HECLA MINING CO/DE/
Form 10-K
February 22, 2019

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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Form 10-K

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934
For the transition period from _____ to

Commission file No. 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**77–0664171**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

6500 N. Mineral Drive, Suite 200

83815-9408

Coeur d'Alene, Idaho
(Address of principal executive offices) (Zip Code)

208-769-4100

(Registrant's telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.25 per share	New York Stock Exchange
Series B Cumulative Convertible Preferred Stock, par value $0.25 per share	New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes_ No_

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

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's voting Common Stock held by non-affiliates was $1,382,183,101 as of June 30, 2018. There were 401,322,377 shares of the registrant's Common Stock outstanding as of June 30, 2018, and 482,987,752 shares outstanding as of February 19, 2019.

Documents incorporated by reference herein:

To the extent herein specifically referenced in Part III, the information contained in the Proxy Statement for the 2019 Annual Meeting of Shareholders of the registrant, which will be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the registrant's 2018 fiscal year, is incorporated herein by reference. See Part III.

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Special Note on Forward-Looking Statements

Certain statements contained in this report (including information incorporated by reference) are “forward-looking statements” and are intended to be covered by the safe harbor provided for under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). Our forward-looking statements include our current expectations and projections about future production, results, performance, prospects and opportunities, including reserves and other mineralization. We have tried to identify these forward-looking statements by using words such as “may,” “might,” “will,” “expect,” “anticipate,” “believe,” “could,” “intend,” “estimate” and similar expressions. These forward-looking statements are based on information currently available to us and are expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual production, results, performance, prospects or opportunities, including reserves and mineralization, to differ materially from those expressed in, or implied by, these forward-looking statements.

These risks, uncertainties and other factors include, but are not limited to, those set forth under *Item 1A. Risk Factors* and *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.* Given these risks and uncertainties, readers are cautioned not to place undue reliance on our forward-looking statements. Projections and other forward-looking statements included in this report have been prepared based on assumptions, which we believe to be reasonable, but not in accordance with United States generally accepted accounting principles (“GAAP”) or any guidelines of the Securities and Exchange Commission (“SEC”). Actual results may vary, perhaps materially. You are strongly cautioned not to place undue reliance on such projections and other forward-looking statements. All subsequent written and oral forward-looking statements attributable to Hecla Mining Company or to persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Except as required by federal securities laws, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

For information regarding the organization of our business segments and our significant customers, see *Note 12* of *Notes to Consolidated Financial Statements.*

Information set forth in Items 1A and 2 are incorporated by reference into this Item 1.

Introduction

Hecla Mining Company and our subsidiaries have provided precious and base metals to the U.S. and worldwide since 1891 (in this report, “we” or “our” or “us” refers to Hecla Mining Company and our affiliates and subsidiaries, unless the context requires otherwise). We discover, acquire, develop, and produce silver, gold, lead and zinc. In doing so, we intend to manage our business activities in a safe, environmentally responsible and cost-effective manner.

We produce lead, zinc and bulk concentrates, which we sell to custom smelters and brokers, and unrefined doré containing gold and silver, which are further refined before sale to precious metals traders. We are organized and managed in five segments that encompass our operating units: the Greens Creek, Lucky Friday, Casa Berardi, San Sebastian and Nevada Operations units.

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The map below shows the locations of our operating units and our exploration and pre-development projects, as well as our corporate offices located in Coeur d'Alene, Idaho, Vancouver, British Columbia, Val d'Or, Quebec and Reno, Nevada.

Our current business strategy is to focus our financial and human resources in the following areas:

- Operating our properties safely, in an environmentally responsible manner, and cost-effectively.
- Maintaining and investing in exploration and pre-development projects in the vicinities of seven mining districts and projects we believe to be under-explored and under-invested: our Greens Creek unit on Alaska's Admiralty Island located near Juneau; North Idaho's Silver Valley in the historic Coeur d'Alene Mining District; the silver-producing district near Durango, Mexico; the Abitibi region of northwestern Quebec, Canada; our newly-acquired projects in northern Nevada; the Rock Creek and Montanore projects in northwestern Montana; and the Creede district of southwestern Colorado.
- Optimizing and improving operations at our Nevada Operations unit, which, along with other mineral interests, was obtained as a result of our acquisition of Klondex Mines Ltd. ("Klondex") in July 2018.
- Continuing to optimize and improve operations at each of our other units, which includes incurring costs for new technologies and equipment that may not result in measurable benefits.
- Expanding our proven and probable reserves and production capacity at our units.
- Conducting our business with financial stewardship to preserve our financial position in varying metals price environments.
- Advance permitting of the Rock Creek and Montanore projects.
- Continuing to seek opportunities to acquire and invest in mining and exploration properties and companies.

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Below is a summary of net (loss) income for each of the last five years (in thousands):

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
		Revised*	Revised*	Revised*	Revised*
Net (loss) income	$(26,563)	$(28,520)	$61,569	$(94,738)	$16,306

* See *Note 2* of *Notes to Consolidated Financial Statements*

Our financial results over the last five years have been impacted by:

- Changes in our sales of products due to fluctuations in metals prices and the amount of metals we sell. Our sales of products for the last five years were as follows (in thousands):

	Year Ended December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Sales of products	$567,137	$577,775	$645,957	$443,567	$500,781

- The average high and low daily closing market prices for silver, gold, lead and zinc for each of the last five years are as follows:

	2018	**2017**	**2016**	**2015**	**2014**
Silver (per oz.):					
Average	$15.71	$17.05	$17.10	$15.70	$19.08
High	$17.52	$18.56	$20.71	$18.23	$22.05
Low	$13.97	$15.22	$13.58	$13.71	$15.28
Gold (per oz.):					
Average	$1,269	$1,257	$1,248	$1,160	$1,266
High	$1,355	$1,346	$1,366	$1,296	$1,385
Low	$1,178	$1,151	$1,077	$1,049	$1,142
Lead (per lb.):					
Average	$1.02	$1.05	$0.85	$0.81	$0.95
High	$1.22	$1.17	$1.12	$0.97	$1.03
Low	$0.85	$0.91	$0.72	$0.70	$0.82
Zinc (per lb.):					
Average	$1.33	$1.31	$0.95	$0.88	$0.98
High	$1.64	$1.53	$1.32	$1.09	$1.10
Low	$1.04	$1.10	$0.66	$0.66	$0.88

See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations* for a summary of our average realized and market prices for each of the three years ended December 31, 2018, 2017 and 2016. Our results of operations are significantly impacted by fluctuations in the prices of silver, gold, lead and zinc, which are affected by numerous factors beyond our control. See *Item 1A. Risk Factors – Financial Risks – A substantial or extended decline in metals prices would have a material adverse effect on us* for information on a number of the factors that can impact prices of the metals we produce. Our average realized prices for silver, zinc and lead were lower, while the average realized gold price was slightly higher, in 2018 compared to 2017. Our average realized prices were higher for all four metals in 2017 compared to 2016. Market metal price trends are a significant factor in our operating and financial performance. We are unable to predict fluctuations in prices for metals and have limited control over the timing of our concentrate shipments which impacts our realized prices. However, we utilize financially-settled forward contracts for the metals we produce with the objective of managing the exposure to changes in prices of those metals contained in our concentrate shipments between the time of sale and final settlement. In addition, at times we utilize a similar program to manage the exposure to changes in prices of zinc and lead (but not silver and gold) contained in our forecasted future concentrate shipments. See *Note 11* of *Notes to Consolidated Financial Statements* for more information on our base and precious metal forward contract programs.

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- The following table illustrates our metal quantities produced and sold for the last five years:

		Year Ended December 31,				
		2018	**2017**	**2016**	**2015**	**2014**
Silver -	Ounces produced	10,369,503	12,484,844	17,177,317	11,591,602	11,090,506
	Payable ounces sold	9,254,385	11,308,958	15,997,087	10,171,896	9,499,221
Gold -	Ounces produced	262,103	232,684	233,929	189,327	186,997
	Payable ounces sold	247,528	219,929	222,105	178,400	177,584
Lead -	Tons produced	20,091	22,733	42,472	39,965	40,255
	Payable tons sold	16,214	17,960	37,519	33,409	32,632
Zinc -	Tons produced	56,023	55,107	68,516	70,073	67,969
	Payable tons sold	39,273	39,335	49,802	49,831	48,648

- Cost of sales and other direct production costs of $354.0 million in 2018, $304.7 million in 2017, $338.3 million in 2016, $292.4 million in 2015 and $304.4 million in 2014. Cost of sales in 2018 were impacted by the addition of our Nevada Operations unit through the acquisition of Klondex in July 2018. Cost of sales and other direct production costs in 2018, 2017 and 2016 were impacted by commencement of sales at our San Sebastian unit in the first quarter of 2016. Cost of sales and other direct production costs in 2018 and 2017 were also impacted by suspension of full production at Lucky Friday as a result of a strike, as discussed further below. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations* for more information.

- $14.6 million in suspension-related costs, along with $5.0 million in depreciation, depletion, and amortization, at our Lucky Friday unit, and $1.1 million in costs related to curtailment of production at the Midas mine, in 2018. In 2017, we recognized $17.1 million in suspension-related costs at Lucky Friday, along with $4.2 million in depreciation, depletion, and amortization. The suspension-related costs at Lucky Friday are a result of an ongoing strike by unionized employees that started in mid-March 2017 (see the *Employees* section below for more information).

- Exploration and pre-development expenditures totaling $40.6 million, $29.0 million, $17.9 million, $22.0 million and $19.7 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.

- Provision for closed operations and environmental matters of $6.1 million, $6.7 million, $5.7 million, $12.2 million and $10.1 million for the years ended December 31, 2018, 2017, 2016, 2015, and 2014, respectively.

- Net gain of $40.3 million in 2018, a net loss of $21.3 million in 2017, and net gains of $4.4 million in 2016, $8.3 million in 2015, and $9.1 million in 2014 on base metal forward contracts. These gains and losses are related to financially-settled forward contracts on forecasted zinc and lead production as part of a risk management program initiated in 2010. See *Note 11* of *Notes to Consolidated Financial Statements* for more information on our derivatives contracts.

- Our acquisition of Aurizon Mines Ltd. ("Aurizon") in June 2013 was partially funded by the issuance of 6.875% Senior Notes due 2021 ("Senior Notes") in April 2013 for net proceeds of $490.0 million. In 2018, 2017, 2016, 2015

and 2014 we recorded interest expense related to the Senior Notes, including amortization of issuance costs, of $36.3 million, $35.3 million, $20.1 million, $22.7 million, and $24.6 million, respectively. The interest expense for 2017, 2016, 2015 and 2014 was recorded net of $0.9 million, $16.2 million, $13.5 million and $11.8 million, respectively, in capitalized interest primarily related to the #4 Shaft project at Lucky Friday which was completed in early 2017.

- Our acquisition of Klondex for $414.2 million in July 2018. We recognized expenses related to the acquisition of $10.0 million in 2018. See *Note 16* of *Notes to Consolidated Financial Statements* for more information.

- Our acquisition of Mines Management for $52.1 million in September 2016. We recognized expenses related to the acquisition of $2.7 million in 2016. See *Note 16* of *Notes to Consolidated Financial Statements* for more information.

- Our acquisition of Revett for $20.1 million in June 2015. We recognized expenses related to the acquisition of $2.2 million in 2015.

- Foreign exchange gain in 2018 of $10.3 million, losses in 2017 and 2016 of $9.7 million and $2.7 million, respectively, and gains in 2015 and 2014 of $24.2 million and $11.4 million, respectively, primarily due to increased exposure to exchange fluctuations between the U.S. dollar and Canadian dollar as a result of our acquisition of Aurizon.

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- Income tax benefit of $6.7 million in 2018, income tax provisions of $21.0 million, $28.1 million and $57.0 million in 2017, 2016 and 2015, respectively, and an income tax benefit of $4.9 million in 2014. See *Note 6* of *Notes to Consolidated Financial Statements* for more information.

- An increase in the number of shares of our common stock outstanding, which impacts our income (loss) per common share.

A comprehensive discussion of our financial results for the years ended December 31, 2018, 2017 and 2016, individual operating unit performance, general corporate expenses and other significant items can be found in *Item 7. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations*, as well as the *Consolidated Financial Statements* and *Notes* thereto.

Products and Segments

Our segments are differentiated by geographic region. We produce zinc, lead and bulk flotation concentrates at our Greens Creek unit and lead and zinc flotation concentrates at our Lucky Friday unit, each of which we sell to custom smelters and brokers on contract. The flotation concentrates produced at our Greens Creek and Lucky Friday units contain payable silver, zinc and lead, and at Greens Creek they also contain payable gold. At Greens Creek, we also produce gravity concentrate containing silver, gold and lead. Unrefined bullion (doré) is produced from the gravity concentrate by a third-party processor, and shipped to a refiner before sale of the metals to precious metal traders. We also produce unrefined gold and silver bullion bars (doré) at our Casa Berardi, San Sebastian and Nevada Operations units, which are shipped to refiners before sale of the metals to precious metals traders. Payable metals are those included in our products which we are paid for by smelters, brokers and refiners. Our segments as of December 31, 2018 included:

- The Greens Creek unit located on Admiralty Island, near Juneau, Alaska. Greens Creek is 100% owned and has been in production since 1989, with a temporary care and maintenance period from April 1993 through July 1996.

- The Lucky Friday unit located in northern Idaho. Lucky Friday is 100% owned and has been a producing mine for us since 1958. As discussed below in the *Employees* section, unionized employees at Lucky Friday have been on strike since mid-March 2017, resulting in limited production during that time. Following a period of rehabilitation and no production at Lucky Friday in 2012, production returned to historical levels in September 2013.

- The Casa Berardi unit located in the Abitibi region of northwestern Quebec, Canada. Casa Berardi is 100% owned and was acquired on June 1, 2013 with the purchase of all issued and outstanding common shares of Aurizon. Aurizon had operated and produced from the Casa Berardi mine since late 2006 and began various mine enhancements in an effort to improve operational efficiency, including a shaft deepening project completed in 2014 and a new paste fill facility completed in 2013. In addition to ongoing production from the underground mine,

production from the East Mine Crown Pillar ("EMCP") surface mine commenced in July 2016. The addition of surface production and enhancements to the processing facility resulted in increased ore throughput and gold production.

- The San Sebastian unit located in the state of Durango, Mexico. San Sebastian is 100% owned, and had previously produced for us from underground mines between 2001 and 2005. Recent near-surface exploration discoveries in the vicinity of the past producing area led to the decision in the third quarter of 2015 to develop shallow open pit mines there. Production commenced from the open pits in the fourth quarter of 2015. Continued exploration resulted in the decision to develop a new underground ramp and rehabilitate the historical underground access. The underground development commenced in the first quarter of 2017, and underground ore production began in January 2018.

- The Nevada Operations unit located in northern Nevada. Nevada Operations is 100% owned and was acquired on July 20, 2018 with the purchase of all of the issued and outstanding common shares of Klondex. Nevada Operations consists of the Midas mine and mill, Fire Creek mine, Hollister mine, and Aurora mine and mill, along with various other exploration interests. Klondex had owned Fire Creek since 1975, Midas since 2014, and Hollister and Aurora since 2016.

The contributions to our consolidated sales by our operating units in 2018 were 46.7% from Greens Creek, 37.1% from Casa Berardi, 8.9% from San Sebastian, 5.5% from Nevada Operations and 1.8% from Lucky Friday.

See the *Introduction* section above for information on our metals production and sales for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

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Licenses, Permits and Claims/Concessions

We are required to obtain various licenses and permits to operate our mines and conduct exploration and reclamation activities. See *Item 1A. Risk Factors - Legal, Market and Regulatory Risks - We are required to obtain governmental permits and other approvals in order to conduct mining operations.* Further, each of our Rock Creek and Montanore projects can only be developed if we are successful in obtaining the necessary permits. See *Item 1A. Risk Factors - Legal, Market and Regulatory Risks - Legal challenges could prevent the Rock Creek or Montanore projects from ever being developed*. In addition, our operations and exploration activities at our Casa Berardi and San Sebastian units are conducted pursuant to claims or concessions granted by the host government, and otherwise are subject to claims renewal and minimum work commitment requirements, which are subject to certain political risks associated with foreign operations. See *Item 1A. Risk Factors - Operation, Development, Exploration and Acquisition Risks - Our foreign activities are subject to additional inherent risks*.

Physical Assets

Our business is capital intensive and requires ongoing capital investment for the replacement, modernization and expansion of equipment and facilities and to develop new ore reserves. At December 31, 2018, the book value of our properties, plants, equipment and mineral interests, net of accumulated depreciation, was approximately $2.5 billion. For more information see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.* We maintain insurance policies against property loss and business interruption. However, such insurance contains exclusions and limitations on coverage, and there can be no assurance that claims would be paid under such insurance policies in connection with a particular event. See *Item 1A. Risk Factors - Operation, Development, Exploration and Acquisition Risks - Our operations may be adversely affected by risks and hazards associated with the mining industry that may not be fully covered by insurance*.

Employees

As of December 31, 2018, we employed 1,714 people, including the unionized employees at Lucky Friday currently on strike, as discussed below. With the exception of the employees on strike, we believe relations with our employees are generally good.

Many of the employees at our Lucky Friday unit are represented by a union. The most recent collective bargaining agreement with the unionized employees expired on April 30, 2016, and on February 19, 2017, those employees voted against our contract offer. On March 13, 2017, the unionized employees went on strike, and have been on strike since that time. We cannot predict how long the strike will last or whether an agreement will be reached.

Available Information

Hecla Mining Company is a Delaware corporation. Our current holding company structure dates from the incorporation of Hecla Mining Company in 2006 and the renaming of our subsidiary (previously Hecla Mining Company) as Hecla Limited. Our principal executive offices are located at 6500 N. Mineral Drive, Suite 200, Coeur d'Alene, Idaho 83815-9408. Our telephone number is (208) 769-4100. Our web site address is www.hecla-mining.com. We file our annual, quarterly and current reports and any amendments to these reports with the SEC, copies of which are available on our website or from the SEC free of charge (www.sec.gov or 800-SEC-0330). Charters of our audit, compensation, and corporate governance and directors nominating committees, as well as our Code of Ethics for the Chief Executive Officer and Senior Financial Officers and our Code of Conduct, are also available on our website. In addition, any amendments to our Code of Ethics or waivers granted to our directors and executive officers will be posted on our website. Each of these documents may be periodically revised, so you are encouraged to visit our website for any updated terms. We will provide copies of these materials to stockholders upon request using the above-listed contact information, directed to the attention of Investor Relations, or via e-mail request sent to hmc-info@hecla-mining.com.

We have included the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this report. Additionally, we filed with the New York Stock Exchange ("NYSE") the CEO's certification regarding our compliance with the NYSE's Corporate Governance Listing Standards ("Listing Standards") pursuant to Section 303A.12(a) of the Listing Standards, which certification was dated June 5, 2018, and indicated that the CEO was not aware of any violations of the Listing Standards.

Item 1A. Risk Factors

The following risks and uncertainties, together with the other information set forth in this report, should be carefully considered by those who invest in our securities. Any of the following risks could materially adversely affect our business, financial condition or operating results and could decrease the value of our common or preferred stock or other outstanding securities.

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Financial Risks

A substantial or extended decline in metals prices would have a material adverse effect on us.

Our revenue is derived from the sale of concentrates and doré containing silver, gold, lead and zinc and, as a result, our earnings are directly related to the prices of these metals. Silver, gold, lead and zinc prices fluctuate widely and are affected by numerous factors, including:

- speculative activities;
- relative exchange rates of the U.S. dollar;
- global and regional demand and production;
- political instability;
- inflation, recession or increased or reduced economic activity; and
- other political, regulatory and economic conditions.

These factors are largely beyond our control and are difficult to predict. If the market prices for these metals fall below our production, exploration or development costs for a sustained period of time, we will experience losses and may have to discontinue exploration, development or operations, or incur asset write-downs at one or more of our properties. See *Item 1. Business – Introduction* for information on the average, high, and low daily closing prices for silver, gold, lead and zinc for the last five years. On February 19, 2019, the closing prices for silver, gold, lead and zinc were $15.78 per ounce, $1,334 per ounce, $0.91 per pound and $1.21 per pound, respectively.

We have limited cash resources and are dependent on access to our revolving credit facility or alternative financing to meet our expected working capital needs.

As of December 31, 2018, we held cash and cash equivalents of $27.4 million. As of December 31, 2017, we held cash, cash equivalents and short-term investments of $219.9 million; however, much of our cash was used in July

2018 to fund the acquisition of Klondex and related costs. As a result, we periodically borrow under our $250 million revolving credit facility in order to meet our ongoing working capital requirements. In 2019, we anticipate similarly borrowing under our credit facility. In order for funds to be available for borrowing under the credit facility, we are required to meet certain financial covenants. We cannot guarantee that we will be able to meet such covenants, and therefore borrowings under the credit facility may not be available to us. In the event we are unable to access the credit facility, we may be forced to revise our planned expenditures for 2019. We also could seek alternative sources of financing, but we cannot assure you that such sources will be available to us at all or at costs we would consider incurring. Any shortage of liquidity we may experience could have a material adverse effect on us. See the risk factors below, "*The terms of our debt impose restrictions on our operations*" and "*We may be unable to generate sufficient cash to service all of our indebtedness and meet our other ongoing liquidity needs and may be forced to take other actions to satisfy our obligations under our indebtedness, which may be unsuccessful.*"

The acquisition of Klondex increased our exposure to gold price volatility.

The financial results of our Nevada Operations unit, obtained through the acquisition of Klondex, are highly sensitive to changes in the price of gold, and the acquisition of Klondex increased the sensitivity of our results to such changes. Gold prices fluctuate and are affected by numerous factors, including expectations with respect to the rate of inflation, exchange rates, interest rates, global and regional political and economic crises and governmental policies with respect to gold holdings by central banks. The demand for and supply of gold affects gold prices but not necessarily in the same manner as demand and supply affect the prices of other commodities. The supply of gold consists of a combination of mine production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations and private individuals. The demand for gold consists primarily of jewelry and investment demand. We do not use forward sale contracts, or other derivative products, to protect the price level of future gold sales at the Nevada Operations unit, thereby exposing those sales to commodity price risk.

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We have had losses that could reoccur in the future.

We have experienced volatility in our net (loss) income reported in the last five years, as shown in *Item 6. Selected Financial Data*, including net losses of $26.6 million in 2018, $28.5 million in 2017 and $94.7 million in 2015. A comparison of operating results over the past three years can be found in *Results of Operations* in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Many of the factors affecting our operating results are beyond our control, including, but not limited to, the volatility of metals prices; smelter terms; rock and soil conditions; seismic events; availability of hydroelectric power; diesel fuel prices; interest rates; foreign exchange rates; global or regional political or economic policies; inflation; availability and cost of labor; economic developments and crises; governmental regulations; continuity of orebodies; ore grades; recoveries; performance of equipment; price speculation by certain investors; and purchases and sales by central banks and other holders and producers of gold and silver in response to these factors. We cannot foresee whether our operations will continue to generate sufficient revenue in order for us to generate net cash from operating activities. We cannot assure you that we will not experience net losses in the future.

An extended decline in metals prices, an increase in operating or capital costs, mine accidents or closures, increasing environmental obligations, or our inability to convert exploration potential to reserves may cause us to record write-downs, which could negatively impact our results of operations.

When events or changes in circumstances indicate the carrying value of our long-lived assets may not be recoverable, we review the recoverability of the carrying value by estimating the future undiscounted cash flows expected to result from the use and eventual disposition of the asset. Impairment must be recognized when the carrying value of the asset exceeds these cash flows. Recognizing impairment write-downs could negatively impact our results of operations. Metal price estimates are a key component used in the evaluation of the carrying values of our assets, as the evaluation involves comparing carrying values to the average estimated undiscounted cash flows resulting from operating plans using various metals price scenarios. Our estimates of undiscounted cash flows for our long-lived assets also include an estimate of the market value of the exploration potential beyond the current operating plans. We determined a decrease in the average market capitalization per in situ gold and silver ounce for similar companies, which is used to estimate portions of the future undiscounted cash flows for our assets, to represent a change in circumstances indicating the carrying value of our long-lived assets may not be recoverable as of December 31, 2018. However, our estimates of undiscounted cash flows exceeded the carrying values for all assets reviewed for recoverability as of December 31, 2018. If the prices of silver, gold, zinc and lead decline for an extended period of time, if we fail to control production or capital costs, if regulatory issues increase costs or decrease production, or if we do not realize the mineable ore reserves or exploration potential at our mining properties, we may be required to recognize asset write-downs in the future. In addition, the perceived market value of the exploration potential of our properties is dependent upon prevailing metals prices as well as our ability to discover economic ore. A decline in metals prices for an extended period of time or our inability to convert exploration potential to reserves could significantly reduce our estimates of the value of the exploration potential at our properties and result in asset write-downs.

Global financial events or developments impacting major industrial or developing countries may have an impact on our business and financial condition in ways that we currently cannot predict.

The 2008 credit crisis and related turmoil in the global financial system and ensuing recession had an impact on our business and financial position, and similar events in the future could also impact us. The re-emergence of a financial crisis or recession or reduced economic activity in the United States, China, India and other industrialized or developing countries, or disruption of key sectors of the economy such as oil and gas, may have a significant effect on our results of operations or limit our ability to raise capital through credit and equity markets. The prices of the metals that we produce are affected by a number of factors, and it is unknown how these factors may be impacted by a global financial event or developments impacting major industrial or developing countries.

Recently enacted tariffs, other potential changes to tariff and import/export regulations, and ongoing trade disputes between the United States and other jurisdictions may have a negative effect on global economic conditions and our business, financial results and financial condition.

In 2018, the United States imposed and enacted tariffs on certain items. Further, there have been ongoing discussions and activities regarding changes to other U.S. trade policies and treaties. In response, a number of markets, including China, into which we have in the past and may in the future sell our products, have already implemented tariffs on U.S. imports, or are threatening to impose tariffs on U.S. imports or to take other measures in response to these U.S. actions. These developments may have a material adverse effect on global economic conditions and the stability of global financial markets, and they may significantly reduce global trade and, in particular, trade between China and the United States. Any of these factors could depress economic activity, restrict our access to customers and have a material adverse effect on our business, financial condition and results of operations. In addition, any actions by foreign markets to implement further trade policy changes, including limiting foreign investment or trade, increasing regulatory scrutiny or taking other actions which impact U.S. companies' ability to obtain necessary licenses or approvals could negatively impact our business.

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In September 2018, in response to tariffs on Chinese goods implemented by the United States, China imposed a 5% tariff on lead concentrates and a 10% tariff on silver concentrates, both of which are products we produce and from time to time ship to China. In 2018, we sold no lead concentrates to China and $0.1 million in silver concentrates to China, which represented less than 1% of our total sales for 2018. While to date the direct impact of tariffs has been immaterial on our sales and treatment charges, they may also have an impact on our sales and treatment charges outside of China.

These tariffs are relatively recent and are subject to a number of uncertainties as they are implemented, including future adjustments and changes in the countries excluded from such tariffs. The ultimate reaction of other countries, and businesses in those countries, and the impact of these tariffs or other actions on the United States, China, the global economy and our business, financial condition and results of operations, cannot be predicted at this time, nor can we predict the impact of any other developments with respect to global trade.

Commodity and currency risk management activities could prevent us from realizing possible revenues or lower costs, or expose us to losses.

We periodically enter into risk management activities such as financially-settled forward sales contracts to manage the exposure to changes in prices of silver, gold, lead and zinc contained in our concentrate shipments between the time of sale and final settlement. We also utilize such programs to manage the exposure to changes in the prices of lead and zinc contained in our forecasted future shipments. Such activities are utilized in an attempt to partially insulate our operating results from changes in prices for those metals. However, such activities may prevent us from realizing revenues in the event that the market price of a metal exceeds the price stated in a forward sale contract, and may also result in significant mark-to-market fair value adjustments, which may have a material adverse impact on our reported financial results. In addition, we are exposed to credit risk with our counterparties, and we may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity.

In 2016, we also initiated financially-settled forward contract programs to manage exposure to fluctuations in the exchange rates between the U.S. dollar ("USD") and the Canadian dollar ("CAD") and the Mexican peso ("MXN") and the impact on our future operating costs denominated in CAD and MXN. As with our metals derivatives, such activities may prevent us from realizing possible lower costs on a USD-basis in the event that the USD strengthens relative to the CAD or MXN compared to the exchange rates stated in the forward contracts, and also expose us to counterparty credit risk.

See *Note 11* of *Notes to Consolidated Financial Statements* for more information on these forward contract programs.

Our profitability could be affected by the prices of other commodities.

Our profitability is sensitive to the costs of commodities such as fuel (in particular as used at Greens Creek to generate electricity when hydropower is unavailable), steel, and cement. While the recent prices for such commodities have been stable or in decline, prices have been historically volatile, and material increases in commodity costs could have a significant effect on our results of operations.

Our accounting and other estimates may be imprecise.

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts and related disclosure of assets, liabilities, revenue and expenses at the date of the consolidated financial statements and reporting periods. The more significant areas requiring the use of management assumptions and estimates relate to:

- mineral reserves, mineralized material, and other resources that are the basis for future income and cash flow estimates and units-of-production depreciation, depletion and amortization calculations;
- future ore grades, throughput and recoveries;
- future metals prices;
- future capital and operating costs;

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- environmental, reclamation and closure obligations;
- permitting and other regulatory considerations;
- asset impairments;
- valuation of business combinations;
- future foreign exchange rates, inflation rates and applicable tax rates;
- reserves for contingencies and litigation; and
- deferred tax asset valuation allowance.

Future estimates and actual results may differ materially from these estimates as a result of using different assumptions or conditions. For additional information, see *Critical Accounting Estimates* in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Note 1* of *Notes to Consolidated Financial Statements*, and the risk factors set forth below: *"Our costs of development of new orebodies and other capital costs may be higher and provide less return than we estimated," "Our ore reserve estimates may be imprecise,"* "*We are currently involved in ongoing legal disputes that may materially adversely affect us,"* and *"Our environmental obligations may exceed the provisions we have made."*

Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income.

