

Golden Minerals Co
Form 10-K
March 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

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

For the transition period from to

Commission file number 1-13627

GOLDEN MINERALS COMPANY

(Exact Name of Registrant as Specified in its Charter)

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DELAWARE	26-4413382
(State of Incorporation or Organization)	(I.R.S. Employer Identification No.)
350 Indiana Street, Suite 800	
Golden, Colorado	80401
(Address of principal executive offices)	(Zip Code)

(303) 839-5060

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NYSE American

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	Non accelerated filer	Smaller reporting company
Emerging growth company			

(Do not check if a smaller
reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2017 was approximately \$26,478,366, based on the closing price of the registrant's common stock of \$0.56 per share on the NYSE American on June 30, 2017. For the purpose of this calculation, the registrant has assumed that its affiliates as of June 30, 2017 included all directors and officers and one shareholder that held approximately 46% of its outstanding common stock. The number of shares of common stock outstanding on February 27, 2018 was 91,929,709.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2018 Annual Meeting of Stockholders are incorporated by

reference in Part III of this annual report on Form 10-K.

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GOLDEN MINERALS COMPANY

FORM 10-K

YEAR ENDED DECEMBER 31, 2017

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References to “Golden Minerals, the “Company,” “our,” “we,” or “us” mean Golden Minerals Company, its predecessors and consolidated subsidiaries, or any one or more of them, as the context requires. Many of the terms used in our industry are technical in nature. We have included a glossary of some of these terms below.

FORWARD-LOOKING STATEMENTS

Some information contained in or incorporated by reference into this annual report on Form 10-K may contain forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other applicable securities laws. We use the words “anticipate,” “continue,” “likely,” “estimate,” “expect,” “may,” “could,” “will,” “project,” “should,” “believe,” and other expressions (including negative and grammatical variations) to identify 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 Rodeo property, including the Company’s general evaluation plans and 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 financial and statements concerning our financial condition, business strategies and business and legal risks. Although we believe the expectations and assumptions reflected in those forward-looking statements are reasonable, we cannot assure you that these expectations and assumptions will prove to be correct. Our actual results could differ materially from those expressed or implied in these forward-looking statements as a result of various factors described in this annual report on Form 10-K, including:

Lower revenue than anticipated from the oxide plant 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, 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;

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- 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 set forth under “Risk Factors” in Item 1A of this annual report on Form 10-K.

Many of these factors are beyond our ability to control or predict. Although we believe that the expectations reflected in our forward-looking statements are based on reasonable assumptions, such expectations may prove to be materially incorrect due to known and unknown risks and uncertainties. You should not unduly rely on any of our forward-looking statements. These statements speak only as of the date of this annual report on Form 10-K. 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. All subsequent written and oral forward-looking statements attributable to us and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section and elsewhere in this annual report on Form 10-K.

CAUTIONARY STATEMENT REGARDING MINERALIZED MATERIAL

“Mineralized material” as used in this annual report on Form 10-K, although permissible under the United States Securities and Exchange Commission’s (“SEC”) Industry Guide 7, does not indicate “reserves” by SEC standards. We cannot be certain that any deposits at the Velardeña Properties, 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 annual report on Form 10-K 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.

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CONVERSION TABLE

In this annual report on Form 10-K, figures are presented in both United States standard and metric measurements. Conversion rates from United States standard measurement systems to metric and metric to United States standard measurement systems are provided in the table below. All currency references in this annual report on Form 10-K are to United States dollars, unless otherwise indicated.

U.S. Unit	Metric Measure	Metric Unit	U.S. Measure
1 acre	0.4047 hectares	1 hectare	2.47 acres
1 foot	0.3048 meters	1 meter	3.28 feet
1 mile	1.609 kilometers	1 kilometer	0.62 miles
1 ounce (troy)	31.103 grams	1 gram	0.032 ounces (troy)
1 ton	0.907 tonnes	1 tonne	1.102 tons

GLOSSARY OF SELECTED MINING TERMS

“Base Metal” means a classification of metals usually considered to be of low value and higher chemical activity when compared with the precious metals (gold, silver, platinum, etc.). This nonspecific term generally refers to the high-volume, low-value metals copper, lead, tin, and zinc.

“Breccia” means rock consisting of fragments, more or less angular, in a matrix of finer-grained material or of cementing material.

“Calcareous Clastic” means sedimentary rock composed of siliciclastic particles usually of conglomerate, sand, or silt-size and cemented by calcium carbonate in the form of calcite.

“Claim” means a mining interest giving its holder the right to prospect, explore for and exploit minerals within a defined area.

“Concentrates” means the clean product of ore or metal separated from its containing rock or earth by froth flotation or other methods of mineral separation.

“Concession” means a grant or lease of a tract of land made by a government or other controlling authority in return for stipulated services or a promise that the land will be used for a specific purpose.

“Core Drill” means a rotary type of rock drill that cuts a core of rock and is recovered in long cylindrical sections, two centimeters or more in diameter.

“Deposit” means an informal term for an accumulation of minerals.

“Development Stage” means a project with an established resource, not in production, engaged in the process of additional studies preparing for completion of a feasibility study or for commercial extraction.

“Diorite” means a grey to dark grey intermediate intrusive igneous rock composed principally of plagioclase feldspar (typically andesine), biotite, hornblende, and/or pyroxene.

“Epithermal Calcite-Quartz” means deposits, typically occurring in veins, of calcite-quartz from hydrothermal fluids at shallow depths under conditions in the lower ranges of temperature and pressure.

“Euhedral” means a well-developed degree of which mineral grains show external crystal faces (fully crystal-faced).

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“Exploration Stage” means a project that is not yet in either the Development Stage or Production Stage.

“Feasibility Study” means an engineering study designed to define the technical, economic, and legal viability of a mining project with a high degree of reliability.

