

Item 2. Management's Discussion and Analysis 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 three months ended March 31, 2018, our principal source of revenue was from the lease of our oxide plant. We incurred net operating losses for the three months ended March 31, 2018 and 2017.

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. We are also focused on evaluation activities at our El Quevar exploration property in Argentina, and are continuing our exploration efforts on selected properties in our portfolio of approximately [10] exploration properties located primarily in 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, 2017, filed with the SEC on March 2, 2018.

Highlights for the three Months Ended March 31, 2018

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 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 (the "Hecla Share Issuance"), 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 three months ended March 31, 2018, Hecla processed approximately 31,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$1.6 million, comprised of approximately \$1.1 million for direct plant charges plus fixed fees and other net reimbursable costs totaling approximately \$0.5 million. We incurred costs of approximately \$0.5 million related to the services we provide under the lease and reported a net operating margin of approximately \$1.1 million during the first three months of 2018. We expect Hecla to continue to process material near the intended approximately 400 tonnes per day rate during 2018, which would generate cash payments to us, net of reimbursable costs, of approximately \$4.5 million during the full year 2018. However, because Hecla has the right to terminate the lease on sixty days' notice, there is no assurance that these amounts will be received.

El Quevar

During 2012, the Company released an estimate of mineralized material at our El Quevar project. This estimate assumed mining of oxide material from an open pit on the east end of the Yaxtché deposit and sulfide material from both

the open pit and an underground mine on the western portion of the Yaxtché deposit. The estimate was based on results from 270 core drill holes.

In 2017, Amec Foster Wheeler E&C Services, Inc., a Wood Group PLC company (“Wood”) undertook an analysis and re-modeling of the data utilized in the prior mineralized material estimate using updated geologic controls and a modeling method that optimizes grade. This resulted in an updated mineralized material estimate which the Company announced in February 2018. The Wood estimate assumes mining would occur solely underground and would be optimized to maximize potential silver grades. According to the Wood estimate, sulfide mineralized material in the Yaxtché deposit, at a cut-off grade of 250 grams per tonne silver, and using a three-year average silver price of \$16.62 per ounce, was 2.6 million tonnes at an average silver grade of 487 grams per tonne.

We are evaluating plans for further exploration drilling to increase the size of the high grade silver resource at or near the Yaxtché deposit and for preparation of a preliminary economic assessment (“PEA”) that will use the revised estimate of mineralized material for the Yaxtché deposit as a basis. The Yaxtché deposit is open to the west and there are numerous drill intercepts with silver grades of economic interest in the nearby area that represent targets for further expansion. We plan to continue to advance El Quevar as much as possible within the limits of our current exploration budget and remain open to finding a partner to contribute to the funding of further exploration and development.

Santa Maria

Since 2015, we have completed test mining and processing of 7,500 tons from the Santa Maria mine west of Hildalgo de Parral, Chihuahua, with average grades 338 grams per tonne (“gpt”) silver and 0.7 gpt gold. In March 2017, a 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 presented 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.

In August 2017, we acquired three additional claims that cover the eastward extension of the Santa Maria vein. The new claims provide a 600 meter potential extension to the strike length of the vein system and add substantial down-dip expansion potential. In August 2017, we also commenced a new drill program targeting extensions of the vein deposit described in the PEA and recent estimate of mineralized material with the goal of expanding the existing estimate of mineralized material to improve the overall economics reported in the PEA.

From August 2017 through the end of March 31, 2018, we have drilled 22 holes totaling approximately 4,800 meters, and have received completed assay results showing mineralized intercepts in most of the holes. We increased the drill program from an original 2,000 meters due to the geologic complexity along the eastern extension and newly encountered mineralization on the western extension of the vein system. Based on the results of the new drilling program, we anticipate that we will be able to increase the size of the existing mineralized material estimate, although the extent of that increase has not yet been determined. After reviewing the drill results we expect to revise the existing PEA and mineralized material estimate.

We have the right to acquire the Santa Maria property under two separate option agreements representing the total concessions that comprise the property for additional payments of \$1.4 million, payable through April 2022. The first option agreement, covering concessions we acquired in August 2014, requires an additional approximately \$0.7 million be paid to acquire a 100% interest in the concessions related to that option by continuing to make minimum payments of \$0.1 in 2018 and \$0.2 in each of the years 2019 through 2021. In addition, until the total due under the first option agreement has been paid, the property owners have the right to 50% of any net profits from mining activities from the concessions related to the option, after reimbursement of all costs incurred by us since April 2015, to the extent that such net profit payments exceed the minimum payments. The second option agreement, covering concessions recently acquired in August 2017, requires an additional approximately \$0.7 million be paid to acquire a 100% interest in the concessions related to that option by making additional payments of \$0.1 million in 2018 and \$0.2 million in each of the years 2019 through 2021.