We recognize the expected future tax benefit from deferred tax assets when the tax benefit is considered to be more likely than not of being realized. Otherwise, a valuation allowance is applied against deferred tax assets, reducing the value of such assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted income from operations and the application of existing tax laws in each jurisdiction. Metal price and production estimates are key components used in the determination of our ability to realize the expected future benefit of our deferred tax assets. To the extent that future taxable income differs significantly from estimates as a result of a decline in metals prices or other factors, our ability to realize the deferred tax assets could be impacted. Additionally, significant future issuances of common stock or common stock equivalents, or changes in the direct or indirect ownership of our common stock or common stock equivalents, could limit our ability to utilize our net operating loss carryforwards pursuant to Section 382 of the Internal Revenue Code. Future changes in tax law or changes in ownership structure could limit our ability to utilize our recorded tax assets. Due to the changes to tax laws under the Tax Cuts and Jobs Act enacted in December 2017, we determined it is more likely than not we will not realize the net

deferred tax assets in the "Hecla U.S. tax group," our U.S. consolidated tax group which is exclusive of our U.S. consolidated tax group located in Nevada ("Klondex U.S. tax group"). We currently do not have valuation allowances for certain amounts related to the Klondex U.S. tax group and certain foreign deferred tax assets, and our deferred tax assets as of December 31, 2018 were $183.8 million, net of $95.0 million in valuation allowances. See *Note 6* of *Notes to Consolidated Financial Statements* for further discussion of our deferred tax assets.

Returns for investments in pension plans and pension plan funding requirements are uncertain.

We maintain defined benefit pension plans for most U.S. employees, which provide for defined benefit payments after retirement for most U.S. employees. Canadian and Mexican employees participate in public retirement systems for those countries and are not eligible to participate in the defined benefit pension plans that we maintain for U.S. employees. The ability of the pension plans maintained for U.S. employees to provide the specified benefits depends on our funding of the plans and returns on investments made by the plans. Returns, if any, on investments are subject to fluctuations based on investment choices and market conditions. In addition, we have a supplemental executive retirement plan which is unfunded. A sustained period of low returns or losses on investments, or future benefit obligations that exceed our estimates, could require us to fund the pension plans to a greater extent than anticipated. See *Note 9* of *Notes to Consolidated Financial Statements* for more information on our pension plans.

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Operation, Development, Exploration and Acquisition Risks

Mining accidents or other adverse events at an operation could decrease our anticipated production or otherwise adversely affect our operations.

Production may be reduced below our historical or estimated levels for many reasons, including, but not limited to, mining accidents; unfavorable ground or shaft conditions; work stoppages or slow-downs; lower than expected ore grades; unexpected regulatory actions; if the metallurgical characteristics of ore are less economic than anticipated; or because our equipment or facilities fail to operate properly or as expected. Our mines are subject to risks relating to ground instability, including, but not limited to, pit wall failure, crown pillar collapse, stope failure or the breach or failure of a tailings impoundment. Both the Lucky Friday and Casa Berardi mines have a history of ground instability underground and related incidents. The occurrence of an event such as those described above could result in loss of life or temporary or permanent cessation of operations, any of which could have a material adverse effect on our financial condition and results of operations. Other closures or impacts on operations or production may occur at any of our mines at any time, whether related to accidents, changes in conditions, changes to regulatory policy, or as precautionary measures.

In addition, our operations are typically in remote locations, where conditions can be inhospitable, including with respect to weather, surface conditions, interactions with wildlife or otherwise in or near dangerous conditions. In the past we have had employees, contractors, or employees of contractors get injured, sometimes fatally, while working in such challenging locations. An accident or injury to a person at or near one of our operations could have a material adverse effect on our financial condition and results of operations.

Our operations may be adversely affected by risks and hazards associated with the mining industry that may not be fully covered by insurance.

Our business is capital intensive, requiring ongoing investment for the replacement, modernization or expansion of equipment and facilities. Our mining and milling operations are subject to risks of process upsets and equipment malfunctions. Equipment and supplies may from time to time be unavailable on a timely basis. Our business is subject to a number of other risks and hazards including:

- environmental hazards;
- unusual or unexpected geologic formations;

- rock bursts, ground falls, pit wall failures, or tailings impoundment breaches or failures;
- seismic activity;
- underground fires or floods;
- unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions;
- political and country risks;
- civil unrest or terrorism;
- industrial accidents;
- disruption, damage or failure of technology systems related to operation of equipment and other aspects of our mine operations;
- labor disputes or strikes; and
- our operating mines have tailing ponds which could fail or leak as a result of seismic activity, unusual weather or for other reasons.

Such risks could result in:

- personal injury or fatalities;
- damage to or destruction of mineral properties or producing facilities;
- environmental damage and financial penalties;

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- delays in exploration, development or mining;
- monetary losses;
- asset impairment charges;
- legal liability; and
- temporary or permanent closure of facilities.

We maintain insurance to protect against losses that may result from some of these risks, such as property loss and business interruption, in amounts we believe to be reasonably consistent with our historical experience, industry practice and circumstances surrounding each identified risk. Such insurance, however, contains exclusions and limitations on coverage, particularly with respect to environmental liability and political risk. We cannot assure you that claims would be paid under such insurance policies in connection with a particular event. Insurance specific to environmental risks is generally either unavailable or, we believe, too expensive for us, and we therefore do not maintain environmental insurance. Occurrence of events for which we are not insured may have an adverse effect on our business.

Our costs of development of new orebodies and other capital costs may be higher and provide less return than we estimated.

Capitalized development projects may cost more and provide less return than we estimate. If we are unable to realize a return on these investments, we may incur a related asset write-down that could adversely affect our financial results or condition.

Our ability to sustain or increase our current level of metals production partly depends on our ability to develop new orebodies and/or expand existing mining operations. Before we can begin a development project, we must first determine whether it is economically feasible to do so. This determination is based on estimates of several factors, including:

- ore reserves;
- expected ore grades and recovery rates of metals from the ore;

- future metals prices;
- facility and equipment costs;
- availability of adequate staffing;
- availability of affordable sources of power and adequacy of water supply;
- exploration and drilling success;
- capital and operating costs of a development project;
- environmental and closure, permitting and other regulatory considerations and costs;
- adequate access to the site, including competing land uses (such as agriculture);
- applicable tax rates;
- foreign currency fluctuation and inflation rates; and
- availability and cost of financing.

Many of these estimates are based on geological and other interpretive data, which may be imprecise. As a result, actual operating and capital costs and returns from a development project may differ substantially from our estimates, and, as such, it may not be economically feasible to continue with a development project.

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Our ore reserve estimates may be imprecise.

Our ore reserve figures and costs are primarily estimates and are not guarantees that we will recover the indicated quantities of these metals. You are strongly cautioned not to place undue reliance on estimates of reserves (or mineralized material or other resource estimates). Reserves are estimates made by our professional technical personnel of the amount of metals that they believe could be economically and legally extracted or produced at the time of the reserve determination. No assurance can be given that the estimated amount of metal or the indicated level of recovery of these metals will be realized. Reserve estimation is an interpretive process based upon available data and various assumptions. Our reserve estimates may change based on actual production experience. Further, reserves are valued based on estimates of costs and metals prices, which may not be consistent among our properties or across the industry. The economic value of ore reserves may be adversely affected by:

- declines in the market price of the various metals we mine;
- increased production or capital costs;
- reduction in the grade or tonnage of the deposit;
- increase in the dilution of the ore;
- future foreign currency rates, inflation rates and applicable tax rates;
- reduced metal recovery; and
- changes in environmental, permitting or other regulatory requirements.

Short-term operating factors relating to our ore reserves, such as the need to sequentially develop orebodies and the processing of new or different ore grades, may adversely affect our cash flow.

If the prices of metals that we produce decline substantially below the levels used to calculate reserves for an extended period, we could experience:

- delays in new project development;

- net losses;
- reduced cash flow;
- reductions in reserves;
- write-downs of asset values; and
- mine closure.

Additionally, the term “mineralized material” does not indicate proven and probable reserves as defined by the Securities and Exchange Commission (“SEC”) or our standards. Estimates of mineralized material are subject to further exploration and development, and are, therefore, subject to considerable uncertainty. Despite our history of converting mineralized material to reserves through additional drilling and study work, we cannot be certain that any part or parts of the mineralized material deposit will ever be confirmed or converted into reserves as defined by the SEC or that mineralized material can be economically or legally extracted.

Efforts to expand the finite lives of our mines may not be successful or could result in significant demands on our liquidity, which could hinder our growth.

One of the risks we face is that mines are depleting assets. Thus, in order to maintain or increase production we must continually replace depleted ore reserves by locating and developing additional ore. Our ability to expand or replace ore reserves primarily depends on the success of our exploration programs. Mineral exploration, particularly for silver and gold, is highly speculative and expensive. It involves many risks and is often non-productive. Even if we believe we have found a valuable mineral deposit, it may be several years before production from that deposit is possible. During that time, it may become no longer feasible to produce those minerals for economic, regulatory, political or other reasons. As a result of high costs and other uncertainties, we may not be able to expand or replace our existing ore reserves as they are depleted, which would adversely affect our business and financial position in the future.

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Our ability to market our metals production may be affected by disruptions or closures of smelters and/or refining facilities.

We sell our metallic concentrates to smelters and brokers. Our doré bars are sent to refiners for further processing before being sold to metal traders. If smelters or refiners are unavailable or unwilling to accept our products, or we are otherwise unable to sell our products to customers, our operations could be adversely affected. See *Note 12* of *Notes to Consolidated Financial Statements* for more information on the distribution of our sales and our significant customers.

Our business depends on availability of skilled miners and good relations with employees.

We are dependent upon the ability and experience of our executive officers, managers, employees, contractors and their employees, and other personnel, and we cannot assure you that we will be able to retain such employees or contractors. We compete with other companies both in and outside the mining industry in recruiting and retaining qualified employees and contractors knowledgeable about the mining business. From time to time, we have encountered, and may in the future encounter, difficulty recruiting skilled mining personnel at acceptable wage and benefit levels in a competitive labor market, and may be required to utilize contractors, which can be more costly. Temporary or extended lay-offs due to mine closures may exacerbate such issues and result in vacancies or the need to hire less skilled or efficient employees or contractors. The loss of these persons or our inability to attract and retain additional highly skilled employees and contractors could have an adverse effect on our business and future operations.

We or our contractors may experience labor disputes, work stoppages or other disruptions in production that could adversely affect our business and results of operations. The Lucky Friday mine is our only operation where some of our employees are subject to a collective bargaining agreement, and the most recent agreement expired on April 30, 2016. On February 19, 2017, the unionized employees voted against our contract offer and on March 13, 2017 went on strike and have been on strike since that time. Production at Lucky Friday was suspended from the start of the strike until July 2017, when limited production resumed by salaried personnel. Suspension costs during the strike totaled $14.6 million in 2018 and are combined with non-cash depreciation expense of $5.0 million in 2018 and reported in a separate line item on our consolidated statement of operations. We cannot predict how long the strike will last or whether an agreement will be reached. As a result of the strike or other events related to labor at Lucky Friday, operations at Lucky Friday could continue to be disrupted, which could adversely affect our financial condition and results of operations. Additionally, if we enter into a new labor agreement with any union that significantly increases our labor costs relative to our competitors, our ability to compete may be materially and adversely affected. Finally, it is possible operations at our other units could be subject to labor-related disruptions or union-organizing activity due to sympathy or coordinated action with the union or striking employees at the Lucky Friday unit.

Shortages of critical parts and equipment may adversely affect our operations and development projects.

The mining industry has been impacted, from time to time, by increased demand for critical resources such as input commodities, drilling equipment, trucks, shovels and tires. These shortages have, at times, impacted the efficiency of our operations, and resulted in cost increases and delays in construction of projects; thereby impacting operating costs, capital expenditures and production and construction schedules.

Our information technology systems may be vulnerable to disruption which could place our systems at risk from data loss, operational failure, or compromise of confidential information.

We rely on various information technology systems, and on third party developers and contractors, in connection with operations, including production, equipment operation and financial support systems. While we regularly obtain and develop solutions to monitor the security of our systems, they remain vulnerable to disruption, damage or failure from a variety of sources, including errors by employees or contractors, computer viruses, cyber-attacks including phishing, ransomware, and similar malware, misappropriation of data by outside parties, and various other threats. Techniques used to obtain unauthorized access to or sabotage our systems are under continuous and rapid evolution, and we may be unable to detect efforts to disrupt our data and systems in advance. Breaches and unauthorized access carry the potential to cause losses of assets or production, operational delays, equipment failure that could cause other risks to be realized, inaccurate recordkeeping, or disclosure of confidential information, any of which could result in financial losses and regulatory or legal exposure, and could have a material adverse effect on our cash flows, financial condition or results of operations.

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Our foreign activities are subject to additional inherent risks.

We currently have foreign operations in Mexico and Canada, and we expect to continue to conduct operations there and possibly other international locations in the future. Because we conduct operations internationally, we are subject to political, social, legal and economic risks such as:

- the effects of local political, labor and economic developments and unrest;
- significant or abrupt changes in the applicable regulatory or legal climate;
- significant changes to regulations or laws or the interpretation or enforcement of them, including with respect to tax and profit sharing matters arising out of the use of outsourced labor and other services at our San Sebastian operation in Mexico;
- exchange controls and export restrictions;
- expropriation or nationalization of assets with inadequate compensation;
- unfavorable currency fluctuations, particularly in the exchange rate between the U.S. dollar and the Canadian dollar and Mexican Peso;
- repatriation restrictions;
- invalidation and unavailability of governmental orders, permits or agreements;
- property ownership disputes;
- renegotiation or nullification of existing concessions, licenses, permits and contracts;
- criminal activity, corruption, demands for improper payments, expropriation, and uncertain legal enforcement and physical security;
-

failure to maintain compliance with corruption and transparency statutes, including the U.S. Foreign Corrupt Practices Act;

- disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations;
- fuel or other commodity shortages;
- illegal mining;
- laws or policies of foreign countries and the United States affecting trade, investment and taxation;
- opposition to our presence, operations, properties or plans by governmental or non-governmental organizations or civic groups;
- civil disturbances, war and terrorist actions; and
- seizures of assets.

The occurrence of any one or combination of these events, many of which are beyond our control, could materially adversely affect our financial condition or results of operations.

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Our operations and properties in Canada expose us to additional political risks.

Our properties in Canada, particularly in Quebec, may be of particular interest or sensitivity to one or more interest groups, including aboriginal groups (which are generally referred to as "First Nations"). We have mineral projects in Quebec and British Columbia that are or may be in areas with a First Nations presence. It is our practice to work closely with and consult with First Nations in areas in which our projects are located or which could be impacted by our activities. However, there is no assurance that relationships with such groups will be positive. Accordingly, it is possible that our production, exploration or development activities on these properties could be interrupted or otherwise adversely affected in the future by political uncertainty, native land claims entitlements, expropriations of property, changes in applicable law, governmental policies and policies of relevant interest groups, including those of First Nations. Any changes in law or relations or shifts in political conditions may be beyond our control, or we may enter into agreements with First Nations, all of which may adversely affect our business and operations and if significant, may result in the impairment or loss of mineral concessions or other mineral rights, or may make it impossible to continue our mineral production, exploration or development activities in the applicable area, any of which could have an adverse effect on our financial conditions and results of operations.

Certain of our mines and exploration properties in Nevada are located on land that is or may become subject to traditional territory, title claims and/or claims of cultural significance by certain Native American tribes, and such claims and the attendant obligations of the federal government to those tribal communities and stakeholders may affect our current and future operations.

Native American interests and rights as well as related consultation issues may impact our ability to pursue exploration, development and mining at certain of our properties in Nevada. There is no assurance that claims or other assertion of rights by tribal communities and stakeholders or consultation issues will not arise on or with respect to our properties or activities. These could result in significant costs and delays or materially restrict our activities. Opposition by Native American tribes and stakeholders to our presence, operations or development on land subject to their traditional territory or title claims or in areas of cultural significance could negatively impact us in terms of public perception, costly legal proceedings, potential blockades or other interference by third parties in our operations, or court-ordered relief impacting our operations. In addition, we may be required to, or may voluntarily, enter into certain agreements with such Native American tribes in order to facilitate development of our properties, which could reduce the expected earnings or income from any future production.

We may be subject to a number of unanticipated risks related to inadequate infrastructure.

Mining, processing, development, exploration and other activities depend on adequate infrastructure. Reliable roads, bridges, ports, power sources, internet access and water supply are important to our operations, and their availability and condition affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, amount or complexity of required investment, or other interference in the maintenance or provision of such infrastructure, or

government intervention, could adversely affect our mining operations.

Competition from other mining companies may harm our business.

We compete with other mining companies, some of which have greater financial resources than we do or other advantages, in various areas, which include:

- attracting and retaining key executives, skilled labor, and other employees;
- for the services of other skilled personnel and contractors and their specialized equipment, components and supplies, such as drill rigs, necessary for exploration and development;
- for contractors that perform mining and other activities and milling facilities which we lease or toll mill through; and
- for rights to mine properties.

We face inherent risks in acquisitions of other mining companies or properties that may adversely impact our growth strategy.

We are actively seeking to expand our mineral reserves by acquiring other mining companies or properties. Although we are pursuing opportunities that we feel are in the best interest of our stockholders, these pursuits are costly and often unproductive.

There is a limited supply of desirable mineral properties available in the United States and foreign countries where we would consider conducting exploration and/or production activities. For those that exist, we face strong competition from other mining companies, many of which have greater financial resources than we do. Therefore, we may be unable to acquire attractive companies or mining properties on terms that we consider acceptable.

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Furthermore, there are inherent risks in any acquisition we may undertake which could adversely affect our current business and financial condition and our growth. For example, we may not realize the expected value of the companies or properties that are acquired due to declines in metals prices, lower than expected quality of orebodies, failure to obtain permits, labor problems, changes in regulatory environment, failure to achieve anticipated synergies, an inability to obtain financing, and other factors described in these risks factors. Acquisitions of other mining companies or properties may also expose us to new legal, geographic, political, operating, and geological risks.

We may be unable to successfully integrate the operations of the properties we acquire, including our recently-acquired Nevada operations.

Integration of the businesses or the properties we acquire with our existing business, including our Nevada Operations unit acquired as part of the Klondex acquisition in July 2018, is a complex, time-consuming and costly process. Failure to successfully integrate the acquired properties and operations in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. The difficulties of combining the acquired operations with our existing business include, among other things:

- operating a larger organization;
- operating in multiple legal jurisdictions;
- coordinating geographically and linguistically disparate organizations, systems and facilities;
- adapting to additional political, regulatory, legal and social requirements;
- integrating corporate, technological and administrative functions; and
- diverting management's attention from other business concerns.

The process of integrating operations could cause an interruption of, or a slowdown in, the activities of our business. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage other parts of our business. If our senior management is not able to effectively manage the integration process, or if any business activities are interrupted as a result of the integration process, our business could suffer.

We may not realize all of the anticipated benefits from our acquisitions, including our recent acquisition of Klondex.

We may not realize all (or any) of the anticipated benefits from any acquisition, such as increased earnings, cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, higher than expected acquisition and operating costs or other difficulties, unknown liabilities which may be significant, inaccurate reserve estimates, unrealized exploration potential, mill recoveries that are lower than required for portions of the orebodies to be economic, and fluctuations in market prices.

The properties we may acquire may not produce as expected, and we may be unable to determine reserve potential, identify liabilities associated with the acquired properties or obtain protection from sellers against such liabilities.

The properties we acquire in any acquisition, including our recently-acquired Nevada Operations unit, may not produce as expected, may be in an unexpected condition and we may be subject to increased costs and liabilities, including environmental liabilities. Although we review properties prior to acquisition in a manner consistent with industry practices, such reviews are not capable of identifying all existing or potential adverse conditions. Generally, it is not feasible to review in depth every individual property involved in each acquisition. Even a detailed review of records and properties may not necessarily reveal existing or potential problems or permit a buyer to become sufficiently familiar with the properties to fully assess their condition, any deficiencies, and development potential.

Our joint development and operating arrangements may not be successful.

We have entered into joint venture arrangements in order to share the risks and costs of developing and operating properties. In a typical joint venture arrangement, the partners own proportionate shares of the assets, are entitled to indemnification from each other and are only responsible for any future liabilities in proportion to their interest in the joint venture. If a party fails to perform its obligations under a joint venture agreement, we could incur liabilities and losses in excess of our pro-rata share of the joint venture. We make investments in exploration and development projects that may have to be written off in the event we do not proceed to a commercially viable mining operation.

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Legal, Regulatory and Market Risks

We are currently involved in ongoing legal disputes that may materially adversely affect us.

There are several ongoing legal disputes in which we are involved, and additional actions may be filed against us. We may be subject to future claims, including those relating to environmental damage, safety conditions at our mines, and other matters. The outcomes of these pending and potential claims are uncertain. We may not resolve these claims favorably. Depending on the outcome, these actions could cause adverse financial effects or reputational harm to us. If any of these disputes result in a substantial monetary judgment against us, are settled on terms in excess of our current accruals, or otherwise impact our operations (such as by limiting our ability to obtain permits or approvals), our financial results or condition could be materially adversely affected. For a description of some of the lawsuits and other claims in which we are involved, see *Note 8* of *Notes to Consolidated Financial Statements.*

We are required to obtain governmental permits and other approvals in order to conduct mining operations.

In the ordinary course of business, mining companies are required to seek governmental permits and other approvals for continuation or expansion of existing operations or for the commencement of new operations. Obtaining the necessary governmental permits is a complex, time-consuming and costly process. The duration and success of our efforts to obtain permits are contingent upon many variables not within our control. Obtaining environmental permits, including the approval of reclamation plans, may increase costs and cause delays or halt the continuation of mining operations depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. Interested parties including governmental agencies and non-governmental organizations or civic groups may seek to prevent issuance of permits and intervene in the process or pursue extensive appeal rights. Past or ongoing violations of laws or regulations involving obtaining or complying with permits could provide a basis to revoke existing permits, deny the issuance of additional permits, or commence a regulatory enforcement action, each of which could have a material adverse impact on our operations or financial condition. In addition, evolving reclamation or environmental concerns may threaten our ability to renew existing permits or obtain new permits in connection with future development, expansions and operations. We cannot assure you that all necessary approvals and permits will be obtained and, if obtained, that the costs involved will not exceed those that we previously estimated. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that we would not proceed with a particular development or operation. We are often required to post surety bonds or cash collateral to secure our reclamation obligations and we may be unable to obtain the required surety bonds or may not have the resources to provide cash collateral, and the bonds or collateral may not fully cover the cost of reclamation and any such shortfall could have a material adverse impact on our financial condition.

We face substantial governmental regulation, including the Mine Safety and Health Act, various environmental laws and regulations and the 1872 Mining Law.

Our business is subject to extensive U.S. and foreign federal, state, provincial and local laws and regulations governing environmental protection, natural resources, prospecting, development, production, post-closure reclamation, taxes, labor standards and occupational health and safety laws and regulations, including mine safety, toxic substances and other matters. The costs associated with compliance with such laws and regulations are substantial. Possible future laws and regulations, or more restrictive interpretations of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspensions of operations and delays in the development of new properties.

U.S. surface and underground mines like those at our Lucky Friday, Greens Creek and Nevada Operations units are continuously inspected by the U.S. Mine Safety and Health Administration (“MSHA”), which inspections often lead to notices of violation under the Mine Safety and Health Act. Any of our U.S. mines could be subject to a temporary or extended shutdown as a result of a violation alleged by MSHA.

In addition, we have been and are currently involved in lawsuits or regulatory actions in which allegations have been made of our causing environmental damage, being responsible for environmental damage caused by others, violating environmental laws, or violating environmental permits, and we may be subject to similar lawsuits or actions in the future. Moreover, such environmental matters have involved both our current and historical operations as well as the historical operations of entities and properties we have acquired. See the risk factors below titled "*Our operations are subject to complex, evolving and increasingly stringent environmental laws and regulations," "Compliance with environmental regulations, and litigation based on such regulations, involves significant costs and can threaten existing operations or constrain expansion opportunities*," and *"Our environmental obligations may exceed the provisions we have made."*

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Some mining laws prevent mining companies that have been found to engage in bad conduct from obtaining future permits until remediation or restitution has occurred. If we are found to be responsible for any such conduct, our ability to operate existing projects or develop new projects might be impaired until we satisfy costly conditions.

We cannot assure you that we will at all times be in compliance with applicable laws, regulations and permitting requirements. Failure to comply with applicable laws, regulations and permitting requirements may result in lawsuits or regulatory actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, which may require corrective measures including capital expenditures, installation of additional equipment or remedial actions. Any one or more of these liabilities could have a material adverse impact on our financial condition.

In addition to existing regulatory requirements, legislation and regulations may be adopted, regulatory procedures modified, or permit limits reduced at any time, any of which could result in additional exposure to liability, operating expense, capital expenditures or restrictions and delays in the mining, production or development of our properties. Mining accidents and fatalities or toxic waste releases, whether or not at our mines or related to metals mining, may increase the likelihood of additional regulation or changes in law or enhanced regulatory scrutiny. In addition, enforcement or regulatory tools and methods available to regulatory bodies such as MSHA or the U.S. Environmental Protection Agency (“EPA”), which have not been or have infrequently been used against us or the mining industry, in the future could be used against us or the industry in general.

From time to time, the U.S. Congress considers proposed amendments to the 1872 Mining Law, which governs mining claims and related activities on federal lands. The extent of any future changes is not known and the potential impact on us as a result of U.S. Congressional action is difficult to predict. Changes to the 1872 Mining Law, if adopted, could adversely affect our ability to economically develop mineral reserves on federal lands.

Our operations are subject to complex, evolving and increasingly stringent environmental laws and regulations. Compliance with environmental regulations, and litigation based on such regulations, involves significant costs and can threaten existing operations or constrain expansion opportunities.

Our operations, both in the United States and internationally, are subject to extensive environmental laws and regulations governing wastewater discharges; remediation, restoration and reclamation of environmental contamination; the generation, storage, treatment, transportation and disposal of hazardous substances; solid waste disposal; air emissions; protection of endangered and protected species and designation of critical habitats; mine closures and reclamation; and other related matters. In addition, we must obtain regulatory permits and approvals to start, continue and expand operations.

New or revised environmental regulatory requirements are frequently proposed, many of which result in substantially increased costs for our business. See the risk factor below, "*Mine closure and reclamation regulations impose substantial costs on our operations, and include requirements that we provide financial assurance supporting those obligations. These costs could significantly increase*."

Our U.S. operations are subject to the Clean Water Act, which requires permits for certain discharges into waters of the United States. Such permitting has been a frequent subject of litigation and enforcement activity by environmental advocacy groups and the EPA, respectively, which has resulted in declines in such permits or extensive delays in receiving them, as well as the imposition of penalties for permit violations. In 2015, the regulatory definition of “waters of the United States” that are protected by the Clean Water Act was expanded by the EPA, thereby imposing significant additional restrictions on waterway discharges and land uses. However, in 2018, implementation of the relevant rule was suspended for two years, and subsequently a revised definition that narrows the 2015 version was proposed by the EPA and the Army Corps of Engineers. Even if the 2015 version is revised, it is possible that in the future the definition could again be expanded, or states could take action to address a perceived fall-off in protection under the Clean Water Act, either of which could increase litigation involving water discharge permits, which may result in delays in, or in some instances preclude, the commencement or continuation of development or production operations. Enforcement actions by the EPA or other federal or state agencies could also result. Adverse outcomes in lawsuits challenging permits or failure to comply with applicable regulations or permits could result in the suspension, denial, or revocation of required permits, or the imposition of penalties, any of which could have a material adverse impact on our cash flows, results of operations, or financial condition. See *Note 8* of *Notes to Consolidated Financial Statements*.

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Some of the mining wastes from our U.S. mines currently are exempt to a limited extent from the extensive set of EPA regulations governing hazardous waste under the Resource Conservation and Recovery Act ("RCRA"). If the EPA were to repeal this exemption, and designate these mining wastes as hazardous under RCRA, we would be required to expend additional amounts on the handling of such wastes and to make significant expenditures to construct hazardous waste storage or disposal facilities. In addition, if any of these wastes or other substances we release or cause to be released into the environment cause or has caused contamination in or damage to the environment at a U.S. mining facility, that facility could be designated as a "Superfund" site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"). Under CERCLA, any present owner or operator of a Superfund site or the owner or operator at the time of contamination may be held jointly and severally liable regardless of fault, and may be forced to undertake extensive remedial cleanup action or to pay for the cleanup efforts. The owner or operator also may be liable to federal, state and tribal governmental entities for the cost of damages to natural resources, which could be substantial. Additional regulations or requirements also are imposed on our tailings and waste disposal areas in Alaska under the federal Clean Water Act.

Legislative and regulatory measures to address climate change and greenhouse gas emissions are in various phases of consideration. If adopted, such measures could increase our cost of environmental compliance and also delay or otherwise negatively affect efforts to obtain permits and other regulatory approvals with regard to existing and new facilities. Proposed measures could also result in increased cost of fuel and other consumables used at our operations, including the diesel generation of electricity at our Greens Creek operation, used when we are unable to access hydroelectric power. Climate change legislation may also affect our smelter customers who burn fossil fuels, resulting in fewer customers or increased costs to us, and may affect the market for the metals we produce with effects on prices that are not possible for us to predict.

Adoption of these or similar new environmental regulations or more stringent application of existing regulations may materially increase our costs, threaten certain operating activities and constrain our expansion opportunities.

Some of our facilities are located in or near environmentally sensitive areas such as salmon fisheries, endangered species habitats, and national forests, and we may incur additional costs to mitigate potential environmental harm in such areas.

