

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, 2019, 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, 2019 and 2018.

We remain 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. We are also focused on advancing our El Quevar exploration property in Argentina and on advancing selected projects in Mexico. In addition, we are continuing our exploration efforts on other selected properties in our portfolio of approximately 12 properties, located primarily in Mexico, and 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, 2018, filed with the SEC on February 28, 2019.

Highlights for the Three Months Ended March 31, 2019

El Quevar

In 2017, an analysis and re-modeling of data utilized in a 2012 mineralized material estimate was performed on our behalf for our El Quevar project, located in the Salta Province of Argentina. The results of the updated estimate were announced in February 2018 and defined a potentially minable high grade underground silver deposit. In September 2018, we completed a preliminary economic assessment prepared pursuant to Canadian National Instrument 43-101 ("PEA") that used the revised estimate of mineralized material for the Yaxtché deposit as a basis. The results of the PEA are summarized in our annual report for the year ended December 31, 2018, filed on Form 10-K.

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. In the first quarter 2019, we initiated a 3,000 meter, approximately \$0.6 million drilling program to further define the potential for additional mineralized material in the Yaxtché deposit and surrounding area. 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.

Velardeña Oxide Plant Lease Agreement

On October 1, 2018, a wholly-owned subsidiary of Hecla Mining Company (together "Hecla") exercised its option, pursuant to an agreement entered into with us in August 2017, to extend the lease of our Velardeña oxide plant until December 31, 2020. Hecla has the right to terminate the lease 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, 2019, Hecla processed approximately 40,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$1.9 million, comprised of approximately \$1.3 million for direct plant charges and fixed fees and approximately \$0.6 million for other net reimbursable costs related to the services we provide under the lease. The \$0.6 million of reimbursable costs are also reported as plant lease costs, resulting in net operating margin of approximately \$1.3 million for the three months ended March 31, 2019. We expect Hecla to continue to process material near or above the intended approximately 400 tonnes per day rate during 2019, which would generate a net operating margin to us, net of reimbursable costs, of approximately \$5.0 million during the full year 2019. However, because Hecla has the right to terminate the lease with 120 days' notice, there is no assurance that these amounts will continue through 2019 or beyond.

Santa Maria

Since 2015, we have completed test mining and processing of 7,100 dry tonnes from the Santa Maria mine west of Hildalgo de Parral, Chihuahua, with average grades 338 g/t silver and 0.8 g/t gold. In March 2017, a PEA was completed on our behalf based on an updated estimate of mineralized material. The PEA presented a base case assessment of developing Santa Maria's mineral deposit. In September 2018, a second PEA was completed for the Santa Maria project that incorporates data accumulated since March 2017, including an additional 77 hectares of mineral tenure acquired in August 2017 that covers the on-strike and downdip extensions of the Santa Maria vein systems. The new PEA also incorporates information from a 22-hole, 4,800-meter drilling program begun in August 2017 and completed in April 2018. Including the latest drill program, we have drilled 9,900 meters in 59 holes since acquiring the property.

We have the right to acquire 100% of the Santa Maria property under two separate option agreements representing the total concessions that comprise the property for additional payments of \$0.9 million, payable through April 2022. The first option agreement covers concessions we acquired in August 2014 and requires an additional approximately \$0.4 million be paid by continuing to make minimum payments of \$0.2 million in 2019 and \$0.2 million in 2020. 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 covers concessions recently acquired in August 2017 and requires an additional approximately \$0.5 million be paid by making additional payments of \$0.1 million in 2019 and \$0.2 million in each of the years 2020 and 2021.

Other Exploration - Yoquivo

The Yoquivo property was acquired in 2017 and consists of 1,907 hectares in 6 claims that cover an epithermal vein district hosted in Tertiary andesitic volcanic rocks that is exposed in an erosional window through Oligocene rhyolite on the eastern margin of the Sierra Madre Occidental of northern Mexico. The property is 200 km SW of Chihuahua city in the state of Chihuahua, Mexico. Recent surface rock sampling has demonstrated gold and silver values of potential economic interest in several of the veins in the district. We have an option to purchase the six concessions that comprise the Yoquivo property for payments totaling \$0.5 million over four years subject to a 2% NSR royalty on production, capped at \$2 million.