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 (together “Electrum”), 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 initial first three years of the agreement. Electrum would serve as manager of the joint venture. Prior to an amendment to the agreement, we would have been allowed to maintain a 40% interest in the Celaya project, following the initial three-year earn-in period, by contributing our pro-rata share of an additional \$2.5 million in exploration or development expenditures incurred over a second three-year period. In February 2018, we amended the Celaya earn-in agreement to permit Electrum to earn, at its option, an additional 20% interest in the Celaya project in exchange for a payment of \$1.0 million. Electrum can now increase its total interest in the project to 80% by contributing 100% of the \$2.5 million of additional expenditures required in the second three-year earn-in period. Following the second earn-in period we will have the right to maintain our 20% participating interest or our interest could ultimately be converted into a carried 10% net profits interest if we elect not to participate as a joint venture owner.

Electrum Global Holdings’ Mexican subsidiary, Minera Adularia, has reported the completion of 12,400 meters of drilling on the property in fifteen drill holes in their ongoing drill program through the end of 2017. Results to date show intercepts of epithermal quartz vein mineralization with grades for gold, silver, lead and zinc that warrant further drill testing.

Zacatecas

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, including a final payment of \$0.5 million due in April 2018. To date, Santacruz has paid us approximately \$1.1 million, which includes payments of \$249,000 received during the three months ended March 31, 2018. We amended the option agreement in February 2018 to extend the due dates for the remaining payments through September 2018. To complete the acquisition of the Zacatecas Properties Santacruz must make two additional payments of \$225,000 each in June and September 2018. Santacruz has the right to terminate the option agreement at any time, and the agreement could be terminated, at our option, if Santacruz fails to make subsequent payments when due.

Financial Results of Operations

For the results of continuing operations discussed below, we compare the results from operations for the three months ended March 31, 2018 to the results from operations for the three months ended March 31, 2017.

Three Months Ended March 31, 2018

Revenue from oxide plant lease. We recorded revenue of \$1.6 million during the three months ended March 31, 2018 and 2017, 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 the three-month periods ended March 31, 2018 and 2017. 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 other properties, property holding costs and allocated administrative expenses, totaled \$0.8 million for the three months ended March 31, 2018, as compared to \$0.5 million for the three months ended March 31, 2017. Exploration expense for both years was incurred primarily in Mexico. The higher exploration expenses in 2018 are primarily related to exploration occurring at the Santa Maria property.

Velardeña shutdown and care and maintenance costs. We recorded \$0.5 million and \$0.4 million for the three months ended March 31, 2018 and 2017, 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.

El Quevar project expense. During the three months ended March 31, 2018 we incurred \$0.3 million primarily related to holding and evaluation costs for the Yaxché deposit at our El Quevar project in Argentina. During the three months ended March 31, 2017 we recorded an expense of approximately \$0.1 million primarily related to holding costs for the Yaxché deposit at our El Quevar project in Argentina. The increase in 2018 is related to increased evaluation activities.

Administrative expense. Administrative expenses totaled \$1.1 million for the three months ended March 31, 2018 compared to \$1.0 million for the three months ended March 31, 2017. 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 \$1.1 million of administrative expenses we incurred during the first quarter 2018 is comprised of \$0.4 million of employee compensation and directors' fees, \$0.4 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 first quarter 2017 is comprised of \$0.3 million of employee compensation and directors' fees, \$0.4 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 March 31, 2018 and 2017 we incurred nominal expense related to 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 2018 and 2017 first quarter stock based compensation amounts include nominal reduction to expense and a nominal amount of expense, respectively, related to KELTIP grants made to two officers (see Note 14 to the consolidated financial statements filed as part of this Form 10-Q for a discussion of KELTIP grants). The 2017 reduction to expense resulted from marking-to-market the outstanding KELTIP grants.

Reclamation and accretion expense. During the three months ended March 31, 2018 and 2017 we incurred approximately \$51,000 and \$49,000 of reclamation expense, respectively, related to the accretion of an asset retirement obligation at the Velardeña Properties.

Other operating income, net. We recorded \$1.2 million of other operating income for the three months ended March 31, 2018, consisting of \$1.0 million related to an option payment received on our Celaya property, \$0.1 million from income related to our Zacatecas Properties and \$0.1 related to utilization of VAT credits in Mexico. We recorded \$0.2 million of other operating income for the three months ended March 31, 2017 consisting primarily of net gains related to the sale of equipment to Minera Indé as well as a gain related to the reduction of the asset retirement obligation liability at our Velardeña Properties.

Depreciation, depletion and amortization. During the three months ended March 31, 2018 and 2017 we incurred depreciation, depletion and amortization expense of \$0.3 million and \$0.2 million, respectively.

Interest and other income. We recorded a nominal amount of interest and other income for the three months ended March 31, 2018 and 2017, primarily related to cash balances held in banks.

Gain (Loss) on foreign currency. We recorded a nominal loss for the three months ended March 31, 2018 and March 31, 2017. 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 March 31, 2018 and March 31, 2017.

