ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion updates our plan of operations as of February 20, 2019 for the foreseeable future. It also discusses our results of operations for the three fiscal years ended December 31, 2018, 2017 and 2016 and our financial condition as at December 31, 2018 and 2017, with a particular emphasis on the year ended December 31, 2018. With regard to properties or projects that are not in production, we provide some details of our plan of operation.

The technical contents of this management's discussion and analysis has been reviewed and approved by Chris Stewart, P.Eng., President & Chief Operating Officer and a Qualified Person as defined by Canadian Securities Administrator National Instrument 43-101 "Standards of Disclosure for Mineral Projects".

The discussion also presents certain non-GAAP financial performance measures, such as earnings (loss) from mining operations, total cash costs, total cash cost per ounce, all-in sustaining costs, all-in sustaining cost per ounce, average realized price per ounce, and cash, investments and precious metals, that are important to management in its evaluation of our operating results and which are used by management to compare our performance to what we perceive to be peer group mining companies and relied on as part of management's decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the non-GAAP financial performance measures and certain limitations inherent in such measures, please see the discussion under "Non-GAAP Financial Performance Measures" below, on page 55.

The discussion also includes references to "advanced-stage properties", which are defined as properties for which advanced studies and reports have been completed indicating the presence of mineralized material or proven and probable reserves, and that have obtained or are in the process of obtaining the required permitting. Our designation of certain properties as "advanced-stage properties" should not suggest that we have proven or probable reserves at those properties as defined by the SEC Industry Guide 7.

The information in this section should be read in conjunction with our consolidated financial statements and the notes thereto included in this annual report.

Reliability of Information: MSC, the owner of the San José mine, is responsible for and has supplied to us all reported results from the San José mine. The technical information regarding the San José mine contained herein is, with few exceptions as noted, based entirely on information provided to us by MSC. Our joint venture partner, a subsidiary of Hochschild Mining plc, and its affiliates other than MSC do not accept responsibility for the use of project data or the adequacy or accuracy of this document.

Index to Management's Discussion and Analysis:

2018 Operating and Financial Highlights

Highlights are included below and discussed further in Consolidated Financial Performance:

- Construction at Gold Bar is near completion and on schedule for inaugural gold production in the first quarter of 2019. During 2018, construction activities at Gold Bar focused on completing the heap leach pad, the crushing and conveying system, and substantial completion of the gold processing plant and refinery circuit.

- We completed two financings for total gross proceeds of $64.8 million, primarily to complete the construction of the Gold Bar mine in Nevada, and to continue our successful ongoing exploration program at our properties in the Timmins region of Ontario.

- At year end, we reported $37.8 million in cash and restricted cash, investments and precious metals valued at the London P.M. Fix spot price(1). Restricted cash represents proceeds from a financing that is committed to the 2019 exploration program in Ontario.

- Our consolidated production was 175,640 gold equivalent ounces, of which 48,928 gold equivalent ounces were produced by the Black Fox mine, 87,607 gold equivalent ounces were produced by the San Jose mine (on a 49% attributable basis), and 39,105 gold equivalent ounces were produced from the El Gallo Project, which included gold recovered from residual leaching.

- Our consolidated gold and silver sales were $128.2 million, comprised of $62.0 million from the Black Fox mine and $66.2 from the El Gallo Project.

- We realized average prices of $1,275 per ounce of gold sold by the Black Fox mine (excluding our stream obligations), and $1,279 per ounce of gold sold by the El Gallo Project.

- The Black Fox mine realized total cash costs of $845 and all-in sustaining costs of $1,137 per gold equivalent ounce.

- The El Gallo Project realized total cash costs of $733 and all-in sustaining costs of $771 per gold equivalent ounce.

- The San José mine realized total cash costs of $851 and all-in sustaining costs of $1,061 per gold equivalent ounce.

- Our investment in MSC yielded a net loss of $11.9 million but paid us $10.4 million in dividends.

- We reported gross profit of $35.5 million, and a net loss of $44.9 million, or $0.13 per share for 2018.

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(1) For a reconciliation of precious metals valued at the London P.M. Fix spot price and cost, please see the discussion under "Non-GAAP Financial Performance Measures" below, on page 55.

Selected Consolidated Production and Operating Results

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
	(in thousands, unless otherwise indicated)				
Gold and silver sales El Gallo Project	$ 10,852	$ 12,472	$ 66,151	$ 55,845	$ 60,388
Gold and silver sales Black Fox mine	$ 15,581	$ 11,620	$ 62,024	$ 11,620	$ —
Income (loss) on investment in MSC, net of amortization	$ (4,415)	$ 491	$ (11,865)	$ (44)	$ 12,951
Net (loss) income	$ (20,989)	$ 2,169	$ (44,870)	$ (10,634)	$ 21,055
Net (loss) income per common share	$ (0.06)	$ 0.01	$ (0.13)	$ (0.03)	$ 0.07
Consolidated gold ounces(1):					
Produced	29.4	48.6	135.2	109.9	101.5
Sold	34.4	33.3	149.6	102.4	97.6
Consolidated silver ounces(1):					
Produced	820	927	3,033	3,179	3,304
Sold	812	906	3,039	3,209	3,487
Consolidated gold equivalent ounces(1)(2):					
Produced	40.3	61.0	175.6	152.3	145.5
Sold	45.2	45.4	190.1	145.2	144.0
Silver : gold ratio(2)	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

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(1) Includes attributable production from our 49% owned San José mine.
(2) Silver production is presented as a gold equivalent. Gold equivalent ounces calculations approximate prevailing spot prices at the beginning of the year.

Consolidated Financial Performance

Despite the 57% increase in operating profit obtained from Black Fox and residual leaching at the El Gallo Project, we reported a net loss of $44.9 million, or $0.13 per share in 2018, compared to a net loss of $10.6 million, or $0.03 per share, in 2017. The $44.9 million net loss was primarily the result of the following factors:

- A significant increase in our exploration activities in Canada, coupled with higher exploration expenditures in the U.S.

- A significant increase in net loss reported by MSC, due to 4% and 5% decreases in the number of ounces of gold and silver sold respectively, coupled with 1% and 10% decreases in the average realized prices of gold and silver, respectively, and the effect of the Argentine export tax implemented in the third quarter of 2018.

- A decrease in our gross profit margin, from 33% in 2017 to 28% in 2018.

- An increase of general and administrative expenses primarily due to higher overhead from the development of Gold Bar, partly offset by a reduction of costs associated with corporate initiatives.

- A significant decrease in income and mining taxes recovery as a result of one time benefits resulting from the tax reforms put in place by the U.S. and Argentine governments in 2017.

Our cash, cash equivalents and restricted cash at year end 2018 was $30.5 million, which is a decrease from the $37.2 million at year end 2017.

Results of Consolidated Operations

Year ended December 31, 2018 compared to 2017

Revenue

Consolidated sales of gold and silver increased by 90%, from $67.5 million in 2017 to $128.2 million in 2018, due to $50.4 million in additional gold sales contributed by the Black Fox mine, coupled with a $10.3 million increase in gold and silver sales at the El Gallo Project. The Black Fox mine was acquired in October 2017 thus, only fourth quarter gold sales were included in the 2017 comparable period. The increase in gold and silver sales at the El Gallo Project was accomplished through the drawdown of the bullion inventory held at December 31, 2017.

Production costs applicable to sales

Consolidated production costs applicable to sales increased to $93.3 million in 2018, from $45.2 million in 2017, due to $46.0 million additional production costs reported by the Black Fox mine as a result of the higher number of ounces sold in 2018, as explained above, coupled with a $2.1 million increase in production costs reported by the El Gallo Project. The increase in production costs applicable to sales at the El Gallo Project was consistent with the higher sales volume.

Operating Income (Expenses)

Mine development costs, which relate to engineering and development expenditures incurred at our advanced-stage properties, changed slightly to $3.7 million in 2018 from $3.8 million in 2017. Mine development costs in 2018 were entirely comprised of $3.7 million incurred at the Fenix Project in Mexico, whereas in 2017 mine development costs were comprised of $3.1 million at the Gold Bar Project in Nevada, and $0.7 million at the Fenix Project in Mexico.

Exploration costs in 2018 increased to $34.8 million from $17.7 million in 2017. The increase is mainly due to a $19.8 million and $3.0 million increase in exploration expenditures incurred in Canada and the U.S., respectively; partly offset by a $3.4 million and $1.9 million decrease in exploration costs at Mexico and Argentina, respectively.

General and administrative expenses increased to $23.2 million in 2018, from $18.9 million in 2017, primarily due to higher overhead from the development of the Gold Bar Project, partly offset by a reduction of costs associated with corporate initiatives.

In 2018, we recognized a net loss of $11.9 million from our investment in MSC, compared to a net loss of $0.1 million in 2017. The higher net loss recorded during 2018 was driven primarily by a $21.7 million decrease in sales, due to 4% and 5% decreases in the number of ounces of gold and silver sold respectively, coupled with a 10% decrease in the average realized price of silver. Other significant items contributing to the increased net loss from MSC are the effect of Argentine export tax implemented in the third quarter of 2018, and the write-off of the receivables owed by Republic Metals, the U.S. gold refiner which filed for Chapter 11 bankruptcy in November 2018. Please refer to the section *Results of Operations – MSC Segment* below, for further details.

The revision of estimates and accretion of asset retirement obligations increased to $3.5 million in the 2018 period, from $2.1 million in 2017, primarily due to a full year accretion expense from Black Fox, and an increase in the obligations for our other exploration properties in Canada and the U.S.

Other income (expense)

Other expense was $1.1 million in 2018, compared to other income of $0.1 in 2017. The increase in other expense was mainly due to $1.6 million in interest expense and a $3.3 million loss on investments, partly offset by a $3.9 million gain in foreign exchange reported in 2018.