“Flotation” means the separating of finely crushed minerals from one another by causing some to float in a froth and others to remain in suspension in the pulp. Oils and various chemicals are used to activate, make floatable, or depress the minerals.

“Formation” means a distinct layer of sedimentary rock of similar composition.

“Fracture System” means a set or group of contemporaneous fractures related by stress.

“Grade” means the metal content of ore, usually expressed in troy ounces per ton (2,000 pounds) or in grams per ton or metric tonnes which contain 2,204.6 pounds or 1,000 kilograms.

“Laramide Orogeny” means a period of mountain building in western North America, which started in the Late Cretaceous age, 70 to 80 million years ago, and ended 35 to 55 million years ago.

“Mineralization” means the concentration of metals within a body of rock.

“Mineralized Material” means a mineralized body that has been defined by appropriate drilling and/or underground sampling to establish continuity and support an estimate of tonnage and an average grade of the selected metals.

“Mining” means the process of extraction and beneficiation of mineral reserves or mineral deposits to produce a marketable metal or mineral product. Exploration continues during the mining process and, in many cases, mineral reserves or mineral deposits are expanded during the life of the mine activities as the exploration potential of the deposit is realized.

“Monzodiorite” means coarse-grained igneous rock consisting of essential plagioclase feldspar, orthoclase feldspar, hornblende and biotite, with or without pyroxene, with plagioclase being the dominant feldspar making up 6% to 90% of the total feldspar and varying from oligoclase to andesine in composition. The presence of the orthoclase feldspar distinguishes this rock from a diorite.

“National Instrument 43-101” or “NI 43-101” means the standards of disclosure for mineral projects prescribed by the Canadian Securities Administrators.

“Net Smelter Return Royalty” means a defined percentage of the gross revenue from a resource extraction operation, less a proportionate share of transportation, insurance, and processing costs.

“Open Pit” means a mine working or excavation open to the surface.

“Ore” means material containing minerals that can be economically extracted.

“Outcrop” means that part of a geologic formation or structure that appears at the surface of the earth.

“Oxide” means mineralized rock in which some of the original minerals have been oxidized (i.e., combined with oxygen).

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“Precious Metal” means any of several relatively scarce and valuable metals, such as gold, silver, and the platinum-group metals.

“Preliminary Economic Assessment” or “PEA” means a study, other than a pre-Feasibility or Feasibility Study, that includes an economic analysis of the potential viability of mineral resources.

“Probable Mineral Reserves” means mineral reserves for which quantity and grade and/or quality are computed from information similar to that used for Proven Mineral Reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for Proven Mineral Reserves, is high enough to assume continuity between points of observation.

“Production Stage” means a project that is actively engaged in the process of extraction and beneficiation of mineral reserves or mineral deposits to produce a marketable metal or mineral product.

“Proven Mineral Reserves” means mineral reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

“Reclamation” means the process of returning land to another use after mining is completed.

“Recovery” means that portion of the metal contained in the ore that is successfully extracted by processing, expressed as a percentage.

“Mineral Reserves” means that part of a mineral deposit that could be economically and legally extracted or produced at the time of mineral reserve determination.

“Sampling” means selecting a fractional part of a mineral deposit for analysis.

“Sediment” means solid fragmental material that originates from weathering of rocks and is transported or deposited by air, water, or ice, or that accumulates by other natural agents, such as chemical precipitation from solution or secretion

by organisms, and that forms in layers on the earth's surface at ordinary temperatures in a loose, unconsolidated form.

“Sedimentary” means formed by the deposition of Sediment.

“Silver Equivalent” means silver and gold only, with gold converted to silver equivalents at a 70 to 1 ratio.

“Skarn” means a coarse-grained metamorphic rock formed by the contact metamorphism of carbonate rock often containing garnet, pyroxene epodite and wollastonite.

“Stock” means discordant igneous intrusion having a surface exposure of less than 40 square miles.

“Sulfide” means a compound of sulfur and some other element.

“Tailings Pond” means a low-lying depression used to confine tailings, the prime function of which is to allow enough time for heavy metals to settle out or for cyanide to be destroyed before water is discharged into the local watershed.

“Tertiary” means the first period of the Cenozoic Era (after the Cretaceous of the Mesozoic Era and before the Quaternary) thought to have covered the span of time between 2 to 3 million years ago and 65 million years ago.

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“Vein” means a fissure, fault or crack in a rock filled by minerals that have traveled upwards from some deep source.

“Waste” means rock lacking sufficient grade and/or other characteristics of ore.

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PART I

ITEMS 1 AND 2: BUSINESS AND PROPERTIES

Overview

We are a mining company holding a 100% interest in the Velardeña and Chicago precious metals mining properties and associated oxide and sulfide processing plants in the State of Durango, Mexico (the “Velardeña Properties”), the El Quevar advanced exploration silver property in the province of Salta, Argentina, and a diversified portfolio of precious metals and other mineral exploration properties located primarily in or near historical precious metals producing regions of Mexico. The Velardeña Properties and the El Quevar advanced exploration property are our only material properties.

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 processing plants. We are 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. Our management team is comprised of experienced mining professionals with extensive expertise in mineral exploration, mine construction and development, and mine operations. Our principal office is located in Golden, Colorado at 350 Indiana Street, Suite 800, Golden, CO 80401, and our registered office is the Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801. We also maintain an office at the Velardeña Properties in Mexico and exploration offices in Argentina and Mexico.

No Proven or Probable Mineral Reserves/Exploration Stage Company

We are considered an exploration stage company under the SEC criteria since we have not demonstrated the existence of proven or probable mineral reserves at our Velardeña Properties or any of our other properties. In SEC Industry Guide 7, the SEC defines a “reserve” as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven or probable mineral reserves are those reserves for which (a) quantity is computed and (b) the sites for inspection, sampling, and measurement are spaced so closely that the geologic character is defined and size, shape and depth of mineral content can be established (proven) or the sites are farther apart or are otherwise less adequately spaced but high enough to assume continuity between observation points (probable). Mineral reserves cannot be considered proven or probable unless and until they are supported by a feasibility study, indicating that the mineral reserves have had the requisite geologic, technical and economic work performed and are economically and legally extractable.