Liquidity, Capital Resources and Going Concern

At March 31, 2018, our aggregate cash and cash equivalents totaled \$2.7 million, \$0.6 million less than the \$3.3 million in similar assets held at December 31, 2017. The net decrease is due in part from the following expenditures and cash inflows for the three months ended March 31, 2018. Expenditures totaled \$2.9 million from the following:

- \$0.9 million in exploration expenditures, including work at the Santa Maria and other properties;
- \$0.5 million in care and maintenance costs at the Velardeña Properties;
- \$0.3 million in evaluation activities, care and maintenance and property holding costs at the El Quevar project;
- \$1.1 million in general and administrative expenses; and
- \$0.1 million from a net increase in working capital.

The foregoing expenditures were offset by cash inflows of \$2.3 million from the following:

- \$1.1 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs);
- \$1.0 million from an amendment to the to the farm-out agreement of the Celaya property to Electrum; and
- \$0.2 million from the farm out of certain nonstrategic mineral claims to Santacruz.

In addition to our \$2.7 million cash balance at March 31, 2018, we also expect to receive approximately \$4.5 million in net operating margin from the lease of the oxide plant and \$0.5 million from the aforementioned exploration property farm out during the next twelve-month period ending March 31, 2019. With the transactions referred to above and if no additional sales of common stock under the ATM Program occur, we project we would end 2018 with a cash balance of approximately \$1.5 million and end March 31, 2019 with a cash balance of approximately \$1.0 million based on the following forecasted expenditures during the next twelve months ending March 31, 2019:

- Approximately \$1.5 million on exploration activities and property holding costs related to our portfolio of exploration properties located primarily in Mexico, including project assessment and evaluation costs relating to Santa Maria and other properties;
- Approximately \$1.5 million at the Velardeña Properties for care and maintenance;
- Approximately \$1.0 million at the El Quevar project to fund ongoing exploration and evaluation activities, care and maintenance and property holding costs; and
- Approximately \$2.7 million on general and administrative costs.

The actual amount of cash that we receive or the expenditures that we incur during the remainder of 2018 and the first quarter of 2019 and the projected cash balances at December 31, 2018 and March 31, 2019 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 El Quevar and Santa Maria. Moreover, if revenues from our oxide plant lease or payments from the exploration farm out agreement 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 March 31, 2018.

Recent Accounting Pronouncements

2. New Accounting Pronouncements

During the first quarter 2018 we adopted ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) which was issued by the Financial Accounting Standards Board (“FASB”) in May 2014. We also adopted ASU No. 2017-05, “Other Income (Subtopic 310-20)” (“ASU 2017-05”), which was issued by the FASB in February 2017 clarifying the scope of Subtopic 610-20, which was originally issued as part of 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. We elected the modified retrospective method of initially adopting ASU 2014.

During the first quarter 2018 we adopted ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), which amended its accounting treatment for the recognition, measurement, presentation and disclosure of certain financial assets. ASU 2016-01 requires equity investments that have a readily determinable fair value to be measured at fair value through net income. Previously, entities would recognize changes in fair value of available-for-sale equity securities in other comprehensive income, and would recognize in net income impairment losses that were other-than-temporary. There will no longer be an available-for-sale classification (with changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. We recognize retrospectively the cumulative effect of initially adopting ASU 2016-01.

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. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced based on the pricing of future equity offerings. An entity still is required to determine whether instruments would be classified as 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, adoption of ASU 2017-11 was required for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption was permitted, including in an interim period. We early adopted ASU 2017-11 during the interim period ended September 30, 2017.

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 with terms greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For a lessor, the accounting applied is largely unchanged from previous guidance. The new rules will be effective for the Company in the first quarter of 2019. We do not anticipate early adoption. We currently lease administrative offices in the U.S. and in several foreign locations under lease agreements that typically exceed one year. Depending on the number of years remaining under such lease agreements the right-of-use assets and lease liabilities that we would record under ASU 2016-2 could be material.

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 the expected term, anticipated revenues, and potential future tailings expansion; the El Quevar project, including timing and expectations of evaluation activities; 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, timing of initial drill results, expansion potential for the existing deposit and general cost expectations; the Celaya property, including farm-out terms and possible future drill testing; the Mogotes property, including future drilling plans and evaluation activities; our financial outlook in 2018, including anticipated income and expenditures during the year; expected need for external financing and statements concerning our financial condition, business strategies and business and legal risks.

The use of any of the words “anticipate,” “continues,” “likely,” “estimate,” “expect,” “may,” “will,” “project,” “should,” “could,” “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, Mogotes 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 unfavorable results from our evaluation activities, the feasibility and economic viability and unexpected costs of maintaining the project, and whether we will be able to find a joint venture partner or secure adequate financing to further advance 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, 2017 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 El Quevar, Santa Maria or Rodeo properties 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. In addition, in this quarterly report on Form 10-Q we also modify our estimates made in compliance with National Instrument 43-101 to conform to SEC Industry Guide 7 for reporting in the United States. Mineralized material is substantially equivalent to measured and indicated mineral resources (exclusive of reserves) as disclosed for reporting purposes in Canada, except that the SEC only permits issuers to report “mineralized material” in tonnage and average grade without reference to contained ounces.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 three months of 2018, 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 March 31, 2018, (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 March 31, 2018, 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, 2017.

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.