Recovery of income taxes

Recovery of income and mining taxes decreased from $15.4 million in 2017 to $2.8 million in 2018 as a result of one-time benefits recognized in 2017 resulting from the tax reforms put in place by the U.S. and Argentine governments.

Year ended December 31, 2017 compared to 2016

Revenue

Consolidated gold and silver sales increased by $7.1 million, or 12%, to $67.5 million for the year ended December 31, 2017, from $60.4 million in 2016, mainly due to $11.6 million gold sales contributed by the Black Fox mine, which was acquired in October 2017, partially offset by a $4.5 million decrease in gold and silver sales reported by the El Gallo 1 mine, when compared to 2016, as a result of fewer ounces sold.

Production costs applicable to sales

Consolidated production costs applicable to sales increased to $45.2 million in 2017 from $28.1 million in 2016, due to $9.9 million production costs attributable to the Black Fox mine, which as noted above was acquired in October 2017, and $7.2 million higher production costs reported by the El Gallo 1 mine. The increase in production costs applicable to sales at the El Gallo 1 mine was due to the increase in the number of tonnes processed, coupled with higher number of waste tonnes removed in the year, as well as costs incurred due to the mechanical failure of the crushing circuit that occurred during the third quarter of 2017.

Operating Income (Expenses)

Mine development costs changed slightly to $3.8 million in 2017 from $3.9 million in 2016.

Exploration costs in 2017 increased to $17.7 million from $8.0 million in 2016, mainly due to the $6.3 million higher exploration expenditures incurred at the Los Azules project. These incremental costs for Los Azules were necessary to complete the PEA. In 2017, we also spent $5.6 million on exploration at our Mexican properties, $2.1 million in Nevada, $1.6 million in Timmins, and $0.5 million in corporate exploration charges.

Property holding costs increased to $3.9 million from $3.5 million year-over-year mainly as a result of higher costs for the Mexican properties, reflecting the Mexican peso appreciation against the U.S. dollar, partly offset by a decrease in property costs incurred in Argentina, compared to 2016.

General and administrative expenses increased to $18.9 million in 2017, from $12.7 million in 2016, mainly as a result of acquisition and financing costs associated with our two acquisitions completed in the year, and higher personnel costs when compared to the 2016 period.

Income from our investment in MSC decreased significantly from $13.0 million in 2016 to a $0.1 million loss in 2017, primarily due to the loss of government tax incentives in late 2016. MSC's decrease in gold and silver sales, coupled with higher production costs applicable to sales, and the increase in exploration costs and capital expenditures, also contributed to the overall decrease in income. Please refer to the section *Results of Operations – MSC Segment* below, for further details.

An impairment charge of $0.7 million was recorded in 2017, to write-down property and equipment in Mexico.

The revision of estimate and accretion of asset retirement obligation increased to $2.1 million in 2017, from $0.6 million in 2016 primarily from an increase in the revision of the Timmins obligation.

Other income (expenses)

Other income decreased to $0.1 million in 2017 from $2.0 million in 2016, primarily due to higher interest expense recorded in 2017, coupled with the increase in unrealized loss on derivatives. These factors were partly offset by a $0.8 million increase in gain on sale of marketable securities reported during the year.

Recovery of income taxes

Recovery of income taxes increased from $3.7 million in 2016 to $15.4 million in 2017, as a result of the U.S. and Argentine Government tax reforms, which will significantly reduce future taxes so long as they remain in effect, along with fluctuations in tax benefits related to exploration spending at Los Azules, and the devaluation of the Argentina peso during the year. Also contributing to the deferred tax recovery was the recognition of a deferred tax asset, to the extent of the deferred tax liability recognized on the acquired mineral property interests of the Gold Bar project, in the amount of $6.4 million.

Liquidity and Capital Resources

We had working capital of $23.4 million at December 31, 2018, which consisted of $59.4 million of current assets and $36.0 million of current liabilities, compared to $49.2 million working capital reported at year-end 2017. Within current assets we have $14.7 million of restricted cash, which represents funds committed to the exploration program in Ontario, as a result of completing our flow-through financing.

The $25.8 million decrease in working capital was the net result of increased cash used in operating activities, coupled with construction costs at Gold Bar, which were partly offset by proceeds from higher number of ounces of gold and silver sold, proceeds from the $50.0 million loan facility, and proceeds from the issuance of flow-through common shares. Overall, our cash balance (including restricted cash) decreased to $30.5 million at December 31, 2018, from $37.2 million at December 31, 2017.

We believe that our working capital at December 31, 2018, combined with forecasted working capital to be generated over the next 12 months, will be sufficient to satisfy our obligations due in the next 12 months, and to fund ongoing operations and corporate activities.

We continue to evaluate capital and development expenditure requirements to advance Los Azules, Black Fox, our other Timmins projects, and the Fenix Project in Mexico. If our working capital is not sufficient to advance these projects, we will defer one or more of these initiatives. Furthermore, if we make a positive decision to develop one or more of these initiatives, the expenditures incurred may significantly exceed our working capital. In such case, we would consider several financing methods, which may include incurring additional debt, issuing additional equity, equipment leasing, and other forms of financing.

Net cash provided by operations was $0.5 million for 2018, compared to net cash used in operations of $27.6 million for 2017, while net cash provided by operations was $7.4 million for 2016. The significant changes from one year to the next are summarized as follows:

- $128.8 million cash received from revenues in 2018, compared to $67.7 million in 2017, and $59.5 million in 2016, as a result of increased sales from a full year of operations of the Black Fox mine, and higher number of ounces of gold sold at higher average realized price by the El Gallo Project in 2018;

- $8.3 million VAT collected in Mexico in 2018, compared to $5.9 million collected in 2017, and $9.5 million collected in 2016;

- $126.8 million cash paid to suppliers and employees in 2018, compared to $95.9 million in 2017 and $52.3 million in 2016, due to significantly higher production costs after the acquisition of Black Fox, construction at Gold Bar, and exploration expenses; and

- $1.9 million cash paid in interests in 2018, compared to $nil in 2017 and 2016.

Cash used in investing activities was $69.3 million in 2018, compared to $22.3 million in 2017, while cash provided by investing activities was $7.6 million in 2016, primarily due to the following factors:

- $19.0 million expenditures on mineral property interests in 2018 primarily related to underground development at the Black Fox complex, compared to $3.5 million in 2017 and $6.0 million in 2016;

- $62.3 million expenditures on property and equipment, mostly at the Gold Bar project, compared to $5.1 million and $1.2 million in 2017 and 2016, respectively;

- $1.4 million expenditures on investments in 2018, compared to $nil in 2017, and $4.4 million in 2016;

- $2.9 million in proceeds from sale of investments in 2018, compared to $2.2 million and $0.5 million in 2017 and 2016, respectively.

- $10.4 million dividends received from MSC in 2018, compared to $12.2 million and $17.7 million in 2017 and 2016 respectively; and

- No investments in business acquisitions in 2018, compared to $27.3 million incurred for the acquisition of Black Fox, and $0.8 million for the acquisition of Lexam VG Gold in 2017, and no investments in business acquisitions in 2016.

Financing activities provided $60.4 million in 2018, compared to $49.7 million provided in 2017, while cash used in financing activities was $3.2 million in 2016, primarily due to:

- Net proceeds of $49.1 million from the issuance of a senior loan facility executed in August 2018, compared to $43.2 million of net proceeds from an equity issuance in 2017, while no similar financing transactions occurred in 2016. For detailed information on the senior loan facility executed in August 2018 refer to *Item 8. Financial Statements and Supplementary Data, Note 22, Debt*;

- Net proceeds of $14.1 million from the issuance of flow-through common shares completed on December 20, 2018, compared to net proceeds of $9.4 million from a similar transaction executed in 2017, while no similar financing occurred in 2016;

- $0.2 million proceeds from stock options exercised in 2018, compared to $0.1 million and $3.7 million in 2017 and 2016, respectively; and

- $3.4 million return of capital to our shareholders in 2018, compared to $3.1 million in 2017, and $3.0 million in 2016.

At-the-market ("ATM") Stock Offering

Pursuant to an equity distribution agreement dated November 8, 2018, we may offer and sell from time to time shares of our common stock having an aggregate offering price of up to $90.0 million, with the net proceeds to fund working capital and general corporate purposes. During the year ended December 31, 2018, we utilized the ATM offering to issue an aggregate of 514,897 shares of common stock for gross and net proceeds of approximately $0.9 million. As of December 31, 2018, approximately $89.1 million remained available for issuance under this ATM stock offering program.

Results of Operations—Mexico Segment

The Mexico segment includes the El Gallo Project (formerly "El Gallo 1" or "El Gallo Mine") and the advanced-stage Fenix Project, located in Sinaloa.

El Gallo Project

Mining and crushing activities ceased during the second quarter of 2018. Prior to cessation El Gallo 1 was a mature operation, at which we mined and depleted various pits during its operating life. Current activities are limited to residual leaching production that will continue until the end of 2020 as part of closure and reclamation.

Overview

The following table sets out total production and sales, and average realized prices for El Gallo 1 for the three months ended December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017, and 2016:

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, unless otherwise indicated)				
Tonnes of mineralized material mined	—	373	823	1,160	1,048
Average grade gold (gpt)	—	2.19	1.43	1.77	1.32
Tonnes of mineralized material processed	—	495	830	1,399	1,108
Average grade gold (gpt)	—	2.59	1.51	2.07	2.14
Gold ounces:					
Produced	5.6	19.8	39.0	46.4	54.9
Sold	8.8	9.7	51.6	44.2	48.7
Silver ounces:					
Produced	2.5	6.0	9.1	18.6	25.3
Sold	4.6	1.7	13.4	23.7	17.6
Gold equivalent ounces(1):					
Produced	5.6	19.9	39.1	46.7	55.3
Sold	8.9	9.7	51.8	44.5	48.9
Net sales	$ 10,852	$ 12,472	$ 66,151	$ 55,845	$ 60,388
Average realized price ($/ounce)(2):					
Gold	$ 1,221	$ 1,280	$ 1,279	$ 1,255	$ 1,235
Silver	$ 14.48	$ 16.75	$ 15.85	$ 17.40	$ 16.77
London average price ($/ounce):					
P.M. Fix Gold	$ 1,226	$ 1,276	$ 1,268	$ 1,257	$ 1,251
Fix Silver	$ 14.55	$ 16.73	$ 15.71	$ 17.05	$ 17.14
Silver : gold ratio(1)	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

(1) Silver production presented as a gold equivalent.