Prior to suspending mining and processing at the Velardeña Properties in November 2015, we had revenues from the sale of silver, gold, lead and zinc products from the Velardeña and Chicago mines. We have not completed a feasibility study with regard to all or a portion of any of our properties to date. Any mineralized material discovered or extracted by us should not be considered proven or probable mineral reserves. As of December 31, 2017, none of our mineralized material met the definition of proven or probable mineral reserves. We expect to remain an exploration stage company for the foreseeable future, even though we were extracting and processing mineralized material. We will not exit the exploration stage until such time, if ever, that we demonstrate the existence of proven or probable mineral reserves that meet the guidelines under SEC Industry Guide 7.

Company History

We were incorporated in Delaware under the Delaware General Corporation Law in March 2009. From March 2009 through September 2011, we focused on the advancement of our El Quevar silver project in Argentina. On September 2, 2011, we completed a business combination transaction with ECU Silver Mining Inc. (“ECU”) and now own

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the Velardeña and Chicago silver, gold and base metals mines located in the Velardeña mining district in the State of Durango, Mexico as further described below under “—Velardeña Properties”. Since the business combination with ECU, we have focused primarily on the further advancement and improvement of the Velardeña Properties, as well as identifying and establishing other mining opportunities with near term prospects.

Corporate Structure

Golden Minerals Company, headquartered in Golden, Colorado, is the operating entity through which we conduct our business. Following our September 2, 2011 business combination, ECU became a wholly-owned subsidiary of Golden Minerals, and two of ECU’s wholly-owned Mexican subsidiaries hold the assets and rights associated with the Velardeña Properties. We have a number of other wholly-owned subsidiaries organized throughout the world, including in Mexico, Central America, South America, the Caribbean and Europe. We generally hold our exploration rights and properties through subsidiaries organized in the countries in which our rights and properties are located.

Our Competitive Strengths and Business Strategy

Our business strategy is to establish Golden Minerals as a mid-tier precious metals mining company focused in Mexico and Argentina. We also review strategic opportunities from time to time.

Velardeña Properties. Due to continuing net operating losses, we suspended mining and sulfide processing activities at the Velardeña Properties during the first half of November 2015 in order to conserve the future value of the asset. We have placed the mine and sulfide processing plant on care and maintenance to enable a re-start of either the mine or the mill when mining and processing plans and metals prices support a cash positive outlook for the property. We retained a core group of employees, most of whom have been assigned to operate the oxide plant, which is leased to a third party and not affected by the shutdown.

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

On August 2, 2017, we granted Hecla an option to extend the lease for an additional period of up to two years ending no later than December 31, 2020 (the “Extension Period”) in exchange for a \$1.0 million cash payment and the purchase of \$1.0 million, or approximately 1.8 million shares, of our common stock issued at a price of \$0.55 per share (the “Hecla Share Issuance”), which was the undiscounted 30-day volume weighted average stock price at the time of the option agreement. 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.

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Hecla is responsible for ongoing operation and maintenance of the oxide plant. During the year ended December 31, 2017, Hecla processed approximately 131,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$6.7 million, comprised of approximately \$3.0 million for direct plant charges plus fixed fees and other net reimbursable costs totaling approximately \$3.7 million. We incurred costs of approximately \$2.1 million related to the services we provide under the lease for a net margin of \$4.5 million during the year ended December 31, 2017. 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 \$4.6 million during 2018. However, because Hecla has the right to terminate the lease on 60 days' notice, there is no assurance that these amounts will be received.

El Quevar Project. 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.

Exploration Focus. We are focused on evaluating and searching for mining opportunities in North America (including Mexico) with high precious metal grades and low development costs with near term prospects of mining, and particularly properties within reasonable haulage distances of our Velardeña processing plants. We are also continuing our exploration efforts on selected properties in our portfolio of approximately 10 exploration properties located primarily in Mexico. During the last two years, we have continued to focus on the Santa Maria mine west of Hidalgo de Parral, Chihuahua, including 4,000 meters of core drilling, acquired the right to purchase claims covering the Yoquivo District, Ocampo Municipality, Chihuahua through an option agreement and completed a 2,080 meter core drilling program at the Rodeo property.

During 2018 we plan to focus our exploration efforts primarily at our El Quevar silver project and on exploration and evaluation activities at Santa Maria, Yoquivo and other properties. We expect our expenditures for the exploration program in 2018 to be approximately \$3.0 million.

Experienced Management Team. We are led by a team of mining professionals with approximately 60 years of combined experience in exploration, project development, and operations management, primarily in the Americas. Our executive officers have held senior positions at various large mining companies including, among others, Cyprus Amax Minerals Company, INCO Limited, Meridian Gold Company, Barrick Gold Exploration and Noranda Exploration.

Velardeña Properties

Location, Access and Facilities

The Velardeña Properties are comprised of two underground mines and two processing plants within the Velardeña mining district, which is located in the municipality of Cuencamé, in the northeast quadrant of the State of Durango,

Mexico, approximately 65 kilometers southwest of the city of Torreón, Coahuila and approximately 140 kilometers northeast of the city of Durango, which is the capital of the State of Durango. The mines are reached by a seven kilometer road from the village of Velardeña which is reached by highway from Torreón and Durango. The Velardeña mining district is situated in a hot, semi-arid region.

Of the two underground mines comprising the Velardeña Properties, the Velardeña mine includes five different major vein systems including the Terneras, Roca Negra, San Mateo, Santa Juana and San Juanes systems. During 2015 we mined from the San Mateo, Terneras and Roca Negra vein systems as well as the Santa Juana vein system to augment grades as mining and processing rates ramped up.

