# Section 1: 10-Q (FORM 10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019

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 number 1-8491

# HECLA MINING COMPANY

(Exact name of registrant as specified in its Charter)

| Delaware | 77-0664171 |
|---|---|
| State or Other Jurisdiction of Incorporation or Organization | I.R.S. Employer Identification No. |
| 6500 N. Mineral Drive, Suite 200<br>Coeur d'Alene, Idaho | 83815-9408 |
| Address of Principal Executive Offices | Zip Code |

208-769-4100
Registrant's Telephone Number, Including Area Code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes XX . 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 XX . No___.

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 definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer XX.
Accelerated filer __.
Non-accelerated filer __ .
Smaller reporting company__.
Emerging growth company __.

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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 XX.

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.25 per share | HL | New York Stock Exchange |
| Series B Cumulative Convertible Preferred Stock, par value $0.25 per share | HL-PB | New York Stock Exchange |

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Shares Outstanding May 7, 2019 |
|---|---|
| Common stock, par value $0.25 per share | 486,232,104 |

Hecla Mining Company and Subsidiaries

Form 10-Q

For the Quarter Ended March 31, 2019

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*Items 2 and 3 of Part II are omitted as they are not applicable.

Part I - Financial Information

Item 1. Financial Statements

Hecla Mining Company and Subsidiaries

Condensed Consolidated Balance Sheets
(In thousands, except shares)

| | March 31, 2019 (Unaudited) | December 31, 2018 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,797 | $ 27,389 |
| Accounts receivable: | | |
| Trade | 9,586 | 4,184 |
| Taxes | 16,831 | 14,191 |
| Other, net | 5,162 | 7,443 |
| Inventories: | | |
| Concentrates, doré, and stockpiled ore | 44,610 | 53,172 |
| Materials and supplies | 34,064 | 34,361 |
| Prepaid taxes | 13,818 | 12,231 |
| Other current assets | 8,239 | 11,179 |
| Total current assets | 144,107 | 164,150 |
| Non-current investments | 6,768 | 6,583 |
| Non-current restricted cash and investments | 1,025 | 1,025 |
| Properties, plants, equipment and mineral interests, net | 2,508,981 | 2,520,004 |
| Operating lease right-of-use assets | 20,647 | — |
| Non-current deferred income taxes | 3,058 | 1,987 |
| Other non-current assets | 10,019 | 10,195 |
| Total assets | $ 2,694,605 | $ 2,703,944 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 61,680 | $ 77,861 |
| Accrued payroll and related benefits | 36,435 | 30,034 |
| Accrued taxes | 9,109 | 7,727 |
| Current portion of finance leases | 5,858 | 5,264 |
| Current portion of operating leases | 6,701 | — |
| Current portion of accrued reclamation and closure costs | 5,325 | 3,410 |
| Accrued interest | 15,017 | 5,961 |
| Other current liabilities | 6,696 | 5,937 |
| Total current liabilities | 146,821 | 136,194 |
| Non-current finance leases | 9,302 | 7,871 |
| Non-current operating leases | 13,964 | — |
| Accrued reclamation and closure costs | 104,186 | 104,979 |
| Long-term debt | 533,723 | 532,799 |
| Non-current deferred tax liability | 159,425 | 173,537 |
| Non-current pension liability | 49,821 | 47,711 |
| Other non-current liabilities | 6,793 | 9,890 |
| Total liabilities | 1,024,035 | 1,012,981 |
| Commitments and contingencies (Notes 2, 4, 7, 9, and 11) | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, 5,000,000 shares authorized: | | |
| Series B preferred stock, $0.25 par value, 157,816 shares issued and outstanding, liquidation preference — $7,891 | 39 | 39 |
| Common stock, $0.25 par value, 750,000,000 shares authorized; issued and outstanding March 31, 2019 — 482,987,752 shares and December 31, 2018 — 482,603,937 shares | 122,052 | 121,956 |
| Capital surplus | 1,882,613 | 1,880,481 |
| Accumulated deficit | (275,188) | (248,308) |
| Accumulated other comprehensive loss | (38,210) | (42,469) |
| Less treasury stock, at cost; March 31, 2019 and December 31, 2018 - 5,226,791 shares issued and held in treasury | (20,736) | (20,736) |
| Total stockholders' equity | 1,670,570 | 1,690,963 |
| Total liabilities and stockholders' equity | $ 2,694,605 | $ 2,703,944 |

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

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Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)
(Dollars and shares in thousands, except for per-share amounts)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2019 | March 31, 2018 |
| Sales of products | $ 152,617 | $ 139,709 |
| Cost of sales and other direct production costs | 110,386 | 72,869 |
| Depreciation, depletion and amortization | 38,787 | 28,054 |
| Total cost of sales | 149,173 | 100,923 |
| Gross profit | 3,444 | 38,786 |
| Other operating expenses: | | |
| General and administrative | 9,959 | 7,735 |
| Exploration | 4,402 | 7,360 |
| Pre-development | 856 | 1,005 |
| Research and development | 403 | 1,436 |
| Other operating expense | 587 | 515 |
| Suspension-related costs | 2,778 | 5,017 |
| Acquisition costs | 13 | 2,507 |
| Provision for closed operations and environmental matters | 570 | 1,262 |
| Total other operating expense | 19,568 | 26,837 |
| (Loss) income from operations | (16,124) | 11,949 |
| Other income (expense): | | |
| Unrealized gain on investments | 96 | 310 |
| (Loss) gain on derivative contracts | (1,799) | 4,007 |
| Net foreign exchange (loss) gain | (3,133) | 2,592 |
| Other expense | (1,124) | (56) |
| Interest expense | (10,665) | (9,794) |
| Total other expense | (16,625) | (2,941) |
| (Loss) income before income taxes | (32,749) | 9,008 |
| Income tax benefit (provision) | 7,216 | (768) |
| Net (loss) income | (25,533) | 8,240 |
| Preferred stock dividends | (138) | (138) |
| (Loss) income applicable to common stockholders | $ (25,671) | $ 8,102 |
| Comprehensive (loss) income: | | |
| Net (loss) income | $ (25,533) | $ 8,240 |
| Unrealized holding losses on investments | — | (31) |
| Change in fair value of derivative contracts designated as hedge transactions | 4,259 | (2,073) |
| Comprehensive (loss) income | $ (21,274) | $ 6,136 |
| Basic (loss) income per common share after preferred dividends | $ (0.05) | $ 0.02 |
| Diluted (loss) income per common share after preferred dividends | $ (0.05) | $ 0.02 |
| Weighted average number of common shares outstanding - basic | 482,829 | 399,322 |
| Weighted average number of common shares outstanding - diluted | 482,829 | 401,923 |

