

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 six months ended June 30, 2019, our principal source of revenue was from the lease of our oxide plant located near Velardeña, Durango, Mexico. We incurred net operating losses for the six months ended June 30, 2019 and 2018.

We remain focused on evaluating and searching for mining opportunities in the Americas (including Mexico, Nevada, and Argentina) with near term prospects of mining. 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 in Mexico, Nevada and Argentina 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.

2019 Highlights

Sale of Velardeña Properties and other Assets to Autlán

On June 26, 2019, we entered into a Purchase and Sale Agreement (the "Agreement") along with our indirectly wholly-owned subsidiary, Minera de Cordilleras S. de R.L. de C.V, to sell certain assets to Compañía Minera Autlán S.A.B. de C.V. ("Autlán") for US\$22.0 million (the "Autlán Transaction"). Under the terms of the Agreement, Autlán will purchase our Canadian subsidiary, ECU Silver Mining, Inc. which holds three of our Mexican subsidiaries, which together hold the Velardeña Properties, including the Velardeña and Chicago mines (currently on care and maintenance), two processing plants, mining equipment and other adjacent exploration properties. The sale includes the lease agreement pursuant to which we leased the Velardeña oxide plant to Hecla. The proposed transaction also includes the sale of the Rodeo and Santa Maria project concessions.

The Agreement provides for a period of up to 75 days (to September 9) for Autlán to conduct due diligence related to the three subsidiary companies, the Rodeo concessions and the Santa Maria concessions. Closing of the transaction is subject to the satisfactory completion by Autlán of its due diligence review and other customary closing conditions. The transaction is also subject to approval by the Mexican antitrust authority (the Comisión Federal de Competencia Económica), such approval, which must be obtained without the imposition of any material conditions, restrictions or limitations on Autlán or the conduct of our business. This approval is expected to be obtained prior to closing. Following completion of its due diligence review, Autlán may elect to terminate the Agreement with no further obligation. The Agreement also contains customary representations, warranties, covenants and indemnification rights and obligations of the parties. We will be entitled to retain proceeds from the lease of the Velardeña oxide plant that are received prior to closing. We anticipate that closing of the transaction will occur near the end of the third quarter 2019.

Upon execution of the Agreement, Autlán paid us a deposit of US\$1.5 million. If the transaction is consummated, the deposit will be applied against the US\$22.0 million purchase price at closing. If the transaction does not close for any reason, we will have the option to repay the deposit amount within 90 days following termination or elect to convey the Rodeo concessions to Autlán in full settlement of the deposit. If the Rodeo concessions cannot be conveyed for any reason, we will be required to repay the deposit by making dedicated monthly payments equal to approximately 60 percent of the anticipated cash flow from the lease of the Velardeña oxide plant until the deposit amount is repaid with interest.

As the result of the agreement to sell the Velardeña Properties and other mineral concessions, the results of operations for the Velardeña Properties and related subsidiaries are presented as discontinued operations and assts held for sale for

the periods presented on the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows.

El Quevar

In September 2018, we completed a preliminary economic assessment (“PEA”) prepared pursuant to Canadian National Instrument 43-101 that used a February 2018 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 recently completed that drill program and expect to publish drill results once final assay data is available. We are continuing surface exploration in the district to identify further drill targets in the 57,000 hectare property area. Our property holdings contain two district-scale high sulfidation epithermal systems with potential to host additional precious metals deposits. 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.

The El Quevar project is currently comprised of 31 mining concessions that we hold directly. In total, the El Quevar project encompasses approximately 57,000 hectares. The area of our exploration activities at El Quevar is within the concessions that are owned by Silex Argentina S.A., our wholly-owned subsidiary.

Velardeña Oxide Plant Lease Agreement

During the six months ended June 30, 2019, Hecla processed approximately 82,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$3.9 million, comprised of approximately \$2.7 million for direct plant charges and fixed fees and approximately \$1.2 million for other net reimbursable costs related to the services we provide under the lease. Hecla is responsible for the ongoing operation and maintenance of the oxide plant. The \$1.2 million of reimbursable costs are also reported as plant lease costs, resulting in net operating margin of approximately \$2.7 million for the six months ended June 30, 2019.

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.

We expect Hecla to continue to process material near or above the intended approximately 400 tonnes per day rate during 2019, which generates a net operating margin to us, net of reimbursable costs, of approximately \$1.3 million per quarter. 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.