In addition to evolving and expanding environmental regulations providing governmental authorities with the means to make claims against us, private parties have in the past and may in the future bring claims against us based upon damage to property and injury to persons resulting from the environmental, health and safety impacts of prior and current operations (including for exposure to or contamination by lead). Laws in the U.S. such as CERCLA and similar state laws may expose us to joint and several liability, or claims for contribution made by the government (state or federal) or private parties. Moreover, exposure to these liabilities arises not only from our existing but also from closed operations, operations sold to third parties, or operations in which we had a leasehold, joint venture, or other interest. Because liability under CERCLA is often alleged on a joint and several basis against any property owner or operator or arranger for the transport of hazardous waste, and because we have been in operation since 1891, our exposure to environmental claims may be greater because of the bankruptcy or dissolution of other mining

companies which may have engaged in more significant activities at a mining site than we but which are no longer available for governmental agencies or other claimants to make claims against or obtain judgments from. Similarly, there is also the potential for claims against us based on agreements entered into by certain affiliates and predecessor companies relating to the transfer of businesses or properties, which contained indemnification provisions relating to environmental matters. In each of the types of cases described in this paragraph, the government (federal or state) or private parties could seek to hold Hecla Limited or Hecla Mining Company liable for the actions of their subsidiaries or predecessors.

The laws and regulations, changes in such laws and regulations, and lawsuits and enforcement actions described in this risk factor could lead to the imposition of substantial fines, remediation costs, penalties and other civil and criminal sanctions against us. Further, substantial costs and liabilities, including for restoring the environment after the closure of mines, are inherent in our operations. There is no assurance that any such law, regulation, enforcement or private claim, or reclamation activity, would not have a material adverse effect on our financial condition, results of operations or cash flows.

State ballot initiatives could impact our operations.

In recent years there have been several proposed or implemented ballot initiatives that sought to directly or indirectly curtail or eliminate mining in certain states, including Alaska, where our Greens Creek mine operates, and Montana, where we are seeking to develop the Montanore and Rock Creek projects. While both a salmon initiative in Alaska and a water treatment initiative in Montana were defeated by voters in November 2018, in the future similar or other initiatives that could impact our operations may be on the ballot in these states or other jurisdictions (including local or international) in which we currently or may in the future operate. To the extent any such initiative was passed and became law, there could be a material adverse impact on our financial condition, results of operations or cash flows.

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Legal challenges could prevent the Rock Creek or Montanore projects from ever being developed.

The proposed development of our Rock Creek project has been challenged by several regional and national conservation groups at various times since the U.S. Forest Service ("USFS") issued its initial Record of Decision ("ROD") in 2003 approving Revett Mining Company's plan of operation (Revett is now our wholly-owned subsidiary, named Hecla Montana, Inc.). Some of these challenges have alleged violations of a variety of federal and state laws and regulations pertaining to Revett's permitting activities at Rock Creek, including the Endangered Species Act, the National Environmental Policy Act ("NEPA"), the 1872 Mining Law, the Federal Land Policy Management Act, the Wilderness Act, the National Forest Management Act, the Clean Water Act, the Clean Air Act, the Forest Service Organic Act of 1897, and the Administrative Procedure Act. As a result of litigation challenging the ROD, in May 2010, the USFS was directed by the Montana Federal District Court to produce a Supplemental Environmental Impact Statement ("SEIS") to address NEPA procedural deficiencies that were identified by the court. The new SEIS was prepared and in August 2018, a new final ROD was issued. In early 2019, a group of environmental groups and other organizations filed a lawsuit challenging the ROD. We cannot predict how any future challenges will be resolved or if they will continue to delay the planned development at Rock Creek. Even if the ROD is successfully defended, we would still be required to comply with a number of requirements and conditions as Rock Creek development progresses, failing which could make us unable to continue with development activities.

A joint final Environmental Impact Statement with respect to our Montanore project was issued in December 2015 by the USFS and Montana Department of Environmental Quality, and each agency issued a ROD in February 2016 providing approval for development of the Montanore project. However, private conservation groups have taken and may in the future take actions to oppose or delay the Montanore project. On May 30, 2017, the Montana Federal District Court issued Opinions and Orders in three lawsuits challenging previously granted environmental approvals for the Montanore project. The Orders overturned the approvals for the project granted by the USFS and the United States Fish and Wildlife Service, and in each case remanded the ROD and associated planning documents for further review by the agencies consistent with the Court's Opinions. In June 2017, the Court vacated the agencies' approvals for the project. As a result, additional work must be performed by the agencies to address the deficiencies in the ROD and associated planning documents identified by the Court, and new approvals must be granted, before the project may proceed beyond certain preliminary actions. In addition, in October 2018, a court in Lincoln County, Montana found that the adit (which is an underground tunnel) which we had intended to use to develop the Montanore project trespassed on certain unpatented mining claims we do not own but which the adit goes through. In the case, which dates back to 2008, the jury delivered a verdict against certain of our subsidiaries for $3,325,000. We plan to appeal the finding of trespass and the award of damages, and we believe there are strong arguments for reversal. We cannot assure you that the appeal will succeed, or that we will remain able to use the portion of the adit that travels beneath the surface of the unpatented claims we do not currently own. As a result, our ability to access, develop or operate the Montanore project is at risk.

In March 2018, each of Hecla Mining Company and our CEO was notified by the Montana Department of Environmental Quality ("DEQ") of alleged violations of Montana's mine reclamation statutes and related regulations due to our CEO being an officer of a mining company that declared bankruptcy in 1998, together with the fact that subsequently, proceeds from that company's sureties were insufficient to fully fund reclamation at that company's mine sites in Montana. To date, no action has been taken to revoke or deny any permits held by our subsidiaries, however,

those subsidiaries have commenced litigation challenging the DEQ's assertion. The DEQ in turn has initiated litigation against Hecla Mining Company and our CEO in an effort to halt the development of the Montanore and Rock Creek projects. It is possible that the litigation may be resolved unfavorably, which could have the effect of delaying, increasing the costs of, or preventing exploration and development efforts at the two projects.

Mine closure and reclamation regulations impose substantial costs on our operations and include requirements that we provide financial assurance supporting those obligations. These costs could significantly increase.

We are required by U.S. federal and state laws and regulations and by laws and regulations in the foreign jurisdictions in which we operate to reclaim our mining properties. The specific requirements may change and vary among jurisdictions, but they are similar in that they aim to minimize long term effects of exploration and mining disturbance by requiring the control of possible deleterious effluents and re-establishment to some degree of pre-disturbance land forms and vegetation. In some cases, we are required to provide financial assurances as security for reclamation costs, which may exceed our estimates for such costs. Conversely, our reclamation costs may exceed the financial assurances in place and those assurances may ultimately be unavailable to us.

The EPA and other state, provincial or federal agencies may also require financial assurance for investigation and remediation actions that are required under settlements of enforcement actions under CERCLA or equivalent state regulations. Currently there are no financial assurance requirements for active mining operations under CERCLA; however, a December 2017 decision by EPA to not issue final regulations for financial assurance under CERCLA, as demanded in a lawsuit filed previously by several environmental organizations, has been challenged in court. Financial assurance rules under CERCLA, if adopted, could be financially material and adverse to us.

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Our environmental and asset retirement obligations may exceed the provisions we have made.

We are subject to significant environmental obligations. At December 31, 2018, we had accrued $108.4 million as a provision for environmental and asset retirement obligations. We cannot assure you that we have accurately estimated these obligations, and in the future our accrual could materially change. Our environmental and asset retirement obligations could have a material adverse impact on our cash flows, results of operations, or financial condition. For information on our potential environmental liabilities and asset retirement obligations, see *Note 5* and *Note 8* of *Notes to Consolidated Financial Statements*.

We face risks relating to transporting our products, as well as transporting employees and materials at Greens Creek.

Certain of the products we ship to our customers are subject to regulatory requirements regarding shipping, packaging, and handling of products that may be considered dangerous to human health or the environment. Although we believe we are currently in compliance with all material regulations applicable to shipping, packaging, and handling our products, the chemical properties of our products or existing regulations could change and cause us to fall out of compliance or force us to incur substantial additional expenditures to maintain compliance with applicable regulations. Further, we do not ship our own products but instead rely on third party carriers to ship our products to our customers. To the extent that any of our carriers are unable or unwilling to ship our products in accordance with applicable regulations, including because of difficulty in obtaining, or increased cost of, insurance, or are involved in accidents during transit, we could be forced to find alternative shipping arrangements, assuming such alternatives would be available, and we could face liability as a result of any accident. Any such changes to our current shipping arrangements or accidents involving the shipment of our products could have a material adverse impact on our operations and financial results.

In addition, Greens Creek operates on an island and is substantially dependent on various forms of marine transportation for the transportation of employees and materials to the mine and for the export of its products from the mine. Any disruption to these forms of marine transportation could adversely impact mine operations, and possible effects could include suspension of operations.

The titles to some of our properties may be defective or challenged.

Unpatented mining claims constitute a significant portion of our undeveloped property holdings in the United States. For our operations in Canada and Mexico, we hold mining claims, mineral concession titles and mining leases that are obtained and held in accordance with the laws of the respective countries, which provide Hecla the right to exploit and explore the properties. The validity of the claims, concessions and leases could be uncertain and may be contested.

Although we have conducted title reviews of our property holdings, title review does not necessarily preclude third parties (including governments) from challenging our title. In accordance with mining industry practice, we do not generally obtain title opinions until we decide to develop a property. Therefore, while we have attempted to acquire satisfactory title to our undeveloped properties, some titles may be defective.

Risks Relating to Our Common Stock and Our Indebtedness

The price of our stock has a history of volatility and could decline in the future.

Shares of our common and outstanding preferred stock are listed on the New York Stock Exchange. The market price for our stock has been volatile, often based on:

- changes in metals prices, particularly silver and gold;
- our results of operations and financial condition as reflected in our public news releases or periodic filings with the SEC;
- fluctuating proven and probable reserves;
- factors unrelated to our financial performance or future prospects, such as global economic developments, market perceptions of the attractiveness of particular industries, or the reliability of metals markets;
- political and regulatory risk;
- the success of our exploration, pre-development, and capital programs;

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- ability to meet production estimates;
- environmental, safety and legal risk;
- the extent and nature of analytical coverage concerning our business; and
- the trading volume and general market interest in our securities.

The market price of our stock at any given point in time may not accurately reflect our value, and may prevent stockholders from realizing a profit on, or recovering, their investment.

Our Series B preferred stock has a liquidation preference of $50 per share or $7.9 million.

If we were liquidated, holders of our preferred stock would be entitled to receive approximately $7.9 million (plus any accrued and unpaid dividends) from any liquidation proceeds before holders of our common stock would be entitled to receive any proceeds, but after holders of all notes issued under the indenture governing our Senior Notes received any proceeds.

We may not be able to pay common or preferred stock dividends in the future.

Since January 2010, we have paid all regular quarterly dividends on our Series B preferred stock. The annual dividend payable on the Series B preferred stock is currently $0.6 million. Prior to 2010, there were numerous occasions when we did not declare dividends on the Series B Preferred Stock, but instead deferred them. We cannot assure you that we will continue to pay preferred stock dividends in the future.

Our board of directors adopted a common stock dividend policy that has two components: (1) a dividend that links the amount of dividends on our common stock to our average quarterly realized silver price in the preceding quarter, and (2) a minimum annual dividend of $0.01 per share of common stock, in each case payable quarterly, when declared. See *Note 10* of *Notes to Consolidated Financial Statements* for more information on our common stock dividend policy.

From the fourth quarter of 2011 through and including the fourth quarter of 2018, our board of directors has declared a common stock dividend under the policy described above (although in some cases only a minimum dividend was declared and none relating to the average realized price of silver due to the prices not meeting the policy threshold). The declaration and payment of common stock dividends, whether pursuant to the policy or in addition thereto, is at the sole discretion of our board of directors, and we cannot assure you that we will continue to declare and pay common stock dividends in the future. In addition, the indenture governing our Senior Notes limits our ability to pay dividends.

Our existing stockholders are effectively subordinated to the holders of our Senior Notes.

In the event of our liquidation or dissolution, stockholders' entitlement to share ratably in any distribution of our assets would be subordinated to the holders of our Senior Notes. Any rights that a stockholder may have in the event of bankruptcy, liquidation or a reorganization of us or any of our subsidiaries, and any consequent rights of stockholders to realize on the proceeds from the sale of any of our or our subsidiaries' assets, will be effectively subordinated to the claims of the holders of our Senior Notes.

Additional issuances of equity securities by us would dilute the ownership of our existing stockholders and could reduce our earnings per share.

We may issue securities in the future in connection with raising capital, acquisitions, strategic transactions or for other purposes. To the extent we issue any additional equity securities (or securities convertible into equity), the ownership of our existing stockholders would be diluted and our earnings per share could be reduced.

The issuance of additional shares of our preferred or common stock in the future could adversely affect holders of common stock.

The market price of our common stock may be influenced by any preferred or common stock we may issue. Our board of directors is authorized to issue additional classes or series of preferred stock without any action on the part of our stockholders. This includes the power to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights and preferences over common stock with respect to dividends or upon the liquidation, dissolution or winding up of the business and other terms. If we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of the common stock or the market price of the common stock could be adversely affected.

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If a large number of shares of our common stock are sold in the public market, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.

We cannot predict what effect, if any, future issuances by us of our common stock or other equity will have on the market price of our common stock. Any shares that we may issue may not have any resale restrictions, and therefore could be immediately sold by the holders. The market price of our common stock could decline if certain large holders of our common stock, or recipients of our common stock, sell all or a significant portion of their shares of common stock or are perceived by the market as intending to sell these shares other than in an orderly manner. In addition, these sales could also impair our ability to raise capital through the sale of additional common stock in the capital markets.

The provisions in our certificate of incorporation, our by-laws and Delaware law could delay or deter tender offers or takeover attempts.

Certain provisions in our restated certificate of incorporation, our by-laws and Delaware law could make it more difficult for a third party to acquire control of us, even if that transaction could be beneficial to stockholders. These impediments include:

- the classification of our board of directors into three classes serving staggered three-year terms, which makes it more difficult to quickly replace board members;
- the ability of our board of directors to issue shares of preferred stock with rights as it deems appropriate without stockholder approval;
- a provision that special meetings of our board of directors may be called only by our chief executive officer or a majority of our board of directors;
- a provision that special meetings of stockholders may only be called pursuant to a resolution approved by a majority of our board of directors;
- a prohibition against action by written consent of our stockholders;
- a provision that our board members may only be removed for cause and by an affirmative vote of at least 80% of the outstanding voting stock;

- a provision that our stockholders comply with advance-notice provisions to bring director nominations or other matters before meetings of our stockholders;

- a prohibition against certain business combinations with an acquirer of 15% or more of our common stock for three years after such acquisition unless the stock acquisition or the business combination is approved by our board prior to the acquisition of the 15% interest, or after such acquisition our board and the holders of two-thirds of the other common stock approve the business combination; and

- a prohibition against our entering into certain business combinations with interested stockholders without the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of voting stock.

In addition, amendment of most of the provisions described above requires approval of at least 80% of the outstanding voting stock.

If we cannot meet the New York Stock Exchange continued listing requirements, the NYSE may delist our common stock.

Our common stock is currently listed on the NYSE. In the future, if we are not able to meet the continued listing requirements of the NYSE, which require, among other things, that the average closing price of our common stock be above $1.00 over 30 consecutive trading days, our common stock may be delisted. Our closing stock price on February 19, 2019 was $2.92.

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If we are unable to satisfy the NYSE criteria for continued listing, our common stock would be subject to delisting. A delisting of our common stock could negatively impact us by, among other things, reducing the liquidity and market price of our common stock; reducing the number of investors willing to hold or acquire our common stock, which could negatively impact our ability to raise equity financing; decreasing the amount of news and analyst coverage of us; and limiting our ability to issue additional securities or obtain additional financing in the future. In addition, delisting from the NYSE might negatively impact our reputation and, as a consequence, our business.

Our level of debt could impair our financial health and prevent us from fulfilling our obligations under our existing and future indebtedness.

As of December 31, 2018, we had total indebtedness of approximately $545.9 million, primarily in the form of our Senior Notes due 2021. Our level of debt and our debt service obligations could:

- make it more difficult for us to satisfy our obligations with respect to the Senior Notes;
- reduce the amount of funds available to finance our operations, capital expenditures and other activities;
- increase our vulnerability to economic downturns and industry conditions;
- limit our flexibility in responding to changing business and economic conditions, including increased competition and demand for new products and services;
- place us at a disadvantage when compared to our competitors that have less debt;
- increase our cost of borrowing; and
- limit our ability to borrow additional funds.

We and our subsidiaries may incur substantial additional indebtedness in the future. Although the indenture governing our Senior Notes contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of additional indebtedness that could be incurred in compliance with these restrictions could be substantial. In July 2018, we entered into our senior credit facility, which allows us to draw up to $250 million on a revolving basis. If new debt is added to our and our subsidiaries' existing debt levels, the risks associated with such debt that we currently face would

increase. In addition, the indenture governing the Senior Notes does not prevent us from incurring additional indebtedness under the indenture.

Any downgrade in the credit ratings assigned to us or our debt securities could increase future borrowing costs, adversely affect the availability of new financing and may result in increased collateral requirements under our existing surety bond portfolio.

As of February 19, 2019, our Senior Notes were rated “B+" with a stable outlook by Standard and Poor’s and “B3" with a stable outlook by Moody’s Investors Service. We cannot assure you that any rating currently assigned by Standard & Poor’s or Moody’s to us or our debt securities (including the Senior Notes) will remain unchanged for any given period of time or that a rating will not be lowered if, in that rating agency’s judgment, future circumstances relating to the basis of the rating so warrant. If we are unable to maintain our outstanding debt and financial ratios at levels acceptable to the credit rating agencies, or should our business prospects or financial results deteriorate, including as a result of declines in silver and gold prices or other factors beyond our control, our ratings could be downgraded by the rating agencies. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading would likely adversely impact us, including our ability to obtain financing on favorable terms, if at all, increase borrowing costs, result in increased collateral requirements under our surety bond portfolio, and have an adverse effect on the market price of our securities, including our Senior Notes.

Our Senior Notes and the guarantees thereof are effectively subordinated to any of our and our guarantors’ secured indebtedness to the extent of the value of the collateral securing that indebtedness.

Our Senior Notes and the guarantees thereof are not secured by any of our assets or the assets of our subsidiaries. The indenture governing the Senior Notes permits us to incur secured debt up to specified limits. As a result, the Senior Notes and the guarantees thereof are effectively subordinated to our and our subsidiary guarantors’ future secured indebtedness with respect to the collateral that secures such indebtedness, including any borrowings under our revolving credit facility. Upon a default in payment on, or the acceleration of, any of our secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding involving us or such guarantor, the proceeds from the sale of collateral securing any secured indebtedness will be available to pay obligations on the Senior Notes only after such secured indebtedness has been paid in full. As a result, the holders of the Senior Notes may receive less, ratably, than the holders of secured debt in the event of a bankruptcy, insolvency, liquidation, dissolution, reorganization or other insolvency proceeding involving us or such guarantor.

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Any draw-downs on our $250 million revolving credit facility would be secured debt. With the exception of the $3.0 million in letters of credit outstanding, we did not have a balance drawn on the revolving credit facility as of December 31, 2018.

We may be unable to generate sufficient cash to service all of our indebtedness and meet our other ongoing liquidity needs and may be forced to take other actions to satisfy our obligations under our indebtedness, which may be unsuccessful.

Our ability to make scheduled payments or to refinance our debt obligations and to fund our planned capital expenditures and other ongoing liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that borrowings will be available to us to (1) pay the principal, premium, if any, and interest on our indebtedness, including the Senior Notes which are due May 1, 2021, or (2) to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity; however, we may be unable to do so on commercially reasonable terms or at all.

In addition, we conduct substantially all of our operations through our subsidiaries, certain of which are not guarantors of our indebtedness. Accordingly, repayment of our indebtedness is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are guarantors of our indebtedness, our subsidiaries do not have any obligation to pay amounts due with respect to our indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity, and under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the credit agreement governing our revolving credit facility and the indenture governing our Senior Notes limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments and the indenture governing our Senior Notes may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The terms of our debt impose restrictions on our operations.

The indenture governing our Senior Notes includes a number of significant restrictive covenants. These covenants could adversely affect us by limiting our ability to plan for or react to market conditions or to meet our capital needs. These covenants, among other things:

- make it more difficult for us to satisfy our obligations with respect to the Senior Notes and our other debt;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or require us to make divestitures;
- require a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for and reacting to changes in the industry in which we compete;
- place us at a disadvantage compared to other, less leveraged competitors; and
- increase our cost of borrowing additional funds.

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These restrictions may affect our ability to grow in accordance with our strategy. Further, our financial results, our substantial indebtedness and our credit ratings could adversely affect the availability and terms of any financing.

In addition, our revolving credit facility requires us to comply with various covenants. A breach of any of these covenants could result in an event of default under the agreement governing our revolving credit facility that, if not cured or waived, could give the holders of the defaulted debt the right to terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately. Acceleration of any of our debt could result in cross-defaults under our other debt instruments, including the indenture governing our Senior Notes, as well as certain forward sales contracts which may be outstanding from time to time. Our assets and cash flow may be insufficient to repay borrowings fully under all of our outstanding debt instruments if any of our debt instruments are accelerated upon an event of default, which could force us into bankruptcy or liquidation. In such an event, we may be unable to repay our debt obligations. In addition, in some instances, this would create an event of default under the indenture governing our Senior Notes.

Our Senior Notes are structurally subordinated to all liabilities of our non-guarantor subsidiaries.

The Senior Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries that are not guaranteeing the Senior Notes, which include all of our non-domestic subsidiaries and certain other subsidiaries. These non-guarantor subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Senior Notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of the Senior Notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our non-guarantor subsidiaries, these non-guarantor subsidiaries will pay the holders of their debts, holders of preferred equity interests and their trade creditors before they will be able to distribute any of their assets to us or any guarantor. Unless they are guarantors of the Senior Notes or our other indebtedness, our subsidiaries do not have any obligation to pay amounts due on the Senior Notes or our other indebtedness or to make funds available for that purpose.

For the year ended December 31, 2018, our non-guarantor subsidiaries represented 46% of our sales of metals and 42% of our operating expenses. As of December 31, 2018, our non-guarantor subsidiaries represented 25% of our total assets and 16% of our total liabilities, including trade payables, deferred tax liabilities and royalty obligations but excluding intercompany liabilities.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Borrowings under our credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease. Assuming all revolving loans were fully drawn, each one percentage point change in interest rates would result in a $2.5 million change in annual cash interest expense on our credit facility.

Key terms of the Senior Notes will be suspended if the Senior Notes achieve investment grade ratings and no default or event of default has occurred and is continuing.

Many of the covenants in the indenture governing the Senior Notes will be suspended if the Senior Notes are rated investment grade by Standard & Poor's and Moody's provided at such time no default or event of default has occurred and is continuing, including those covenants that restrict, among other things, our ability to pay dividends, incur debt and to enter into certain other transactions. We cannot assure you that the Senior Notes will ever be rated investment grade. However, suspension of these covenants would allow us to engage in certain transactions that would not be permitted while these covenants were in force, and the effects of any such transactions will be permitted to remain in place even if the Senior Notes are subsequently downgraded below investment grade.

We may be unable to repurchase Senior Notes in the event of a change of control as required by the indenture.

Upon the occurrence of certain kinds of change of control events specified in the indenture, holders of the Senior Notes will have the right to require us to repurchase all of the Senior Notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. Any change of control also would constitute a default under our revolving credit facility. Therefore, upon the occurrence of a change of control, the lenders under our revolving credit facility would have the right to accelerate their loans and, if so accelerated, we would be required to repay all of our outstanding obligations under such facility. We may not be able to pay the Senior Note holders the required price for their notes at that time because we may not have available funds to pay the repurchase price. In addition, the terms of other existing or future debt may prevent us from paying the Senior Note holders. We cannot assure you that we would be able to repay such other debt or obtain consents from the holders of such other debt to repurchase the Senior Notes. Any requirement to offer to purchase any outstanding Senior Notes may result in us having to refinance our outstanding indebtedness, which we may not be able to do. In addition, even if we were able to refinance our outstanding indebtedness, such financing may be on terms unfavorable to us.

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Holders of the Senior Notes may not be able to determine when a change of control giving rise to their right to have the Senior Notes repurchased has occurred following a sale of "substantially all" of our assets.

The definition of change of control in the indenture governing the Senior Notes includes a phrase relating to the sale of "all or substantially all" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Senior Notes to require us to repurchase its notes as a result of a sale of less than all our assets to another person may be uncertain.

Federal and state fraudulent transfer laws may permit a court to void the Senior Notes or any of the guarantees thereof, and if that occurs, holders of the Senior Notes may not receive any payments on the notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the Senior Notes and the incurrence of any guarantees of the Senior Notes. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the Senior Notes or any guarantees thereof could be voided as a fraudulent transfer or conveyance if we or any existing or future subsidiary guarantors, as applicable, (a) issued the Senior Notes or incurred such guarantee with the intent of hindering, delaying or defrauding creditors or (b) received less than reasonably equivalent value or fair consideration in return for either issuing the Senior Notes or incurring the guarantee and, in the case of (b) only, one of the following is also true at the time thereof:

- we or the subsidiary guarantor, as applicable, were insolvent or rendered insolvent by reason of the issuance of the Senior Notes or the incurrence of the guarantee;
- the issuance of the Senior Notes or the incurrence of the guarantee left us or the subsidiary guarantor, as applicable, with an unreasonably small amount of capital or assets to carry on the business; or
- we or the subsidiary guarantor intended to, or believed that we or such subsidiary guarantor would, incur debts beyond our or such subsidiary guarantor's ability to pay as they mature.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that any subsidiary guarantor did not receive reasonably equivalent value or fair consideration for its guarantee to the extent such subsidiary guarantor did not obtain a reasonably equivalent benefit from the issuance of the Senior Notes.

We cannot be certain as to the standards a court would use to determine whether or not we or any subsidiary guarantor was insolvent at the relevant time or, regardless of the standard that a court uses, whether the Senior Notes or any guarantees would be subordinated to our or any subsidiary guarantor's other debt. In general, however, a court would deem an entity insolvent if:

- the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

The subsidiary guarantees contain a "savings clause" intended to limit the subsidiary guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its subsidiary guarantee to be a fraudulent transfer. This provision may not be effective to protect any subsidiary guarantees from being avoided under fraudulent transfer law. Furthermore, in *Official Committee of Unsecured Creditors of TOUSA, Inc. v Citicorp North America, Inc.*, the U.S. Bankruptcy Court in the Southern District of Florida held that a savings clause similar to the savings clause used in the indenture was unenforceable. As a result, the subsidiary guarantees in that case were found to be fraudulent conveyances. The United States Court of Appeals for the Eleventh Circuit affirmed the liability findings of the Bankruptcy Court without ruling directly on the enforceability of savings clauses generally. If the *TOUSA* decision were followed by other courts, the risk that the guarantees would be deemed fraudulent conveyances would be significantly increased.

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To the extent that any subsidiary guarantee is avoided, then, as to that subsidiary, the guaranty would not be enforceable.

If a court were to find that the issuance of the Senior Notes or the incurrence of any guarantee was a fraudulent transfer or conveyance, the court could (1) void the payment obligations under the Senior Notes or such guarantee, (2) subordinate the Senior Notes or such guarantee to presently existing and future indebtedness of ours or of the related subsidiary guarantor or (3) require the holders of the Senior Notes to repay any amounts received with respect to such guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, holders of the Senior Notes may not receive any repayment on the Senior Notes. Further, the avoidance of the Senior Notes could result in an event of default with respect to our and our subsidiaries' other debt that could result in acceleration of that debt.

Finally, as a court of equity, a bankruptcy court could subordinate the claims in respect of the Senior Notes to other claims against us under the principle of equitable subordination if the court determines that (1) the holders of the Senior Notes engaged in some type of inequitable conduct, (2) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of the Senior Notes and (3) equitable subordination is not inconsistent with the provisions of the Bankruptcy Code.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

OPERATING PROPERTIES

The Greens Creek Unit

Various of our subsidiaries collectively own 100% of the Greens Creek mine, located on Admiralty Island near Juneau in southeast Alaska. Admiralty Island is accessed by boat, float plane, or helicopter. On the island, the mine site and various surface facilities are accessed by 13 miles of all-weather gravel roads. The Greens Creek mine has been in

production since 1989, with a temporary care and maintenance period from April 1993 through July 1996. Since the start of production, Greens Creek has been owned and operated through various joint venture arrangements. For approximately 15 years prior to April 16, 2008, our wholly-owned subsidiary, Hecla Alaska LLC, owned an undivided 29.7% joint venture interest in the assets of Greens Creek. On April 16, 2008, we completed the acquisition of all of the equity of two Rio Tinto subsidiaries holding a 70.3% interest in the Greens Creek mine, and which previously operated the mine, for approximately $758.5 million. The acquisition gave us through various of our subsidiaries control of 100% of the Greens Creek mine.

The Greens Creek orebody contains silver, zinc, gold and lead, and lies within the Admiralty Island National Monument, an environmentally sensitive area. The Greens Creek property includes 440 unpatented lode mining claims, 58 unpatented millsite claims, 17 patented lode claims and one patented millsite. In addition, the Greens Creek site includes properties under lease from the U.S. Forest Service ("USFS") for a road right-of-way, mine portal and mill site access, camp site, mine waste area and tailings impoundment. The USFS leases have varying expiration terms. Greens Creek also has title to mineral rights on 7,301 acres of federal land acquired through a land exchange with the USFS. We are currently exploring, but not mining, on such federal land. The claims and leases above comprise a total area of approximately 24 square miles.