We own a 300 tonne per day flotation sulfide mill situated near the town of Velardeña, which accounted for 100% of our revenue from saleable metals during 2015. The mill includes lead, zinc and pyrite flotation circuits in which we can

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process the sulfide material to make lead, zinc and pyrite concentrates. Most of the silver and gold sold in 2015 was contained in the lead concentrate. During 2015 we processed all our mined material through the sulfide plant.

We also own a conventional 550 tonne per day cyanide leach oxide mill with a Merrill-Crowe precipitation circuit and flotation circuit located adjacent to our Chicago mine, which we previously used to process oxide and mixed sulfide/oxide material from the Velardeña Properties. In July 2015, we leased the oxide plant to Hecla to process its own material through the plant for up to 42 months. Hecla began processing material at the plant in December 2015. In August 2017, we granted Hecla an option to extend the lease for an additional period of up to two years ending no later than December 31, 2020. The option to extend the lease must be exercised no later than October 3, 2018. We continue to evaluate and search for other oxide and sulfide feed sources, focusing on sources within haulage distance of our sulfide and oxide mills at the Velardeña Properties.

Prior to shutdown, we trucked material from the Velardeña mines to the sulfide plant. In January 2012 we completed a tailings pond expansion at the sulfide plant, which is fully permitted and has capacity to treat tailings for approximately four additional years at the average processing rate of 285 tonnes per day. At the oxide plant, we completed the first stage of a new tailings pond during May 2013. The tailings expansion work began in early 2017 and is now completed.

Power for all of the mines and plants is provided through substations connected to the national grid. Water is provided for all of the mines by wells located in the valley adjacent to the Velardeña Properties. We hold title to three wells located near the sulfide plant and hold certificates of registration to three wells located near the oxide plant. We are licensed to pump water from all six wells up to a permitted amount. We are currently pumping from the three wells associated with the oxide plant which is more than sufficient for Hecla's processing operations.

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The following map shows the location of the Velardeña Properties (other than the El Mogote Fraccion concession, which is located southeast of the identified properties).

Property History

Exploration and mining in the Velardeña district extends back to at least the late 1500s or early 1600s, with large scale mining beginning in 1888 with the Velardeña Mining and Smelter Company. In 1902, the mining properties were acquired by ASARCO, who mined the property until 1926 when the mines were closed. For the next 35 years, the mines were operated from time to time by small companies and local miners. The property was nationalized in 1961, and in 1968 the sulfide processing plant was built by the Mexican government. In 1994, William Resources acquired the concessions comprising the Velardeña Properties. In 1997, ECU Gold (the predecessor to ECU Silver Mining Inc.) purchased from William Resources the subsidiaries that owned the concessions and the oxide processing plant. The sulfide processing plant was acquired in 2004.

Title and Ownership Rights

We hold the concessions comprising the Velardeña Properties through our wholly-owned Mexican subsidiary Minera William S.A. de C.V. At present, a total of 30 mineral concessions comprise the Velardeña Properties. The Velardeña Properties encompass approximately 895 hectares. The mineral concessions vary in size, and the concessions comprising each mineral property are contiguous within each of the Velardeña and Chicago properties. We are required to

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pay annual concession holding fees to the Mexican government to maintain our rights to the Velardeña mining concessions. In 2017, we made such payments totaling approximately \$69,000 and expect to pay approximately \$70,000 in 2018. We also own the surface rights to 144 hectares that contains the oxide plant, tailings area and access to the Chicago mine, along with surface lands that may be required for potential plant expansions.

The Velardeña Properties are subject to the Mexican ejido system requiring us to contract with the local communities, or ejidos, surrounding our properties to obtain surface access rights needed in connection with our mining and exploration activities. We currently have contracts with two ejidos to secure surface rights for our Velardeña Properties with a total annual cost of approximately \$25,000. We have a ten-year contract with the Velardeña ejido, which provides surface rights to certain roads and other infrastructure at the Velardeña Properties through 2021, and a 25-year contract with the Vista Hermosa ejido, which provides exploration access and access rights for roads and utilities for our Velardeña Properties until 2038.

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The following Velardeña Properties exploitation concessions are identified below by name and number in the Federal government Public Registry of Mining.

Mine/Area	Name of Exploitation Concession	Concession Number
Velardeña	AMPL. DEL ÁGUILA MEXICANA	85580
	ÁGUILA MEXICANA	168290
	LA CUBANA	168291
	TORNASOL	168292
	SAN MATEO NUEVO	171981
	SAN MATEO	171982
	RECUERDO	171983
	SAN LUIS	171984
	LA NUEVA ESPERANZA	171985
	LA PEQUEÑA	171988
	BUEN RETIRO	172014
	UNIFICACIÓN SAN JUAN EVANGELISTA	172737
	UNIFICACIÓN VIBORILLAS	185900
	BUENAVENTURA No. 3	188507
	EL PÁJARO AZÚL	188508
	BUENAVENTURA 2	191305
	BUENAVENTURA	192126
	LOS DOS AMIGOS	193481
	VIBORILLAS NO. 2	211544
	KELLY	218681
Chicago	SANTA TERESA	171326
	SAN JUAN	171332
	LOS MUERTOS	171986
	EL GAMBUSINO	171987
	AMPLIACIÓN SAN JUAN	183883
	MUÑEQUITA	196313
	SAN AGUSTÍN	210764
	EL PISTACHÓN	220407
	LA CRUZ	189474
	EL MOGOTE FRACCION I	221401

We hold water concessions in wells that provide water for the Velardeña Properties. In Mexico water concessions are granted by the National Commission of Water (“CNA”). Currently no new water concessions are being granted by the CNA; however, companies can acquire water concessions through purchase or lease from current concession holders. We hold title to three wells located near the sulfide plant and hold certificates of registration to three wells located near the oxide plant. We are licensed to pump water from all six wells up to a permitted amount. We are required to make annual payments to the CNA to maintain our rights to these wells. In 2017 we made such payments totaling approximately \$25,000 and expect to pay approximately the same amount in 2018. We are required to pay a fine to the CNA each year if

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we use too much water from a particular well or alternatively if we do not use a minimum amount of water from a particular well. During 2017 we did not incur any over usage or under usage fines.