As discussed above, on June 26, 2019 we entered into the Agreement with Autlán to sell the Velardeña Properties and other assets, including the lease of our oxide plant to Hecla. We will be entitled to retain proceeds from the lease of the Velardeña oxide plant that are received prior to closing.

Yoquivo

The Yoquivo property was acquired in 2017 and with the recent additional acquisition of a claim internal to the exterior boundary the project consists of 1,975 hectares in 7 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 \$0.75 million over four years subject to a 2% to 3% NSR royalty on production, capped at \$2.8 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. Two other veins, the Esperanza and El Dolar veins have been identified and sampled. Based on sampling and mapping we have identified the most attractive targets on the property and have permits in hand to initiate the drill program. Subject to the availability of capital, we intend to begin a drill program in the third quarter 2019 to test the most promising portions of the veins.

Sand Canyon

During the second quarter 2019 we entered into an earn-in agreement with Golden Gryphon Explorations for the Sand Canyon project located in northwestern Nevada, where surface work has identified a large system of epithermal veins with potential for gold and silver deposits. We hold an option to earn a 60% interest in the Sand Canyon project by spending \$2.5 million in exploration expenses over four years, with guaranteed minimum expenditures of \$0.5 million in year one. To continue to earn interest in the project, we must spend at least \$0.75 million in each of years two and three and \$0.5 million in year four, and drill at least 5,000 feet of core or 10,000 feet of reverse circulation or a combination of the two, by the end of the second year. We paid \$25,000 cash and \$50,000 in reimbursed exploration expenditures to acquire the option and will make staged payments of an additional \$135,000 (\$35,000 in 2020, \$50,000 in 2021 and \$50,000 in 2022) on the next three anniversaries of the agreement.

We have completed surface exploration activities on the project including mapping and geochemical sampling to identify drill targets. Based on this work the process to obtain drill permits has been initiated and, subject to the availability of capital we expect to be able to drill in the fourth quarter 2019.

Santa Maria

In September 2018, an updated PEA was completed for the Santa Maria project that 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.

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.

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 \$0.8 million, payable through April 2022.

As discussed above, on June 26, 2019 we entered into the Agreement with Autlán to sell the Velardeña Properties and other assets, including the Santa Maria mining concessions.

Rodeo

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, containing 3.3 gpt gold and 11 gpt silver for a total of 46,000 ounces of gold and 0.2 million ounces of silver. 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.

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.

As discussed above, on June 26, 2019 we entered into the Agreement with Autlán to sell the Velardeña Properties and other assets, including the Rodeo mining concessions. Even if the proposed transaction with Autlán is terminated, we may decide to transfer the Rodeo property concessions to Autlán in full settlement of the US\$1.5 million deposit that we received from Autlán upon execution of the Agreement.

Registered direct purchase agreement and commitment purchase 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 six months ended June 30, 2019 we sold 2,113,642 shares of common stock to LPC under the LPC Program at an average sales price per share of approximately \$0.28, resulting in net proceeds of approximately \$590,000.

Offering and private placement transaction

On July 17, 2019, we entered into an agreement with certain institutional investors providing for the issuance and sale of 8,653,846 shares of our common stock at a price of \$0.26 per share, and in a concurrent private placement transaction, the issuance of 8,653,846 Series A warrants to purchase up to 8,653,846 shares of our common stock at an exercise price of \$0.35 per share, for aggregate gross proceeds of \$2.25 million (the “Offering”). Each of the investors in the Offering held warrants that were issued by us in May 2016 and were exercisable until November 2021 at an exercise price of \$0.75 per share. In connection with the Offering, we also agreed to exchange, on a one-for-one basis, the May 2016 warrants for Series B warrants to purchase 4,500,000 shares of common stock at an exercise price of \$0.35 per share. Each Series A warrant is exercisable six months from the date of issuance and has a term expiring five years after such initial exercise date. Each Series B warrant is exercisable six months from the date of issuance, has a term expiring in May 2022, but is otherwise subject to the same terms and conditions as the Series A warrants. Total costs for the Offering are estimated at approximately \$0.3 million, including the placement agent fee of six percent of the aggregate gross proceeds.

As a result of anti-dilution provisions in our outstanding 2014 warrants, the closing of the Offering resulted in adjustments that reduced the exercise price and increased the number of shares issuable under 2014 warrants. Pursuant to the anti-dilution provisions in the 2014 warrants, the number of shares of common stock issuable upon exercise of the 2014 warrants was increased from 5,551,344 shares to 5,687,421 shares (136,077 share increase), and the 2014 warrants’ exercise price was decreased from \$0.84 per share to approximately \$0.80 per share.