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The project consists of the mine, an ore concentrating mill, a tailings impoundment area, a ship-loading facility, camp facilities, a ferry dock, and other related infrastructure. The map below illustrates the location and access to Greens Creek:

The Greens Creek deposit is a polymetallic, stratiform, massive sulfide deposit. The host rock consists of predominantly marine sedimentary, and mafic to ultramafic volcanic and plutonic rocks, which have been subjected to multiple periods of deformation. These deformational episodes have imposed intense tectonic fabrics on the rocks. Mineralization occurs most often along the contact between a structural hanging wall of quartz mica carbonate phyllites and a structural footwall of graphitic and calcareous argillite. Major sulfide minerals are pyrite, sphalerite, galena, and tetrahedrite/tennanite.

Pursuant to a 1996 land exchange agreement, the joint venture owning Greens Creek transferred private property equal to a value of $1.0 million to the USFS and received exploration and mining rights to approximately 7,300 acres of land with mining potential surrounding the existing mine. Any production from new ore discoveries on the exchanged lands will be subject to a federal royalty included in the land exchange agreement. The royalty is only due on any production from reserves that are not part of Greens Creek's extralateral rights. Thus far, there has been no production triggering payment of the royalty. The royalty is 3% if the average value of the ore during a year is greater than the benchmark, and 0.75% if the value is equal to or less than the benchmark. The benchmark of $120 per ton was adjusted annually in July according to the Gross Domestic Product (GDP) Implicit Price Deflator until the year 2016. The benchmark was fixed after 2016 and was approximately $161 per ton at December 31, 2018.

Greens Creek is an underground mine accessed by a ramp from surface which produces approximately 2,300 tons of ore per day. The primary mining methods are cut and fill and longhole stoping. The Greens Creek ore processing facility includes a SAG/ball mill grinding circuit to grind the run of mine ore to liberate the minerals and produce a slurry suitable for differential flotation of mineral concentrates. A gravity circuit recovers free gold that exists as electrum, a gold/silver alloy in the ore. Gravity concentrates are produced from this circuit prior to flotation. Three flotation concentrates are produced: a lead concentrate which contains most of the silver recovered; a zinc concentrate which is low in precious metals content; and a zinc-rich bulk concentrate that contains gold, silver, zinc, and lead and must be marketed to an imperial smelter. Doré is produced from the gravity concentrate by a third-party processor and further refined and sold to precious metal traders. The concentrate products are sold to a number of smelters and traders worldwide. See *Note 12* of *Notes to Consolidated Financial Statements* for information on the significant customers for Greens Creek's products. Concentrates are shipped from the Hawk Inlet marine terminal about nine miles from the mill.

In 2018, ore was processed at an average rate of approximately 2,316 tons per day and total mill recovery was approximately 77% for silver, 88% for zinc, 80% for lead and 65% for gold. The processing facility was originally constructed in 1988, with the first production commencing in 1989. Various modifications and upgrades have been made since that time. Changes to the flotation circuit have included: installation of regrind mills in 1992; mill

recommissioning in 1996; expansion of concentrate cleaning equipment in 2000 and 2001; addition of a swing cell option in 2004, allowing for a reduction in bulk concentrate production; addition of an on-stream analyzer in 2006; expansion of lead rougher equipment in 2007; retrofit of two column sparge systems in 2010 and 2011; replacement of the carbon flotation columns complete with sparger upgrades in 2012 and 2013; installation of a replacement on-stream analyzer with an additional multiplexer in 2013 and 2014; and replacement of the sulfuric acid system with a carbon dioxide system for pH control in 2015. Significant changes to the grinding circuit since original construction have included a new motor, two stage screening, and various internal lining modifications for the SAG mill, and replacement of the primary cyclones and the addition of a trommel magnet in the ball mill. In 2017, the swing cells were replaced with Woodgrove staged flotation reactor cells.

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Electricity for the Greens Creek unit is provided through the purchase of surplus hydroelectric power from Alaska Electric Light and Power Company (“AEL&P”), to the extent it is available after the power needs of Juneau and the surrounding area are met. When weather conditions are not favorable to maintain lake water levels sufficient for all of the power needs at Greens Creek to be met by available hydroelectric power, the mine relies on power provided by on-site diesel generators.

The employees at Greens Creek are employees of Hecla Greens Creek Mining Company, our wholly-owned subsidiary, and are not represented by a bargaining agent. There were 369 employees at the Greens Creek unit at December 31, 2018.

Definition drilling in 2018 focused on upgrading mineralized material at the East Ore, 9A, Northwest West, Deep Southwest, West, Upper Plate, Gallagher and Deep 200 South zones. After applying economic analysis to these drilling results, we believe this mineralized material will likely be converted into reserves in the future, primarily in the East Ore, 9A, Upper Plate, 200 South and West zones. Ore tonnage as well as silver and gold ounces and tons of zinc and lead in the reserve experienced a notable increase driven by high-grade definition and exploration drill results, the new net smelter return terms (improved by-product credits and payable portions for zinc and gold), new resource modeling techniques, as well as various design changes made to reduce dilution. Underground exploration activities at Greens Creek in 2018 continued to define new mineralization along trend of the East, Gallagher, 9A, Deep 200 South, Southwest Bench and Upper Plate zones.

Planned activities to potentially add reserves in 2019 include additional drilling of the East Ore, Northwest West, 9A, Upper Plate, Lower Southwest and Deep 200 South zones as well as a new exploration drift in the Upper Plate. Exploration targets in 2019 are expected to include Upper Plate, Deep Southwest, Northwest West, and 200 South zones. Development is planned in 2019 for a major new exploration drift which we believe will enable definition of targets in the deepest areas of the 200 South Zone.

As of December 31, 2018, we have recorded a $41.8 million asset retirement obligation for reclamation and closure costs. We maintained a $88.1 million reclamation and long-term water treatment bond for Greens Creek as of December 31, 2018. The net book value of the Greens Creek unit property and its associated plant, equipment and mineral interests was approximately $605.7 million as of December 31, 2018.

Based on current estimates of reserves and mineralized material, the currently expected remaining mine life at Greens Creek is approximately 11 years. Information with respect to production, Cost of sales and other direct production costs and depreciation, depletion and amortization, average Cash Cost, After By-product Credits, Per Silver Ounce, All-In Sustaining Costs ("AISC"), After By-product Credits, Per Silver Ounce, and proven and probable ore reserves is set forth in the following table.

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	Years Ended December 31,		
Production	2018	2017	2016
Ore milled (tons)	845,398	839,589	815,639
Silver (ounces)	7,953,003	8,351,882	9,253,543
Gold (ounces)	51,493	50,854	53,912
Zinc (tons)	55,350	52,547	57,729
Lead (tons)	18,960	17,996	20,596
Cost of sales and other direct production costs and depreciation, depletion and amortization	$190,066	$201,803	$191,297
Cash Cost, After By-product Credits, Per Silver Ounce [1]	$(1.13)	$0.71	$3.84
AISC, After By-Product Credits, per Silver Ounce [1]	$5.58	$5.76	$9.42
Proven Ore Reserves[2,3,4,5,6,7]			
Total tons	6,200	7,200	9,100
Silver (ounces per ton)	13.8	12.2	15.5
Gold (ounces per ton)	0.10	0.09	0.09
Zinc (percent)	7.0	6.1	6.6
Lead (percent)	2.8	2.4	2.5
Contained silver (ounces)	85,800	88,600	140,400
Contained gold (ounces)	600	600	800
Contained zinc (tons)	440	440	600
Contained lead (tons)	180	170	230
Probable Ore Reserves[2,3,4,5,6,7]			
Total tons	9,269,500	7,542,500	7,585,000
Silver (ounces per ton)	11.5	11.9	11.7
Gold (ounces per ton)	0.09	0.10	0.09
Zinc (percent)	7.6	8.1	7.6
Lead (percent)	2.8	3.0	2.9
Contained silver (ounces)	106,972,000	90,130,300	88,728,600
Contained gold (ounces)	839,500	724,800	672,100
Contained zinc (tons)	706,040	614,390	575,530
Contained lead (tons)	262,760	224,880	217,050
Total Proven and Probable Ore Reserves[2,3,4,5,6,7]			
Total tons	9,275,700	7,549,700	7,594,100
Silver (ounces per ton)	11.5	11.9	11.7
Gold (ounces per ton)	0.09	0.10	0.09
Zinc (percent)	7.6	8.1	7.6
Lead (percent)	2.8	3.0	2.9
Contained silver (ounces)	107,057,800	90,218,900	88,869,000
Contained gold (ounces)	840,100	725,400	672,900
Contained zinc (tons)	706,480	614,830	576,130
Contained lead (tons)	262,940	225,050	217,280

(1)

Includes by-product credits from gold, lead and zinc production. Cash Cost, After By-product Credits, Per Silver Ounce and AISC, After By-product Credits, Per Silver Ounce represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe these measurements provide indicators of economic performance and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other operating mining properties. A reconciliation of cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, to these non-GAAP measures can be found in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

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(2) The term “reserve” means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term “economically,” as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions. The term “legally,” as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, we must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a time frame consistent with our current mine plans.

(3) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve metals price assumptions, anticipated mill recoveries and smelter payables, and cash operating costs. Due to multiple ore metals, and complex combinations of ore types, metal ratios and metallurgical performances at Greens Creek, the cutoff grade is expressed in terms of net smelter return (“NSR”), rather than metal grade. The cutoff grade at Greens Creek is $190 per ton NSR for all zones except Gallagher, which has a cutoff grade of $200 per ton NSR. Our estimates of proven and probable reserves are based on the following metals prices:

	December 31,		
	2018	2017	2016
Silver (per ounce)	$14.50	$14.50	$14.50
Gold (per ounce)	$1,200	$1,200	$1,200
Lead (per pound)	$0.90	$0.90	$0.90
Zinc (per pound)	$1.15	$1.05	$1.05

(3) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. The 2018 reserve model assumes average total mill recoveries of 78% for silver, 67% for gold, 88% for zinc and 81% for lead.

(4) The increase in reserves in 2018 versus 2017 was due to compilation and review of historical data and addition of remnant reserve areas, new reserve areas and zone extensions based on data from new drills holes, partially offset by continued depletion of the deposit through production. The increase in reserves in 2017 versus 2016 was due to the addition of data from new drill holes, partially offset by continued depletion of the deposit through production.

(5) Probable reserves at the Greens Creek unit are based on average drill spacing of 50 to 100 feet. Proven reserves typically require that mining samples are partly the basis of the ore grade estimates used, while probable reserve grade estimates can be based entirely on drilling results. The proven reserves reported for Greens Creek for 2018 represent stockpiled ore.

(6) Greens Creek reserve estimates were prepared by Paul Jensen, Chief Geologist, Alex Winant, Resource Geologist, Kerry Lear, Senior Resource Geologist (contractor), and Kyle Mehalek, Planning Engineer, at the Greens Creek

unit and reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

(7) An independent review of the 2016 reserve model for Greens Creek was performed by Roscoe Postle Associates Inc. during 2017. An independent review of the modeling process at Greens Creek was performed by Amec Foster Wheeler E&C Services, Inc. during 2016.

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The Lucky Friday Unit

Since 1958, we have owned and operated the Lucky Friday mine, a deep underground silver, lead and zinc mine located in the Coeur d'Alene Mining District in northern Idaho. Lucky Friday is one-quarter mile east of Mullan, Idaho, and is adjacent to U.S. Interstate 90. The mine site and various surface facilities are accessed by paved roads from U.S. Interstate 90. The Lucky Friday mine is comprised of 710 acres of patented mining claims and fee lands and 535 acres of unpatented mining claims. We also own or control approximately 26 square miles of mineral interests, which include patented mining and millsite claims, fee lands, and unpatented mining claims, that are adjacent to the Lucky Friday mine property. Below is a map illustrating the location and access to the Lucky Friday unit:

There have been two ore-bearing structures mined at the Lucky Friday unit. The first, mined through 2001, was the Lucky Friday Vein, a fissure vein typical of many in the Coeur d'Alene Mining District. The ore body is located in the Revett Formation, which is known to provide excellent host rocks for a number of ore bodies in the Coeur d'Alene Mining District. The Lucky Friday Vein strikes northeasterly and dips steeply to the south with an average width of six to seven feet. Its principal ore minerals are galena and tetrahedrite with minor amounts of sphalerite and chalcopyrite. The ore occurs as a single continuous ore body in and along the Lucky Friday Vein. The major part of the ore body has extended from 1,200 feet to 6,020 feet below surface.

The second ore-bearing structure, known as the Lucky Friday Expansion Area, or Gold Hunter, has been mined since 1997 pursuant to an operating agreement with Silver Hunter Mining Company ("Silver Hunter"), our wholly owned subsidiary. During 1991, we discovered several mineralized structures containing some high-grade silver ores in an area known as the Gold Hunter property, approximately 5,000 feet northwest of the then existing Lucky Friday workings. This discovery led to the development of the Gold Hunter property on the 4900 level. At approximately 4,900 feet below surface, the Gold Hunter Veins are hosted in a 200-foot thick siliceous lens within the Wallace Formation that transitions to the St. Regis Formation below 5,900 feet. We are currently mining at approximately 5,900 feet below surface. The veins are sub-parallel, and are numbered consecutively from the hanging wall of the favorable horizon to the footwall. The strike of the vein system is west-northwest with a dip of 85 degrees to the south. The 30 Vein, which has been demonstrated to contain higher silver grades, represents approximately 66% of our current proven and probable ore reserve tonnages, while the remaining 34% of our reserves are contained in various intermediate veins having lower silver grades than 30 Vein. The width of 30 Vein ranges from approximately 0.5 feet to 15.4 feet, with an average width of approximately 7.4 feet. While the veins share many characteristics with the Lucky Friday Vein, the Gold Hunter area possesses some mineralogical and rock mechanics differences that make it more favorable to mine at this time. On November 6, 2008, we, through Silver Hunter, completed the acquisition of substantially all of the assets of Independence Lead Mines Company, which held an interest in the Gold Hunter property. The acquisition included all future interests or royalty obligations to Independence and the mining claims pertaining to the operating agreement with Hecla Limited that was assigned to Silver Hunter.

The principal mining method at the Lucky Friday unit is ramp access, cut and fill. This method utilizes rubber-tired equipment to access the veins through ramps developed outside of the ore body. Once a cut is taken along the strike of the vein, it is backfilled with cemented tailings and the next cut is accessed, either above or below, from the ramp system.

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In 2017, we began work with a third-party equipment manufacturer to develop a remote vein miner ("RVM"), a disc-cutting, continuous-mining machine. We believe RVMs could be used to eliminate the current drill-and-blast method and increase safety and productivity at Lucky Friday. We conducted engineering of the machine and ordered long-lead components for the first RVM in late 2017, and manufacturing and engineering work continued on the machine in 2018.

As discussed further below, the unionized employees at Lucky Friday have been on strike since mid-March 2017, resulting in limited production during that time. The mill has operated intermittently during the strike period, and total mill recovery was approximately 91% for silver and lead and 93% for zinc during 2018. Ore at the Lucky Friday is processed using a conventional lead/zinc flotation flowsheet, with process control guided by a real-time, on-line analyzer. Run of mine ore is crushed in a conventional three stage crushing plant consisting of a primary jaw crusher, and a secondary crushing circuit, and tertiary cone crushing stage. Crushed ore is ground in a ball mill, and the ground slurry reports to the lead flotation circuit. The lead circuit tailings report to the zinc flotation circuit. Lead and zinc concentrates are thickened and filtered, and final concentrate products are shipped to smelters for final processing. The original flotation mill was constructed in 1960 and had a capacity of 750 tons per day. Various modifications and upgrades have been made since that time, including: installation of a 1,000 ton course ore bin and replacement of the ball mill in 1984 to increase processing capacity to 1,000 tons per day; replacement of the double-deck crushing screen with a triple-deck screen, installation of a tertiary cone crushing stage, lead concentrate flash flotation equipment, four ball mill cyclones, a mill feed sampler, and lead concentrate column cleaners and thickeners in 2005; addition of dust collection equipment in the crushing plant in 2006; installation of zinc concentrate flash flotation, conditioning, and column cleaner equipment, and an on-stream analyzer in 2007; construction of two new water treatment plants in 2008, with ongoing enhancements to those facilities since that time; addition of a discharge event pond in 2009; sand cyclone and reagent equipment in 2011; a disc filter added at Mine Tailing Impoundment Structure ("MTIS") 4 in 2016; and various other mill refurbishments. Current processing capacity of the Lucky Friday facility is approximately 1,000 tons per day. All lead and zinc concentrate sales during 2018 were shipped to Teck Resources Limited's smelter in Trail, British Columbia, Canada.

During 2008, we initiated engineering, procurement and development activities relating to construction of #4 Shaft, which was completed in January 2017. The #4 Shaft provides access from the 4900 level down to the 8300 level, with a total shaft depth of 8620 feet. Completion of #4 Shaft and associated development allows us to mine mineralized material below our current workings and provide deeper platforms for exploration.

During 2014, Lucky Friday continued implementation of an Environmental Management System and completed installation of remote stream gauging stations. These stations assist in performing daily monitoring activities in nearby receiving waters as required by our effluent discharge permit. Additionally, we have completed reclamation activities on the 26 acre MTIS 4 borrow site and have achieved final stabilization of the disturbed area. In 2015, closure plans and costs were updated and developed for MTIS 3 and 4. The closure cost for MTIS 3 is based on the closure design and cost estimate developed by a third-party firm in conjunction with cost estimates prepared by Lucky Friday personnel to complete necessary associated work to facilitate the closure of the impoundment. The closure cost for MTIS 4 is based on the most recent closure cap design and was prepared for us by a consultant. At December 31, 2018, an asset retirement obligation of approximately $10.7 million had been recorded for closure of MTIS 3 and 4, reclamation and closure of the mine and mill upon the end of the known mine life based on a revised plan developed

in 2016, and ongoing monitoring and maintenance.

The net book value of the Lucky Friday unit property and its associated plant, equipment and mineral interests was approximately $435.6 million as of December 31, 2018. The age of the facilities at Lucky Friday ranges from the 1950s to 2018.

At December 31, 2018, there were 287 employees at Lucky Friday. The United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union is the bargaining agent for the Lucky Friday's 214 hourly employees. As further discussed in *Item 1A. Risk Factors,* the most recent labor agreement expired on April 30, 2016. On February 19, 2017, the unionized employees voted against our contract offer. On March 13, 2017, the unionized employees went on strike, and have been on strike since that time. Production at Lucky Friday was suspended from the start of the strike, until limited production by salaried personnel commenced in July 2017.

Avista Corporation supplies electrical power to the Lucky Friday unit.

There was no exploration or definition drilling during 2018 due to the strike. Upon restart, definition drilling is expected to resume near the 6350-52 Ramp West, 6500 East Lateral, and 6500 Far East to test the 30 Vein and a portion of the 30 Vein offset by the Silver Fault. Drilling is also expected to refine the intermediate vein package at the 6500 level and upgrade 30 Vein resources on the eastern end of the deposit. These adjacent veins are roughly defined as intermediate veins which have become an increasingly significant component of the mine's production mix within the life of mine plan. Exploration may resume on the far-east end of the Lucky Friday Extension deposit. The goal of this exploration drilling is to define vein extensions for the 30 Vein and intermediate veins.

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Based on current estimates of reserves and mineralized material, the currently expected mine life at Lucky Friday is approximately 17 years. Information with respect to the Lucky Friday unit's production, Cost of sales and other direct production costs and depreciation, depletion and amortization, average Cash Cost, After By-product Credits, Per Silver Ounce, AISC, After By-product Credits, Per Silver Ounce, and proven and probable ore reserves for the past three years is set forth in the table below.

	Years Ended December 31,		
Production	**2018**	**2017**	**2016**
Ore milled (tons)	17,309	70,718	293,875
Silver (ounces)	169,041	838,658	3,596,010
Lead (tons)	1,131	4,737	21,876
Zinc (tons)	673	2,560	10,787
Cost of sales and other direct production costs and depreciation, depletion and amortization	$9,750	$15,107	$76,210
Cash Cost, After By-product Credits, Per Silver Ounce [1]	$—	$5.81	$8.89
AISC, After By-product Credits, Per Silver Ounce [1]	$—	$12.48	$20.66
Proven Ore Reserves[2,3,4,5,6,7]			
Total tons	4,230,200	4,245,800	3,307,900
Silver (ounces per ton)	15.4	15.4	17.5
Lead (percent)	9.6	9.6	10.4
Zinc (percent)	4.1	4.1	3.3
Contained silver (ounces)	65,234,100	65,448,400	57,924,800
Contained lead (tons)	406,080	407,520	345,360
Contained zinc (tons)	174,630	175,400	110,400
Probable Ore Reserves[2,3,4,5,6,7]			
Total tons	1,386,600	1,386,600	1,541,600
Silver (ounces per ton)	11.4	11.4	12.9
Lead (percent)	7.6	7.6	7.9
Zinc (percent)	3.7	3.7	2.8
Contained silver (ounces)	15,815,300	15,815,300	19,912,100
Contained lead (tons)	104,720	104,720	121,640
Contained zinc (tons)	50,640	50,640	43,410
Total Proven and Probable Ore Reserves[2,3,4,5,6,7]			
Total tons	5,616,800	5,632,400	4,849,500
Silver (ounces per ton)	14.4	14.4	16.1
Lead (percent)	9.1	9.1	9.6
Zinc (percent)	4.0	4.0	3.2
Contained silver (ounces)	81,049,400	81,263,700	77,836,900
Contained lead (tons)	510,800	512,240	467,000
Contained zinc (tons)	225,270	226,040	153,810

(1) Includes by-product credits from lead and zinc production. Cash Cost, After By-product Credits, Per Silver Ounce and AISC, After By-product Credits, Per Silver Ounce, represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe these measurements provide indicators of economic performance and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other operating mining properties. A reconciliation of cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, to these non-GAAP measures can be found in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

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(2) The term “reserve” means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term “economically,” as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions. The term “legally,” as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, we must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a time frame consistent with our current mine plans.

(3) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve metals price assumptions, anticipated mill recoveries and smelter payables, and cash operating costs. Due to multiple ore metals, and complex combinations of ore types, metal ratios and metallurgical performances at Lucky Friday, the cutoff grade is expressed in terms of net smelter return (“NSR”), rather than metal grade. The cutoff grade at Lucky Friday ranges from $216 per ton NSR to $231 per ton NSR. Our estimates of proven and probable reserves are based on the following metals prices:

	December 31,		
	2018	**2017**	**2016**
Silver (per ounce)	$14.50	$14.50	$14.50
Lead (per pound)	$0.90	$0.90	$0.90
Zinc (per pound)	$1.15	$1.05	$1.05

(4) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. The 2018 reserve model assumes average total mill recoveries of 96% for silver, 94% for lead and 90% for zinc.

(5) The change in reserves in 2018 from 2017 was because of depletion of the deposit through production. The change in reserves in 2017 versus 2016 was because of inclusion of additional intermediate vein material, partially offset by depletion of the deposit through production.

(6) Lucky Friday reserve estimates were prepared by Ben Chambers, Mine Geologist, and Wes Johnson, Technical Services Manager, at the Lucky Friday unit and Joshua Pritts, Resource Geologist at Hecla Limited. The estimates were reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

(7) An independent review of the 2016 reserve model for Lucky Friday was performed by Roscoe Postle Associates Inc. during 2017.

The Casa Berardi Unit

In 2013, as a result of our acquisition of Aurizon Mines Ltd. ("Aurizon"), we acquired the Casa Berardi mine, located 95 kilometers north of La Sarre in the Abitibi Region of northwestern Quebec, Canada. The mining site is reached via a 38 kilometer all season gravel road which connects with the provincial and national paved roads grid. The property borders Ontario to the west and covers parts of Casa Berardi, Dieppe, Raymond, D'Estrees, and Puiseaux townships. The project area extends east-west for more than 37 kilometers and reaches 3.5 kilometers north-south. The Casa Berardi mine gold deposits are located along a 5 kilometer east-west mineralized corridor.

Aurizon acquired the claims, leases and infrastructure comprising the Casa Berardi mine project in 1998 from TVX Gold Inc. Aurizon engaged in exploration programs beginning in 1998, and production began in late 2006.

The nearest commercial airport to the Casa Berardi mine is located at Rouyn-Noranda. La Sarre can be reached from Rouyn-Noranda via provincial roads 101 and 111. The 38 kilometer all-season gravel road to the mine site branches off from the paved Route des Conquérants road, which runs north from its intersection with road 393 north of La Sarre and passes through the village of Villebois. The branch is approximately 21 kilometers north of Villebois. A gravel road links the East Mine and the West Mine (which roughly represent the east-west boundaries of the mining lease), and a number of forestry roads provide access to the rest of the project area, from east and west.

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Hecla Quebec Inc., Hecla's wholly owned subsidiary, owns a 100% interest in the mineral titles and mining leases comprising the current Casa Berardi mine. The Casa Berardi mine is composed of 69 contiguous claims, covering 3,148.3 hectares (7,779.6 acres) and two mining leases covering 481.4 hectares (1,189.7 acres). The total area of the Casa Berardi property is 3,629.75 hectares (8,969.3 acres). All the claims and leases are in good standing. We own an additional approximately 45 square miles of exploration property located adjacent to the current Casa Berardi mine and comprised of approximately 230 claims, most of which are subject to a 1% NSR royalty in favor of Lake Shore Gold Corp.

We also hold a non-exclusive lease BNE 25938 for a sand and gravel pit, tailings lease 70218, and an additional 12 acres of land contiguous to mining lease BM 768 for rock waste material storage.

Under the Quebec Mining Act, claims are required to be renewed every two years. Statutorily prescribed minimum work commitments apply to all claims and leases. As of December 31, 2018, the claims and leases comprising part of the Casa Berardi mine have excess work credits of CAD$10.7 million. Claims and leases for our other projects in Quebec have excess work credits of CAD$35.3 million as of December 31, 2018.

The project consists of an underground mine and the East Mine Crown Pillar open pit mine. The underground mine has two shafts; the West Mine shaft reaching a vertical depth of 1096 meters, and the unused East Mine shaft located 4.3 kilometers to the east, and going down to a vertical depth of 379 meters. A system of declines and drifts connecting both shafts provide access and underground services to ore zones. The surface infrastructures include a cyanidation processing mill (carbon-in-leach), tailings impoundment areas, and other facilities and infrastructures. Power supply to the site is provided by a 55 kilometer, 120kV power line from the Hydro-Québec transformation station located in the town of Normétal. The map below illustrates the location and access to Casa Berardi:

Prior to Aurizon's ownership, the Casa Berardi underground mine operated from 1988 to 1997, producing approximately 3.9 million tons of ore at an average gold grade of 0.2 ounces per ton from two sites, the West Mine and the East Mine. Aurizon's operations from 2006 to 2012 produced approximately 4.5 million tons of ore at an average gold grade of 0.3 ounces per ton. A total of 1,625,500 ounces of gold were recovered by the previous operators prior to 2013. The mineral deposits cover a distance of more than 5.0 kilometers.

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The Casa Berardi mine is located in the northern part of the Abitibi sub-province, a subdivision of the Superior province, within the Canadian Shield. The Casa Berardi area belongs to the Harricana-Turgeon Belt, which is a part of the North Volcanic Zone. The regional geology is characterized by a mixed assemblage of mafic volcanics, flysch-type sedimentary iron formations, and graphitic mudrocks that are limited by a large granodioritic to granitic batholith. Structurally, the area is enclosed in the Casa Berardi Tectonic Zone, a 15 kilometers wide corridor that can be traced over 200 kilometers. A network of east-west to east-southeast and west-northwest ductile high strain zones mainly follows the lithological contacts.

Casa Berardi can be classified as an Archean sedimentary-hosted orogenic gold deposit. Mineralization is found in large low-sulphide quartz veins developed against the Casa Berardi fault, and in disseminated sulfides and stockworks lenses associated with strongly carbonate-sericite altered ductile deformation zones obliquely oriented to the Casa Berardi fault, and extending a few hundred meters on both sides of the fault following northwest and northeast orientations. Gold mineralization emplacement was coeval with the fault`s evolution and shows a strong structural control and vertical extension, even if other factors such as the nature of some host rocks and lithological contacts seem to have favored gold deposition.

The Casa Berardi Fault is defined by a stratigraphic contact between a graphite-rich sediment sequence at the base of the Taïbi domain, a northern continuous intermediary fragmental volcanic unit, and a southern polymictic conglomerate unit. The mineralization system is composed of large, low-sulfide quartz veins and low-grade stockworks and carbonate-mica replacement zones forming in the West Mine and Principal area. On the north side of the Fault, a thick sequence of very homogeneous wacke belonging to the Taïbi Group is affected by an amphibolites metamorphic grade. One kilometer further north is the easterly elongated Recher batholith, which is part of the northwestern boundary of the Abitibi greenstone belt.

Current reserves at the Casa Berardi mine comprise seven zones at the West Mine, spread over a moderate horizontal distance from each other and located at different mine elevations, plus open pit and underground areas at the East Mine. Zone 113, Lower Inter Zone, 118, 121,123, 134, 160, the Principal Zones (open pit and underground) and the East Mine (open pit and underground) comprise the bulk of the deposit tonnage. The zones are of varying thickness, ranging from over 50 meters to less than three meters, which is the minimum mining width. Most of the hanging walls are sub-vertical (55º to 85º) and exhibit similar wall characteristics with the exception of the Lower Inter Zone, which in a number of places has relatively shallow hanging wall configurations (less than 45º).

The underground mine at Casa Berardi is a trackless mine accessed by declines and a shaft, which produces approximately 2,300 tons of ore per day. The mining methods are longhole transversal stoping in 10 meters or more mineralization width with good access from nearby development, and longitudinal retreat stoping in narrower ore bodies or long distances from development infrastructure. Longitudinal methods have the advantage of lower waste development requirements; however, there is much less flexibility in sequencing and in access, should ground instabilities occur. Timely supply of both cemented and unconsolidated backfill plays a crucial role in controlling dilution and maintaining a short stoping cycle. We believe this mining method satisfies all of the geotechnical requirements and constraints and, as a non-entry mining method, has proven to be safe and reliable in similar

operations. The mineralized zones put in reserves are of varying thickness, ranging from a few tenths of meters to 3 meters, which is the minimum mining width. Most of the hanging walls are sub-vertical (55° to 85°), with typically the graphitic Casa Berardi fault at the footwall.