(2) Average realized price is a non-GAAP financial performance measure with no standardized definition under U.S. GAAP. See "Non-GAAP Financial Performance Measures" on page 55 for additional information, including definitions of these terms.

Tonnes mined represent tonnes of mineralized material extracted, while tonnes processed represent tonnes of mineralized material crushed and placed on the leach pads. The difference between tonnes mined of 822,805 and tonnes processed of 830,267 for 2018 corresponds to mineralized material taken from stockpiled inventory. Due to long process cycles, actual recoveries from the heap are difficult to measure and may fluctuate significantly based on the timing, quantity and metallurgical attributes of the mineralized material placed on the leach pads, among other variables. The cumulative recovery rate realized for gold production from September 1, 2012 (start of production at El Gallo 1) to December 31, 2018 including residual heap leaching activities following the cessation of mining activities in the second quarter, is estimated at 61%.

Gold and silver production

2018 compared to 2017

- Production decreased to 39,106 gold equivalent ounces in 2018, from 46,694 ounces produced in 2017. The decrease in production was expected as the operation moved to residual leaching in June 2018, when our pits were depleted and we ceased mining and crushing activities.
- Lower grades of mineralized material mined and processed also contributed to the decrease in production. During 2018 we processed mineralized material with an average grade of 1.51 gpt whereas in 2017 the average grade of the mineralized material processed was 2.07 gpt.

2017 compared to 2016

- While a decrease in production in 2017 was expected, the drop exceeded our expectations, since we commenced mining from the higher strip deeper pits, with an increased amount of sulfide transitional mineralization during that year. In addition, operational issues affecting the crushing circuit during the third quarter of 2017 resulted in additional challenges to our Mexican operation; however successful mining to the ultimate bottom of the Samaniego pit and the addition of a portable crusher to increase the normal crushing capacity available during the fourth quarter of 2017 compensated for the production shortfall.
- Average grades of material processed during the year ended December 31, 2017 were 2.07 g/t, compared to 2.14 g/t in 2016, while for the fourth quarter of 2017, grades of material processed averaged 2.59 g/t compared to 1.46 g/t obtained in the same quarter in 2016.

Gold and silver sales

2018 compared to 2017

- Revenue from sale of gold and silver at El Gallo 1 increased by 18% to $66.2 million in 2018, compared to $55.8 million in 2017, due to a 16% increase in gold equivalent ounces sold in 2018, coupled with a 2% increase in average realized prices of gold when compared to 2017. The increase in gold equivalent ounces sold at El Gallo 1 in 2018 was accomplished through the drawdown of the bullion inventory held at December 31, 2017.

2017 compared to 2016

- Revenue from sale of gold and silver at the El Gallo 1 mine decreased by 8% to $55.8 million, from $60.4 million in the same period of 2016, due to a 9% decrease in gold equivalent ounces sold in 2017, slightly offset by a 2% and 4% increase in average realized prices of gold and silver, respectively, when compared to 2016.

__Total Cash Costs and All-In Sustaining Costs__

The following table summarizes our total cash cost, cash cost per ounce, all-in sustaining costs and all-in sustaining costs per ounce of gold equivalent at the El Gallo 1:

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, unless otherwise stated)				
El Gallo 1					
Total cash costs[1]	$ 7,552	$ 11,064	$ 37,919	$ 35,198	$ 25,609
Total cash cost per gold equivalent ounce sold ($/ounce)[1][2]	$ 849	$ 1,135	$ 733	$ 791	$ 524
All-in sustaining costs[1]	$ 7,807	$ 12,189	$ 39,879	$ 40,437	$ 29,818
All-in sustaining cost per gold equivalent ounce sold ($/ounce)[1][2]	$ 877	$ 1,251	$ 771	$ 909	$ 610
Silver : gold ratio[2]	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

(1) Total cash cost, total cash cost per ounce, all-in sustaining costs, and all-in sustaining costs per ounce are non-GAAP financial performance measures with no standardized definition under U.S. GAAP. See “Non-GAAP Financial Performance Measures” on page 55 for additional information, including definitions of these terms.

(2) Silver production presented as a gold equivalent. The gold equivalent ounce calculation is based on prevailing spot prices at the beginning of the year.

2018 compared to 2017

Total cash costs per gold equivalent ounce for the year ended December 31, 2018 were $733 compared to $791 for the year of 2017, due to decreased activities resulting from the cessation of mining and crushing operations. On an aggregate basis, total cash costs at El Gallo 1 increased to $37.9 million in 2018, compared to $35.2 million in 2017, primarily due to a greater number ounces sold in 2018, compared to 2017.

During the year ended December 31, 2018, El Gallo 1 reported all-in sustaining costs of $771 per gold equivalent ounce, compared to $909 in 2017. On an aggregate basis, all-in sustaining costs slightly decreased to $39.9 million in 2018, from $40.4 million in 2017, despite the increase in total cash costs explained above, which was totally offset by a 64% decrease in on-site exploration expenses.

2017 compared to 2016

Total cash costs per gold equivalent ounce for the year ended December 31, 2017 were $791 compared to $524 for the year of 2016. On an aggregate basis, total cash costs at the El Gallo 1 mine increased by 37% to $35.2 million in 2017, compared to $25.6 million in 2016. Higher total cash costs per gold equivalent ounce were the result of higher mining costs due to an increased strip ratio and tonnes mined, and higher processing costs due to increased tonnage treated and a decrease in recoveries. In addition, haulage costs from mining the Central 2 and Lupita pits are higher since they are located at a greater distance from the leach pad than the Samaniego pit. Finally, the increase in peso denominated production costs from the appreciation of the Mexican peso against the U.S. dollar also contributed to the higher total cash costs reported, when compared to 2016.

During the year ended December 31, 2017, the El Gallo 1 mine reported all-in sustaining costs of $909 per gold equivalent ounce, compared to $610 in 2016. Aggregate all-in sustaining costs from the El Gallo 1 mine in 2017 also increased, to $40.4 million from $29.8 million in 2016, due to higher cash costs noted above, coupled with higher exploration expenditures incurred in our efforts to extend the El Gallo 1 life of mine, and a slight increase in capital expenditures incurred in the year.

Advanced-Stage Properties – Fenix Project

During 2018, we spent $3.7 million on activities required to advance the Fenix Project. During 2019, we expect to complete the feasibility study, and work towards obtaining regulatory approval for a permit amendment to allow for in-pit tailings storage, which is a key feature of the proposed project implementation.

The Fenix Project PEA is available for review on our website and SEDAR (www.sedar.com).

In conjunction with our capital allocation strategy, the Board of Directors has approved the evaluation of the potential sale of our Mexican business unit including all the fixed assets and mineral interests. If the sale is complete, the net proceeds from sale would be used to fund development of our other assets and to retire a portion of our debt.

Results of Operations - Canada Segment

The Canada segment is composed of the Black Fox Complex, which includes the fully operational Black Fox gold mine and the Grey Fox, Tamarack and Froome advanced-stage exploration projects, the Black Fox Stock Mill, and other gold exploration properties located in Timmins, Ontario, Canada.

Black Fox mine

The following table sets out total production and sales and average realized prices for the Black Fox mine for the three months and year ended December 31, 2018. Since the mine was acquired in October 2017, only fourth quarter data is included for the year ended December 31, 2017.

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, unless otherwise indicated)				
Tonnes of mineralized material mined	56	81	256	81	—
Average grade gold (gpt)	5.98	6.20	5.84	6.20	—
Tonnes of mineralized material processed	54	79	263	79	—
Average grade gold (gpt)	6.07	6.47	5.58	6.47	—
Gold ounces:					
Produced	11.2	14.3	48.9	14.3	—
Sold, excluding stream	12.4	8.9	46.9	8.9	
Sold, stream	0.8	0.5	4.1	0.5	—
Sold, including stream	13.2	9.4	51.0	9.4	
Silver ounces:					
Produced	0.6	0.8	2.9	0.8	—
Sold	—	—	—	—	—
Gold equivalent ounces(1):					
Produced	11.2	14.3	48.9	14.3	—
Sold, excluding stream	12.4	8.9	46.9	8.9	—
Sold, including stream	13.2	9.4	51.0	9.4	—
Net sales, excluding stream	$ 15,133	$ 11,339	$ 59,834	$ 11,339	$ —
Net sales, stream	$ 448	$ 281	$ 2,190	$ 281	$ —
Net sales, including stream	$ 15,581	$ 11,620	$ 62,024	$ 11,620	$ —
Average realized price ($/ounce)(2):					
Gold, excluding stream	$ 1,225	$ 1,275	$ 1,275	$ 1,275	$
Gold, stream	$ 540	$ 531	$ 539	$ 531	$ —
Gold, including stream	$ 1,182	$ 1,233	$ 1,216	$ 1,233	$
Silver	$ 14	$ —	$ 14	$ —	$ —
London average price ($/ounce):					
P.M. Fix Gold	$ 1,226	$ 1,276	$ 1,268	$ 1,257	$ 1,251
Fix Silver	$ 14.55	$ 16.73	$ 15.71	$ 17.05	$ 17.14
Silver : gold ratio(1)	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

(1) Silver production is presented as a gold equivalent.

(2) Average realized price is a non-GAAP financial performance measure with no standardized definition under U.S. GAAP. See “Non-GAAP Financial Performance Measures” on page 55 for additional information, including definitions of these terms.