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, 2019 to the results from operations for the three and six months ended June 30, 2018.

Three Months Ended June 30, 2019

Exploration expense. Our exploration expense, including work at the Yoquivo, Santa Maria and other properties, property holding costs and allocated administrative expenses, totaled \$1.1 million and \$0.9 million for the three months ended June 30, 2019 and June 30, 2018, respectively. Exploration expense for both years was incurred primarily in Mexico. The increase for the period ended June 30, 2019 is due to increased expenditures at the Nevada Sand Canyon project, which was acquired in 2019.

El Quevar project expense. For the three months ended June 30, 2019 we incurred \$0.7 million related to holding and evaluation costs for the Yaxtché deposit at our El Quevar project in Argentina. For the three months ended June 30, 2018 we incurred \$0.3 million in expenditures. The 2019 costs are greater do to drilling costs related to the new drilling program which began in March 2019.

Administrative expense. Administrative expenses totaled \$1.0 million and \$0.9 million for the three months ended June 30, 2019 and June 30, 2018, respectively. 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 \$1.0 million of administrative expenses we incurred during the three months of 2019 is comprised of \$0.3 million of employee compensation and directors' fees, \$0.3 million of professional fees and \$0.4 million of insurance, rents, travel expenses, utilities and other office costs. The \$0.9 million of administrative expenses we incurred during the three months of 2018 is comprised of \$0.3 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, 2019 and 2018 we incurred \$0.1 million and \$0.2 million, 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.

Other operating income, net. We recorded \$0.1 million of other operating income for the three months ended June 30, 2019, related primarily to the sale of surplus equipment in Argentina. We recorded \$0.2 million of other operating income for the three months ended June 30, 2018 relating primarily to income related to the sale of our Zacatecas Properties in Mexico.

Depreciation, depletion and amortization. During the three months ended June 30, 2019 and 2018 we incurred depreciation, depletion and amortization expense of approximately \$0.1 million.

Interest and other expense (income), net. We recorded only a nominal amount of interest and other expense, net for the three months ended June 30, 2019. We recorded \$0.1 million of interest and other income, net for the three months ended June 30, 2018, primarily related to the mark-to-market of certain common stock we own in a junior mining company.

Gain (Loss) on foreign currency. We recorded a nominal foreign currency loss for both the three months ended June 30, 2019 and June 30, 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 June 30, 2019 and June 30, 2018.

Income from discontinued operations. We recorded income from discontinued operations of \$0.4 million for the three months ended June 30, 2019. We recorded income from discontinued operations of \$0.3 million for the three months ended June 30, 2018. The increase in 2019 was due to additional income from the Velardeña oxide plant lease due to higher throughput.

Six Months Ended June 30, 2019

Exploration expense. Our exploration expense, including work at the Yoquivo, Santa Maria and other properties, property holding costs and allocated administrative expenses, totaled \$1.8 million and \$1.6 million for the six months ended June 30, 2019 and June 30, 2018, respectively. Exploration expense for both years was incurred primarily in Mexico. The increase for the period ended June 30, 2019 is due to increased expenditures at the Nevada Sand Canyon project, which was acquired in 2019.

El Quevar project expense. For the six months ended June 30, 2019 we incurred \$1.0 million related to holding and evaluation costs for the Yaxtché deposit at our El Quevar project in Argentina. For the six months ended June 30, 2018 we incurred \$0.6 million in expenditures. The 2019 costs are greater due to drilling costs related to the new drilling program begun in March 2019.

Administrative expense. Administrative expenses totaled \$2.1 million and \$1.9 million for the six months ended June 30, 2019 and June 30, 2018, respectively. 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 \$2.1 million of administrative expenses we incurred during the six months of 2019 is comprised of \$0.6 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. The \$1.9 million of administrative expenses we incurred during the six months of 2018 is comprised of \$0.6 million of employee compensation and directors' fees, \$0.6 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, 2019 and 2018 we incurred \$0.6 million and \$0.2 million, 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 additional costs for the 2019 period relate to KELTIP grants made to two officers.