In 2014, we completed a project initiated by Aurizon to deepen the West Mine Shaft and construct the associated shaft infrastructure, including loading pockets, shaft lining, services and steel.

In early 2016, we made the decision to construct the East Mine Crown Pillar ("EMCP") open pit, which is just west of the East Mine infrastructure. Stripping and development of the EMCP pit is planned to take place over five stages. The first stage was completed in the first half of 2016, and processing of ore from the EMCP pit began in July 2016. Stripping and development have been ongoing, and the pit is being expanded to the west and is currently in the final stage of development. The EMCP pit uses conventional open pit mining methods, and is expected to run for approximately 4.5 years of production. The average amount of material to be moved every six months is anticipated to be approximately 70,000 to 390,000 tons of ore, with variable quantities of waste.

With the addition of new information, including new pits, evaluation of the schedule for mining the other pits is ongoing. The current plan is as follows:

- The 134 Zone open pit, as currently designed, would be mined using conventional open pit mining methods. The 134 Zone open pit is expected to commence production prior to depletion of the EMCP pit and to run for approximately 2 full years of production. The average amount of material to be moved every six months is expected to approximate 190,000 tons of ore, with variable quantities of waste.

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- The 160 Zone open pit, as currently designed, would be mined using conventional open pit mining methods. The 160 Zone open pit is expected to commence production after the EMCP and 134 Zone pits are depleted and to run for approximately 3 full years of production. The average amount of material to be moved every six months is expected to approximate 460,000 tons of ore, with variable quantities of waste.

- The Principal Zone open pit, as currently designed, would be mined using conventional open pit mining methods. The Principale Zone open pit is expected to commence production after the 160 Zone pit is depleted and to run for approximately 3 full years of production. The average amount of material to be moved every six months is expected to approximate 570,000 tons of ore, with variable quantities of waste.

The gold recovery process is based on carbon-in-leach ("CIL") technology where gold is dissolved in a cyanide solution, and precipitated on activated carbon grains put in suspension. The product is doré bars poured in the mill’s refinery. Construction of the processing facility, consisting of a 3,600-ton crushing, ore processing, and tailings facility, was completed in 1988 by Inco Gold and Golden Knight Resources Inc., and ore processing began in September 1989, and during the next 9 years the mill processed 3.9 million tons at an average grade of 0.2 ounces per ton. Production at Casa Berardi was suspended in 1997 and the mill was put on care and maintenance until 2005, when major rehabilitation work was initiated by Aurizon. Beginning in the third quarter of 2005, upgrades including refurbishing of the crushing, grinding circuits, conveyors, and leach circuits, the addition of gravity circuits, and construction of an assay laboratory were performed, resulting in an increase of mill capacity. The mill facility was commissioned in November of 2006 and the processing rate ramped up to reach commercial production in May of 2007. In 2018, total mill recovery of gold was approximately 87%.

The mine and mill complex are permitted to process 1,400,000 dry metric tonnes (approximately 1,543,000 tons) of ore per year at a rate of 4,227 tons per day. Difficult ground conditions and bottlenecks in stope preparation have limited underground production to levels below the designed capacity. In 2018, the mill processed approximately 1,375,718 tons, for an average of 3,769 tons per day. The current life of mine plan is based on an average milling rate near the permitted level, with the inclusion of material from the surface mines, for the remaining mine life.

Based on current estimates of reserves and mineralized material, the currently expected remaining mine life at Casa Berardi is approximately 15 years.

In-stope and definition underground drilling during 2018 concentrated within the 118, 121, 123, and 124 zones to refine orebody shapes and gold grade distributions for mine planning and reserves. Underground exploration drilling of the 118 and 123 zones near the bottom of the mine identified mineralization down-plunge to the west (118 Zone) and east (123 Zone) of currently defined mineralized material. Surface definition and exploration drilling has defined the limits and provided detailed characterization of gold grades for a series of new open pits at the 134 and 160 zones and defined a western extension of the EMCP and 146/148 zones. Late in 2018, definition drilling upgraded mineralized material to reserves at the West Mine Crown Pillar (WMCP). Exploration drilling has identified west and northwest extensions to the proposed Principal Zone open pit and extended mineralization to the west of the new WMCP pit at the west end of the Mining Lease.

The proposed underground in-stope and definition drilling programs for 2019 are expected to appraise the high-grade ore shoots of the 118, 119, 123 and 124 zones in the western part of the mine and high-grade, down-plunge extensions from surface of the 148 and 160 zones in the East Mine area. Surface exploration drilling is expected to evaluate shallow extensions of the NW-SW (WMCP area), 124, 129, 139, 146, 152 and 160 zones.

We expect the mine plan will continually be modified as new mineralization is discovered and upgraded to reserves.

The employees at Casa Berardi are employees of Hecla Quebec Inc., our wholly-owned subsidiary, and are not represented by a bargaining agent. There were 580 employees at the Casa Berardi unit at December 31, 2018. We also currently utilize third-party contractors, which use their employees and equipment, for some of the mining activities at Casa Berardi.

Hecla acquired Aurizon on June 1, 2013 for approximately CAD$740.8 million (US$714.5 million), and has operated the Casa Berardi mine since the acquisition. The net book value of the Casa Berardi unit property and its associated plant, equipment and mineral interests was approximately $707.5 million as of December 31, 2018. As of December 31, 2018, we have recorded a $5.8 million asset retirement obligation for reclamation and closure costs. We maintain a surety bond as financial guarantee for future reclamation and closure work.

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Information with respect to the Casa Berardi unit's production, Cost of sales and other direct production costs and depreciation, depletion and amortization, average Cash Cost, After By-product Credits, Per Gold Ounce, AISC, After By-product Credits, Per Gold Ounce, and proven and probable ore reserves for 2018, 2017 and 2016 is set forth in the table below.

	Year Ended December 31,		
Production	**2018**	**2017**	**2016**
Ore milled (tons)	1,375,718	1,296,224	997,588
Gold (ounces)	162,744	156,653	145,975
Silver (ounces)	38,086	36,566	33,641
Cost of sales and other direct production costs and depreciation, depletion and amortization	$199,402	$184,716	$163,216
Cash Cost, After By-product Credits, Per Gold Ounce [1]	$800.14	$819.60	$763.98
AISC, After By-product Credits, Per Gold Ounce [1]	$1,080.00	$1,173.82	$1,244.30
Proven Ore Reserves[2,3,4,5,6]			
Total tons	6,789,700	2,458,100	2,574,700
Gold (ounces per ton)	0.08	0.13	0.11
Contained gold (ounces)	563,400	312,200	272,200
Probable Ore Reserves[2,3,4,5,6]			
Total tons	16,953,500	11,412,500	7,751,900
Gold (ounces per ton)	0.08	0.10	0.13
Contained gold (ounces)	1,343,300	1,181,200	1,037,100
Total Proven and Probable Ore Reserves[2,3,4,5,6]			
Total tons	23,743,200	13,870,600	10,326,600
Gold (ounces per ton)	0.08	0.11	0.13
Contained gold (ounces)	1,906,700	1,493,400	1,309,300

(1) Includes by-product credits from silver production. Cash Cost, After By-product Credits, Per Gold Ounce and AISC, After By-product Credits, Per Gold Ounce represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe these measurements provide indicators of economic performance and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other operating mining properties. A reconciliation of cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, to these non-GAAP measures can be found in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

(2)

The term “reserve” means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term “economically,” as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions. The term “legally,” as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, we must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a time frame consistent with our current mine plans.

(3) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve metals price assumptions, anticipated mill recoveries and refiner payables, and cash operating costs. The cutoff grade at Casa Berardi is assumed to be between 0.099 and 0.110 ounces per ton for underground reserves and 0.020 ounces per ton for open pit reserves. Our estimates of proven and probable reserves are based on prices of $1,200 per gold ounce for underground reserves and $1,225 per gold ounce for open pit reserves for 2018, and $1,200 per gold ounce for all reserves for 2017 and 2016.

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(4) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. The 2018 reserve model assumes average total mill recoveries for gold of approximately 86% for underground reserves and 85% for open pit reserves.

(5) The changes in reserves in 2018 compared to 2017 and in 2017 compared to 2016 were a result of an increase in gold ounces due to inclusion of definition drilling information, offset by a decrease in gold ounces due to depletion of the deposit through production.

(6) Casa Berardi reserve estimates were prepared by Real Parent, Principal Resource Geologist, Jonathan Archambault, Geology Superintendent, and Herman De Los Rios, Engineering Superintendent at the Casa Berardi unit. Casa Berardi resource estimates were reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

The San Sebastian Unit

The San Sebastian mine is located approximately 60 miles northeast of the city of Durango, Mexico, on concessions acquired in 1999. Access to San Sebastian is via Mexico highway 40, approximately 6 miles east of Guadalupe Victoria, and then approximately 15 miles of paved rural road through the towns of Ignacio Allende and Emiliano Zapata.

Our concession holdings cover approximately 160 square miles, including the Francine Vein, East Francine Vein, Middle Vein, North Vein, and the Andrea Vein and multiple outlying active exploration areas. Mineral concession titles are obtained and held under the laws of Mexico, and are valid for 50 years with the possibility of extending another 50 years. There are work assessment and tax requirements that are variable and increase with the time that the concession is held. The map below illustrates the location and access to San Sebastian:

Mineralization at the project occurs as low and intermediate sulfidation epithermal veins within the Saladillo valley area. Economically, the most important veins at the project are the Francine, East Francine, Middle and North veins located at the north end of the Saladillo valley and the Andrea Vein located 4 miles to the south. The veins are hosted within a series of shales with interbedded fine-grained sandstones interpreted to belong to the Cretaceous Caracol Formation. Most of the veins strike to the west-northwest and vein dips vary from steep toward the west to shallow toward the east. True vein widths range from 5 to 30 feet, and the average true width of the veins in the district is 8 feet.

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Mineralization occurs in an epithermal setting at various paleo-depths. High-grade gold and silver occur both in the very shallow environment in the upper 1,000 feet of the crust and in deep silver-gold-lead-zinc root zones of the system at depths between 2,000 and 3,500 feet below the paleo-water table. Hypogene minerals include sphalerite, galena, argentite, pyrite, chalcopyrite, native silver and gold in electrum. The veins are oxidized down to approximately 300 feet below surface and the oxidized portions of the veins contain limonite, hematite, silver halides and various copper carbonates. Matrix minerals include fine-grained to coarsely crystalline quartz bands and chlorite-quartz-adularia bands and late calcite fill. Mineralization within the vein structures is generally deposited in high-grade “shoots” bound both laterally and horizontally by sharp gradients in grade-thickness.

Hecla operated the San Sebastian underground mine from 2001 to 2005. The historical life-of-mine production from the Francine and Don Sergio veins over four years was 11.2 million ounces of silver and 155,937 ounces of gold. Access to both underground workings was through ramps from the surface connecting one or more levels. Ore was mined by the cut-and-fill stoping method and extracted from the stopes using rubber-tired equipment and hauled to the surface in trucks.

Exploration success on the Middle, North, and East Francine veins and completion of a Preliminary Economic Assessment lead to the decision in the third quarter of 2015 to develop shallow open pit mines on those veins, with development commencing in the fourth quarter of 2015. Ore production from the Middle and East Francine veins commenced late in the fourth quarter of 2015, and from the North Vein in the first quarter of 2016. Production from the original pits concluded in December 2017. The North Vein was expanded in 2018, and limited surface ore production resumed. The pits were extended to a maximum of approximately 270 feet in depth. Near-surface material is excavated, with drill and blast techniques used for deeper material. Total production from the expanded North Vein pit is anticipated to range from 2,000 to 14,000 tons of ore per month over an additional approximately 20 months, with variable quantities of waste, for total ore production of approximately 100,000 tons. Production was achieved through excavating and drilling and blasting the shallow-dipping, high-grade silver veins which carried significant gold credits. Third-party contractors are used for mining from the pits.

In January 2017, work commenced to build a new underground decline and rehabilitate historical underground workings at the San Sebastian mine in order to mine deeper ore from the Middle Vein. Limited underground production began in January 2018 using third-party contractors and has continued since that time, and is anticipated to total approximately 263,000 tons over 2 years. We expect to mine ore by the cut-and-fill stoping method and for the ore to be extracted from the stopes using rubber-tired equipment and hauled to the surface in trucks.

In mid-2018, we commenced development work to obtain a bulk sample from the Hugh Zone, which was discovered in 2005 and is the down-dip sulfide extension of the past-producing Francine vein. We have entered into a toll milling agreement with another company to process our sulfide ore at their flotation mill facility in Zacatecas, which is approximately 26 miles from the San Sebastian mine site. Processing of the bulk sample material is planned for early 2019. If testing of the bulk sample is successful, we believe production from the Hugh Zone has the potential to extend the mine life at San Sebastian.

Current run of mine ore is hauled in trucks by contractors to a processing facility near Velardeña, Durango, Mexico, which is located approximately 60 miles from the San Sebastian mine site. We previously owned the Velardeña mill, but now use it to process ore under a lease arrangement. Processing of ore averaged approximately 429 tons per day in 2018, with recovery of approximately 92% for silver and 87% for gold. As of December 31, 2018, we have the ability to lease the facility through 2020. The mill is a conventional leach, counter-current decantation and Merrill Crowe precipitation circuit capable of processing up to approximately 550 tons per day, depending on ore hardness. The ore is crushed in a two-staged crushing plant consisting of a primary jaw, a secondary cone crusher and a double-deck vibrating screen. The grinding circuit includes a primary ball mill and cyclone classifiers. The ground ore is thickened followed by agitated leaching and four stages of counter-current decantation to wash solubilized silver and gold from the pulp. The solution bearing silver and gold is clarified, deaerated and zinc dust added to precipitate silver and gold that is recovered in plate and frame filters. The precious metal precipitate is smelted and refined into doré, and is then shipped to a third-party refiner. Since construction of the mill in 1994, two leach tanks were added in 2001, a filter press was added in 2002, and the Merrill Crowe system and Autojet Filters were expanded and modified in 2012. In addition, rehabilitation of various components of the mill was completed in 2015 prior to the start of processing of the ore from the open pits.

At December 31, 2018, the net book value of the San Sebastian unit property and its associated plant and equipment was $15.1 million. Infrastructure includes the underground mine portal and development, a water supply system, maintenance shop, warehouse, laboratory, leased mill and related improvements, and various offices. Equipment and facilities are in good condition. As of December 31, 2018, $7.8 million has been accrued for reclamation and closure costs. All permits required for mining of the open pits and the underground mine and operation of the mill are in place.

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There was a total of 71 employees at the San Sebastian unit as of December 31, 2018, with most of them employed by our subsidiary that provides certain specialized services to another subsidiary that owns the mine. These employees are not represented by a bargaining agent. We currently primarily use third-party contractors for mining and operation of the processing facility. The hourly employees of the lessor of the processing facility are represented by the Sindicato Nacional de Trabajadores Mineros, Metalúrgicos, Siderúrgicos y Similares de la República Mexicana (a Mexico national union) as bargaining agent.

Based on current estimates of reserves and mineralized material, the currently expected remaining mine life at San Sebastian is approximately 2 years.

Electric power is purchased from Comisiòn Federal de Electricidad (a Mexico federal electric company).

Drilling success from 2012 through 2018 on the near-surface East Francine, Middle and North veins at the San Sebastian property has led to open pit mine production on all three veins, and underground production on the Francine Vein. The Francine, Andrea, Middle and North veins now define over 6.0 miles of mineralized strike length and are open along strike and at depth. Drilling in 2018 identified a new high-grade, oxide ore shoot located approximately 1,000 feet east of the East Francine pit. This East Francine target is approximately 300 feet from surface and can be traced for about 1,500 feet along strike and 600 feet down dip. In combination with a nearby ore shoot in the eastern Middle Vein, this area may represent an important new development for the mine.

Additional oxide mineralization has been defined by drilling along the Professor and East Francine Veins. This mineralization is being reviewed to determine economic viability and for inclusion in mine planning. A new, near-surface area of vein-hosted, oxide mineralization has been identified 1,000 feet west of previous drilling along the Francine Vein. Drilling has also defined new oxide mineralization along the Esperanza Vein and newly-discovered El Toro Vein.

A new resource model of the polymetallic mineralization on the Francine Vein is being reviewed to determine economic viability and for inclusion in mine planning. There was also a discovery and follow-up infill drilling of a new polymetallic ore shoot along the western Middle Vein. This zone has dimensions of approximately 600 feet along strike and 800 feet downdip, and contains recoverable quantities of copper, lead, and zinc, in addition to high-grade gold and silver. It is located about 300 feet west and 200 feet below the current Middle Vein underground mine development and could expand the underground mineable reserves in this area.

The focus of exploration in 2019 is expected to be on defining new precious metal-rich, oxide mineralization at the West Francine, Esperanza and El Toro Veins that could extend the cyanide milling operation of the Velardeña mill. These areas where we have found additional oxide mineralization could develop into new mineralized material that

may contribute additional oxide material to the mine life.

The focus of the 2019 Reverse Circulation ("RC") drilling program is expected to be on exploring the large untested area south of the mine area, in the Saladillo Valley, for new veins located under cover. RC drilling recently identified the South Vein in this area and several other RC geochemistry, soil geochemistry and direct current resistivity geophysical anomalies occur in this area. The Esperanza-South-Andrea Vein System traverses the area where RC drilling is being proposed and newly generated RC data could help refine exploration drilling along this trend and could also identify new parallel veins associated with this system.

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Information with respect to the San Sebastian unit's production, Cost of sales and other direct production costs and depreciation, depletion and amortization, average Cash Cost, After By-Product Credits, Per Silver Ounce, AISC, After By-product Credits, Per Silver Ounce, and proven and probable ore reserves is set forth in the table below.

	Year Ended December 31,		
Production	**2018**	**2017**	**2016**
Ore milled (tons)	156,733	144,197	143,267
Silver (ounces)	2,037,072	3,257,738	4,294,123
Gold (ounces)	14,979	25,177	34,042
Cost of sales and other direct production costs and depreciation, depletion and amortization	$41,815	$23,700	$31,233
Cash Cost, After By-product Credits, Per Silver Ounce [1]	$9.69	$(3.36)	$(3.35)
AISC, After By-product Credits, Per Silver Ounce [1]	$14.68	$(0.26)	$(1.99)
Proven Ore Reserves[2,3,4,5,6]			
Total tons	21,500	30,500	43,000
Silver (ounces per ton)	3.9	23.3	23.4
Gold (ounces per ton)	0.08	0.19	0.19
Contained silver (ounces)	84,700	711,700	1,007,800
Contained gold (ounces)	1,800	5,800	8,200
Probable Ore Reserves[2,3,4,5,6]			
Total tons	206,100	367,500	283,300
Silver (ounces per ton)	13.1	13.1	16.2
Gold (ounces per ton)	0.10	0.10	0.10
Contained silver (ounces)	2,704,800	4,808,700	4,592,600
Contained gold (ounces)	20,700	37,000	28,500
Total Proven and Probable Ore Reserves[2,3,4,5,6]			
Total tons	227,600	398,000	326,300
Silver (ounces per ton)	12.3	13.9	17.2
Gold (ounces per ton)	0.10	0.11	0.11
Contained silver (ounces)	2,789,500	5,520,400	5,600,400
Contained gold (ounces)	22,500	42,800	36,700

(1) Includes by-product credits from gold production. Cash Cost, After By-product Credits, Per Silver Ounce and AISC, After By-product Credits, Per Silver Ounce represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe these measurements provide indicators of economic performance and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other operating mining properties. A reconciliation of cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, to these non-GAAP measures can be found in *Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization*

(GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).

(2) The term "reserve" means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term "economically," as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions. The term "legally," as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, we must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a time frame consistent with our current mine plans.

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(3) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve metals price assumptions, anticipated mill recoveries and refiner payables, and cash operating costs. Due to multiple ore metals, and complex combinations of ore types, metal ratios and metallurgical performances at San Sebastian, the cutoff grade is expressed in terms of net smelter return, rather than metal grade. The cutoff grade at San Sebastian is assumed to be $100 per ton NSR for open pit reserves and $140 per ton NSR for underground reserves. The average prices used for the San Sebastian unit were:

	December 31,		
	2018	**2017**	**2016**
Silver (per ounce)	$14.50	$14.50	$14.50
Gold (per ounce)	$1,200	$1,200	$1,200

(4) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore. Metal recoveries vary by mine zone and ore grade. The 2018 reserve model assumes average total mill recoveries of approximately 91% for silver and 84% for gold.

(5) The decrease in silver and gold reserves in 2018 compared to 2017 was due to depletion of the deposit through production, sterilization of material, and model changes in the open pit. The decrease in silver reserves in 2017 compared to 2016 was the result of depletion of the deposit through production, including higher grade portions, partially offset by inclusion of definition drilling information. The increase in gold reserves in 2017 compared to 2016 was the result of inclusion of definition drilling information, partially offset by depletion of the deposit through production.

(6) San Sebastian reserve estimates were prepared by Joshua Pritts, Resource Geologist and Keith Blair, Chief Resource Geologist at Hecla Limited, and reviewed by Dean McDonald, Senior Vice President of Exploration.

The Nevada Operations Unit

As a result of our acquisition of Klondex in July 2018, we obtained 100% ownership of the Fire Creek mine, Hollister mine, Midas mine and milling facility, and the Aurora mine and milling facility, and various other mineral interests comprising a total land position of approximately 110 square miles in northern Nevada.

The employees at the Nevada Operations unit are employees of Klondex Gold & Silver Mining Company, our wholly-owned subsidiary, and are not represented by a bargaining agent. There were 270 employees at the Nevada Operations unit at December 31, 2018.

Additional information on the Nevada Operations properties is below.

Fire Creek

In 1975, Klondex acquired the property as a very early stage exploration project. Fire Creek is located in north-central Nevada in Lander County, and to a lesser extent Eureka County, approximately 16 miles south of a major highway (Interstate 80) near other large gold deposits and mines which are owned and operated by major mining companies. Access to Fire Creek from Interstate 80 is by State Road 306, a good-quality road. Company-maintained mine and exploration roads provide access throughout the property. Fire Creek is a high-grade, epithermal vein deposit, and the land package covers approximately 18,755 acres (approximately 20.7 square miles), consisting of approximately 831 unpatented mining claims, and both leased and owned private fee lands. Our unpatented claims occupy public lands, administered by the United States Bureau of Land Management ("BLM"). Unpatented claims are governed by the laws and regulations of the U.S. federal government and the state of Nevada. Property fees are paid annually to the county in which they are held. To maintain our unpatented claims, we must file an annual notice of intent to maintain the claims within the county they are located and pay the annual mineral claim maintenance fees to the BLM. Certain of Fire Creek's claims are subject to various net smelter return ("NSR") royalties. Some of these royalties have been prepaid or advanced; however, those that have not been prepaid or advanced have no expiration date, and we may continue to incur payments on these royalties in the future. In addition, Fire Creek is subject to a 2.5% NSR royalty for all production commencing in 2019, and there is no expiration date on the royalty. Fire Creek consists of an underground, mechanized narrow vein mine, related mine support infrastructure, mining equipment, and administrative buildings, all of which are in reasonably well-maintained, operating condition. The map below illustrates the location and access to Fire Creek:

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Mineralization at Fire Creek occurs in steeply dipping epithermal veins within Tertiary basalt flows and intrusive rocks. The mineralized basaltic rocks are a suite of mafic, extrusive rocks associated with the regional north-northwest-trending Northern Nevada Rift ("NNR") structural zone. The NNR system has been documented in multiple geophysical and geological studies and is distinguished as a linear magnetic anomaly approximately 30 miles wide that extends 190 miles south-southeast from the Oregon-Nevada border to central Nevada. The NNR originates from the McDermitt Caldera in northwest Nevada and is likely related to impingement of the Yellowstone hot-spot on continental crust.

The deposit is a low-sulfidation epithermal deposit vertically-zoned within high-angle northwest striking structures, hosted in a mid-Miocene basalt package. Mineralization occurs as shallow structurally-controlled fault hosted gold mineralization in variably altered Tertiary basalts and as native gold in steeply dipping quartz-calcite veins or structures. A package of middle Miocene basalt and basaltic andesite flow has been cut by high-angle normal faults related to both NNR and Basin and Range extension that form grabens and half-grabens which are the structural controls in the district.

High-grade mineralization has been delineated between approximately 4,900 feet and 5,700 feet and is open both up and down dip as well as along strike. Lower-grade mineralization occurs from the surface and mineralization is open at depth. Vein textures, gangue minerals, and alteration seen at Fire Creek are typical of low-sulfidation epithermal systems. Widespread propylitic alteration changes to argillic alteration proximal to veins and/or other structural fluid conduits. Low-grade gold mineralization is often spatially associated with the argillic alteration zone surrounding the high-grade gold. Mineralization often occurs along discrete horizons within vein structures. An opaline silica cap is discontinuously preserved at surface above the main mineralization at Fire Creek. Mineralized faults near this opaline silica were targeted by early prospecting and later shallow drilling by previous operators in the 1980s.

Fire Creek is defined by two major north-northwest striking vein arrays, each comprised of several en-echelon veins. Several new target areas outside of the known vein arrays have been defined by both gradient-array and dipole-dipole induced polarization surveys as well as versatile time domain electromagnetic system geophysical surveys.

The Fire Creek mine is a trackless mine accessed by a decline, and produces approximately 350 tons of ore per day. The mining method is primarily longhole stoping, with some ramp access utilized. Ore mined at Fire Creek is trucked approximately 165 miles to the Midas mill for processing, which is discussed in the *Midas* section below.

Fire Creek receives electrical power provided by NV Energy, a major Nevada power company.

As of December 31, 2018, the net book value of the Fire Creek mine property and its associated plant, equipment and mineral interests was approximately $258.2 million. As of December 31, 2018, we have recorded a $1.5 million asset

retirement obligation for reclamation and closure costs at Fire Creek. We maintain a surety bond as financial security for future reclamation and closure work.

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There has been a lack of investment in mine development, including horizontal drifts ("Haulages") and the ramp or decline system ("Spirals"), at Fire Creek. As a result, there have not been sufficient platforms to keep quality targets in the pipeline to replenish reserves as they are depleted. In late 2018, definition drilling focused on the upper portions of Spiral 3 along the Honeyrunner, Karen and Hui Wu structures and the up-dip southern extents of Joyce, 06 and 08 veins to advance the Spiral 4 area. Underground drift development is advancing Haulage 9 to provide an exploration drill platform by early next year. This platform will enable exploration drilling to further drill and extend Spiral 9 veins to the south and the Karen structure back to the north.

In 2019, the emphasis of definition drilling is expected to be on bringing Spiral 4 and Spiral 9 mineralized material into indicated resource inventories. Definition drilling at Spiral 3 is proposed south of Spiral 2, to follow up on previous significant drilling intercepts south of Spiral 9 and north of the 5350 North Haulage. Drilling will also continue to focus on upgrading resources along strike on the Titan Zone. An area of future potential drifting is to the north of the North Haulage at the 5350-elevation following up on surface success on veins to the northeast of the current Fire Creek mine.

Surface exploration drilling in the latter half of 2018 focused on extensions to current high-grade, gold-bearing structures including the Zeus target northwest of the mine, the Guard Shack target south of the mine and the Far View target which is east of the mine.

Underground exploration in 2019 at the Fire Creek mine is expected to evaluate extensions of veining north of Spiral 3 and to the south of Spiral 9. An area of future potential drifting is to the north of the North Haulage at the 5350-elevation following up on surface success on veins to the northeast of the current Fire Creek mine. Surface exploration at Fire Creek is expected to follow mineralized trends that have been identified by geophysics along the Titan, Zeus and South Notice trends. Parallel veins to the east at the Far View target are also expected to be evaluated.

Hollister

The Hollister property has been owned and operated since the 1900s by various mining companies which mined mercury in the early 1900s and gold and silver in the late part of the century. Klondex acquired the property in October 2016. Hollister is a fully-permitted past producing underground and open pit operation. It is located in north-central Nevada in Elko County, approximately 61.5 miles east-northeast of Winnemucca, Nevada and 17 miles southeast from the Midas mine. Hollister is accessed by all-weather paved and gravel county roads. Hollister is comprised of 1,005 unpatented lode claims and 11 unpatented mill site claims that cover an area in excess of 15,000 acres, and an additional 209 unpatented lode claims through agreements covering approximately 4,320 acres. Our unpatented claims occupy public lands administered by the BLM. Unpatented claims are governed by the laws and regulations of the U.S. federal government and the state of Nevada. To maintain our unpatented claims in good standing, we must file an annual notice of intent to maintain the claims with the county and pay the annual mineral claim filing fees to the BLM. Certain claims and areas of Hollister are subject to royalties, including seven separate

NSR royalties ranging from 1% to 5%, and a 1% NSR royalty after 500,000 ounces of gold production occurring from October 3, 2016, when Klondex acquired the property. There is no expiration date on the aforementioned royalties. Hollister includes an underground mine, former open pit mines, related mine support infrastructure, mining equipment, and administrative buildings, all of which are in reasonably well-maintained, operating condition. The map below illustrates the location and access to Hollister:

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The Hollister mine is located along the NNR, and is on trend with the north-western end of the Carlin Trend, which is approximately 5 miles wide and 40 miles long. Mineralization is related to the Miocene period of magmatic activity associated with the NNR while gold mineralization on the Carlin Trend has been dated to late Eocene/early Oligocene magmatism. Epithermal disseminated gold mineralization is hosted in volcanic tuffaceous units, andesites, and the Ordovician Vinini Formation. High-grade gold and silver mineralization is hosted as banded quartz veins in a group of near-vertical faults and fissures that trend west-northwest to east-west. The amount of displacement across these faults is small and their strike continuity varies between one hundred to several thousand feet. Primary lithologies in the area have been strongly altered by hydrothermal fluids with large areas of chalcedonic replacement bodies at the paleo water table in addition to sinter deposits.