Geology and Mineralization

The Velardeña district is located at the easternmost limit of the Sierra Madre Occidental on the boundary between the Sierra Madre Oriental and the Mesa Central sub-provinces. Both of these terrains are underlain by Paleozoic and possibly Precambrian basement rocks.

The regional geology is characterized by a thick sequence of limestone and minor calcareous clastic sediments of Cretaceous age, intruded by Tertiary plutons of acidic to intermediate composition. During the Laramide Orogeny, the sediments were folded into symmetrical anticlines and synclines that were modified into a series of asymmetrical overturned folds by a later stage of compression.

A series of younger Tertiary stocks have intruded the older Cretaceous limestone over a distance of approximately 15 kilometers along a northeast to southwest trend. The various mineral deposits of the Velardeña mining district occur along the northeast southwest axis and are spatially associated with the intrusions and their related alteration.

An important northwest-southeast fracture system is associated with these intrusions and, in many cases, acts as the main focus of mineralization. The Velardeña Properties are underlain by a thick sequence of limestone that corresponds to rocks of the Aurora and Cuesta del Cura formations of Lower Cretaceous age.

Several types of Tertiary intrusive rocks are present in the Velardeña district. The largest of these rocks outcrops on the western flank of the Sierra San Lorenzo and underlies a portion of the Velardeña Properties. It is referred to as the Terneras pluton and forms a northeast oriented, slightly elongated body, considered to represent a diorite or monzodiorite that outcrops over a distance of about 2.5 kilometers. The adjacent limestone has been altered by contact metamorphism (exoskarn), and locally the intrusive has been metamorphosed (endoskarn).

The following is a description of the individual geological characteristics and mineralization found on each of the properties comprising the Velardeña and Chicago mines.

Velardeña Mine

The Santa Juana, Terneras, San Juanes and San Mateo vein deposits on the Velardeña property are hosted by Aurora Formation limestone, the Terneras intrusion and related skarn. The limestone is intruded by a series of multiphase diorite or monzodiorite stocks (Terneras intrusion) and dikes of Tertiary age that outcrop over a strike length of approximately 2.5 kilometers.

Two main vein systems are present on the Velardeña property. The first is a northwest striking system as found in the Santa Juana deposit, while the second is east-west trending and is present in the Santa Juana, Terneras, San Juanes and San Mateo deposits.

In the Santa Juana deposit, two main sets of vein trends are observed. The most significant is a steeply northeast dipping, northwest trending set that has acted as the main conduit for the mineralizing fluids in the Santa Juana deposit. This direction includes both linear and curved northwest vein sets.

The Terneras, San Juanes and San Mateo veins all strike east-west and dip steeply north. The most extensive of these is the Terneras vein, which was mined in the past over a strike length of 1,100 meters. All of these veins are observed to have extensive strike lengths and vertical continuity for hundreds of meters. The mineralogy of the east west system is somewhat different in that it contains less arsenic than the northwest Santa Juana veins.

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Mineralization in the deposits located at the Velardeña mine belongs primarily to epithermal calcite quartz veins with associated lead, zinc, silver, gold and copper mineralization, typical of the polymetallic vein deposits of northern Mexico. The veins are usually thin, normally in the 0.2 meter to 0.5 meter range, but consistent along strike and down dip. Coxcomb and rhythmically banded textures are common.

Chicago Mine

On the Chicago property, the oldest rocks outcropping are Cretaceous limestone of the Aurora Formation which are highly folded. This limestone is locally metamorphosed by the intrusion of the Tertiary dioritic stocks and dykes. The general geology of the Chicago property is very similar to the geology of the Velardeña property. The Chicago veins strike northeast and dip steeply southeast. Chicago ore tends to be higher in lead and zinc than the Santa Juana ore. Vein widths at Chicago are variable and tend to be narrower than at the Santa Juana deposit, especially in the skarn host.

2014 Technical Report

During the first quarter of 2015, the engineering firm of Tetra Tech, Inc. ("Tetra Tech") completed an estimate of mineralized material at the Velardeña Properties, set forth in the following table:

	Tonnes (in thousands)	Silver (Ag) Grade (Grams per tonne)	Gold (Au) Grade (Grams per tonne)	Lead (Pb) Grade %	Zinc (Zn) Grade %
Mineralized Material					
Mineralized Material at December 31, 2014					
Velardeña Mine					
Oxide and mixed	572	295	4.1	1.34	1.07
Sulfide	1,032	274	3.9	1.11	1.42
Chicago Mine					
Oxide and mixed	91	208	3.2	3.77	2.8
Sulfide	98	165	2.8	2.97	3.49
Total Mineralized Material at December 31, 2014	1,793	272	3.8	1.42	1.49

Note: Results may not tie precisely due to rounding.

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The Tetra Tech mineralized material estimate assumed a silver price of \$25 per troy ounce, a gold price of \$1,446 per troy ounce, and a cutoff grade of a net smelter return (“NSR”) of \$100 per tonne.

The following table shows the commodity prices and metallurgical recoveries used to determine the cutoff grade.

		Sulfide Metallurgical Recovery	Oxide Metallurgical Recovery	Mixed Metallurgical Recovery
Metal	Metal Prices*	%	%	%
Silver	\$ 25 (oz)	89	68	50
Gold	\$ 1,446 (oz)	68	71	29
Lead	\$ 0.96 (lb)	83	—	25
Zinc	\$ 0.91 (lb)	83	—	37

* Amounts represent three-year average prices.