2018 Gold and silver production and sales

- Production for 2018 was 48,928 gold equivalent ounces consisting of 48,889 ounces of gold and 2,850 ounces of silver, compared to 14,279 gold equivalent ounces, consisting of 14,268 ounces of gold and 804 ounces of silver in the fourth quarter of 2017.

- Sales revenue from the Black Fox mine was $62.0 million in 2018, compared to $11.6 million in fourth quarter of 2017, as a result of the sale of 50,988 ounces of gold and 43 ounces of silver during the year. The average realized price of gold was $1,216 per ounce in 2018, compared to $1,233 per ounce in the fourth quarter of 2017. The London P.M. Fix Gold average for 2018 was $1,268, compared to $1,276 noted during the last quarter of 2017. The difference in our average realized price and the market price was due to the streaming agreement, see *Item 8. Financial Statements and Supplementary Data, Note 13, Commitments and Contingencies.*

2017 Gold and silver production and sales

- Production for the quarter ended December 31, 2017 was 14,279 gold equivalent ounces consisting of 14,268 ounces of gold and 804 ounces of silver. Production obtained from the Black Fox mine exceeded the 10,000 gold equivalent ounces planned after the acquisition, as a result of higher average grades obtained than expected.

- Sales revenue from the Black Fox mine was $11.6 million as a result of the sale of 9,422 ounces of gold during the year. The average realized price of gold was $1,233 per ounce, which compares to the London P.M. Fix Gold average of $1,276 noted during the last quarter of 2017.

Total Cash Costs and All-In Sustaining Costs

The following table presents a summary of our total cash cost, cash cost per ounce, all-in sustaining costs and all-in sustaining costs per ounce of gold equivalent at the Black Fox mine:

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, unless otherwise stated)				
Total cash costs(1)	$ 11,384	$ 8,151	$ 43,095	$ 8,151	$ —
Total cash cost per gold equivalent ounce sold ($/ounce)(1)(2)	$ 864	$ 865	$ 845	$ 865	$ —
All□in sustaining costs(1)	$ 14,147	$ 12,432	$ 57,970	$ 12,432	$ —
All□in sustaining cost per gold equivalent ounce sold ($/ounce)(1)(2)	$ 1,074	$ 1,319	$ 1,137	$ 1,319	$ —
Silver : gold ratio(2)	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

1) Total cash cost, total cash cost per ounce, all-in sustaining costs, and all-in sustaining costs per ounce are non-GAAP financial performance measures with no standardized definition under U.S. GAAP. See “Non-GAAP Financial Performance Measures” on page 55 for additional information, including definitions of these terms
2) Silver production presented as a gold equivalent. The gold equivalent ounce calculation is based on prevailing spot prices at the beginning of the year.

2018 compared to 2017

Total cash costs per gold equivalent ounce for 2018 was $845, compared to $865 in the fourth quarter of 2017. On an aggregate basis, total cash cost recorded by the Black Fox mine was $43.1 million in 2018, compared to $8.2 million in the fourth quarter of 2017. Total cash costs per gold equivalent ounce mostly comprised underground mining costs, milling costs, and on-site general and administrative expenses.

During 2018, the Black Fox mine reported all-in sustaining costs of $1,137 per gold equivalent ounce, compared to the $1,319 all-in sustaining costs per gold equivalent ounce in the last quarter of 2017. Further, the aggregate all-in sustaining cost recorded in 2018 was $58.0 million, which in addition to cash costs included $9.5 million for underground mine development, $2.6 million for exploration costs, and $2.0 million in capital expenditures incurred during 2018. This is compared to the aggregate all-in sustaining costs of $12.4 million in the last quarter of 2017.

Exploration Activities – Timmins

Black Fox mine and Stock Mine Properties

Over 100,000 meters of surface exploration drilling was conducted in 2018. We aggressively evaluated the gold potential of a dozen targets distributed along the Destor-Porcupine Fault. Favorable results led to additional in-fill drilling campaigns at Froome, Tamarack and Stock East, resulting in the estimation and reporting of updated estimates of mineralized material in early September 2018, and the recognition of multiple new gold occurrences that warrant follow-up drilling in 2019 which will be financed by the funds raised in our flow-through financing completed in December 2018.

In addition, over 18,000 meters of underground exploration drilling was also completed within the active Black Fox Mine workings. The majority of this underground drilling was devoted to two basic assessment programs:

- Drilling from the eastern limits of the mine infrastructure to assess and grow the limits of the Tamarack base metal-gold system
- The majority of the drilling operations after the first quarter tested the depth extensions of the lower ore deposit

Underground exploration work scheduled for 2019 will be primarily dedicated to advancing our understanding of i) the western flank; and ii) the depth potential of Black Fox mine's main ore system below existing development at the mine's 820 m Level, which is the bottom of our existing workings.

Results of Operations - MSC Segment

The MSC segment is composed of the San José mine, located in Argentina.

MSC (on a 100% basis)

The following table presents total production and sales and average realized prices for the San José mine for the three months ended December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017, and 2016, on a 100% basis. Also included at the bottom of the table are certain production figures on a 49% attributable basis, representing our interest.

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except otherwise stated)				
San José Mine—100% basis					
Tonnes of mineralized material mined	144	152	527	527	533
Average grade (gpt):					
Gold	5.7	7.1	6.5	7.0	6.7
Silver	405	492	450	483	512
Tonnes of mineralized material processed	147	145	556	533	536
Average grade (gpt):					
Gold	6.2	7.3	6.2	6.7	6.3
Silver	401	465	397	436	444
Average recovery (%):					
Gold	87.9	87.8	87.2	87.4	87.8
Silver	88.0	86.8	86.8	86.3	87.4
Gold ounces:					
Produced	25.7	29.6	96.6	100.5	95.0
Sold	25.3	29.0	95.9	99.6	99.8
Silver ounces:					
Produced	1,666	1,877	6,165	6,448	6,691
Sold	1,647	1,845	6,175	6,501	7,081
Gold equivalent ounces(1):					
Produced	47.9	54.7	178.8	186.4	184.2
Sold	47.3	53.6	178.3	186.3	194.2
Net sales	$ 54,618	$ 65,193	$ 205,366	$ 227,093	$ 235,961
Gross average realized price ($/ounce)(2):					
Gold	$ 1,274	$ 1,274	$ 1,246	$ 1,264	$ 1,242
Silver	$ 14.94	$ 16.53	$ 15.16	$ 16.88	$ 17.28
London average price ($/ounce):					
P.M. Fix Gold	$ 1,226	$ 1,276	$ 1,268	$ 1,257	$ 1,251
Fix Silver	$ 14.55	$ 16.73	$ 15.71	$ 17.05	$ 17.14
Silver : gold ratio(1)	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1
McEwen Mining—49% basis					
Ounces produced:					
Gold	12.6	14.5	47.3	49.2	46.6
Silver	816	920	3,021	3,159	3,278
Gold equivalent(1)	23.5	26.8	87.6	91.4	90.3

(1) Silver production is presented as a gold equivalent.

(2) Average realized prices is a non-GAAP financial performance measure with no standardized definition under U.S. GAAP. See "Non-GAAP Financial Performance Measures" on page 55 for additional information, including the definition of these terms.

Gold and silver production

2018 compared to 2017

- Gold production in 2018, on a 100% basis, was 96,595 ounces, compared to 100,475 ounces produced in 2017. The lower number of ounces produced during 2018 was the result of an 8% decrease of the average grade of gold in the mineralized material processed, partly offset by a 4% increase in the tonnes of mineralized material processed during 2018, when compared to 2017.

- Silver production during 2018, on a 100% basis, was 6,164,685 ounces, 4% lower than the 6,447,657 ounces produced in 2017. The decrease was due to a 9% decrease of the average grade of silver in the mineralized material processed, partly offset by a 4% increase in the tonnes of mineralized material processed during 2018, when compared to 2017.

2017 compared to 2016

- Gold production in 2017, on a 100% basis, was 100,475 ounces, compared to 95,006 gold ounces produced in 2016. The increase was the result of higher grades processed during the year, along with minimal labor stoppages affecting production.

- Silver production during 2017, on a 100% basis, was 6,447,657 ounces, 4% lower than the 6,690,558 silver ounces produced in 2016. The decrease was due to slightly lower number of tonnes mined and processed, lower average realized grades mined and processed and lower recoveries.

- Tonnes mined and processed in 2017 both decreased by 1%, mainly because of unusual lower temperatures during July, which affected the processing of the stockpile and reducing the tonnes processed in that quarter. Despite the decrease in the number of tonnes mined and processed, gold equivalent production was higher than in 2016 due to better gold grades obtained in 2017.

Gold and silver sales

2018 compared to 2017

- During 2018, net sales decreased by 10% to $205.4 million, from $227.1 million in 2017, due to 4% and 5% decreases in the number of ounces of gold and silver sold respectively, coupled with 1% and 10% decreases in the average realized prices of gold and silver respectively, in 2018, when compared to 2017.

- Sales volumes in 2018 decreased to 95,948 ounces of gold and 6,174,758 ounces of silver, compared to 99,634 ounces of gold and 6,501,401 ounces of silver sold in 2017. Sales volumes in 2018 were lower than in 2017 due to the lower production outputs explained above.

2017 compared to 2016

- During 2017, net sales decreased by 4% to $227.1 million, from $236.0 million in 2016 due to a 8% decrease in the number of ounces of silver sold. Sales in 2016 were higher than normal as a result of shipments that were delayed from December 2015, due to port strikes. In addition, a 2% decrease in the average realized price of silver was partly offset by a 2% increase in average realized prices of gold in the year.

- Sales volumes in 2017 decreased to 99,634 ounces of gold and 6,501,401 ounces of silver, compared to 99,762 ounces of gold and 7,081,158 ounces of silver sold in 2016. As noted above, sales volumes in 2017 were lower since a portion of the sales in early 2016 related to shipments that had been delayed in December 2015, due to strikes at the Port.