In October 2018 we announced high-grade silver-gold assays from the Yoquivo project. Multiple silver-gold bearing epithermal veins were mapped and sampled, with the two most important veins being the San Francisco and Pertenencia veins. A new vein, the La Nina vein, was discovered in the northwest of the property where it splits off from the main San Francisco vein. We are focusing exploration efforts on the Pertenencia vein, which appears to be more silver-rich compared to the San Francisco vein. Sampling of the Pertenencia vein is still in progress as is surface work in preparation for identifying the best drill targets. We expect to begin a drill program in the second quarter 2019 to test the most promising portions of the veins. A permit for drilling has been obtained.

Registered direct purchase agreement and commitment purchase agreement and registration rights agreement

On May 9, 2018 we entered into a registered direct purchase agreement (the "Registered Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC") pursuant to which LPC purchased 3,153,808 shares of our common stock at a price of \$0.4122 per share, the closing price of our common stock on the NYSE American on May 8, 2018, for an aggregate purchase price of \$1.3 million. On the same day, we also entered into a commitment purchase agreement (the "Commitment Purchase Agreement" and together with the Registered Purchase Agreement, the "LPC Program") pursuant to which we have the right for a period of three years, at our sole discretion, to sell up to an additional \$10.0 million of our common stock to LPC, subject to certain limitations and conditions contained in the Commitment Purchase Agreement.

Subject to the terms of the Commitment Purchase Agreement, we will control the timing and amount of any future sale of common stock to LPC. LPC has no right to require any sales by us under the Commitment Purchase Agreement but is obligated to make purchases at our sole direction, as governed by such agreement. There are no upper limits to the price LPC may be obligated to pay to purchase common stock from us and the purchase price of the shares will be based on the prevailing market prices of our shares at the time of each sale to LPC. LPC has agreed not to cause or engage in any manner whatsoever, any direct or indirect short selling or hedging of our shares of common stock. We have the right to terminate the Commitment Purchase Agreement at any time, at our discretion, without any cost or penalty.

During the three months ended March 31, 2019 we sold 1,213,642 shares of common stock to LPC under the LPC Program at an average sales price per share of approximately \$0.30, resulting in net proceeds of approximately \$360,000.

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, 2019 to the results from operations for the three months ended March 31, 2018.

Three Months Ended March 31, 2019

Revenue from oxide plant lease. We recorded revenue of \$1.9 million and \$1.6 million during the three months ended March 31, 2019 and 2018, respectively, related to the lease of our Velardeña oxide plant to a third party. The increased revenue in 2019 is due primarily to higher throughput.

Oxide plant lease costs. We recorded \$0.6 million and \$0.5 million of costs related to the oxide plant lease during the three-month periods ended March 31, 2019 and 2018, 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 Yoquivo, Santa Maria and other properties, property holding costs and allocated administrative expenses, totaled \$0.9 million for both the three months ended March 31, 2019 and March 31, 2018. Exploration expense for both years was incurred primarily in Mexico.

Velardeña shutdown and care and maintenance costs. We recorded \$0.5 million for both the three months ended March 31, 2019 and March 31, 2018 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 both the three months ended March 31, 2019 and March 31, 2018 we incurred \$0.3 million primarily related to holding and evaluation costs for the Yaxtché deposit at our El Quevar project in Argentina. The 2019 costs also included drilling costs related to the new drilling program begun in March 2019.

Administrative expense. Administrative expenses totaled \$1.1 million for both the three months ended March 31, 2019 and March 31, 2018. 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 three months of 2019 is comprised of \$0.3 million of employee compensation and directors' fees, \$0.4 million of professional fees and \$0.4 million of insurance, rents, travel expenses, utilities and other office costs. The \$1.1 million of administrative expenses we incurred during the first three months of 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.

Stock based compensation. During the three months ended March 31, 2019 and 2018 we incurred \$0.6 million and a nominal amount, respectively, of 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 2019 first quarter stock-based compensation amounts include \$0.5 million of expense related to KELTIP grants made to two officers (see Note 15 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 March 31, 2019 and 2018 we incurred approximately \$59,000 and \$51,000 of reclamation expense, respectively, related to the accretion of an asset retirement obligation at the Velardeña Properties.