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The cutoff grade of \$100 NSR per tonne of mineralized material was determined by adding the estimated average costs of mining (\$53 per tonne), processing (\$27 per tonne) and general and administration (\$20 per tonne). The average cost estimates are the same for both the Velardeña and Chicago mines. The NSR value of mineralized material was determined for each type of mineralized material (sulfide, mixed, and oxide) by multiplying a fractional factor that represents an estimated combination of metallurgical recovery, treatment charges, penalties and payment terms by the unit value of each metal and then multiplying by the expected amount of that metal in each block of inventoried material.

The following table shows the reduction in mineralized material reported in the Tetra Tech report that resulted from extraction and processing of mineralized material in 2015. As a result of the shutdown of mining and processing in November 2015, there are no results for 2016 or 2017.

Tonnes (in thousands)	Gold (Au) Grade (Grams per tonne)	Contained Gold (Au) oz.	Silver (Ag) Grade (Grams per tonne)	Contained Silver (Ag) oz. (in thousands)	Lead (Pb) Grade %	Contained Lead (Pb) lbs. (in thousands)	Zinc (Zn) Grade %	Contained Zinc (Zn) lbs. (in thousands)
572	4.1	74,780	295	5,425	1.34	16,898	1.07	13,493
1,032	3.9	127,741	274	9,101	1.11	25,254	1.42	32,307
91	3.2	9,362	208	609	3.77	7,563	2.8	5,617
98	2.8	8,822	165	520	2.97	6,417	3.49	7,540
1,793	3.8	220,406	272	15,655	1.42	56,132	1.49	58,958

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	76	2.6	6,371	156	383	0.8	1,343	1.09	1,839
	5	1.9	310	117	19	2	220	2.82	311
in	81	2.6	6,681	154	401	0.87	1,564	1.2	2,150
es									
5									
	—	—	(3,063)	—	(290)	—	(522)	—	(547)
	—	—	(140)	—	(8)	—	(107)	—	(74)
in	—	—	(3,203)	—	(297)	—	(629)	—	(621)
ed									
t									
	572	4.1	74,780	295	5,425	1.34	16,898	1.07	13,493
	956	3.9	118,308	274	8,429	1.11	23,389	1.42	29,921
	91	3.2	9,362	208	609	3.77	7,563	2.8	5,617
	93	2.8	8,372	165	493	2.97	6,089	3.49	7,155
	1,712	3.8	210,522	272	14,956	1.43	53,940	1.49	56,187
ed									
t									

Note: Results may not tie precisely due to rounding. Additionally, silver ounces, zinc pounds and leads pounds are rounded to the nearest thousand and gold ounces are rounded to the nearest ounce and tonnes. The variance in rounding different commodities and units is for convenience and does not reflect any differences in the level of accuracy of the calculated mineralized material estimate.

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For further detail regarding mineralized material, see “CAUTIONARY STATEMENT REGARDING MINERALIZED MATERIAL”.

Velardeña Properties Activities

In 2017 we incurred approximately \$1.6 million in expenses related to shut down costs and maintenance at our Velardeña Properties as a result of the suspension of mining and processing activities in November 2015. We retained a core group of employees, most assigned to operate the oxide plant that is leased to a third party and not affected by the shutdown. The retained employees also include an exploration group and an operations and administrative group to continue to advance our plans in Mexico, oversee corporate compliance activities, and to maintain and safeguard the longer term value of the Velardeña assets.

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 our common stock issued at a price of \$0.55 per share, which was the undiscounted 30-day volume weighted average stock price at the time of the option agreement. 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 year ended December 31, 2017, Hecla processed approximately 131,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$6.7 million, comprised of approximately \$3.0 million for direct plant charges plus fixed fees and other net reimbursable costs totaling approximately \$3.7 million. We incurred costs of approximately \$2.1 million related to the services we provide under the lease and reported a net operating margin of approximately \$4.5 million during the year ended December 31, 2017. 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 \$4.6 million during 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.

Mining and Processing

There were no mining or processing activities, other than the Hecla lease, at our Velardeña Properties in 2016 or 2017 as a result of the shutdown of the mining and sulfide processing activities in November 2015. We expect to incur approximately \$0.4 million in quarterly holding costs for as long as mining and processing activities remain suspended.

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Environmental Matters and Permitting

We hold environmental licenses and environmental impact assessments that allow us to run our mines, plants and tailing facilities at our Velardeña Properties. We are required to update our environmental licenses and environmental impact assessments for expansion of or modification to any of the existing two processing plants. The construction of new infrastructure beyond the current plant facilities also would require additional permitting, which could include environmental impact assessments and land use permits. We are currently finalizing obtaining all permits necessary for expansion of the tailings disposal facility at our oxide plant to accommodate additional capacity required for production by the plant lessee.

Certain Laws Affecting Mining in Mexico

Mexico, officially the United Mexican States, is a federal constitutional republic in North America and bordered by the United States of America, Belize and Guatemala. Mexico is a federal democratic republic with 31 states and Mexico City. Each state has its own constitution and its citizens elect a governor, as well as representatives, to their respective state congresses. The President of Mexico is the head of the executive federal government. Executive power is exercised by the President, while legislative power is vested in the two chambers of the Congress of the Union. The three constitutional powers are the Judiciary, the Executive and the Legislature which are independent of each other.

Legislation Affecting Mining

The Mining Law, originally published in 1992 and amended in 1996, 2005, 2006 and 2014, is the primary legislation governing mining activities in Mexico. Other significant legislation applicable to mining in Mexico includes the regulations to the Mining Law, the Federal Law of Waters, the Federal Labour Law, the Federal Law of Fire Arms and Explosives, the General Law on Ecological Balance and Environmental Protection and regulations, the Federal Law of Duties and the Federal Law on Metrology and Standards.