The difference between the average gross realized sale price per ounce of gold and silver sold by MSC and the average London fix prices noted above is due to adjustments of certain provisionally priced shipments of concentrates. Certain sales are 'provisionally priced' where the selling price is subject to final adjustment at the end of a period, normally ranging from 30 to 90 days after the start of the delivery process to the customer, based on the market price at the relevant quotation point stipulated in the contract. Sales revenue on provisionally priced sales of concentrates is recognized based on estimates of the final pricing receivable, which in turn are based on relevant forward market prices. At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period of the sales contract.

Total Cash Costs and All-In Sustaining Costs

The following table presents a summary of the total cash cost, cash cost per ounce, all-in sustaining costs and all-in sustaining costs per ounce of gold equivalent at the San José mine, on a 100% and 49% basis:

	Three months ended December 31,		**Year ended December 31,**		
	2018	**2017**	**2018**	**2017**	**2016**
	(in thousands, unless otherwise indicated)				
San José mine - 100% basis					
Total cash costs[1]	$ 38,610	$ 37,472	$ 151,779	$ 156,348	$ 147,478
All-in sustaining costs[1]	47,891	44,374	189,196	191,439	185,324
San José mine - 49% basis					
Total cash costs[1]	$ 18,919	$ 18,362	$ 74,373	$ 76,610	$ 72,264
Total cash costs per ounce sold ($/ounce)[1]:					
Gold	$ 876	$ 713	$ 897	$ 847	$ 751
Silver	$ 10.00	$ 9.06	$ 10.64	$ 11.07	$ 10.24
Gold equivalent[2]	$ 817	$ 699	$ 851	$ 839	$ 760
All-in sustaining costs[1]	$ 23,467	$ 21,744	$ 92,707	$ 93,805	$ 90,809
All-in sustaining costs per ounce sold ($/ounce)[1]:					
Gold	$ 1,087	$ 920	$ 1,118	$ 1,058	$ 944
Silver	$ 12.41	$ 11.68	$ 13.27	$ 13.83	$ 12.87
Gold equivalent[2]	$ 1,013	$ 828	$ 1,061	$ 1,027	$ 954
Silver : gold ratio[2]	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

(1) Total cash costs, total cash costs per ounce, all-in sustaining costs, and all-in sustaining costs per ounce are non-GAAP financial performance measures with no standardized definition under U.S. GAAP. See "Non-GAAP Financial Performance Measures" on page 55 for additional information, including definitions of these terms.

(2) Silver production is presented as a gold equivalent. The gold equivalent ounce calculation is based on prevailing spot prices at the beginning of the year.

2018 compared to 2017

On a 100% basis, total cash costs per gold equivalent ounce sold by MSC increased to $851 in 2018 from $839 in 2017, due to the impact of the Argentine export tax implemented in the third quarter of 2018, partly offset by decreases in on-site general and administrative expenses and commercial discounts.

On a 100% basis, total cash costs decreased to $151.8 million in 2018 from $156.3 million during 2017, mainly due to the decrease in the number of ounces of gold and silver sold, coupled with decreases in on-site general and administrative expenses and commercial discounts, partly offset by the impact of the Argentine export tax implemented in the third quarter of 2018.

On a 100% basis, total all-in sustaining costs per gold equivalent ounce sold by MSC increased to $1,061 in 2018, compared to $1,027 per gold equivalent ounce in 2017. On an aggregate basis, all-in sustaining costs decreased from $191.4 million in 2017 to $189.2 million in 2018, due to lower cash costs, as noted above, coupled with lower sustaining underground mine development expenses, partly offset by higher sustaining capital expenditures in 2018.

2017 compared to 2016

On a 100% basis, total cash costs per gold equivalent ounce sold by MSC increased by 10% to $839 in 2017 from $760 in 2016, due to higher production costs applicable to sales including higher labor costs and higher inflation, partly offset by the decrease in commercial discounts and refining, smelting and transportation costs. In addition, during 2017, MSC sold a lower number of gold equivalent ounces, which contributed to the increase of the per ounce cost when compared to 2016.

On a 100% basis, total cash costs increased by 6% to $156.3 million in 2017 from $147.5 million during 2016, mainly due to higher production costs applicable to sales driven by higher labor costs and the impact of inflation, partly offset by the devaluation of the Argentina peso against the U.S. dollar. Labor costs were higher in 2017 due to the combined effect of salary increases and additions to the labor force at the mine early in the year. Further, higher total cash costs were the result of the increase in on-site general and administrative expenses, partly offset by lower commercial discounts and lower refining, smelting and transportation costs compared to the 2016 period.

For 2017, on a per ounce basis, all-in sustaining costs increased to $1,027 per gold equivalent ounce, compared to $954 per gold equivalent ounce in 2016. On an aggregate basis, all-in sustaining costs increased from $185.3 million to $191.4 million in 2017, due to higher on-site exploration expenses aligned with MSC's program to extend the life of the mine, partly offset by a decrease in underground mine development costs and capital expenditures incurred in the period.

Investment in MSC (49% owned)

Our 49% attributable share of operations from our investment in MSC was loss of $11.9 million in 2018, compared to a loss of $0.1 million in 2017. The $11.9 million loss for the year ended December 31, 2018 is net of the amortization of the fair value increments arising from the purchase price allocation recorded as part of the acquisition of Minera Andes of $9.7 million and related deferred income tax recovery of $7.9 million.

Besides the significant decrease in net sales in 2018 explained above, other significant items contributing to the increased net loss from MSC are the effect of Argentine export tax implemented in the third quarter of 2018, and the write-off of the receivable owed from Republic Metals, the U.S. gold refiner which filed for Chapter 11 bankruptcy in November 2018.

Included in the income tax recovery is the impact of fluctuations in the exchange rate between the Argentine peso and the U.S. dollar on the peso-denominated deferred tax liability associated with the investment in MSC recorded as part of the acquisition of Minera Andes.

A summary of the operating results from MSC for the years ended December 31, 2018, 2017, and 2016 is as follows:

	For the year ended December 31,		
	2018	2017	2016
		(in thousands)	
Minera Santa Cruz S.A. (100% basis)			
Net sales	$ 205,366	$ 227,093	$ 235,961
Production costs applicable to sales	(178,089)	(177,180)	(173,679)
Other operating expenses	(21,083)	(20,956)	(21,770)
Other (expenses) income	(15,801)	(15,657)	10,425
Net (loss) income before tax	$ (9,607)	$ 13,300	$ 50,937
Current and deferred taxes	(10,934)	(18,050)	(18,363)
Net (loss) income	$ (20,541)	$ (4,750)	$ 32,574
Portion attributable to McEwen Mining Inc. (49% basis)			
Net (loss) income	$ (10,065)	$ (2,328)	$ 15,961
Amortization of fair value increments	(9,730)	(9,632)	(12,274)
Income tax recovery	7,930	11,916	9,264
(Loss) income from investment in MSC, net of amortization	$ (11,865)	$ (44)	$ 12,951

Changes in our investment in MSC for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
	(in thousands)	
Investment in MSC, beginning of the period	$ 150,064	$ 162,320
Attributable net loss from MSC	(10,065)	(2,328)
Amortization of fair value increments	(9,730)	(9,632)
Income tax recovery	7,930	11,916
Dividend distribution received	(10,385)	(12,212)
Investment in MSC, end of the period	$ 127,814	$ 150,064

During 2018, we received $10.4 million in dividends from MSC, compared to $12.2 million in 2017.

Results of Operations – U.S.A. Segment

The U.S.A. segment is comprised of the Gold Bar Project ("Gold Bar"), a development-stage property located in Nevada, U.S., and other early stage exploration properties.

Development-stage Properties – Gold Bar

During 2018, construction activities at Gold Bar focused on completing the heap leach pad, the crushing and conveying system, and substantial completion of the gold processing plant and refinery circuit.

Site buildings and infrastructure are complete and occupied. Mining, crushing, loading of the heap leach pad, and parts of the processing plant are active. Remaining construction items include onsite laboratory installation, ongoing commissioning and electrical and instrumentation works in both the gold process plant and refinery building. We have developed this project as an open pit, heap leach pad operation targeting commercial production in the first quarter of 2019.

To date, 138,241 tonnes of mineralized material have been mined, with 119,417 stockpiled at a grade of 0.6 gpt and 18,824 tonnes of mineralized material on the leach pad at a grade of 0.5 gpt. A total of 3,377,687 million tonnes of waste have been removed relating to pre-stripping. Cumulative to date, we have capitalized $72.4 million to construction in progress.

During the first three years of operation beginning with 2019, Gold Bar is projected to produce approximately 55,000, 74,000 and 68,000 ounces of gold respectively.

An updated Feasibility Study ("FS") was announced on February 15, 2018. Subsequently, during the third quarter of 2018, we announced an updated and increased resource estimate reflecting changes since the last Gold Bar Feasibility Study. The complete FS and the updated and increased resource estimate is available electronically at our website at www.mcewenmining.com.

Exploration Activities – Nevada

During 2018, we spent $5.2 million on exploration activities in Nevada, primarily at Gold Bar where we spent $4.5 million. Exploration activities in Nevada included drilling, field mapping and other geochemical reconnaissance work. This is compared to the $2.1 million spent in early stage exploration activities in 2017.

Results of Operations—Los Azules Segment

The Los Azules segment is composed of the Los Azules project, a copper exploration project located in San Juan, Argentina.

Los Azules Project

For the 2017-2018 exploration season at Los Azules, we forecasted $8.9 million in expenditures, of which we spent $6.0 million during 2018. The activities performed were mainly technical site investigations and environmental base line monitoring work, to advance permitting efforts.

During the third quarter of 2017 we completed a Preliminary Economic Assessment ("PEA"), results of which were announced on September 7, 2017. The complete PEA is available at our website at www.mcewenmining.com.

