of properties containing gold, silver, zinc, lead and other minerals. As a result, decreases in the price of any of these metals have the potential to negatively impact our ability to establish reserves and mine on our properties. We currently hold no commodity derivative positions.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2017, (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The risk factors for the quarter ended June 30, 2017, are substantially the same as those set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.