The Concession System

Under Mexican law, mineral deposits are property of the Mexican republic, and a mining concession, granted by the executive branch of the federal government, is required for the exploration, exploitation and processing of mineral deposits. Mining concessions may only be granted to Mexican individuals domiciled in Mexico or companies incorporated and validly existing under the laws of Mexico. Mexican companies that have foreign shareholders must register with the National Registry of Foreign Investments and renew their registration on an annual basis. Mining

concessions grant rights to explore and exploit mineral deposits but do not grant surface rights over the land where the concession is located. Mining concession holders are required to negotiate surface access with the land owner or holder (e.g., agrarian communities) or, should such negotiations prove unsuccessful, file an application with the corresponding administrative authority (Ministry of Economy or Ministry of Agrarian-Territorial-Urban Development) to obtain an easement, temporary occupancy, or expropriation of the land, as the case may be. An application for a concession must be filed with the Mining Agency or Mining Delegation located closest to the area to which the application relates.

Mining concessions have a term of 50 years from the date on which title is recorded in the Public Registry of Mining. Holders of mining concessions are required to comply with various obligations, including the payment of certain mining duties based on the number of hectares of the concession and the number of years the concession has been in effect. Failure to pay the mining duties can lead to cancellation of the relevant concession. Holders of mining concessions are also obliged to carry out and prove assessment works in accordance with the terms and conditions set forth in the Mining Law and its regulations. The regulations to the Mining Law establish minimum amounts that must be spent or invested on mining activities. A report must be filed in May of each year regarding the assessment works carried out during the preceding year. The mining authorities may impose a fine on the mining concession holder if one or more proof of assessment work reports is not timely filed.

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Pursuant to amendments to the federal corporate income tax law, effective January 2014, additional duties are imposed on mining concession holders; see “—Taxes in Mexico”.

Environmental Legislation

Mining projects in Mexico are subject to Mexican federal, state and municipal environmental laws and regulations for the protection of the environment. The principal legislation applicable to mining projects in Mexico is the federal General Law of Ecological Balance and Environmental Protection, which is enforced by the Federal Bureau of Environmental Protection, commonly known as “PROFEPA”. PROFEPA is the federal entity in charge of carrying out environmental inspections and negotiating compliance agreements. Voluntary environmental audits, coordinated through PROFEPA, are encouraged under the federal General Law of Ecological Balance and Environmental Protection. PROFEPA monitors compliance with environmental legislation and enforces Mexican environmental laws, regulations and official standards. If warranted, PROFEPA may initiate administrative proceedings against companies that violate environmental laws, which proceedings may result in the temporary or permanent closure of non-complying facilities, the revocation of operating licenses and/or other sanctions or fines. According to the Federal Criminal Code, PROFEPA must inform the relevant governmental authorities of any environmental crimes that are committed by a mining company in Mexico.

Concession holders under the exploration stage may submit themselves to comply with the Mexican Official Norm: NOM-120-SEMARNAT-1997, which provides, among other things, that mining exploration activities to be carried out within certain areas must be conducted in accordance with the environmental standards set forth in NOM-120-SEMARNAT-1997; otherwise, concession holders are required to file a preventive report or an environmental impact study prior to the commencement of the exploration, exploitation and processing of mineral resources. An environmental impact study is required for exploitation and processing of mineral resources activities.

In 2014 Mexico developed an Energy sector applicable to private investment companies whereby new mining concessions are now subject to prior approval from the Ministry of Energy. Current mining concessions forming the Velardeña Properties are not subject to or affected by this approval requirement, but any new mining concessions acquired will be subject to this additional approval.

Taxes in Mexico

Mexico has a federal corporate income tax rate of 30%, and there are no state taxes on corporate net income. In determining their corporate income tax, entities are allowed to subtract from gross income various deductions permitted by law, and they are allowed a ten-year carry-forward of net operating losses. Pursuant to amendments to the federal tax laws effective January 1, 2014, a 10% withholding tax is charged on dividends distributed to shareholders, regardless of the tax residence of the recipient, out of after tax profits. However, in the case of

nonresident shareholders the limitations and tax rates provided in the treaties to avoid double taxation will prevail. A foreign resident company is subject to income tax if it has a permanent establishment in Mexico. In general, a permanent establishment is a place of business where the activities of an enterprise are totally or partially carried out and includes, among others, offices, branches and mining sites.

Under the 2014 amendments to the federal corporate income tax law, titleholders of mining concessions are required to pay an annual special duty of 7.5% of their mining related profits. Titleholders of mining concessions also are required to pay a 0.5% special mining duty, or royalty, on an annual basis, on revenues obtained from the sale of silver, gold and platinum. Both the 7.5% annual special duty and the 0.5% duty are due at the end of March each year. The special duty of 7.5% is generally applicable to earnings before income tax, depreciation, depletion, amortization, and interest. In calculating the special duty of 7.5%, there are no deductions related to depreciable costs from operational fixed assets, but exploration and prospecting depreciable costs are deductible when incurred. Both duties are tax deductible for income tax purposes.

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Mexico has several taxes in addition to income tax that are relevant to most business operations, including (i) the Value Added Tax (“VAT”); (ii) import duties; (iii) various payroll taxes; and (iv) statutorily entitled employee profit sharing (“PTU”). In addition, annual mining concession fees are charged by the government.

VAT in Mexico is charged upon alienation of goods, performance of independent services, grant of temporary use or exploitation of goods, or import of goods or services that occur within Mexico’s borders, at a rate of 16%. There is no VAT in the case of export of goods or services or for the sale of gold, jewelry, and gold metalwork with a minimum gold content of 80%, excluding retail sale to the general public. The sale of mining concessions is subject to VAT as concessions are not considered to be land. VAT paid by a business enterprise on its purchases and expenses may usually be credited against its liability for VAT collected from customers on its own sales. In addition, VAT may also be refunded, or overpayments may be used to offset tax liabilities arising from other federal taxes.

Import duties apply for goods and services entering the country, unless specifically exempted due to a free trade agreement or registered under specific programs like IMMEX, under which we are currently registered. Payroll taxes are payable in most states including Durango and Coahuila, and social security, housing and pension contributions must be made to the federal government when paying salaries.