The Hollister property also includes the Hatter Graben vein system, which is located approximately 2,500 feet east of the Hollister mine's underground development and has been down dropped approximately 800 feet lower than the current mine resource. The system of mineralized veins has a known vertical extent of 1,400 feet and strike length of 2,000 feet. This East-West trending zone is open along strike to the east and west and at depth and mineralization is strengthening in the east as historic high-grade intersections occur up to 4000 feet along strike to the east. Gold and silver mineralization is dominantly in the Ordovician quartzites, siltites and argillites. Higher grades are associated with banded quartz veins from inches to feet in width and extensive zones of quartz vein stockwork and quartz matrix breccias also contain significant mineralization. The first surface holes were initiated at Hatter Graben in the third quarter of 2018 with the intent to extend the current identified mineralized material east and west. Drill holes at 300-foot intervals have intersected swarms with multiple veins and mineralized breccias at the anticipated distance. Development of a drift from the Hollister mine's underground workings to the Hatter Graben area commenced in the third quarter of 2018.

The Hollister mine is a trackless mine accessed by a decline. Due to variability within the Hollister mine material, a selective mining approach is employed by matching mining methodology to stope characteristics. Hollister mining methods include cut and fill, ramp access and longhole stoping. The current Hollister mine plan primarily employs cut and fill stoping. As discussed below, ore mined at Hollister is trucked to the Midas mill for processing, and the resulting loaded carbon is stripped at the Aurora mill.

Hollister receives electrical power provided by NV Energy.

As of December 31, 2018, the net book value of the Hollister mine property and its associated plant, equipment and mineral interests was approximately $114.3 million. As of December 31, 2018, we have recorded a $6.1 million asset retirement obligation for reclamation and closure costs at Hollister. We maintain a surety bond as financial guarantee for future reclamation and closure work.

In 2018, definition drilling at Hollister focused on the Central Hollister, East Clementine and Gwenivere areas. The Central Hollister programs targeted up-dip and lateral extensions of the 141, 151, 161, 181 and 213 veins from the

5190 level and down dip extensions of the 182 Vein from the 5050 level. The East Clementine program targeted the 234, 243 and 253 veins at higher elevations near the unconformity where high-grade concentrations of gold can occur. The Gwenivere program was designed to offset two historical high-grade drill intercepts that are approximately 1,500 feet from the portal and represents the discovery of a new vein that is open in all directions. Two surface holes have been completed at Hatter Graben to extend the current resource to the east and west.

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At the Hollister mine, underground exploration in 2019 is expected to evaluate the West Gloria Vein to the west and the veins of East Hollister. As underground development to the Hatter Graben area advances, drilling is expected to evaluate and upgrade the veins of the Hater Graben. A small surface drilling program is also planned to evaluate the eastern extension of the known Hatter Graben veins.

Midas

The Midas mining district has historic gold production dating as early as 1907. Since modern mining began in 1998, 2.2 million ounces of gold and 26.9 million ounces of silver have been produced by three previous owners prior to Klondex. Klondex acquired the fully-permitted Midas mine and ore milling facility in February 2014. Midas is located in north-central Nevada in Elko County and lies about 58 miles east of Winnemucca on Nevada State Highway 789, and one mile from the town of Midas, Nevada. Midas is a high-grade, epithermal vein deposit, and the land package covers approximately 30,000 acres (~47 square miles), which includes fee lands, federal unpatented mining claims, seven mining leases, BLM rights-of-way, general agreements, easements, and surface use agreements, with varied terms and annual payments. Within the land package, there are 1,489 federal unpatented mining claims, of which 1,456 are owned and 33 are leased. Owned and leased fee lands comprise approximately 2,985 acres of the land package which is a mix of surface-mineral rights and surface rights only. Our unpatented claims occupy public lands, administered by the BLM. Unpatented claims are governed by the laws and regulations of the U.S. federal government and the state of Nevada. Property fees on fee lands are paid annually to the county in which they are held. To maintain our unpatented claims, an annual notice of intent must be filed with the respective county, in addition to paying the annual mineral claim maintenance fees to the BLM. Certain of the Midas claims are subject to a royalty. Midas is also subject to a 2.5% NSR royalty from all production commencing in 2019, and there is no expiration date on the royalty. Midas includes an underground, mechanized narrow vein mine, related mine support infrastructure, mining equipment, a Merrill-Crowe refining facility, a milling circuit, and administrative buildings, all of which are in reasonably well-maintained, operating condition. The map below illustrates the location and access to Midas:

The Midas mine is the largest known gold-silver epithermal deposit along the NNR, and is located in the Midas mining district, also known as the Gold Circle district. The Midas deposit consists of a series of complex steeply dipping, quartz-calcite-adularia precious metal veins hosted by volcanic and volcanoclastic rocks. Gold mineralization occurs as electrum and is intimately associated with selenide and sulfide minerals. It belongs to a suite of middle Miocene low-sulfidation epithermal gold and silver mineralizing systems associated with magmatism and faulting along the NNR. The mineralization model at Midas is a shallow, low-sulfidation, vertically- and laterally-zoned, epithermal gold-silver system. Rocks in the Midas district are primarily ash flow, air-fall and lithic tuffs, felsic plugs, volcanoclastic sediments and gabbroic sills and dikes.

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Gold and silver mineralization at Midas is hosted in several northwest-striking veins. The veins are divided into four principal groups based on their location and orientation. The two principal groups that host the majority of the identified mineralized material are the Main Veins and East Veins. The Main Veins dip easterly and are gold dominant, while the East Veins dip to the west and contain higher silver content than the Main Veins. The Main Veins produced more than 2.2 million ounces of gold and 26.9 million ounces of silver between 1998 and 2013, principally from the Colorado Grande and Gold Crown Veins. Initial development and production from the East Veins began in 2012. The third group of veins is comprised of the Queen and Trinity Veins located to the south of the existing workings and south of the regional South Owyhee Fault. They are defined by limited underground and surface drilling and there has been no mine production from them to date. The Queen Vein and Trinity Vein systems represent high-priority, near-mine exploration targets. The fourth group of veins are west of the Main Vein system and includes the Link and Midas Trend Veins. Like the southern vein group, these veins have yet to be delineated from underground.

Mineralized material has been identified on the Main and East veins and other veins near the active mine workings. Active drill testing is taking place in these areas and is being prioritized based on ounce expectations, accessibility from existing development and geotechnical, ventilation, and hydrological considerations. Mine plans are being updated on a regular basis as results are received.

The Midas mine is located on the southeast flank of the Snowstorm Mountain range near the eastern margin of the NNR structural domain, hosted in a bimodal suite of volcanic rocks. Several other structurally controlled, epithermal precious-metal vein deposits are hosted in similar Miocene-age volcanic rocks along the NNR, including Fire Creek and the Mule Canyon mine. These mineral deposits occur along the NNR and share similar mineralization characteristics, including epithermal textures and trace-elements, locally high-grade gold and silver, mid-Miocene ages of mineralization and close temporal association with the Miocene host rocks.

The Midas mine is a modern, mechanized narrow vein mine. Design constraints included four feet minimum width for longhole stopes with development drifts spaced at 50-foot vertical intervals. Stope development drift dimensions maintained a constant height of 11 feet and a minimum width of seven feet. Cut and fill stopes are a minimum of six feet in width, and each cut is ten feet high. Mining and backfill tasks were created from all designed excavations. These tasks were assigned costs and productivities specific to the excavation or backfill task type. Alternative mining methods such as shrinkage stoping and alimak stoping are being investigated. The veins at Midas can vary in thickness from a few inches to over ten feet. In the third quarter of 2018, we decided to stop production at the Midas mine, and are utilizing some of the equipment and employees from that location for production and development at the Fire Creek and Hollister mines.

Midas Mill

Ore from the Fire Creek, Midas and Hollister mines is processed at the Midas mill, which has a design capacity of 1,200 tons per day. Fire Creek and Midas ore is processed using a counter current decantation ("CCD") circuit. Hollister ore is processed using a carbon in leach ("CIL") circuit. Run-of-mine ore is crushed to 100% passing one-half inch in a conventional two-stage crushing circuit which utilizes a primary jaw crusher and a secondary cone crusher with the circuit closed by a double deck vibrating screen. The crushed product reports to the grinding circuit consisting of an 800 horsepower overflow ball mill and a 250 horsepower vert-mill. The circuit is closed using a bank of four (three operating, one standby) 10-inch cyclones. A portion of the cyclone underflow is sent to a gravity concentrator to remove coarse gold. The gravity concentrate is leached using an Acacia intense cyanidation unit with the gravity tail returned to the grinding circuit for further grinding. The ground product is thickened before being leached with cyanide for 72 hours in a series of eight leach tanks. The leached slurry reports to a conventional five-stage counter current decantation circuit with the overflow solution from the first thickener, together with the pregnant solution from the Acacia reactor, reporting to the Merrill-Crowe circuit where zinc dust is used to precipitate the precious metal from solution. The underflow from the fifth thickener is treated to eliminate the remaining cyanide and pumped to the tailings storage facility. Mercury is removed from the precipitate in a retort oven before being smelted and poured into doré bars. The bars are shipped off site for further refining by a third party.

For Hollister, the ground ore reports to the pre-leach thickener in the same manner as it does when running the CCD circuit. Thickener underflow is pumped to the first in a series of four CIL tanks. Sodium cyanide is added to the first tank to enable gold leaching. Each of the four tanks are equipped with a carbon retention screen and a carbon advance pump. The first and fourth tanks also have a loaded carbon screen on the top of the tanks. The slurry flows through the retention screens to the next successive tank and is ultimately pumped to cyanide detoxification and to the tails facility. New carbon is added to the fourth tank and is pumped counter current to the slurry flow from the fourth tank, progressively upstream, until loaded carbon is pumped over the screen on the first tank and into carbon transport bags. The carbon transport bags are then loaded on a truck and hauled to the Aurora mill where they are stripped. The sludge is collected and shipped to the Midas refinery to be poured into doré bars. The bars are shipped off site for further refining by a third party.

For the portion of 2018 under our ownership, total mill recovery of gold and silver was approximately 86% and 72%, respectively.

Midas receives electrical power provided by NV Energy.

As of December 31, 2018, the net book value of the Midas mine and its associated plant, equipment and mineral interests was approximately $59.4 million, and the net book value of the Midas mill, tailings facility and associated plant and equipment was approximately $30.8 million. As of December 31, 2018, we have recorded an $11.6 million asset retirement obligation for reclamation and closure costs at Midas. We maintain a surety bond as financial security for future reclamation and closure work.

In 2018, surface and underground exploration drilling was completed on the Trinity target, a small, high-grade deposit south of the Midas mine. This drilling suggests vein mineralization may be strongest along the edges of the Trinity Corridor and mafic dikes and appears to be open both to the south and north. There is currently no drill program

planned at Midas for 2019.

At the Midas mine, 2019 exploration programs are designed to evaluate vein targets within an extensive property.

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Aurora

Gold was discovered in 1860 on the Aurora property and since that time various companies have mined from this location. Klondex acquired the property in October 2016. The Aurora project includes fully-permitted past producing underground mine and open pit mine operations, which are currently inactive. Aurora is located in west central Nevada 10 miles from the California border in Mineral County, approximately 20 miles west of Hawthorne, Nevada. Access is provided by all-weather paved and gravel county roads. Aurora consists of 92 patented mining claims, 944 acres of fee lands, and 448 unpatented lode-mining claims, totaling approximately 9,928 contiguous acres that encompass the entire district. Patented claims occupy private lands and our unpatented claims occupy public lands, administered by the BLM. Unpatented claims are governed by the laws and regulations of the U.S. federal government and the state of Nevada. To maintain our patented claims in good standing, we must pay the annual property fee payments to the county in which the claims are held. To maintain our unpatented claims in good standing, we must file an annual notice of intent to maintain the claims with the county and pay the annual mineral claim filing fees to the BLM. A portion of the patented and unpatented claims owned or leased by us and the leased fee lands are subject to underlying royalties, including a 3% royalty that would be split among two companies. Aurora includes an underground mine, former open pit mines, related mine support infrastructure, mining equipment, a milling circuit with permitted tails storage facility, and administrative buildings, all of which are in reasonably well-maintained condition. The site has access to three-phase overland power which is used to operate the mill. The map below illustrates the location and access to Aurora:

Aurora is located within the Walker Lane structural belt of western Nevada. The Walker Lane is characterized by northwest-trending en echelon right-lateral strike slip faults that have tilted and rotated structural blocks since mid-Miocene through the Quaternary. Mineralized veins typically occur along northeasterly orientations. Northeast structures mostly host post-date vein mineralization in the district. Mineralization at Aurora occurs as low-sulfidation epithermal veins, breccias, and stockwork zones in Miocene intermediate to felsic composition volcanic rocks. The Prospectus and Humboldt areas are underlain by a complex series of andesitic flows, conglomerates, and lahars. The Martinez area is underlain by a more “porphyritic” volcanic/subvolcanic rock of andesitic to dacitic composition. Mineralized veins are typically composed of several generations of silica accompanied by variable amounts of adularia, sericite, pyrite, base metal sulfides, sulfosalts and electrum.

The Aurora mill is operational and is currently being used to strip loaded carbon from Hollister ore that has been processed at the Midas mill. The crushed product is ground using a SAG mill and two over flow ball mills with the circuit closed by a bank of cyclones. The cyclone overflow reports to a series of 8 CIL tanks where cyanide is added and precious metal is leached from the ore and adsorbed onto the carbon. Carbon bags are first emptied into an attrition tank. From the attrition tank the carbon is pumped over a dewatering screen, reporting to a carbon storage tank. From the carbon storage tank, the carbon is pumped over another dewatering screen, reporting to the acid wash vessel. The carbon is acid washed using dilute nitric acid to remove acid soluble scale from the carbon. After acid wash the carbon is pumped to the strip vessel where the precious metal is removed from the carbon. Hot caustic solution is pumped through the vessel to remove the precious metal from the carbon and into the pregnant strip solution tank. The strip solution is then pumped through a series of three electrowinning cells where the precious metal is removed from solution, reporting as sludge in the bottom of the cell. The sludge is collected into either

buckets or bins and transported to the Midas refinery. Fluxes and sludge are added to the refinery furnace and poured into doré bars. The bars are transported to a third-party refinery for further processing.

As of December 31, 2018, the net book value of the Aurora mine and mill property and its associated plant, equipment and mineral interests was approximately $5.7 million. As of December 31, 2018, we have recorded a $4.1 million asset retirement obligation for reclamation and closure costs at Aurora. We maintain a surety bond as financial security for future reclamation and closure work.

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Information with respect to the Nevada Operation unit's production, Cost of sales and other direct production costs and depreciation, depletion and amortization, average Cash Cost, After By-product Credits, Per Gold Ounce, AISC, After By-product Credits, Per Gold Ounce, and proven and probable ore reserves for 2018 is set forth in the table below.

	July 20 through December 31, 2018
Production	
Ore milled (tons)	116,383
Gold (ounces)	32,887
Silver (ounces)	172,301
Cost of sales and other direct production costs and depreciation, depletion and amortization	$47,005
Cash Cost, After By-product Credits, Per Gold Ounce [1]	$1,220.85
AISC, After By-product Credits, Per Gold Ounce [1]	$1,950.35
Proven Ore Reserves[2,3,4,5]	
Total tons	
Fire Creek	23,900
Hollister	2,400
Total Nevada Operations	26,300
Gold (ounces per ton)	
Fire Creek	1.2
Hollister	0.7
Total Nevada Operations	1.2
Silver (ounces per ton)	
Fire Creek	1.1
Hollister	0.7
Total Nevada Operations	1.7
Contained gold (ounces)	
Fire Creek	28,900
Hollister	1,700
Total Nevada Operations	30,600
Contained silver (ounces)	
Fire Creek	27,100
Hollister	16,500
Total Nevada Operations	43,600
Probable Ore Reserves[2,3,4,5]	
Total tons	
Fire Creek	91,200
Hollister	9,100
Total Nevada Operations	100,300
Gold (ounces per ton)	

Fire Creek	0.4
Hollister	0.7
Total Nevada Operations	0.5
Silver (ounces per ton)	
Fire Creek	0.3
Hollister	7.2
Total Nevada Operations	1.0
Contained gold (ounces)	
Fire Creek	40,400
Hollister	5,900
Total Nevada Operations	46,300
Contained silver (ounces)	
Fire Creek	29,800
Hollister	65,900
Total Nevada Operations	95,700

Total Proven and Probable Ore Reserves[2,3,4,5]

Total tons	
Fire Creek	115,100
Hollister	11,500
Total Nevada Operations	126,600
Gold (ounces per ton)	
Fire Creek	0.6
Hollister	0.7
Total Nevada Operations	0.6
Silver (ounces per ton)	
Fire Creek	0.5
Hollister	7.2
Total Nevada Operations	1.1
Contained gold (ounces)	
Fire Creek	69,300
Hollister	7,600
Total Nevada Operations	76,900
Contained silver (ounces)	
Fire Creek	56,900
Hollister	82,400
Total Nevada Operations	139,300

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(1) Includes by-product credits from silver production. Cash Cost, After By-product Credits, Per Gold Ounce and AISC, After By-product Credits, Per Gold Ounce represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe these measurements provide indicators of economic performance and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other operating mining properties. A reconciliation of cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, to these non-GAAP measures can be found in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

(2) The term "reserve" means that part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination. The term "economically," as used in the definition of reserve, means that profitable extraction or production has been established or analytically demonstrated to be viable and justifiable under reasonable investment and market assumptions. The term "legally," as used in the definition of reserve, does not imply that all permits needed for mining and processing have been obtained or that other legal issues have been completely resolved. However, for a reserve to exist, we must have a justifiable expectation, based on applicable laws and regulations, that issuance of permits or resolution of legal issues necessary for mining and processing at a particular deposit will be accomplished in the ordinary course and in a time frame consistent with our current mine plans.

(3) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Cutoff grade assumptions vary by ore body and are developed based on reserve metals price assumptions, anticipated mill recoveries and refiner payables, and cash operating costs. The cutoff grades assumptions are 0.339 gold-equivalent ounces per ton at Fire Creek and 0.396 gold-equivalent ounces per ton at Hollister. Our estimates of proven and probable reserves for 2018 are based on prices of $1,200 per ounce for gold and $14.50 per ounce for silver.

(4) Reserves are in-place materials that incorporate estimates of the amount of waste that must be mined along with the ore and expected mining recovery. The 2018 reserve model assumes average total mill recoveries for gold and silver of approximately 94% and 92%, respectively, for Fire Creek and approximately 87% and 80%, respectively, for Hollister.

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(5) Fire Creek resource and reserve estimates were prepared by John Spring, Chief Geologist, Agapito Orozco, Senior Resource Geologist, Sarah Bull, Senior Mining Engineer, and Denver Winslow, Chief Engineer at the Nevada Operations unit and reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

Hollister reserve and resource estimates were prepared by Gabe Adogla, Chief Geologist, Agapito Orozco, Senior Resource Geologist, Charles Watts, Senior Mining Engineer, and Bryan Farbridge, Chief Engineer at the Nevada Operations unit and reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

At Midas, new resource modeling was completed by Gabe Adogla, Chief Geologist, and Agapito Orozco, Senior Resource Geologist at the Nevada Operations unit and reviewed by Keith Blair, Chief Resource Geologist at Hecla Limited and Dean McDonald, Senior Vice President of Exploration.

Item 3. Legal Proceedings

For a discussion of our legal proceedings, see *Note 8* of *Notes to Consolidated Financial Statements.*

Item 4. Mine Safety Disclosures

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in exhibit 95 to this report.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of our common stock are traded on the New York Stock Exchange, Inc. under the symbol "HL." As of February 19, 2019, there were 3,836 stockholders of record of our common stock.

The following table provides information as of December 31, 2018 regarding our compensation plans under which equity securities are authorized for issuance:

	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	**Weighted-Average Exercise Price of Outstanding Options**	**Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans**
Equity Compensation Plans Approved by Security Holders:			
2010 Stock Incentive Plan	—	N/A	3,267,759
Stock Plan for Non-Employee Directors	—	N/A	3,120,707
Key Employee Deferred Compensation Plan	—	N/A	433,833
Total	—	N/A	6,822,299

See *Note 9* and *Note 10* of *Notes to Consolidated Financial Statements* for information regarding the above plans.

On November 30, 2018, we issued 865,703 unregistered shares of our common stock in a private placement to the Hecla Mining Company Retirement Plan Trust in order to satisfy the funding requirements for that defined benefit pension plan. The private placement was exempt from registration under the Securities Act of 1933 pursuant to section 4(a)(2) of that Act. The shares were subsequently registered for resale on a registration statement on Form S-3 filed with the SEC on November 30, 2018. We did not receive any cash proceeds from the issuance of the shares. The shares had a value of approximately $2.1 million at the time of issuance.

On September 12, 2018, we issued 1,870,749 unregistered shares of our common stock in a private placement to the Hecla Mining Company Retirement Plan Trust in order to satisfy the funding requirements for that defined benefit pension plan. The private placement was exempt from registration under the Securities Act of 1933 pursuant to

section 4(a)(2) of that Act. The shares were subsequently registered for resale on a registration statement on Form S-3 filed with the SEC on September 12, 2018. We did not receive any cash proceeds from the issuance of the shares. The shares had a value of approximately $5.5 million at the time of issuance.

On July 20, 2018, we issued 75,276,176 unregistered shares of common stock to the former holders of common stock of Klondex Mines Ltd. ("Klondex") to partially fund the acquisition of Klondex (see *Note 16* of *Notes to Consolidated Financial Statements).* The shares were not registered under the Securities Act of 1933 pursuant to an exemption from registration under Section 3(a)(10) of such act.

We did not issue any unregistered equity securities in 2017.

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On February 26, 2016, we issued 1,826,509 unregistered shares of our common stock in private placements to the Hecla Mining Company Retirement Plan Trust and The Lucky Friday Pension Plan Trust, in order to satisfy the funding requirements for those defined benefit pension plans. The private placements were exempt from registration under the Securities Act of 1933 pursuant to section 4(a)(2) of that Act. The shares were subsequently registered for resale on a registration statement on Form S-3 filed with the SEC on February 26, 2016. We did not receive any proceeds from the sale of the shares. The shares had a value of $4.2 million at the time of issuance.

The following performance graph compares the performance of our common stock during the period beginning December 31, 2013 and ending December 31, 2018 to the S&P 500, the S&P 500 Gold Index, a peer group for the year ending December 31, 2018 ("New Peer Group"), and a peer group for the year ending December 31, 2017 ("Old Peer Group"). The New Peer Group consists of the following companies: Alamos Gold Inc., B2Gold Corp., Centerra Gold, Inc., Coeur Mining, Inc., Detour Gold Corporation, Eldorado Gold Corp., First Majestic Silver Corp., IAMGOLD Corporation, Kirkland Lake Gold Ltd., New Gold Inc., Pan American Silver Corp., Silver Standard Resources Inc., Tahoe Resources Inc. and Yamana Gold Inc. The Old Peer Group did not include Kirkland Lake Gold Ltd. and Yamana Gold Inc., which were added in the New Peer Group, and included Endevour Silver Corp., Primero Mining Corp., and Royal Gold, Inc., which were removed from the New Peer Group. We determined the companies added to the New Peer Group are more representative of our size and business compared to the companies removed from the New Peer Group. The graph assumes a $100 investment in our common stock and in each of the indexes and peer groups since the beginning of the period, and a reinvestment of dividends paid on such investments on a quarterly basis throughout the period.

Date	Hecla Mining	S&P 500	S&P 500 Gold Index	2017 Old Peer Group	2018 New Peer Group
December 2013	$100.00	$100.00	$100.00	$100.00	$100.00
December 2014	$90.89	$113.69	$82.85	$93.61	$77.53
December 2015	$61.83	$115.26	$79.26	$59.94	$48.45
December 2016	$171.80	$129.05	$150.67	$98.80	$78.17
December 2017	$130.43	$157.22	$167.10	$96.39	$79.81
December 2018	$77.78	$150.33	$156.84	$76.38	$67.09

The stock performance information above is “furnished” and shall not be deemed to be “soliciting material” or subject to Rule 14A of the Exchange Act, shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this report and irrespective of any general incorporation by reference language in any such filing, except to the extent that it specifically incorporates the information by reference.

On May 8, 2012, we announced that our board of directors approved a stock repurchase program. Under the program, we are authorized to repurchase up to 20 million shares of our outstanding common stock from time to time in open market or privately negotiated transactions. See *Note 9* of *Notes to Consolidated Financial Statements* for more information. We made no purchases of our outstanding common stock during the quarter and year ended December 31, 2018.

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Item 6. Selected Financial Data

The following table (in thousands, except per share amounts, common shares issued, stockholders of record, and employees) sets forth selected historical consolidated financial data as of and for each of the years ended December 31, 2014 through 2018, and is derived from our audited financial statements (except for stockholders of record and employees). The data set forth below should be read in conjunction with, and is qualified in its entirety by, our Consolidated Financial Statements and the Notes thereto.

	2018 [7]	**2017** [6] Revised [8]	**2016** [5] Revised [8]	**2015** Revised [8]	**2014** Revised [8]
Sales of products	$567,137	$577,775	$645,957	$443,567	$500,781
Net income (loss)	$(26,563)	$(28,520)	$61,569	$(94,738)	$16,306
Preferred stock dividends [1]	$(552)	$(552)	$(552)	$(552)	$(552)
Income (loss) applicable to common stockholders	$(27,115)	$(29,072)	$61,017	$(95,290)	$15,754
Basic income (loss) per common share	$(0.06)	$(0.07)	$0.16	$(0.25)	$0.04
Diluted income (loss) per common share	$(0.06)	$(0.07)	$0.16	$(0.25)	$0.04
EBITDA [2]	$148,585	$156,922	$236,373	$106,943	$151,347
Total assets	$2,703,944	$2,345,158	$2,355,795	$2,213,359	$2,260,578
Accrued reclamation & closure costs	$108,389	$86,045	$85,580	$95,538	$57,250
Non-current portion of debt and capital leases[3]	$540,670	$508,422	$506,817	$509,040	$512,129
Cash dividends paid per common share[4]	$0.01	$0.01	$0.01	$0.01	$0.01
Common shares issued and outstanding	482,603,937	399,176,425	395,286,875	378,112,840	367,376,863
Stockholders of record	3,617	3,784	4,197	4,392	5,571
Employees	1,714	1,431	1,396	1,404	1,354

(1) We declared and paid all quarterly dividends on our Series B preferred shares for 2014, 2015, 2016, 2017 and 2018, totaling $0.6 million for each of those years.

(2) Earnings before interest, taxes, depreciation, and amortization ("EBITDA") is a non-GAAP measurement. EBITDA is used by management, and we believe is useful to investors, for evaluating our operational performance. A reconciliation of this non-GAAP measure to net income (loss), the most comparable GAAP measure, can be found in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,* under *Reconciliation of Net Income (Loss) (GAAP) to Earnings Before Interest, Taxes, Depreciation, and Amortization (non-GAAP).*

(3) On April 12, 2013, we completed an offering of $500 million in aggregate principal amount of our Senior Notes due May 1, 2021 in a private placement conducted pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. In 2014, an additional $6.5 million aggregate principal amount of the Senior Notes were issued to our pension plan. On March 5, 2018, we entered into a note purchase agreement pursuant to which we issued CAD$40 million (approximately USD$30.8 million at the time of the transaction) in aggregate principal amount of our Series 2018-A Senior Notes due May 1, 2021 to Ressources Québec, a subsidiary of Investissment Québec, a financing arm of the Québec government. More information can be found in *Note 7* of *Notes to Consolidated Financial Statements.*

(4) See *Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* for a summary of the common stock dividends declared by our board of directors for the years presented.

(5) In the third quarter of 2015, we made the development decision to mine near-surface, high-grade portions of silver and gold deposits from shallow open pits at our San Sebastian unit in Mexico. Mine production commenced in the fourth quarter of 2015, and mill production started in December 2015. The first sales from San Sebastian occurred in the first quarter of 2016, and operations have continued there since that time. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, The San Sebastian Segment* for more information.

(6) In March 2017, employees represented by a union at our Lucky Friday unit went on strike, and have been on strike since that time. Production and sales at Lucky Friday have been limited during the strike period. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, The Lucky Friday Segment* for more information.

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(7) In July 2018, we acquired Klondex for total consideration of $414.2 million, including issuance of 75,276,176 shares of our common stock. The net loss for 2018 includes costs of $10.0 million related to the acquisition. See *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, The Nevada Operations Segment* for more information on the results for our newly-acquired Nevada operations for the portion of 2018 under our ownership.

(8) See *Note 2* of *Notes to Consolidated Financial Statements*.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Established in 1891 in northern Idaho's Silver Valley, we believe we are the oldest operating precious metals mining company in the United States and the largest silver producer in the U.S. Our corporate offices are in Coeur d'Alene, Idaho and Vancouver, British Columbia. Our production profile includes:

- silver, gold, lead, and zinc contained in concentrates shipped to various smelters or sold to brokers; and
- doré containing gold and silver, which is further refined before sale of the metals to precious metal traders.

Our operating properties comprise our five business segments for financial reporting purposes: the Greens Creek operating unit on Admiralty Island in Alaska, the Lucky Friday operating unit in Idaho, the Casa Berardi operating unit in Quebec, Canada, the San Sebastian operating unit in Durango, Mexico, and the Nevada Operations unit in northern Nevada. Since our operating mines are located in the U.S., Canada, and Mexico, we believe they have low or relatively moderate political risk, and less economic risk than mines located in other parts of the world. Our exploration interests are also in the United States, Canada, and Mexico, and are located in historical mining districts.

Our operating and strategic framework is based on expanding our production and locating and developing new resource potential. In 2018, we

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Reported sales of products of $567.1 million, which was the third highest in our history, after our record set in 2016 and the second highest in 2017, in spite of a strike at our Lucky Friday unit since March 2017.