Other operating income, net. We recorded \$0.1 million of other operating income for the six months ended June 30, 2019, related primarily to the sale of surplus equipment in Argentina. We recorded \$1.5 million of other operating income for the six months ended June 30, 2018, consisting of \$1.0 million related to an option payment received on our Celaya property, \$0.4 million from option income related to our Zacatecas Properties and \$0.1 related to utilization of VAT credits in Mexico.

Depreciation, depletion and amortization. During the six months ended June 30, 2019 and 2018 we incurred depreciation, depletion and amortization expense of approximately \$0.2 million.

Interest and other expense (income), net. We recorded \$0.1 million of interest and other expense, net for the six months ended June 30, 2019. We recorded \$0.1 million of interest and other income, net for the six months ended June 30, 2018, primarily related to the mark-to-market of certain common stock we own in a junior mining company.

Gain (Loss) on foreign currency. We recorded a nominal foreign currency loss for both the six months ended June 30, 2019 and June 30, 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 six months ended June 30, 2019 and June 30, 2018.

Income from discontinued operations. We recorded income from discontinued operations of \$0.9 million for the six months ended June 30, 2019. We recorded income from discontinued operations of \$0.6 million for the six months ended June 30, 2018. The increase in 2019 was due to additional income from the Velardeña oxide plant lease due to higher throughput.

Liquidity, Capital Resources and Going Concern

At June 30, 2019, our aggregate cash and cash equivalents totaled \$1.8 million, compared to the \$2.9 million in similar assets held at December 31, 2018. The June 30, 2019 balance is due in part from the following expenditures and cash inflows for the six months ended June 30, 2019. Expenditures totaled \$6.2 million from the following:

- \$2.2 million in exploration expenditures, including work at the Yoquivo, Sand Canyon, Santa Maria and other properties;
- \$1.0 million in care and maintenance costs at the Velardeña Properties;
- \$1.0 million in exploration and evaluation activities, care and maintenance and property holding costs at the El Quevar project; and
- \$2.0 million in general and administrative expenses.

The foregoing expenditures were offset by cash inflows of \$5.1 million from the following:

- \$2.7 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs);
- \$1.5 million received as a deposit related to the proposed sale of the Velardeña Properties and other mineral concessions to Autlán (as discussed above);
- \$0.6 million, net of commitment fees and other offering related costs, from the LPC program (as discussed above); and
- \$0.3 million decrease in working capital primarily related to increased accounts payables for general and administrative expenses.

In addition to the \$1.9 million cash balance at June 30, 2019, we received approximately \$2.0 million, net of costs, from the sale of approximately 8.6 million shares of our common stock to certain institutional investors in July 2019 (as discussed above). We also expect to receive an additional approximately \$1.3 million in net operating margin from the lease of the oxide plant prior to closing the Agreement with Autlán near the end of the third quarter 2019. In addition, near the end of the third quarter 2019, we expect to receive the remaining \$20.5 million purchase price from closing the Agreement with Autlán. Our currently budgeted expenditures during the next twelve months ending June 30, 2020 are as follows:

- Approximately \$3.0 million on exploration activities and property holding costs related to our portfolio of exploration properties located in Mexico, Nevada and Argentina including project assessment and evaluation costs relating to Yoquivo, Sand Canyon and other properties;
- Approximately \$0.5 million at the Velardeña Properties for care and maintenance prior to the proposed closing of the Autlán Transaction;
- 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.

If the Autlán Transaction closes, which we anticipate will occur near the end of the third quarter 2019, our cash resources will greatly exceed our currently budgeted expenditures during the next twelve months ended June 30, 2020. Should the closing of the transaction not occur, we may be required to repay the US\$1.5 million deposit and may need to take appropriate actions, which could include sales to parties other than Autlán of certain of our 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 we incur during the twelve-month period ending June 30, 2020 may vary significantly from the amounts specified above and will depend on a number of factors, including the successful closing of the Autlán Transaction, variations in anticipated revenues from the oxide plant lease, 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, 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 its 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 closing the Autlán Transaction or securing additional funding in the future on terms acceptable to us or at all. Notwithstanding the foregoing, we believe the anticipated closing of the Autlán Transaction, continuing cash flow from the lease of the oxide plant (until closing of the Autlán Transaction occurs),

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 June 30, 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:

- Failure to close the proposed Autlán Transaction;
- 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 Yoquivo, Navegantes, Sand Canyon 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, the Velardeña Properties, the Santa Maria properties or 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. 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 June 30, 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 have modified 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.