Employees of Mexico entities are statutorily entitled to a portion of the employer’s pre-tax profits, called PTU. The rate of profit sharing is currently 10% of the employer’s taxable income as defined by the Income Tax law. A taxpayer may reduce its income tax base by an amount equal to the PTU. Certain companies are exempt from paying PTU, which include companies in the extractive industry (principally the mining industry) during the period of exploration.

El Quevar

Location and Access

Our El Quevar silver project is located in the San Antonio de los Cobres municipality, Salta Province, in the altiplano region of northwestern Argentina, approximately 300 kilometers by road northwest of the city of Salta, the capital city of the province. The project is also accessible by a 300 kilometer dirt and gravel road from the city of Calama in northern Chile. The small village of Pocitos, located about 20 kilometers to the west of El Quevar, is the nearest settlement. We have established a camp approximately 10 kilometers west of the project to house project workers. A high tension power line is located approximately 40 kilometers from the site, and a high pressure gas line devoted to the mining industry and subsidized by the Salta government is located within four kilometers of the El Quevar camp.

The El Quevar project is located near Nevado Peak with altitudes at the concessions ranging from 3,800 to 6,130 meters above sea level. The climate of the area is high mountain desert, with some precipitation in summer (such as snow) and little snow in winter.

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The following map shows the location of the El Quevar project.

Property History

Mining activity in and around the El Quevar project dates back at least 80 years. Between 1930 and 1950, there was lead and silver extraction of mineralized materials from small workings in the area, but we have no mining records from that period. The first organized exploration activities on the property occurred during the 1970s, although no data from that period remains. Over the last 30 years, several companies have carried out exploration activity in the area, including BHP Billiton, Industrias Peñoles, Mansfield Minerals and Hochschild Mining Group, consisting primarily of local sampling with some limited drilling programs.

Title and Ownership Rights

According to Argentine law, mineral resources are subject to regulation in the provinces where the resources are located. Each province has the authority to grant mining exploration permits and mining exploitation concession rights to applicants. The Federal Congress has enacted the National Mining Code and other substantive mining legislation, which is applicable throughout Argentina; however, each province has the authority to regulate the procedural aspects of the National Mining Code and to organize the enforcement authority within its own territory.

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In the province of Salta, where the El Quevar project is located, all mining concessions are granted by a judge in the Salta Mining Court. The El Quevar project is comprised of exploitation concessions. Exploitation concessions are subject to a canon payment fee (maintenance fee) which is paid in advance twice a year (before June 30th and December 31st of each calendar year). Each time a new mining concession is granted, concession holders are exempt from the canon payment fee for a period of three years from the concession grant date. However, this exemption does not apply to the grant of vacant exploitation concessions; only to the grant of new mining concessions.

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

We are required to pay a 1% net smelter return royalty on the value of all minerals extracted from the El Quevar II concession and a 1% net smelter return royalty on one-half of the minerals extracted from the Castor concession to the third party from whom we acquired these concessions. We can purchase one half of the royalty for \$1 million in the first two years of production. The Yaxtché deposit is located primarily on the Castor concession. We may also be required to pay a 3% royalty to the Salta Province based on the net smelter value of minerals extracted from any of our concessions less costs of processing. To maintain all of the El Quevar concessions, we paid canon payment fees to the Argentine government of approximately \$116,000 and \$111,000 in 2016 and 2017, respectively. In 2018 we expect to pay approximately \$93,000.

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The following El Quevar mine concessions are identified below by name and file number in the Salta Province Registry of Mines.

Name of Mine Concession	Concession File Number
Quevar II	17114
Quirincolo I	18036
Quirincolo II	18037
Castor	3902
Vince	1578
Armonia	1542
Quespejahuar	12222
Toro I	18332
Quevar Primera	19534
Quevar Novena	20215
Quevar Decimo Tercera	20501
Quevar Tercera	19557
Quevar Vigesimo Tercero	21043
Quevar 10	20219
Quevar Vigesimo Primera	20997
Quevar Vigesimo Septima	22403
Quevar IV	19558
Quevar Vigesimo Cuarto	21044
Quevar 11	20240
Quevar Quinta	19617
Quevar 12	20360
Quevar Decima Quinta	20445
Quevar Sexta	19992
Quevar 19	20706
Quevar Vigesimo Sexta	22087
Quevar Vigesimo Segundo	21042
Quevar Séptima	20319
Quevar Veinteava	20988
MARIANA CANTERA	15190
Arjona II	18080
Quevar Vigesimo Quinto	21054

The surface rights at El Quevar are controlled by the Salta Province. There are no private properties within the concession area. To date, no issues involving surface rights have impacted the project. Although we have unrestricted access to our facilities, we have been granted easements to further protect our access rights.

Geology and Mineralization

The geology of the El Quevar project is characterized by silver-rich veins and disseminations in Tertiary volcanic rocks that are part of an eroded stratovolcano. Silver mineralization at El Quevar is hosted within a broad, generally east-west-trending structural zone and occurs as a series of north-dipping parallel sheeted vein zones, breccias and mineralized

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faults situated within an envelope of pervasively silicified brecciated volcanic rocks. There are at least three sub-parallel structures that extend for an aggregate length of approximately 6.5 kilometers. Several volcanic domes (small intrusive bodies) have been identified and mineralization is also found in breccias associated with these domes, especially where they are intersected by the structures. The silver mineralization at the Yaxtché zone is of epithermal origin. The cross-cutting nature of the mineralization, the assemblage of sulfide and alteration minerals, and the presence of open spaces with euhedral minerals, all point to an origin at shallow to moderate depths (a few hundred meters below surface) from hydrothermal solutions.

Mineralized Material Estimate

During 2012, we 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 completed 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 zone, 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.

For further detail regarding mineralized material, see “CAUTIONARY STATEMENT REGARDING MINERALIZED MATERIAL”.