- Achieved gold production that was the highest in our history, primarily as a result of higher throughput at Casa Berardi, continued production at San Sebastian, and the addition of our Nevada Operations in July 2018.

- Completed the acquisition of Klondex in July 2018, giving us ownership of a mill, operating mines and other mineral interests in northern Nevada (discussed further below).

- Generated $94.2 million in net cash flows from operating activities. See the *Financial Liquidity and Capital Resources* section below for further discussion.

- Produced the most gold at our Casa Berardi unit since its acquisition in 2013, primarily due to record ore throughput.

- Completed underground development at our San Sebastian unit and ramped-up underground production there after it commenced in January 2018 (discussed further below).

- Made capital expenditures (including lease additions, capitalized interest, and other non-cash items) of approximately $146.5 million, including $43.6 million at Greens Creek, $39.8 million at Casa Berardi, $35.7 million at Nevada Operations, $14.2 million at Lucky Friday, and $8.5 million at San Sebastian.

- Increased overall proven and probable reserves at December 31, 2018, with reserves for silver, gold, zinc and lead increasing by 8%, 26%, 11% and 5%, respectively, compared to their levels in 2017. The reserves for silver, gold and lead represent the highest levels in our history with, zinc reserves representing the second highest in our history. See *Item 2. Property Descriptions* for additional information on proven and probable reserves at each of our operating units.

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- Performed exploration and pre-development activities during the year, drilling targets at our land packages in Alaska, Idaho, Nevada, British Columbia, Quebec and Mexico.

The average realized silver, lead and zinc prices decreased in 2018 to $15.63, $1.04 and $1.27, respectively, with the realized gold price increasing slightly to $1,265, from average realized prices of $17.23 for silver, $1,261 for gold, $1.06 for lead, and $1.32 for zinc in 2017. Average realized prices for all four metals were higher in 2017 compared to their annual averages in 2016, which were $17.16 for silver, $1,245 for gold, $0.85 for lead, and $0.95 for zinc. Lead and zinc represent important by-products at our Greens Creek and Lucky Friday segments, and gold is also a significant by-product at Greens Creek and San Sebastian.

See the *Results of Operations* section below for a discussion of the factors impacting income applicable to common stockholders for the three years ended December 31, 2018, 2017 and 2016.

Key Issues

We intend to achieve our long-term objective of generating financial returns, improving operating performance, and expanding our proven and probable reserves by operating, developing and acquiring long-lived, low-cost mines with large land positions in politically stable jurisdictions. Our strategic plan requires that we manage multiple challenges and risks inherent in conducting mining, development, exploration and metal sales at multiple locations.

One such risk involves metals prices, over which we have no control except, on a limited basis, through the use of derivative contracts. As discussed in the *Critical Accounting Estimates* section below, metals prices are influenced by a number of factors beyond our control. While we believe global economic and industrial trends could result in continued demand for the metals we produce, prices have been volatile and there can be no assurance that current prices will continue.

Volatility in global financial markets poses a significant challenge to our ability to access credit and equity markets, should we need to do so, and to predict sales prices for our products. We utilize forward contracts to manage exposure to declines in the prices of silver, gold, zinc and lead contained in our concentrates that have been shipped but have not yet settled, and zinc and lead that we forecast for future concentrate shipments. In addition, we have in place a $250 million revolving credit agreement under which approximately $199 million was available as of the filing date of this report.

On July 20, 2018, we completed the acquisition of all of the issued and outstanding common shares of Klondex for total consideration valued at approximately $414.2 million at the time of consummation of the acquisition. See *Note*

16 of *Notes to Consolidated Financial Statements* for more information. As a result of the acquisition, we own 100% of three producing gold mines, along with interests in various gold exploration properties, in northern Nevada. The acquisition is expected to increase our annual gold production, gives us ownership of operating gold mines and identified gold reserves and other mineralized material, and provides access to a large land package with known mineralization. We are faced with the challenge of integrating the acquisition and assuming operating responsibility for Klondex's mines and other operations. See *Item 1A. Risk Factors - Operating, Development, Exploration and Acquisition Risks* for risks associated with our acquisition of Klondex.

On June 1, 2013, we completed the acquisition of all of the issued and outstanding common shares of Aurizon for total consideration of CAD$740.8 million (US$714.5 million). The acquisition gave us 100% ownership of the producing Casa Berardi gold mine, along with interests in various gold exploration properties in the Abitibi region of northwestern Quebec, Canada. As further discussed in *Item 7A. Quantitative and Qualitative Disclosures About Market Risk*, the acquisition has increased our exposure to risks associated with exchange rate fluctuations between the U.S. dollar and Canadian dollar. We make our strategic plans in the context of significant uncertainty about future availability of ore to mine and process. To sustain operations, we must find new opportunities that require many years and substantial expenditures from discovery to production. We approach this challenge by investing in exploration and capital in districts with known mineralization. On June 15, 2015, we completed the acquisition of Revett, giving us 100% ownership of the Rock Creek project, a significant undeveloped silver and copper deposit in northwestern Montana. In addition, on September 13, 2016, we completed the acquisition of Mines Management, giving us 100% ownership of the Montanore project, another significant undeveloped silver and copper deposit located approximately 10 miles from our Rock Creek project. See *Note 16* of *Notes to Consolidated Financial Statements* for more information on these acquisitions. Development of Rock Creek and Montanore has been challenged by non-governmental organizations and governmental agencies at various times, and there can be no assurance that we will be able to obtain the permitting required to develop these projects. In *Risk Factors*, see *Legal challenges could prevent the Rock Creek or Montanore projects from ever being developed* for more information.

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During the third quarter of 2015, we made a development decision to mine near surface, high grade portions of silver and gold deposits at our San Sebastian project in Mexico. Ore production commenced from the pits in the fourth quarter of 2015 and continued until the end of 2017. In addition, work began in the first quarter of 2017 to develop new, and rehabilitate old, underground access which would allow us to mine deeper portions of the deposits at San Sebastian, allowing underground ore production to begin in January 2018 and continue since that time. See *The San Sebastian Segment* section below for more information. We generated positive cash flows at San Sebastian in 2016, 2017 and 2018, and we believe that we will continue to do so over the next approximately three years. However, our ability to generate positive cash flows at San Sebastian may be impacted by changes in estimated costs, precious metals prices, or other factors, and there can be no assurance that we will be able to develop and operate San Sebastian as anticipated.

As further discussed in *The Lucky Friday Segment* section below, the union employees at Lucky Friday have been on strike since March 13, 2017. Production at Lucky Friday was suspended from the start of the strike until July 2017, with limited production by salaried employees commencing at that time. We cannot predict how long the strike will last or whether an agreement will be reached. We expect cash expenditures of about $1.5 million to $2.0 million per month to advance engineering and infrastructure for the restart of full production, in addition to costs related to limited interim production. As a result of the strike or other related events, operations at Lucky Friday could continue to be disrupted, which could adversely affect our financial condition and results of operations.

The total principal amount of our Senior Notes due May 1, 2021 is $506.5 million and they bear interest at a rate of 6.875% per year. $490 million in net proceeds from the Senior Notes were used to partially fund the acquisition of Aurizon in June 2013. In addition, in March 2018 we entered into a note purchase agreement pursuant to which we issued CAD$40 million (approximately USD$30.8 million at the time of the transaction) in aggregate principal amount of our Series 2018-A Senior Notes due May 1, 2021 (the “RQ Notes”) to Ressources Québec which have an annual coupon rate of 4.68%. The net proceeds from the RQ Notes are required to be used for development and expansion of our Casa Berardi unit. Also, we drew $71 million under our revolving credit facility during 2018, all of which was repaid during 2018. Amounts drawn on the revolving credit facility are subject to a variable rate of interest. See *Note 7* of *Notes to Consolidated Financial Statements* for more information on our debt arrangements. As discussed in the *Financial Liquidity and Capital Resources* section below, we believe that we will be able to meet the obligations associated with the Senior Notes, RQ Notes and amounts drawn on our revolving credit facility; however, a number of factors could impact our ability to meet the debt obligations and fund our other projects.

We strive to achieve excellent mine safety and health performance. We seek to implement this goal by: training employees in safe work practices; establishing, following and improving safety standards; investigating accidents, incidents and losses to avoid recurrence; involving employees in the establishment of safety standards; and participating in the National Mining Association’s CORESafety program. We attempt to implement reasonable best practices with respect to mine safety and emergency preparedness. We work with the Mine Safety and Health Administration (“MSHA”) to address issues outlined in investigations and inspections and continue to evaluate our safety practices. As a result of industry-wide fatal accidents in recent years, primarily at underground coal mines, there has been an increase in mine regulation. In addition, under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC was directed to issue rules regarding the disclosure of mine safety data. Our ability to achieve and maintain compliance with MSHA regulations will be challenging and may increase our operating costs.

See *Item 1A. Risk Factors - We face substantial governmental regulation, including the Mine Safety and Health Act, various environmental rules and regulations and the 1872 Mining Law.*

Another challenge for us is the risk associated with environmental litigation and ongoing reclamation activities. As described *Item 1A. Risk Factors* and in *Note 8* of *Notes to Consolidated Financial Statements,* it is possible that our estimate of these liabilities (and our ability to estimate liabilities in general) may change in the future, affecting our strategic plans. We are involved in various environmental legal matters and the estimate of our environmental liabilities and liquidity needs, as well as our strategic plans, may be significantly impacted as a result of these matters or new matters that may arise. We strive to ensure that our activities are conducted in compliance with applicable laws and regulations and attempt to resolve environmental litigation on terms as favorable to us as possible.

Reserve estimation is a major risk inherent in mining. Our reserve estimates, which drive our mining and investment plans, the valuation of a significant portion of our long-term assets, and depreciation, depletion and amortization expense, may change based on economic factors and actual production experience. Until ore is mined and processed, the volumes and grades of our reserves must be considered as estimates. Our reserves are depleted as we mine. Reserves can also change as a result of changes in economic and operating assumptions.

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Results of Operations

Sales of products by metal for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		
(in thousands)	**2018**	**2017**	**2016**
Silver	$144,609	$194,813	$274,438
Gold	313,076	277,421	276,630
Lead	33,829	37,995	63,942
Zinc	99,800	104,023	95,058
Less: Smelter and refining charges	(24,177)	(36,477)	(64,111)
Sales of products	$567,137	$577,775	$645,957

The fluctuations in sales for 2018 compared to 2017 and 2016 were primarily due to:

- Lower quantities of silver, lead and zinc sold, partially offset by higher gold quantities, in 2018 compared to 2017 and 2016. Silver, gold, lead and zinc sales volumes were lower in 2017 compared to 2016 due to lower production of those metals. See *The Greens Creek Segment, The Lucky Friday Segment, The Casa Berardi Segment, The San Sebastian Segment,* and *The Nevada Operations Segment* sections below for more information on metal production and sales volumes at each of our operating segments. Total metals production and sales volumes for each period are shown in the following table:

		Year Ended December 31,		
		2018	**2017**	**2016**
Silver -	Ounces produced	10,369,503	12,484,844	17,177,317
	Payable ounces sold	9,254,385	11,308,958	15,997,087
Gold -	Ounces produced	262,103	232,684	233,929
	Payable ounces sold	247,528	219,929	222,105
Lead -	Tons produced	20,091	22,733	42,472
	Payable tons sold	16,214	17,960	37,519
Zinc -	Tons produced	56,023	55,107	68,516
	Payable tons sold	39,273	39,335	49,802

The difference between what we report as "ounces/tons produced" and "payable ounces/tons sold" is attributable to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually paid for by our customers according to the terms of our sales contracts. Differences can also arise from inventory changes incidental to shipping schedules, or variances in ore grades which impact the amount of metals contained in concentrates produced and sold.

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- Average realized silver, lead and zinc prices for 2018 that were lower than 2017. Average realized prices for gold, lead and zinc were higher, with prices for silver lower, in 2018 compared to 2016. These price variances are illustrated in the table below.

	Average price for the year ended December 31,		
	2018	2017	2016
Silver – London PM Fix ($/ounce)	$15.71	$17.05	$17.10
Realized price per ounce	15.63	17.23	17.16
Gold – London PM Fix ($/ounce)	1,269	1,257	1,248
Realized price per ounce	1,265	1,261	1,245
Lead – LME Final Cash Buyer ($/pound)	1.02	1.05	0.85
Realized price per pound	1.04	1.06	0.85
Zinc – LME Final Cash Buyer ($/pound)	1.33	1.31	0.95
Realized price per pound	1.27	1.32	0.95

Average realized prices differ from average market prices primarily because concentrate sales are generally recorded as revenues at the time of shipment at forward prices for the estimated month of settlement, which differ from average market prices. Due to the time elapsed between shipment of concentrates and final settlement with customers, we must estimate the prices at which sales of our metals will be settled. Previously recorded sales are adjusted to estimated settlement metal prices each period through final settlement. For 2018, we recorded net negative price adjustments to provisional settlements of $3.8 million compared to net positive price adjustments to provisional settlements of $0.7 million in 2017 and net negative adjustments of $0.9 million in 2016. The price adjustments related to silver, gold, zinc and lead contained in our concentrate sales were largely offset by gains and losses on forward contracts for those metals for each year (see *Note 11* of *Notes to Consolidated Financial Statements* for more information). The gains and losses on these contracts are included in revenues and impact the realized prices for silver, gold, lead and zinc. Realized prices are calculated by dividing gross revenues for each metal (which include the price adjustments and gains and losses on the forward contracts discussed above) by the payable quantities of each metal included in concentrate and doré shipped during the period.

For the year ended December 31, 2018, we reported a loss applicable to common stockholders of $27.1 million compared to a loss of $29.1 million in 2017 and income of $61.0 million in 2016. The following factors contributed to those differences:

- Gross profit at our San Sebastian unit in 2018 of $8.4 million was lower compared to $62.1 million in 2017 and $82.7 million in 2016. No gross profit at Lucky Friday in 2018 compared to gross profit of $6.4 million in 2017 and $18.3 million in 2016. Gross loss of $15.8 million at our Nevada Operations unit in 2018 for the period since its acquisition in July 2018. Gross profit at Greens Creek in 2018 of $75.6 million was lower than $76.5 million in 2017 and higher than $69.1 million in 2016. Gross profit at Casa Berardi of $10.9 million in 2018 was higher than $7.4 million in 2017, but lower than $13.9 million in 2016. See *The Greens Creek Segment*, *The Lucky Friday Segment*, *The Casa Berardi Segment*, *The San Sebastian Segment* and *The Nevada Operations Segment* sections below.

- Income tax benefit of $6.7 million in 2018 compared to income tax provisions of $21.0 million in 2017 and $28.1 million in 2016. The provision in 2017 included a write-down of U.S. deferred tax assets, mainly due to a change to tax laws under the Tax Cuts and Jobs Act enacted in December 2017, and taxes related to our operations in Mexico and Quebec, partially offset by a benefit from a change in income tax position recognized in the first quarter of 2017 related to the timing of deduction of #4 Shaft development costs at Lucky Friday. The provision in 2016 is primarily related to pre-tax net income, partially offset by a decrease in the valuation allowance for U.S. deferred tax assets. See *Corporate Matters* and *Note 6* of *Notes to Consolidated Financial Statements* for more information.

- Suspension costs of $20.7 million in 2018 compared to $21.3 million in 2017, with no such activity in 2016. $19.6 million of the costs in 2018 related to suspension at the Lucky Friday mine resulting from the strike, which started in March 2017, and included non-cash depreciation expense of $5.0 million. The cost for 2018 also included $1.1 million related to curtailment of production at the Midas mine. All of the costs for 2017 related to Lucky Friday and included $4.2 million for non-cash depreciation.

- Costs related to the acquisition of Klondex of $10.0 million in 2018, with no acquisition costs in 2017 and costs for the acquisition of Mines Management of $2.7 million in 2016.

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- Exploration and pre-development expense increased to $40.6 million in 2018 from $29.0 million in 2017 and $17.9 million in 2016. Our activity in 2018 included a continuation of exploration work at our Greens Creek, San Sebastian and Casa Berardi units, and at our other projects in Quebec, Canada, and our start of exploration at our Nevada Operations unit acquired in July 2018. "Pre-development expense" is defined as costs incurred in the exploration stage that may ultimately benefit production, such as underground ramp development, which are expensed due to the lack of proven and probable reserves. Pre-development expense was primarily related to advancement of our Montanore and Rock Creek projects.

- Research and development expense of $5.4 million in 2018 compared to $3.3 million in 2017 and $0.2 million in 2016, related to evaluation and development of technologies that would be new to our operations.

- Interest expense, net of amounts capitalized, of $40.9 million in 2018 compared to $38.0 million in 2017 and $21.8 million in 2016. The interest is primarily related to our Senior Notes issued in April 2013, with the net proceeds used to partially fund the acquisition of Aurizon, and additional issuances in 2014 to satisfy the funding requirements for one of our defined benefit pension plans (see *Notes 7* and *17* of *Notes to Consolidated Financial Statements*). The increase in 2018 and 2017 was primarily due to a reduction in amount capitalized as a result of completion of the #4 Shaft project at Lucky Friday in January 2017. In addition, interest expense in 2018 included amounts related to the RQ Notes issued in March 2018, and interest expense for 2017 included $0.9 million in costs related to our proposed private offering of new Senior Notes in June 2017 and concurrent tender offer to purchase our existing Senior Notes, which were not completed.

- Gain on disposition of properties, plants, equipment, and mineral interests of $2.8 million in 2018 compared to $6.0 million in 2017 and $0.1 million in 2016. The gains in 2018 and 2017 included $4.4 million and $7.7 million, respectively, in insurance proceeds related to the collapse of the mill building at the Troy mine in February 2017 due to snow.

- Net foreign exchange gain of $10.3 million in 2018 compared to losses of $9.7 million in 2017 and $2.7 million in 2016. As discussed in *Note 11* of *Notes to Consolidated Financial Statements*, in 2016 we initiated hedging programs to manage our exposure to fluctuations in the exchange rate between the U.S. dollar and Canadian dollar and Mexican peso and the impact on our future operating costs at our Casa Berardi and San Sebastian units.

- General and administrative costs, which decreased to $36.5 million in 2018 and $35.6 million in 2017 from $45.0 million in 2016, primarily due to differences in incentive compensation.

- Net gain on base metal forward contracts of $40.3 million in 2018 compared to a net loss of $21.3 million in 2017 and gain of $4.4 million in 2016. During the third quarter of 2018, we settled, prior to their maturity date, contracts in a gain position for cash proceeds to us of approximately $32.8 million. These gains and losses are related to financially-settled forward contracts on forecasted zinc and lead production as part of a risk management program, and resulted from changes in zinc and lead prices during each period. We do not include silver and gold in this program.

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The Greens Creek Segment

Dollars are in thousands (except per ounce and per ton amounts)	**Years Ended December 31,**		
	2018	**2017**	**2016**
Sales	$265,650	$278,297	$260,446
Cost of sales and other direct production costs	(143,555)	(145,475)	(138,075)
Depreciation, depletion and amortization	(46,511)	(56,328)	(53,222)
Cost of sales and other direct production costs and depreciation, depletion and amortization	(190,066)	(201,803)	(191,297)
Gross Profit	$75,584	$76,494	$69,149
Tons of ore milled	845,398	839,589	815,639
Production:			
Silver (ounces)	7,953,003	8,351,882	9,253,543
Gold (ounces)	51,493	50,854	53,912
Zinc (tons)	55,350	52,547	57,729
Lead (tons)	18,960	17,996	20,596
Payable metal quantities sold:			
Silver (ounces)	6,828,955	7,384,596	8,244,723
Gold (ounces)	43,135	42,222	47,015
Zinc (tons)	38,338	37,648	40,817
Lead (tons)	14,491	14,182	16,795
Ore grades:			
Silver ounces per ton	12.16	12.88	14.55
Gold ounces per ton	0.09	0.09	0.10
Zinc percent	7.47	7.25	8.08
Lead percent	2.80	2.72	3.11
Mining cost per ton	$71.37	$70.86	$69.48
Milling cost per ton	$33.53	$32.38	$31.99
Cash Cost, After By-product Credits, Per Silver Ounce [(1)]	$(1.13)	$0.71	$3.84
AISC, After By-Product Credits, per Silver Ounce [(1)]	$5.58	$5.76	$9.42

(1) A reconciliation of these non-GAAP measures to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

The $0.9 million decrease in gross profit for 2018 compared to 2017 was due to lower average realized silver, zinc and lead prices and lower silver sales volume, partially offset by higher gold, zinc and lead volumes. The $6.4 million increase in gross profit for 2018 compared to 2016 was due to higher gold, zinc and lead prices, partially offset by lower silver prices and metal sales volumes. Depreciation, depletion and amortization expense for 2018 was 17%

lower compared to 2017 and 13% lower compared to 2016 due to the timing of concentrate sales, the impact of higher reserves and lower metals production on units-of-production depreciation, and expiration of depreciable lives on previously-acquired assets.

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The chart below illustrates the factors contributing to the variances in Cash Cost, After By-product Credits, Per Silver Ounce for 2018 compared to 2017 and 2016:

The following table summarizes the components of Cash Cost, After By-product Credits, per Silver Ounce:

	Years Ended December 31,		
	2018	**2017**	**2016**
Cash Cost, Before By-product Credits, per Silver Ounce	$22.88	$22.54	$21.32
By-product credits per silver ounce	(24.01)	(21.83)	(17.48)
Cash Cost, After By-product Credits, per Silver Ounce	$(1.13)	$0.71	$3.84

The following table summarizes the components of AISC, After By-product Credits, per Silver Ounce:

	Years Ended December 31,		
	2018	**2017**	**2016**
AISC, Before By-product Credits, per Silver Ounce	$29.59	$27.59	$26.90
By-product credits per silver ounce	(24.01)	(21.83)	(17.48)
AISC, After By-product Credits, per Silver Ounce	$5.58	$5.76	$9.42

Cash Costs, After By-product Credits, per Silver Ounce were lower in 2018 compared to 2017 and 2016 primarily due to higher by-product credits, partially offset by lower silver production. In addition to these factors, AISC, After By-product Credits, per Silver Ounce was impacted by capital spending in 2018 that was higher than in 2017, but lower than in 2016.

Mining and milling costs increased in 2018 compared to 2017 and 2016 on a per-ounce basis due primarily to lower silver production resulting from reduced silver grades.

Other costs for 2018 were higher compared to 2017 and 2016 due to the effect of lower silver production.

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Treatment costs were lower in 2018 compared to 2017 and 2016 as a result of improved payment terms from smelters, partially offset by lower silver production. Treatment costs were also impacted by silver price variances, as treatment costs include the value of silver not payable to us through the smelting process. The silver not payable to us is either recovered by the smelters through further processing or ultimately not recovered and included in the smelters' waste material. Treatment costs also include a price adjustment component that fluctuates with changes in base metal prices.

By-product credits per ounce were higher in 2018 compared to 2017 due to higher gold, zinc and lead prices and gold, zinc and lead production, and higher compared to 2016 due to higher prices for all three metals.

The difference between what we report as "production" and "payable metal quantities sold" is attributable to the difference between the quantities of metals contained in the concentrate we produce versus the portion of those metals actually paid for by our customers according to the terms of our sales contracts. Differences can also arise from inventory changes incidental to shipping schedules, or variances in ore grades which impact the amount of metals contained in concentrates produced and sold.

While revenue from zinc, lead and gold by-products is significant, we believe that identification of silver as the primary product of the Greens Creek unit is appropriate because:

- silver has historically accounted for a higher proportion of revenue than any other metal and is expected to do so in the future;
- we have historically presented Greens Creek as a producer primarily of silver, based on the original analysis that justified putting the project into production, and believe that consistency in disclosure is important to our investors regardless of the relationships of metals prices and production from year to year;
- metallurgical treatment maximizes silver recovery;
- the Greens Creek deposit is a massive sulfide deposit containing an unusually high proportion of silver; and
- in most of its working areas, Greens Creek utilizes selective mining methods in which silver is the metal targeted for highest recovery.

Likewise, we believe the identification of gold, lead and zinc as by-product credits is appropriate because of their lower economic value compared to silver and due to the fact that silver is the primary product we intend to produce. In addition, we have not consistently received sufficient revenue from any single by-product metal to warrant

classification of such as a co-product.

We periodically review our revenues to ensure that reporting of primary products and by-products is appropriate. Because we consider zinc, lead and gold to be by-products of our silver production, the values of these metals offset operating costs within our calculations of Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce.

In the fourth quarter of 2018, we revised our asset retirement obligation ("ARO") to reflect estimated undiscounted costs of approximately $114.9 million, compared to $100.1 million in the previous estimate, and expected timing of expenditures. This resulted in a decrease to the ARO asset and liability of $3.2 million due to the impact of discounting and the change in expected timing of expenditures.

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The Lucky Friday Segment

Dollars are in thousands (except per ounce and per ton amounts)	Years Ended December 31,		
	2018	**2017**	**2016**
Sales	$9,750	$21,555	$94,479
Cost of sales and other direct production costs	(8,738)	(12,660)	(64,400)
Depreciation, depletion and amortization	(1,012)	(2,447)	(11,810)
Cost of sales and other direct production costs and depreciation, depletion and amortization	(9,750)	(15,107)	(76,210)
Gross profit	$—	$6,448	$18,269
Tons of ore milled	17,309	70,718	293,875
Production:			
Silver (ounces)	169,041	838,658	3,596,010
Lead (tons)	1,131	4,737	21,876
Zinc (tons)	673	2,560	10,787
Payable metal quantities sold:			
Silver (ounces)	275,469	672,421	3,433,618
Lead (tons)	1,723	3,779	20,724
Zinc (tons)	935	1,688	8,985
Ore grades:			
Silver ounces per ton	10.78	12.38	12.69
Lead percent	7.19	7.10	7.78
Zinc percent	4.20	4.01	3.92
Mining cost per ton	$86.30	$106.75	$98.12
Milling cost per ton	$14.86	$21.71	$24.08
Cash Cost, After By-product Credits, Per Silver Ounce [(1)]	$—	$5.81	$8.89
AISC, After By-product Credits, Per Silver Ounce [(1)]	$—	$12.48	$20.66

(1) A reconciliation of these non-GAAP measures to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

The decrease in gross profit for 2018 compared to 2017 and 2016 was primarily due to reduced metal production resulting from the strike by unionized employees starting in mid-March 2017, discussed further below, and the lack of concentrate shipments during most of the strike period. Silver production in 2018 was also impacted by lower ore grades, and gross profit was impacted by lower average realized silver prices.

Gross profit was also impacted by depreciation expense, which decreased in 2018 by $1.4 million and $10.8 million compared to 2017 and 2016, respectively, due to the lower sales volume in 2018.

Mining costs per ton decreased in 2018 by 19% and 12%, and milling cost per ton decreased by 32% and 38%, compared to 2017 and 2016, respectively. Costs not directly related to mining and processing ore have been classified as suspension costs during the strike period and excluded from the calculations of mining and milling cost per ton. Mining and milling cost per ton during the strike period are not indicative of future operating results under full production.

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The chart below illustrates the factors contributing to the variances in Cash Cost, After By-product Credits, Per Silver Ounce for 2017 and 2016. Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce, are not presented for 2018, as production was limited due to the strike and results are not comparable to those from 2017 and 2016, and are not indicative of future operating results under full production.

The following table summarizes the components of Cash Cost, After By-product Credits, per Silver Ounce:

	Year ended December 31,	
	2017	**2016**
Cash Cost, Before By-product Credits, per Silver Ounce	$22.83	$23.00
By-product credits per silver ounce	(17.02)	(14.11)
Cash Cost, After By-product Credits, per Silver Ounce	$5.81	$8.89

The following table summarizes the components of AISC, After By-product Credits, per Silver Ounce:

	Years Ended December 31,	
	2017	**2016**
AISC, Before By-product Credits, per Silver Ounce	$29.50	$34.77
By-product credits per silver ounce	(17.02)	(14.11)
AISC, After By-product Credits, per Silver Ounce	$12.48	$20.66

The decrease in Cash Cost, After By-product Credits, per Silver Ounce for 2017 compared to 2016 was due to higher by-product credits, partially offset by lower silver production. The decrease in AISC, After By-product Credits, per Silver Ounce was due to the same factors, along with lower capital spending.

Mining costs per ounce increased in 2017 compared to 2016 as a result of lower silver production. Milling and other cash costs per ounce decreased in 2017 compared to 2016, as the mill operated intermittently in 2017 during the strike, and costs not directly related to production were classified as suspension costs.

By-product credits per ounce increased in 2017 compared to 2016 due to higher lead and zinc prices.

Similar to the Greens Creek segment, the difference between what we report as “production” and “payable metal quantities sold” is due essentially to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually paid for by our customers according to the terms of our sales contracts. Differences can also arise from inventory changes incidental to the timing of concentrate shipments, or variances in ore grades which impact the amount of metals contained in concentrates produced and sold.

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While value from lead and zinc is significant, we believe that identification of silver as the primary product of the Lucky Friday unit is appropriate because:

- silver has historically accounted for a higher proportion of revenue than any other metal and is expected to do so in the future;
- this mining district is long associated with silver production; and
- selective mining methods target silver production.

Likewise, we believe the identification of lead and zinc as by-product credits is appropriate because of their low economic value compared to silver and due to the fact that silver is the primary product we intend to produce. In addition, we do not receive sufficient revenue from any single by-product metal to warrant classification of such as a co-product.

We periodically review our revenues to ensure that reporting of primary products and by-products is appropriate. Because we consider zinc and lead to be by-products of our silver production, the values of these metals offset operating costs within our calculations of Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce.