Other operating income, net. We recorded \$0.1 million of other operating income for the three months ended March 31, 2019, related primarily to an adjustment to the estimated asset retirement obligation at our Velardeña Properties and the sale of surplus equipment in Argentina. 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 million related to utilization of VAT credits in Mexico.

Depreciation, depletion and amortization. During the three months ended March 31, 2019 and 2018 we incurred depreciation, depletion and amortization expense of \$0.3 million.

Interest and other expense (income), net. We recorded \$0.1 million of interest and other expense, net for the three months ended March 31, 2019, primarily related to the mark-to-market of certain common stock we own in a junior mining company. We recorded a nominal amount of interest and other income, net for the three months ended March 31, 2018, primarily related to cash balances held in banks.

Gain (Loss) on foreign currency. We recorded a nominal foreign currency loss for both the three months ended March 31, 2019 and March 31, 2018. 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, 2019 and March 31, 2018.

Liquidity, Capital Resources and Going Concern

At March 31, 2019, our aggregate cash and cash equivalents totaled \$2.2 million, compared to the \$3.3 million in similar assets held at December 31, 2018. The March 31, 2019 balance is due in part from the following expenditures and cash inflows for the three months ended March 31, 2019. Expenditures totaled \$2.8 million from the following:

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

The foregoing expenditures were offset by cash inflows of \$1.7 million from the following:

- \$1.3 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs); and
- \$0.4 million, net of commitment fees and other offering related costs, from the LPC Program.

In addition to the \$2.2 million cash balance at March 31, 2019, we expect to receive approximately \$4.8 million in net operating margin from the lease of the oxide plant during the next twelve-month period ending March 31, 2020. In addition, subsequent to March 31, 2019 we received approximately \$0.1 million from the sale of our common stock under the LPC Program. Our currently budgeted expenditures during the twelve months ending March 31, 2020 are as follows:

- 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 evaluation costs relating to Yoquivo 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 \$3.0 million on general and administrative costs.

Our currently budgeted expenditures are slightly greater than our resources noted above. Therefore, during 2019 we intend to take appropriate actions, which may include sales of certain of our nonstrategic exploration assets, reductions to our currently budgeted level of spending, and/or raising additional equity capital through sales under the ATM Program, the LPC Program or otherwise.

The actual amount of cash that we receive or the expenditures that we incur during the twelve-month period ending March 31, 2020 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. Moreover, revenues from the oxide plant lease may be less than anticipated, which would require further actions on our part in order to maintain sufficient cash balances over the next twelve months.

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, use of the ATM Program and the LPC Program, and the potential for additional 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, 2019.

Recent Accounting Pronouncements

During the first quarter 2019 the Company adopted ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) and ASU No. 2018-11 “Leases (Topic 842)” (“ASU 2018-11”), 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. We currently lease administrative offices in the U.S. and in several foreign locations under lease agreements that typically exceed one year.

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 2014-09.

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 our 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 recognized retrospectively the cumulative effect of initially adopting ASU 2016-01.

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 Velardeña oxide plant lease, including the expected term, anticipated revenues, and potential future tailings expansion; the El Quevar project, including assumptions and projections contained in the El Quevar PEA, the timing of results from the current drilling program and our plans regarding further advancement of the project; the Santa Maria property, including the assumptions and projections contained in the updated Santa Maria, and other expectations regarding the project; the Yoquivo project, including future drilling plans and exploration activities; anticipated income

from the use of our ATM Program and LPC Program; our financial outlook for the remainder of 2019 and the first three months of 2020, including anticipated income and expenditures; 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, Yoquivo 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, 2018 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 or Santa Maria 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 2019, 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, 2019, (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

Due to the adoption of ASU 2016-02 and ASU 2018-11, we will be modifying our internal control over financial reporting to include procedures to ensure the appropriate accounting treatment for our operating leases. Other than with respect to the accounting for our operating leases, 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 three months ended March 31, 2019, 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, 2018.

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.