Commitments and Contingencies

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of December 31, 2018, and excludes amounts already recorded on the *Consolidated Balance Sheets*, other than reclamation costs and long term debt:

	Payments due by period						
Contractual Obligations	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
			(in thousands)				
Operating lease obligations (office rent)	$ 374	$ 322	$ 263	$ 252	$ 256	$ 143	$ 1,610
Operating lease obligations (mining and surface rights)	2,524	453	460	460	454	—	4,351
Exploration (including $14.9 million flow-through shares)	15,115	—	—	—	—	—	15,115
Construction	6,044	—	—	—	—	—	6,044
Reclamation costs(1)	726	1,561	2,890	5,860	141	33,211	44,389
Long-term debt	4,875	14,725	41,993	—	—	—	61,593
Total	$ 29,658	$ 17,061	$ 45,606	$ 6,572	$ 851	$ 33,354	$ 133,102

(1) Amounts presented represent the undiscounted, uninflated future payments

Operating lease obligations include long-term leases covering office space, exploration expenditures, option payments and option payments on properties.

We have surety bonds outstanding to provide bonding for our environmental reclamation obligations in the United States and Canada. These surety bonds are available for draw down in the event we do not perform our reclamation obligations. When the specific reclamation requirements are met, the beneficiary of the surety bonds will cancel and/or return the instrument to the issuing entity. As of December 31, 2018, no liability has been recognized for our surety bonds of $35.8 million.

As of December 31, 2018, we did not have any off-balance sheet arrangements (as that phrase is defined by SEC rules applicable to this report) which have or are reasonably likely to have a material adverse effect on our financial condition, results of operations or liquidity.

Non-GAAP Financial Performance Measures

In this report, we have provided information prepared or calculated according to U.S. GAAP, as well as provided some non-U.S. GAAP financial performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by U.S. GAAP, they may not be comparable to similar measures presented by other companies. These measures should not be considered in isolation or as substitutes for measures of performance prepared in accordance with GAAP. There are limitations associated with the use of such non-GAAP measures. Since these measures do not incorporate revenues, changes in working capital and non-operating cash costs, they are not necessarily indicative of operating profit or loss, or cash flow from operations as determined in accordance with U.S. GAAP.

The non-GAAP measures earnings (loss) from mining operations, total cash costs, total cash costs per ounce, all-in sustaining costs, all-in sustaining costs per ounce, average realized price per ounce, and cash, investments and precious metals, are not, and are not intended to be, presentations in accordance with U.S. GAAP. These measures represent, respectively, our earnings (losses) from mining operations, total cash costs, total cash costs per ounce, all-in sustaining costs, all-in sustaining costs per ounce and average realized prices per ounce related to our wholly-owned the El Gallo Project and the Black Fox mine and our minority interest in the San José mine, owned by MSC. The portions of the costs and prices related to the minority interest may be found in *Item 8. Financial Statements and Supplementary Data, Note 7, Investment in Minera Santa Cruz S.A. ("MSC") – San José Mine*. The amounts in the tables labeled "49% basis" were derived by applying to each financial statement line item the ownership percentage interest used to arrive at our share of net income or loss during the period when applying the equity method of accounting. We do not control the interest in or operations of MSC and the presentations of assets and liabilities and revenues and expenses of MSC do not represent our legal claim to such items. The amount of cash we receive is based upon specific provisions of the OJVA and varies depending on factors including the profitability of the operations.

We provide the Non-GAAP measures because we believe they assist investors and analysts in estimating our earnings, production costs applicable to sales and sales revenue, including both our wholly-owned property and our interest in the San José mine, when read in conjunction with our reported results under U.S. GAAP. The presentation of these measures including the minority interest has limitations as an analytical tool. Some of these limitations include:

- The amounts shown on the individual line items were derived by applying our overall economic ownership interest percentage determined when applying the equity method of accounting and do not necessarily represent our legal claim to the assets and liabilities, or the revenues and expenses; and

- Other companies in our industry may calculate their earnings, costs and average realized prices differently than we do, limiting the usefulness as a comparative measure.

Because of these limitations, these non-GAAP measures should not be considered in isolation or as a substitute for our financial statements as reported under U.S. GAAP. We compensate for these limitations by relying primarily on our U.S. GAAP results and using the non-GAAP measures supplementally.

Earnings (Loss) from Mining Operations

The term Earnings or Loss from Mining Operations used in this report is a non-GAAP financial measure. We use and report this measure because we believe it provides investors and analysts with a useful measure of the underlying earnings or loss from our mining operations.

We define Earnings from Mining Operations as Gold and Silver Sales from our El Gallo Project, Black Fox mine, and our 49% attributable share of the San José mine's Net Sales, less their respective Production Costs Applicable to Sales. To the extent that Production Costs Applicable to Sales may include depreciation and amortization expense related to the fair value increments on historical business acquisitions (fair value paid in excess of the carrying value of the underlying assets and liabilities assumed on the date of acquisition), we exclude this expense in order to arrive at Production Costs Applicable to Sales that only include depreciation and amortization expense incurred at the mine-site level. The San José mine Net Sales and Production Costs Applicable to Sales are presented, on a 100% basis, in Note 7 of the accompanying financial statements.

The following table presents a reconciliation of Earnings (Loss) from Mining Operations to Gold and Silver Sales and Production Costs Applicable to Sales, which are GAAP financial measures:

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
			(in thousands)		
El Gallo 1 earnings from mining operations					
Gold and silver sales	$ 10,852	$ 12,472	$ 66,151	$ 55,845	$ 60,388
Production costs applicable to sales	(6,548)	(11,099)	(37,429)	(35,292)	(28,133)
Depreciation of mining related assets	(40)	(165)	(446)	(764)	(528)
Add: Amortization related to fair value increments on historical acquisitions included in Production Costs Applicable to Sales	288	785	2,107	2,299	2,413
El Gallo 1 earnings from mining operations	**4,552**	**1,993**	**30,383**	**22,088**	**34,140**
Black Fox mine earnings from mining operations					
Gold and silver sales	$ 15,581	$ 11,620	$ 62,024	$ 11,620	$ —
Production costs applicable to sales	(15,811)	(9,888)	(55,900)	(9,888)	—
Add: Amortization related to fair value increments on historical acquisitions included in Production Costs Applicable to Sales	212	505	924	505	—
Black Fox (loss) earnings from mining operations	**(18)**	**2,237**	**7,048**	**2,237**	**—**
San José mine earnings from mining operations (49% basis)					
Net sales	$ 26,762	$ 31,945	$ 100,629	$ 111,276	$ 115,621
Production costs applicable to sales	(21,110)	(21,790)	(87,264)	(86,818)	(85,103)
San José earnings from mining operations	**5,652**	**10,155**	**13,365**	**24,458**	**30,518**

Total Cash Costs and All-In Sustaining Costs

The terms total cash costs, total cash cost per ounce, all-in sustaining costs, and all-in sustaining cost per ounce used in this report are non-GAAP financial measures. We report these measures to provide additional information regarding operational efficiencies on an individual mine basis, and believe these measures provide investors and analysts with useful information about our underlying costs of operations. For the San José mine, we exclude the share of gold or silver production attributable to the controlling interest.

Total cash costs consist of mining, processing, on-site general and administrative expenses, community and permitting costs related to current operations, royalty costs, refining and treatment charges (for both doré and concentrate products), sales costs, export taxes and operational stripping costs, and exclude depreciation and amortization. The sum of these costs is divided by the corresponding gold equivalent ounces sold to determine a per ounce amount.

All-in sustaining costs consist of total cash costs (as described above), plus environmental rehabilitation costs and amortization of the asset retirement costs related to operating sites, sustaining exploration and development costs, and sustaining capital expenditures. Our all-in sustaining costs exclude the allocation of corporate general and administrative costs. Following is additional information regarding our all-in sustaining costs:

- Sustaining operating costs represent expenditures incurred at current operations that are considered necessary to maintain current annual production at the mine site and include mine development costs and ongoing replacement of mine equipment and other capital facilities. Sustaining capital costs do not include costs of expanding the project that would result in improved productivity of the existing asset, increased existing capacity or extended useful life.

- Sustaining exploration and development costs include expenditures incurred to sustain current operations and to replace reserves and/or resources extracted as part of the ongoing production. Exploration activity performed near-mine (brownfield) or new exploration projects (greenfield) or any other activity not directly linked to the existing mine-site are classified as non-sustaining.

The sum of all-in sustaining costs is divided by the corresponding gold equivalent ounces sold to determine a per ounce amount.

Costs excluded from total cash costs and all-in sustaining costs are income and mining tax expense, all financing charges, costs related to business combinations, asset acquisitions and asset disposal, and any items that are deducted for the purpose of normalizing items.

For MSC, co-product total cash costs and all-in sustaining costs are calculated by dividing the respective proportionate share of the total cash costs and all-in sustaining costs for each metal sold for the period by the ounces of each respective metal sold. The respective proportionate share of each metal sold is calculated based on their pro-rated sales value. For 2018, approximately 56% of the value of the sales was derived from gold and 44% was derived from silver, compared to 53% and 47% in 2017, respectively.

The following tables reconcile these non-GAAP measures to the most directly comparable GAAP measure, Production costs applicable to sales. Total cash costs, all-in sustaining costs, and ounces of gold and silver sold for the San José mine are provided to us by MSC.