Many of the employees at our Lucky Friday unit are represented by a union, and the most recent collective bargaining agreement with the union expired on April 30, 2016. On February 19, 2017, the unionized employees voted against our contract offer, and on March 13, 2017 went on strike, and have been on strike since that time. Production at Lucky Friday was suspended from the start of the strike, until limited production by salaried personnel commenced in July 2017. Salaried personnel have continued to perform limited production and capital improvements. Suspension costs during the strike totaled $14.6 million and $17.1 million in 2018 and 2017, respectively, which are combined with non-cash depreciation expense of $5.0 million and $4.2 million, respectively, for those periods, in a separate line item on our consolidated statements of operations. These suspension costs are excluded from the calculation of gross profit, Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce, when presented. We cannot predict how long the strike will last or whether an agreement will be reached. As a result of the strike or other related events, operations at Lucky Friday could continue to be disrupted, which could adversely affect our financial condition and results of operations. If the strike continues for a further extended period or it is determined an eventual resolution is unlikely, it may be appropriate in the future to review the carrying value of properties, plants, equipment and mineral interests at Lucky Friday. Under such review, if estimated undiscounted cash flows from Lucky Friday were less than its carrying value, an impairment loss would be recognized for the difference between the carrying value and the estimated fair value. The carrying value of properties, plants, equipment and mineral interests at Lucky Friday as of December 31, 2018 was approximately $435.6 million. However, Lucky Friday has significant identified reserves and mineralized material and a current estimated mine life of approximately 17 years.

On April 30, 2018, we settled with the National Labor Relations Board ("NLRB") an unfair labor practice claim made by the union. As part of the settlement, Hecla Limited rescinded its last, best and final contract offer implemented in March 2017. On May 4, 2018, we gave notice to the union that the parties to the labor dispute are at impasse, and implemented portions of our revised final offer presented in December 2017.

See *Note 8* of *Notes to Consolidated Financial Statements* for more information about contingencies related to various accidents and other events that occurred at the Lucky Friday mine in prior periods.

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The Casa Berardi Segment

Dollars are in thousands (except per ounce and per ton amounts)	**Years Ended December 31,**		
	2018	**2017**	**2016**
Sales	$210,339	$192,165	$177,143
Cost of sales and other direct production costs	(128,100)	(125,585)	(108,399)
Depreciation, depletion and amortization	(71,302)	(59,131)	(54,817)
Cost of sales and other direct production costs and depreciation, depletion and amortization	(199,402)	(184,716)	(163,216)
Gross profit	$10,937	$7,449	$13,927
Tons of ore milled	1,375,718	1,296,224	997,588
Production:			
Gold (ounces)	162,744	156,653	145,975
Silver (ounces)	38,086	36,566	33,641
Payable metal quantities sold:			
Gold (ounces)	165,208	152,292	142,736
Silver (ounces)	40,131	35,191	32,957
Ore grades:			
Gold ounces per ton	0.136	0.139	0.167
Silver ounces per ton	0.03	0.03	0.04
Mining cost per ton	$74.44	$79.49	$89.25
Milling cost per ton	$15.84	$16.10	$18.64
Cash Cost, After By-product Credits, per Gold Ounce [(1)]	$800.14	$819.60	$763.98
AISC, After By-product Credits, per Gold Ounce [(1)]	$1,080.00	$1,173.82	$1,244.30

(1) A reconciliation of these non-GAAP measures to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

Gross profit increased in 2018 compared to 2017 primarily due to higher gold production, due to higher mill throughput, and the impact of stripping costs incurred during 2017 related to development of the East Mine Crown Pillar ("EMCP") pit. Gross profit decreased in 2018 compared to 2016 primarily due to lower ore grades and higher production costs due to increased production from the EMCP pit, which commenced in July 2016, and underground mine sequencing.

Gross profit for each year was also affected by depreciation expense, which increased in 2018 by 21% and 30% compared to 2017 and 2016, respectively, due to higher gold sales volumes, an increase in assets placed in service, and the impact of higher throughput on units-of-production depreciation.

Mining costs per ton for 2018 were 6% lower than in 2017 and 17% lower than in 2016. The decrease is primarily due to higher ore production, with the decrease compared to 2017 also resulting from stripping costs incurred in 2017 for the EMCP pit, where production commenced in the third quarter of 2016.

Milling costs per ton decreased by 2% in 2018 compared to 2017 and by 15% compared to 2016 mainly due to higher ore production.

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The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, Per Gold Ounce for 2018, 2017 and 2016:

The following table summarizes the components of Cash Cost, After By-product Credits, per Gold Ounce:

	Year Ended December 31,		
	2018	**2017**	**2016**
Cash Cost, Before By-product Credits, per Gold Ounce	$803.81	$823.52	$767.90
By-product credits per gold ounce	(3.67)	(3.92)	(3.92)
Cash Cost, After By-product Credits, per Gold Ounce	$800.14	$819.60	$763.98

The following table summarizes the components of AISC, After By-product Credits, per Gold Ounce:

	Years Ended December 31,		
	2018	**2017**	**2016**
AISC, Before By-product Credits, per Gold Ounce	$1,083.67	$1,177.74	$1,248.22
By-product credits per gold ounce	(3.67)	(3.92)	(3.92)
AISC, After By-product Credits, per Gold Ounce	$1,080.00	$1,173.82	$1,244.30

The decrease in Cash Cost, After By-product Credits, per Gold Ounce for 2018 compared to 2017 was due to higher gold production and the impact of EMCP pit stripping costs incurred in 2017. The increase in Cash Cost, After By-product Credits, per Gold Ounce for 2018 compared to 2016 was primarily the result of higher production costs, partially offset by higher gold production. AISC, After By-product Credits, per Gold Ounce was lower for 2018 compared to 2017 and 2016 primarily due to lower capital spending and higher gold production. The reduction in 2018 was also due to stripping costs incurred in 2017, and in spite of higher production costs compared to 2016.

The difference between what we report as "production" and "payable metal quantities sold" is mainly attributable to inventory changes incidental to the timing of sales of refined metals and shipping schedules.

We believe the identification of silver as a by-product credit is appropriate at Casa Berardi because of its lower economic value compared to gold and due to the fact that gold is the primary product we intend to produce there. In addition, we do not receive sufficient revenue from silver at Casa Berardi to warrant classification of such as a co-product. Because we consider silver to be a by-product of our gold production at Casa Berardi, the value of silver offsets operating costs within our calculations of Cash Cost, After By-product Credits, per Gold Ounce and AISC,

After By-product Credits, per Gold Ounce.

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The San Sebastian Segment

	Years Ended December 31,		
	2018	**2017**	**2016**
Sales	$50,224	$85,758	$113,889
Cost of sales and other direct production costs	(37,213)	(21,007)	(27,451)
Depreciation, depletion and amortization	(4,602)	(2,693)	(3,782)
Cost of sales and other direct production costs and depreciation, depletion and amortization	(41,815)	(23,700)	(31,233)
Gross profit	$8,409	$62,058	$82,656
Tons of ore milled	156,733	144,197	143,267
Production:			
Silver (ounces)	2,037,072	3,257,738	4,294,123
Gold (ounces)	14,979	25,177	34,042
Payable metal quantities sold:			
Silver (ounces)	1,985,230	3,216,750	4,285,788
Gold (ounces)	15,099	25,415	32,354
Ore grades:			
Silver ounces per ton	14.07	23.91	31.94
Gold ounces per ton	0.110	0.185	0.254
Mining cost per ton	$149.77	$36.77	$75.46
Milling cost per ton	$65.55	$67.52	$69.12
Cash Cost, After By-product Credits, per Silver Ounce [(1)]	$9.69	$(3.36)	$(3.35)
AISC, After By-product Credits, per Silver Ounce [(1)]	$14.68	$(0.26)	$(1.99)

(1) A reconciliation of these non-GAAP measures to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

The decrease in gross profit in 2018 compared to 2017 and 2016 was due to lower silver and gold production, due to lower ore grades, higher mining costs, and lower silver prices. The lower grades and higher costs are the result of transitioning from open pit to underground mining. The ore processed in 2017 and 2016 came from higher grade deposits mined from shallow open pits. Production from the existing open pits was substantially completed in December 2017; however, during the first half of 2018, a portion of the mill throughput came from the ore stockpiled from the open pits and smaller-scale open pit production. In April 2017, we started development of a new underground portal and work to rehabilitate historic underground infrastructure which allows us to mine deeper portions of the deposits at San Sebastian. Limited ore production from underground began in January 2018 and continued to increase during the year. The underground ore production is expected to have lower grades and involve higher mining costs than the open pits.

Mining cost per ton was higher in 2018 by 307% and 98%, respectively, compared to 2017 and 2016. The large increase in mining cost per ton was due to the transition of production from shallow open pits to underground. There were minor variances for milling costs compared to the prior year periods.

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The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, Per Silver Ounce for the years ended December 31, 2018, 2017 and 2016:

The following table summarizes the components of Cash Cost, After By-product Credits, per Silver Ounce:

	Year ended December 31,		
	2018	2017	2016
Cash Cost, Before By-product Credits, per Silver Ounce	$19.07	$6.35	6.59
By-product credits per silver ounce	(9.38)	(9.71)	(9.94)
Cash Cost, After By-product Credits, per Silver Ounce	$9.69	$(3.36)	$(3.35)

The following table summarizes the components of AISC, After By-product Credits, per Silver Ounce:

	Years Ended December 31,		
	2018	2017	2016
AISC, Before By-product Credits, per Silver Ounce	$24.06	$9.45	$7.95
By-product credits per silver ounce	(9.38)	(9.71)	(9.94)
AISC, After By-product Credits, per Silver Ounce	$14.68	$(0.26)	$(1.99)

The increase in Cash Cost, After By-product Credits, per Silver Ounce in 2018 compared to 2017 and 2016 is due to lower silver production and higher mining costs as a result of transitioning from open pit to underground mining. The same factors resulted in higher AISC, After By-product Credits, per Silver Ounce in 2018 compared to 2017 and 2016, with the increase in 2018 compared to 2017 also due to higher exploration spending, partially offset by lower sustaining capital. Exploration and capital spending were both higher in 2018 compared to 2016.

The difference between what we report as "production" and "payable metal quantities sold" is mainly attributable to inventory changes incidental to the timing of sales of refined metals and shipping schedules.

We believe the identification of gold as a by-product credit is appropriate at San Sebastian because of its anticipated lower economic value compared to silver over the life of the mine. In addition, we do not receive sufficient revenue from gold at San Sebastian to warrant classification of such as a co-product. We periodically review our revenues to ensure that reporting of primary products and by-products is appropriate. Because we consider gold to be a by-product

of our silver production at San Sebastian, the value of gold offsets operating costs within our calculations of Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce.

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The Nevada Operations Segment

On July 20, 2018, we completed the acquisition of all of the issued and outstanding common shares of Klondex for total consideration of $414.2 million. See *Note 16* of *Notes to Consolidated Financial Statements* for more information. The acquisition gives us 100% ownership of the Fire Creek, Midas and Hollister mines, where gold is the primary metal produced, the Midas and Aurora mills, and interests in various gold exploration properties, all located in northern Nevada. The tabular information below reflects our ownership of the Nevada Operations commencing on July 20, 2018.

Dollars are in thousands (except per ounce and per ton amounts)	**Year Ended December 31, 2018**
Sales	$31,174
Cost of sales and other direct production costs	(36,388)
Depreciation, depletion and amortization	(10,617)
Cost of sales and other direct production costs and depreciation, depletion and amortization	(47,005)
Gross profit	$(15,831)
Tons of ore milled	116,383
Production:	
Gold (ounces)	32,887
Silver (ounces)	172,301
Payable metal quantities sold:	
Gold (ounces)	24,086
Silver (ounces)	124,600
Ore grades:	
Gold ounces per ton	0.328
Silver ounces per ton	2.06
Mining cost per ton	$216.80
Milling cost per ton	$74.91
Cash Cost, After By-product Credits, per Gold Ounce [(1)]	$1,220.85
AISC, After By-product Credits, per Gold Ounce [(1)]	$1,950.35

(1) A reconciliation of these non-GAAP measures to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in *Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP).*

Cost of sales and other direct production costs for the period from July 20 to December 31, 2018 includes write-downs totaling $8.2 million of the values of stockpile, in-process and finished goods inventory to their net realizable value.

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The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, Per Gold Ounce for 2018:

The following table summarizes the components of Cash Cost, After By-product Credits, per Gold Ounce:

	Year Ended December 31, 2018
Cash Cost, Before By-product Credits, per Gold Ounce	$1,297.23
By-product credits per gold ounce	(76.38)
Cash Cost, After By-product Credits, per Gold Ounce	$1,220.85

The following table summarizes the components of AISC, After By-product Credits, per Gold Ounce:

	Year Ended December 31, 2018
AISC, Before By-product Credits, per Gold Ounce	$2,026.73
By-product credits per gold ounce	(76.38)
AISC, After By-product Credits, per Gold Ounce	$1,950.35

We believe the identification of silver as a by-product credit is appropriate at the Nevada Operations because of its lower economic value compared to gold and due to the fact that gold is the primary product we intend to produce there. In addition, we do not receive sufficient revenue from silver at the Nevada Operations to warrant classification of such as a co-product. Because we consider silver to be a by-product of our gold production at the Nevada Operations, the value of silver offsets operating costs within our calculations of Cash Cost, After By-product Credits, per Gold Ounce and AISC, After By-product Credits, per Gold Ounce.

Transition and improvement activities since our acquisition of the Nevada Operations have included an increase in underground development and rehabilitation at the Fire Creek mine, progress on construction of a new tailings dam, and work to install a carbon-in-leach circuit in order to improve recoveries at the Midas mill, where ore from each of the mines is processed. In addition, we decided to curtail production at the Midas mine, and are utilizing some of the equipment and employees from that location for production and development at the Fire Creek and Hollister mines.

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Corporate Matters

Employee Benefit Plans

Our defined benefit pension plans provide a significant benefit to our employees, but represent a significant liability to us. During 2018, the funded status of our plans changed from a liability of $47.1 million at the first of the year to a liability of $48.3 million at the end of the year. The increased liability was attributable to service costs, interest costs, and amortization of actuarial losses that, collectively, exceeded contributions to the plans and returns on plan assets. We made cash contributions to our defined benefit plans of approximately $1.3 million in April 2018 and $1.2 million in July 2018, and made contributions of $5.5 million and $2.1 million, respectively, in shares of our common stock in September and November 2018, with no additional contributions made in 2018. We expect to contribute a total of $2.2 million to our defined benefit plans in 2019. See *Note 9 of Notes to Consolidated Financial Statements* for more information. While the economic variables which will determine future cash requirements are uncertain, we expect contributions to increase in future years under current plan provisions, and we periodically examine the plans for affordability and competitiveness.

Income Taxes

On July 20, 2018, we acquired all of the issued and outstanding common shares of Klondex in a taxable stock acquisition. Klondex was a Canadian holding company which was amalgamated into our Canadian acquisition entity to form Klondex Mines Unlimited Liability Company (“KMULC”), a Canadian unlimited liability company. KMULC is the Canadian parent of a U.S. consolidated group located in Nevada. We filed an election to treat KMULC as a corporation. As a result of KMULC's parent U.S. corporate status, the Nevada U.S. consolidated group did not join the existing U.S. consolidated tax group for Hecla Mining Company and subsidiaries (“Hecla U.S.”). A net deferred tax liability of $69.4 million was recorded for the estimated tax impact of the fair market value of assets acquired in excess of carryover tax basis. See *Note 16* of *Notes to Consolidated Financial Statements* for additional information regarding the acquisition.

Each reporting period we assess our deferred tax balance based on a review of long-range forecasts and quarterly activity. We recognized a full valuation allowance on our separate Hecla U.S. consolidated group net deferred tax assets at the end of 2017 based on results of tax law changes and maintain a full valuation allowance on Hecla U.S. group net deferred tax assets at December 31, 2018.

On December 22, 2017, the United States enacted tax reform legislation known as H.R. 1, commonly referred to as the “Tax Cuts and Jobs Act” (“TCJ Act”), resulting in significant modifications to prior law. Among other changes, the TCJ Act repealed corporate Alternative Minimum Tax ("AMT") and reduced the U.S. corporate income tax rate to 21

percent. As a result of the TCJ Act, our AMT credit carryforward of $10.0 million became partially refundable through 2020 and fully refundable in 2021. In December 2018, the U.S. government determined refunds of AMT credit carried forward will not be subject to sequestration; therefore, the valuation allowance was lifted for $0.6 million. AMT credit carry forward of $5.0 million is classified as a current receivable and $5.0 million is classified as a long-term receivable.

Our net Canadian deferred tax liability at December 31, 2018 was $110.3 million, a decrease of $14.1 million from the $124.4 million net deferred tax liability at December 31, 2017. The deferred tax liability is primarily related to the excess of the carrying value of the mineral resource assets over the tax bases of those assets for Canadian tax reporting.

Our Mexican net deferred tax asset at December 31, 2018 was $2.0 million, an increase of $0.2 million from the net deferred tax asset of $1.8 million at December 31, 2017. A $1.7 million valuation allowance remains on deferred tax assets in Mexico. For the year 2017, we recorded a withholding tax liability of $0.3 million on unremitted earnings from Minera Hecla S.A. de C.V. Due to tax law changes related to the TCJ Act, a U.S. tax provision on unremitted earnings is no longer required. The withholding tax liability of $0.3 million was eliminated in 2018.

As discussed in *Note 6* of *Notes to Consolidated Financial Statements*, our effective tax rate for 2018 was (20)% compared to (277)% for 2017. The change in effective tax rate for 2018 was primarily the result of the impacts of the TCJ Act, including the 2017 remeasurement of deferred tax assets and liabilities from 35% to 21%, and the elimination of the AMT. We are subject to income taxes in the United States and other foreign jurisdictions. The overall effective tax rate will continue to be dependent upon the geographic distribution of our earnings in different jurisdictions, the U.S. deduction for percentage depletion, and fluctuation in foreign currency exchange rates. As a result, the 2019 effective tax rate could vary significantly from that of 2018.

Reconciliation of Cost of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP) to Cash Cost, Before By-product Credits and Cash Cost, After By-product Credits (non-GAAP) and All-In Sustaining Cost, Before By-product Credits and All-In Sustaining Cost, After By-product Credits (non-GAAP)

The tables below present reconciliations between the most comparable GAAP measure of cost of sales and other direct production costs and depreciation, depletion and amortization to the non-GAAP measures of (i) Cash Cost, Before By-product Credits, (ii) Cash Cost, After By-product Credits, (iii) AISC, Before By-product Credits and (iv) AISC, After By-product Credits for our operations at the Greens Creek, Lucky Friday, San Sebastian, Casa Berardi and Nevada Operations units and for the Company for the years ended December 31, 2018, 2017 and 2016.

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Cash Cost, After By-product Credits, per Ounce and AISC, After By-product Credits, per Ounce are measures developed by precious metals companies (including the Silver Institute and the World Gold Council) in an effort to provide a uniform standard for comparison purposes. There can be no assurance, however, that these non-GAAP measures as we report them are the same as those reported by other mining companies.

Cash Cost, After By-product Credits, per Ounce is an important operating statistic that we utilize to measure each mine's operating performance. We have recently started reporting AISC, After By-product Credits, per Ounce which we use as a measure of our mines' net cash flow after costs for exploration, pre-development, reclamation, and sustaining capital. This is similar to the Cash Cost, After By-product Credits, per Ounce non-GAAP measure we report, but also includes on-site exploration, reclamation, and sustaining capital costs. Current GAAP measures used in the mining industry, such as cost of goods sold, do not capture all the expenditures incurred to discover, develop and sustain silver and gold production. Cash Cost, After By-product Credits, per Ounce and AISC, After By-product Credits, per Ounce also allow us to benchmark the performance of each of our mines versus those of our competitors. As a silver and gold mining company, we also use these statistics on an aggregate basis - aggregating the Greens Creek, Lucky Friday and San Sebastian mines - to compare our performance with that of other silver mining companies, and aggregating Casa Berardi and Nevada Operations for comparison to other gold mining companies. Similarly, these statistics are useful in identifying acquisition and investment opportunities as they provide a common tool for measuring the financial performance of other mines with varying geologic, metallurgical and operating characteristics.

Cash Cost, Before By-product Credits and AISC, Before By-product Credits include all direct and indirect operating cash costs related directly to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining expense, on-site general and administrative costs, royalties and mining production taxes. AISC, Before By-product Credits for each mine also includes on-site exploration, reclamation, and sustaining capital costs. AISC, Before By-product Credits for our consolidated silver properties also includes corporate costs for general and administrative expense, exploration and sustaining capital projects. By-product credits include revenues earned from all metals other than the primary metal produced at each unit. As depicted in the tables below, by-product credits comprise an essential element of our silver unit cost structure, distinguishing our silver operations due to the polymetallic nature of their orebodies.

In addition to the uses described above, Cash Cost, After By-product Credits, per Ounce and AISC, After By-product Credits, per Ounce provide management and investors an indication of operating cash flow, after consideration of the average price received from production. We also use these measurements for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective.

The Casa Berardi, Nevada Operations and combined gold properties information below reports Cash Cost, After By-product Credits, per Gold Ounce and AISC, After By-product Credits, per Gold Ounce for the production of gold, their primary product, and by-product revenues earned from silver, which is a by-product at Casa Berardi and the Nevada Operations. Only costs and ounces produced relating to units with the same primary product are combined to represent Cash Cost, After By-product Credits, per Ounce and AISC, After By-product Credits, per Ounce. Thus, the

gold produced at our Casa Berardi and Nevada Operations units is not included as a by-product credit when calculating Cash Cost, After By-product Credits, per Silver Ounce and AISC, After By-product Credits, per Silver Ounce for the total of Greens Creek, Lucky Friday and San Sebastian, our combined silver properties. Similarly, the silver produced at our other three units is not included as a by-product credit when calculating the gold metrics for Casa Berardi and the Nevada Operations. As depicted in the tables below, by-product credits from the silver production at our primary gold properties comprise an element of our gold unit cost structure.

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In thousands (except per ounce amounts)	Year Ended December 31, 2018				
	Greens Creek	Lucky Friday[2]	San Sebastian	Corporate[3]	Total Silver
Cost of sales and other direct production costs and depreciation, depletion and amortization	$190,066	$9,750	$41,815		$241,631
Depreciation, depletion and amortization	(46,511)	(1,012)	(4,602)		(52,125)
Treatment costs	38,174	839	807		39,820
Change in product inventory	3,087	(2,330)	2,385		3,142
Reclamation and other costs	(2,911)	—	(1,559)		(4,470)
Lucky Friday cash costs excluded	—	(7,247)	—		(7,247)
Cash Cost, Before By-product Credits [1]	181,905	—	38,846		220,751
Reclamation and other costs	3,397		419		3,816
Exploration	3,151		7,792	1,959	12,902
Sustaining capital	46,864		1,947	1,495	50,306
General and administrative				36,542	36,542
AISC, Before By-product Credits [1]	235,317	—	49,004		324,317
By-product credits:					
Zinc	(103,096)	—			(103,096)
Gold	(57,316)	—	(19,100)		(76,416)
Lead	(30,512)	—			(30,512)
Total By-product credits	(190,924)	—	(19,100)		(210,024)
Cash Cost, After By-product Credits	$(9,019)	$—	$19,746		$10,727
AISC, After By-product Credits	$44,393	$—	$29,904		$114,293
Divided by silver ounces produced	7,953		2,037		9,990
Cash Cost, Before By-product Credits, per Silver Ounce	$22.88	$—	$19.07		$22.10
By-product credits per ounce	(24.01)	—	(9.38)		(21.02)
Cash Cost, After By-product Credits, per Silver Ounce	$(1.13)	$—	$9.69		$1.08
AISC, Before By-product Credits, per Silver Ounce	$29.59	$—	$24.06		$32.46
By-product credits per ounce	(24.01)	—	(9.38)		(21.02)
AISC, After By-product Credits, per Silver Ounce	$5.58	$—	$14.68		$11.44

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In thousands (except per ounce amounts)	Year Ended December 31, 2018		
	Casa Berardi	Nevada Operations	Total Gold
Cost of sales and other direct production costs and depreciation, depletion and amortization	$199,402	$ 47,005	$246,407
Depreciation, depletion and amortization	(71,302)	(10,617)	(81,919)
Treatment costs	2,068	90	2,158
Change in product inventory	1,205	7,138	8,343
Reclamation and other costs	(558)	(954)	(1,512)
Cash Cost, Before By-product Credits [(1)]	130,815	42,662	173,477
Reclamation and other costs	558	567	1,125
Exploration	4,277	6,345	10,622
Sustaining capital	40,711	17,079	57,790
AISC, Before By-product Credits [(1)]	176,361	66,653	243,014
By-product credits:			
Silver	(597)	(2,512)	(3,109)
Total By-product credits	(597)	(2,512)	(3,109)
Cash Cost, After By-product Credits	$130,218	$ 40,150	$170,368
AISC, After By-product Credits	$175,764	$ 64,141	$239,905
Divided by gold ounces produced	163	33	196
Cash Cost, Before By-product Credits, per Gold Ounce	$804	$ 1,297	$887
By-product credits per ounce	(4)	(76)	(16)
Cash Cost, After By-product Credits, per Gold Ounce	$800	$ 1,221	$871
AISC, Before By-product Credits, per Gold Ounce	$1,084	$ 2,026	$1,242
By-product credits per ounce	(4)	(76)	(16)
AISC, After By-product Credits, per Gold Ounce	$1,080	$ 1,950	$1,226

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In thousands (except per ounce amounts)	Year Ended December 31, 2018		
	Total Silver	Total Gold	Total
Cost of sales and other direct production costs and depreciation, depletion and amortization	$241,631	$246,407	$488,038
Depreciation, depletion and amortization	(52,125)	(81,919)	(134,044)
Treatment costs	39,820	2,158	41,978
Change in product inventory	3,142	8,343	11,485
Reclamation and other costs	(4,470)	(1,512)	(5,982)
Lucky Friday cash costs excluded	(7,247)	—	(7,247)
Cash Cost, Before By-product Credits [1]	220,751	173,477	394,228
Reclamation and other costs	3,816	1,125	4,941
Exploration	12,902	10,622	23,524
Sustaining capital	50,306	57,790	108,096
General and administrative	36,542	—	36,542
AISC, Before By-product Credits [1]	324,317	243,014	567,331
By-product credits:			
Zinc	(103,096)		(103,096)
Gold	(76,416)		(76,416)
Lead	(30,512)		(30,512)
Silver		(3,109)	(3,109)
Total By-product credits	(210,024)	(3,109)	(213,133)
Cash Cost, After By-product Credits	$10,727	$170,368	$181,095
AISC, After By-product Credits	$114,293	$239,905	$354,198
Divided by ounces produced	9,990	196	
Cash Cost, Before By-product Credits, per Ounce	$22.10	$887	
By-product credits per ounce	(21.02)	(16)	
Cash Cost, After By-product Credits, per Ounce	$1.08	$871	
AISC, Before By-product Credits, per Ounce	$32.46	$1,242	
By-product credits per ounce	(21.02)	(16)	
AISC, After By-product Credits, per Ounce	$11.44	$1,226	

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In thousands (except per ounce amounts)	Year Ended December 31, 2017						
	Greens Creek	Lucky Friday	San Sebastian	Corporate[3]	Total Silver	Casa Berardi (Gold)	Total
Cost of sales and other direct production costs and depreciation, depletion and amortization	$201,803	$15,107	$23,700		$240,610	$184,716	$425,326
Depreciation, depletion and amortization	(56,328)	(2,447)	(2,693)		(61,468)	(59,131)	(120,599)
Treatment costs	47,774	4,759	1,185		53,718	2,432	56,150
Change in product inventory	(2,247)	1,853	(55)		(449)	1,466	1,017
Reclamation and other costs	(2,716)	(115)	(1,467)		(4,298)	(476)	(4,774)
Cash Cost, Before By-product Credits [1]	188,286	19,157	20,670		228,113	129,007	357,120
Reclamation and other costs	2,666	217	468		3,351	475	3,826
Exploration	4,265	(1)	6,879	1,825	12,968	4,351	17,319
Sustaining capital	35,255	5,377	2,770	2,716	46,118	50,664	96,782
General and administrative				35,611	35,611		35,611
AISC, Before By-product Credits [1]	230,472	24,750	30,787		326,161	184,497	510,658
By-product credits:							
Zinc	(96,950)	(4,914)			(101,864)		(101,864)
Gold	(55,694)		(31,625)		(87,319)		(87,319)
Lead	(29,717)	(9,367)			(39,084)		(39,084)
Silver						(614)	(614)
Total By-product credits	(182,361)	(14,281)	(31,625)		(228,267)	(614)	(228,881)
Cash Cost, After By-product Credits	$5,925	$4,876	$(10,955)		$(154)	$128,393	$128,239
AISC, After By-product Credits	$48,111	$10,469	$(838)		$97,894	$183,883	$281,777
Divided by ounces produced	8,352	839	3,258		12,449	157	
Cash Cost, Before By-product Credits, per Ounce	$22.54	$22.83	$6.35		$18.33	$824	
By-product credits per ounce	(21.83)	(17.02)	(9.71)		(18.34)	(4)	
Cash Cost, After By-product Credits, per Ounce	$0.71	$5.81	$(3.36)		$(0.01)	$820	
AISC, Before By-product Credits, per Ounce	$27.59	$29.50	$9.45		$26.20	$1,178	
By-product credits per ounce	(21.83)	(17.02)	(9.71)		(18.34)	(4)	
AISC, After By-product Credits, per Ounce	$5.76	$12.48	$(0.26)		$7.86	$1,174	

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In thousands (except per ounce amounts)	Year Ended December 31, 2016					
	Greens Creek	Lucky Friday	San Sebastian	Corporate[3]	Total Silver	Casa Berardi (Gold)	Total
Cost of sales and other direct production costs and depreciation, depletion and amortization	$191,297	$76,210	$31,233		$298,740	$163,216	$461,956
Depreciation, depletion and amortization	(53,222)	(11,810)	(3,782)		(68,814)	(54,817)	(123,631)
Treatment costs	62,754	20,277	1,504		84,535	1,264	85,799
Change in product inventory	(1,208)	(1,162)	1,599		(771)	2,890	2,119
Reclamation and other costs	(2,327)	(822)	(2,257)		(5,406)	(459)	(5,865