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
El Gallo 1 cash costs					
Production costs applicable to sales	$ 6,548	$ 11,099	$ 37,429	$ 35,292	$ 28,133
Less: Depreciation	(288)	(785)	(2,107)	(2,299)	(2,413)
Less: Pre-stripping costs for future pit access	—	—	—	—	(1,713)
On-site general and administrative expenses	1,292	750	2,574	2,185	1,580
Property holding costs	—	—	23	20	22
Total cash costs, El Gallo 1	$ 7,552	$ 11,064	$ 37,919	$ 35,198	$ 25,609
Gold equivalent ounces sold:	8,899	9,747	51,749	44,490	48,903
El Gallo 1 cash costs per gold equivalent ounce sold	**$ 849**	**$ 1,135**	**$ 733**	**$ 791**	**$ 524**

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
Black Fox mine cash costs					
Production costs applicable to sales	$ 15,811	$ 9,888	$ 55,900	$ 9,888	$ —
Less: Depreciation	(4,459)	(1,737)	(12,972)	(1,737)	—
Property holding costs	32	—	167	—	—
Total cash costs, Black Fox mine	$ 11,384	$ 8,151	$ 43,095	$ 8,151	$ —
Gold equivalent ounces sold:	13,178	9,422	50,989	9,422	—
Black Fox cash costs per gold equivalent ounce sold	**$ 864**	**$ 865**	**$ 845**	**$ 865**	**$ —**

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
San José mine cash costs (49% basis)					
Production costs applicable to sales	$ 21,110	$ 21,790	$ 87,264	$ 86,818	$ 85,103
Less: Operating site reclamation accretion and amortization	(161)	(182)	(602)	(653)	(1,676)
Depreciation	(6,932)	(6,701)	(24,976)	(23,003)	(27,463)
On-site general and administrative expenses	879	1,114	3,439	4,292	4,004
Refining, smelting, and transportation	2,502	830	3,919	3,271	5,072
Commercial discounts	1,506	1,476	5,239	5,727	7,064
Community costs related to current operations	15	35	90	158	160
Total cash costs, San José mine	$ 18,919	$ 18,362	$ 74,373	$ 76,610	$ 72,264
McEwen's share of San José gold equivalent ounces sold	23,157	26,255	87,357	91,296	95,147
San José cash costs per gold equivalent ounce sold	**$ 817**	**$ 699**	**$ 851**	**$ 839**	**$ 760**

Reconciliation of All-In Sustaining Costs to Total Cash Costs

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
El Gallo 1 all-in sustaining costs					
Total cash costs	$ 7,552	$ 11,064	$ 37,919	$ 35,198	$ 25,609
Operating site reclamation accretion and amortization	83	81	343	325	1,043
On-site exploration expenses	1	924	1,446	3,975	1,110
Capital expenditures (sustaining)	171	120	171	939	343
Pre-stripping costs for future pit access	—	—	—	—	1,713
All-in sustaining costs, El Gallo 1	$ 7,807	$ 12,189	$ 39,879	$ 40,437	$ 29,818
Gold equivalent ounces sold	8,899	9,747	51,749	44,490	48,903
El Gallo 1 all-in sustaining cost per gold equivalent ounce sold	**877**	**1,251**	**771**	**909**	**610**

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
Black Fox mine all-in sustaining costs					
Total cash costs	$ 11,384	$ 8,151	$ 43,095	$ 8,151	$ —
Operating site reclamation accretion and amortization	175	159	656	159	—
On-site exploration expenses	695	636	2,646	636	—
Capitalized underground mine development (sustaining)	1,184	148	9,546	148	—
Capital expenditures (sustaining)	709	3,338	2,027	3,338	—
All-in sustaining costs, Black Fox mine	$ 14,147	$ 12,432	$ 57,970	$ 12,432	$ —
Gold equivalent ounces sold	13,178	9,422	50,989	9,422	—
Black Fox all-in sustaining cost per gold equivalent ounce sold	$ **1,074**	**1,319**	$ **1,137**	$ **1,319**	$ **—**

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except per ounce)				
San José mine all-in sustaining costs (49% basis)					
Total cash costs	$ 18,919	$ 18,362	$ 74,373	$ 76,610	$ 72,264
Operating site reclamation accretion and amortization	161	182	602	653	1,676
On-site exploration expenses	674	279	2,883	2,547	1,431
Capitalized underground mine development (sustaining)	2,384	2,748	10,622	11,550	12,833
Less: depreciation	(283)	(466)	(899)	(1,450)	(2,042)
Capital expenditures (sustaining)	1,612	639	5,126	3,895	4,647
All-in sustaining costs, San José mine	$ 23,467	$ 21,744	$ 92,707	$ 93,805	$ 90,809
McEwen's share of San José gold equivalent ounces sold	23,157	26,255	87,357	91,296	95,147
San José all-in sustaining cost per gold equivalent ounce sold	$ **1,013**	$ **828**	$ **1,061**	$ **1,027**	$ **954**

The following table summarizes the consolidated number of gold equivalent ounces sold:

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
Gold equivalent ounces sold at El Gallo 1	8,899	9,747	51,749	44,490	48,903
Gold equivalent ounces sold at Black Fox mine	13,178	9,422	50,989	9,422	—
McEwen's share of MSC gold equivalent ounces sold	23,157	26,255	87,357	91,296	95,147
Consolidated gold equivalent ounces sold (including McEwen's share of MSC)	45,234	45,424	190,095	145,208	144,050
Silver : gold ratio	75 : 1	75 : 1	75 : 1	75 : 1	75 : 1

Average realized prices

The term average realized price per ounce used in this report is also a non-GAAP financial measure. We report this measure to better understand the price realized in each reporting period for gold and silver.

Average realized price is calculated as gross sales of gold and silver (excluding commercial deductions) divided by the number of net ounces sold in the period (net of deduction units).

The following table reconciles this non-GAAP measure to the most directly comparable U.S. GAAP measure, *Gold and silver sales*. Ounces of gold and silver sold for the San José mine are provided to us by MSC.

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except ounce and per ounce figures)				
El Gallo 1 average realized prices					
Gold sales	$ 10,785	$ 12,443	$ 65,939	$ 55,432	$ 60,093
Silver sales	67	29	212	413	295
Gold and silver sales	$ 10,852	$ 12,472	$ 66,151	$ 55,845	$ 60,388
Gold ounces sold	8,837	9,724	51,571	44,174	48,668
Silver ounces sold	4,645	1,731	13,379	23,731	17,591
Gold equivalent ounces sold	8,899	9,747	51,749	44,490	48,903
Average realized price per gold ounce sold	$ 1,221	$ 1,280	$ 1,279	$ 1,255	$ 1,235
Average realized price per silver ounce sold	$ 14.48	$ 16.75	$ 15.85	$ 17.40	$ 16.77
Average realized price per gold equivalent ounce sold	$ 1,220	$ 1,280	$ 1,278	$ 1,255	$ 1,235

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except ounce and per ounce figures)				
Black Fox mine average realized prices					
Gold sales	$ 15,132	$ 11,339	$ 59,833	$ 11,339	$ —
Gold sales, stream	448	281	2,190	281	—
Silver sales	1	—	1	—	—
Gold and silver sales, including stream	$ 15,581	$ 11,620	$ 62,024	$ 11,620	$ —
Gold ounces sold, before stream	12,354	8,894	46,921	8,894	—
Gold ounces sold, stream	823	528	4,067	528	—
Gold ounces sold, including stream	13,177	9,422	50,988	9,422	—
Silver ounces sold	—	—	—	—	—
Gold equivalent ounces sold, excluding stream	12,355	8,894	46,922	8,894	—
Gold equivalent ounces sold, including stream	13,178	9,422	50,989	9,422	—
Average realized price per gold ounce sold, before stream	$ 1,225	$ 1,275	$ 1,275	$ 1,275	$ —
Average realized price per gold ounce sold, stream	$ 540	531	$ 539	$ 531	$ —
Average realized price per gold ounce sold, including stream	$ 1,182	1,233	$ 1,216	$ 1,233	$ —
Average realized price per silver ounce sold	$ 14.46	$ —	$ 14.46	$ —	$ —
Average realized price per gold equivalent ounce sold, before stream	$ 1,225	$ 1,275	$ 1,275	$ 1,275	$ —
Average realized price per gold equivalent ounce sold, including stream	$ 1,182	$ 1,233	$ 1,216	$ 1,233	$ —

	Three months ended December 31,		Year ended December 31,		
	2018	2017	2018	2017	2016
	(in thousands, except ounce and per ounce figures)				
San José mine average realized prices (49% basis)					
Gold sales	$ 15,785	$ 18,091	$ 58,562	$ 61,684	$ 60,729
Silver sales	12,058	14,940	45,855	53,785	59,960
Gold and silver sales	$ 27,843	$ 33,031	$ 104,417	$ 115,469	$ 120,688
Gold ounces sold	12,394	14,202	47,015	48,821	48,883
Silver ounces sold	807,241	903,958	3,025,631	3,185,687	3,469,767
Gold equivalent ounces sold	23,157	26,255	87,357	91,296	95,147
Average realized price per gold ounce sold	$ 1,274	$ 1,274	$ 1,246	$ 1,264	$ 1,242
Average realized price per silver ounce sold	$ 14.94	$ 16.53	$ 15.16	$ 16.88	$ 17.28
Average realized price per gold equivalent ounce sold	$ 1,202	$ 1,258	$ 1,195	$ 1,265	$ 1,268

Cash, investments and precious metals

The term cash, investments and precious metals used in this report is also a non-GAAP financial measure. We report this measure to better understand our liquidity in each reporting period.

Cash, investments and precious metals is calculated as the sum of cash, investments and ounces of doré held in precious metals inventories, with precious metals valued at the London P.M. Fix spot price at the corresponding period. The following table summarizes the calculation of cash and cash equivalents, restricted cash, investments and precious metals amounts shown in this report:

	Year ended December 31,	
	2018	2017
	(in thousands)	
Cash and cash equivalents	$ 15,756	$ 27,153
Restricted cash	14,685	10,000
Investments	3,131	7,971
Precious Metals valued at market value	4,242	22,954
Total cash, investments and precious metals	$ 37,814	$ 68,078

A reconciliation between precious metals valued at cost and precious metals, valued at market value is described in the following table:

	Year ended December 31,	
	2018	2017
	(in thousands, except ounces and per ounce)	
Precious metals (note 4 of the Consolidated Financial Statements)	$ 3,421	$ 12,902
Reconciliation of precious metals to precious metals valued at market value		
Number of ounces of doré in inventory, net of streaming agreement	3,317	17,780
London P.M. Fix, per ounce	$ 1,279	$ 1,291
Precious metals valued at market value	$ 4,242	$ 22,954

Critical Accounting Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our consolidated financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of these statements requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We base these estimates on historical experience and on assumptions that we consider reasonable under the circumstances; however, reported results could differ from those based on the current estimates under different assumptions or conditions. The summary of our significant accounting policies is detailed in *Note 2* of the *Consolidated Financial Statements.*

We believe that significant areas requiring the use of management estimates and assumptions relate to environmental reclamation and closure obligations; asset useful lives utilized for depletion and depreciation, estimates of asset groups used in impairment testing; estimates of recoverable gold in leach pads inventory; estimates regarding mine development capitalization costs; estimates regarding the collectability of value added taxes receivable; estimates of fair values of assets and liabilities acquired in business combinations; estimates of reserves; valuation allowances for deferred tax assets; estimates of income and mining tax provisions and reserves for contingencies and litigation. There are other items within our financial statements that require estimation, but are not deemed to be critical. However, changes in estimates used in these and other items could have a material impact on our financial statements. In the section below we identify estimates critical to the understanding of our financial results of operations and that require the application of significant management judgment.

Asset Retirement Obligation, reclamation and remediation costs: The Company records the fair value of a liability for an asset retirement obligation ("ARO") in the period that it is incurred if a reasonable estimate of fair value can be made. The Company prepares estimates of the timing and amounts of expected cash flows when an ARO is incurred, which are updated to reflect changes in facts and circumstances. Estimation of the fair value of AROs requires significant judgment, including amount of cash flows, timing of reclamation, inflation rate and credit risk. Accrued reclamation and closure costs can represent a significant and variable liability on our balance sheet. The company has estimated its liabilities under appropriate accounting guidance, and on at least an annual basis reviews its liabilities. However, the ranges of liability could exceed the liabilities recognized. If substantial damages were awarded, claims were settled, or remediation costs incurred in excess of our accruals, our financial results or condition could be materially adversely affected.

Mineral property interests, Plant and Equipment and Mine Development costs: The Company amortizes its mineral property interests, plant and equipment, and mine development costs using the most appropriate method, which includes the units-of-production method over the estimated life of the mine or ore body based on recoverable ounces to be mined from proven and probable reserves, or the straight-line method over the useful life. The accounting estimates related to amortization are critical accounting estimates because (1) the determination of reserves involves uncertainties with respect to the ultimate geology of its reserves and the assumptions used in determining the economic feasibility of mining those reserves and (2) changes in estimated proven and probable reserves and asset useful lives can have a material impact on net (loss) income.

Estimates regarding mine development capitalization costs involve the determination of proven and probable reserves.

Impairment of Long-lived Assets: The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Once it is determined that impairment exists, an impairment loss is measured as the amount by which the asset carrying value exceeds its fair value. For asset groups where an impairment loss is determined using the undiscounted future net cash flows method or discounted future net cash flows method, future cash flows are estimated based on quantities of recoverable mineralized material, expected gold and silver prices (considering current and historical prices, trends and related factors), production levels, operating costs, capital requirements and reclamation costs, all based on life-of-mine plans. The Company's estimates of future cash flows are based on numerous assumptions and it is possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold, silver and other commodity prices, production levels and costs of capital are each subject to significant risks and uncertainties.

Stockpiles, Material on Leach Pads, In-process Inventory, Precious Metals Inventory and Materials and Supplies: Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, an estimate of the contained metals (based on assay data) and the estimated metallurgical recovery rates. Costs are allocated to stockpiles based on current mining costs incurred including applicable overhead relating to mining operations.

Costs are attributed to the mineralized material on leach pads based on current mining costs incurred up to the point of placing the ore on the pad. Costs are removed from the leach pad inventory based on the average cost per estimated recoverable ounce of gold on the leach pad as the gold is recovered. The estimates of recoverable gold on the leach pads are calculated from the quantities of mineralized material placed on the leach pads (measured tonnes added to the leach pads), the grade of mineralized material placed on the leach pads (based on assay data) and a recovery percentage.

Although the quantities of recoverable gold placed on the leach pads are reconciled by comparing the grades of ore placed on the pads to the quantities of gold actually recovered (metallurgical balancing), the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time.

In-process material is measured based on assays of the material from the various stages of processing. Costs are allocated to in-process inventories based on the costs of the material fed into the process attributable to the source material coming from the mines, stockpiles and/or leach pads plus the in-process conversion costs incurred to that point in the process.

Costs are allocated to precious metal inventories based on costs of the respective in-process inventories incurred prior to the refining process plus applicable refining costs.

The assumptions used by the Company to measure metal content during each stage of the inventory conversion process includes estimated recovery rates based on laboratory testing and assaying. The Company periodically reviews its estimates compared to actual experience and revises its estimates when appropriate. The ultimate recovery will not be known until leaching operations cease.

Proven and Probable Reserves: Critical estimates are inherent in the process of determining the Company's reserves. The Company's reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. The Company's assessment of reserves occurs at least annually, and periodically utilizes external audits.

Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which the Company compares future cash flows to current asset values in an effort to ensure that carrying values are reported appropriately. The Company's forecasts are also used in determining the level of valuation allowances on the Company's deferred tax assets. Reserves also play a key role in the valuation of certain assets in the determination of the purchase price allocations for acquisitions. Reserves involve many estimates and are not guarantees that the Company will recover the indicated quantities of metals. Changes in reserve estimates could result in material adjustments to the Company's reserve estimates.

Income and Mining Taxes: The Company accounts for income and mining taxes under ASC 740 using the liability method, recognizing certain temporary differences between the financial reporting basis of liabilities and assets and the related tax basis for such liabilities and assets. This method generates either a net deferred income and mining tax liability or asset for the Company, as measured by the statutory tax rates in effect. The Company derives the deferred income and mining tax charge or benefit by recording the change in either the net deferred income and mining tax liability or asset balance for the year. The Company records a valuation allowance against any portion of those deferred income and mining tax assets when it believes, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income and mining tax asset will not be realized.

Forward-Looking Statements

This report contains or incorporates by reference "forward-looking statements", as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others:

- statements about our anticipated exploration results, cost and feasibility of production, receipt of permits or other regulatory or government approvals and plans for the development of our properties;

- statements concerning the benefits or outcomes that we expect will result from our business activities and certain transactions that we contemplate or have completed, such as receipt of proceeds, increased revenues, decreased expenses and avoided expenses and expenditures; and

- statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference to other documents that we will file with the SEC. Many of these statements can be found by looking for words such as "believes", "expects", "anticipates", "estimates" or similar expressions used in this report or incorporated by reference in this report.

Forward-looking statements and information are based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies, and there can be no assurance that such statements and information will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements and information.

Included among the forward-looking statements and information provided on this document is production guidance. On an annual basis, we develop a consolidated budget, based on stand-alone budgets for each operating mine. In developing the mine production portion of the budget, we evaluate a number of factors and assumptions, which include, but are not limited to:

- gold and silver price forecasts;
- average gold and silver grade mined, using a resource model;
- average grade processed by the crushing facility (Gold Bar) or milling facility (San José mine and Black Fox mine);
- expected tonnes moved and strip ratios;
- available stockpile material (grades, tonnes, and accessibility);
- estimates of in process inventory (either on the leach pad or plant for the El Gallo Project and Gold Bar, or in the mill facility for the San José mine and the Black Fox mine);
- estimated leach recovery rates and leach cycle times (the El Gallo Project and Gold Bar);
- estimated mill recovery rates (San José mine and Black Fox mine);
- dilution of material processed;
- internal and contractor equipment and labor availability; and
- seasonal weather patterns.

Actual production results are sensitive to variances in any of the key factors and assumptions noted above. As a result, we frequently evaluate and reconcile actual results to budgeted results to determine if key assumptions and estimates require modification. Any changes will, in turn, influence production guidance.

We caution not to put undue reliance on these statements, which speak only as of the date of this report. Further, the information contained in this document or incorporated herein by reference is a statement of our present intention and is based on present facts and assumptions, and may change at any time and without notice, based on changes in such facts or assumptions. Readers should not place undue reliance on forward-looking statements.

Risk Factors Impacting Forward-Looking Statements

The important factors that could prevent us from achieving our stated goals and objectives include, but are not limited to, those set forth in other "Risk Factors" section in this report and the following:

- our ability to raise funds required for the execution of our business strategy;
- our ability to secure permits or other regulatory and government approvals needed to operate, develop or explore our mineral properties and projects;
- decisions of foreign countries, banks and courts within those countries;
- unexpected changes in business, economic, and political conditions;
- operating results of MSC;
- fluctuations in interest rates, inflation rates, currency exchange rates, or commodity prices;
- timing and amount of mine production;
- our ability to retain and attract key personnel;
- technological changes in the mining industry;
- changes in operating, exploration or overhead costs;
- access and availability of materials, equipment, supplies, labor and supervision, power and water;
- results of current and future exploration activities;

- results of pending and future feasibility studies or the expansion or commencement of mining operations without feasibility studies having been completed;
- changes in our business strategy;
- interpretation of drill hole results and the geology, grade and continuity of mineralization;
- the uncertainty of reserve estimates and timing of development expenditures;
- litigation or regulatory investigations and procedures affecting us;
- local and community impacts and issues including criminal activity and violent crimes;
- accidents, public health issues, and labor disputes;
- our continued listing on a public exchange;
- uncertainty relating to title to mineral properties; and
- changes in relationships with the local communities in the areas in which we operate.

We undertake no responsibility or obligation to update publicly these forward-looking statements, except as required by law and may update these statements in the future in written or oral statements. Investors should take note of any future statements made by or on our behalf.