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

| | Three Months Ended | |
|---|---|---|
| | March 31, 2019 | March 31, 2018 |
| Operating activities: | | |
| Net (loss) income | $ (25,533) | $ 8,240 |
| Non-cash elements included in net (loss) income: | | |
| Depreciation, depletion and amortization | 40,267 | 29,490 |
| Unrealized gain on investments | (96) | (310) |
| Adjustment of inventory to market value | 1,399 | — |
| Gain on disposition of properties, plants, equipment, and mineral interests | — | (129) |
| Provision for reclamation and closure costs | 1,594 | 1,323 |
| Stock compensation | 1,580 | 1,089 |
| Deferred income taxes | (8,293) | (438) |
| Amortization of loan origination fees | 625 | 449 |
| Loss (gain) on derivative contracts | 3,686 | (9,094) |
| Foreign exchange loss (gain) | 5,550 | (3,399) |
| Other non-cash items, net | 2 | 2 |
| Change in assets and liabilities: | | |
| Accounts receivable | (5,063) | (7,266) |
| Inventories | 3,171 | (6,762) |
| Other current and non-current assets | 1,124 | (3,171) |
| Accounts payable and accrued liabilities | (9,496) | 13,956 |
| Accrued payroll and related benefits | 7,212 | (3,927) |
| Accrued taxes | 1,237 | 218 |
| Accrued reclamation and closure costs and other non-current liabilities | 1,064 | (3,888) |
| Cash provided by operating activities | 20,030 | 16,383 |
| Investing activities: | | |
| Additions to properties, plants, equipment and mineral interests | (33,071) | (17,635) |
| Proceeds from disposition of properties, plants and equipment | 1 | 151 |
| Purchases of investments | — | (31,182) |
| Maturities of investments | — | 30,501 |
| Net cash used in investing activities | (33,070) | (18,165) |
| Financing activities: | | |
| Acquisition of treasury shares | — | (1,225) |
| Dividends paid to common stockholders | (1,209) | (998) |
| Dividends paid to preferred stockholders | (138) | (138) |
| Credit facility fees paid | (39) | — |
| Borrowings on debt | 58,000 | 31,024 |
| Repayments of debt | (58,000) | — |
| Repayments of finance leases | (1,261) | (1,322) |
| Net cash (used in) provided by financing activities | (2,647) | 27,341 |
| Effect of exchange rates on cash | 95 | 876 |
| Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents | (15,592) | 26,435 |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of period | 28,414 | 187,139 |
| Cash, cash equivalents and restricted cash and cash equivalents at end of period | $ 12,822 | $ 213,574 |
| Significant non-cash investing and financing activities: | | |
| Addition of finance lease obligations and right-of-use assets | $ 3,498 | $ 2,446 |
| Recognition of operating lease liabilities and right-of-use assets | $ 22,365 | $ — |
| Payment of accrued compensation in stock | $ — | $ 4,863 |

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

Hecla Mining Company and Subsidiaries

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(Dollars are in thousands, except for share and per share amounts)

| | Three Months Ended March 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Series B Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss, net | Treasury Stock | Total |
| Balances, January 1, 2019 | $ 39 | $ 121,956 | $ 1,880,481 | $ (248,308) | $ (42,469) | $ (20,736) | $ 1,690,963 |
| Net loss | | | | (25,533) | | | (25,533) |
| Restricted stock units granted | | | 1,579 | | | | 1,579 |
| Common stock dividends declared ($0.0025 per common share) | | | | (1,209) | | | (1,209) |
| Series B Preferred Stock dividends declared ($0.875 per share) | | | | (138) | | | (138) |
| Adjustment to fair value of warrants issued for purchase of another company | | | (325) | | | | (325) |
| Common stock issued for 401(k) match (384,000 shares) | | 96 | 878 | | | | 974 |
| Other comprehensive income | | | | | 4,259 | | 4,259 |
| Balances, March 31, 2019 | 39 | 122,052 | 1,882,613 | (275,188) | (38,210) | (20,736) | 1,670,570 |

| | Three Months Ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Series B Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss, net | Treasury Stock | Total |
| Balances, January 1, 2018 | $ 39 | $ 100,926 | $ 1,619,816 | $ (218,089) | $ (23,373) | $ (18,042) | $ 1,461,277 |
| Net income | | | | 8,240 | | | 8,240 |
| Change in accounting for marketable equity securities | | | | 1,289 | (1,289) | | — |
| Restricted stock units granted | | | 1,089 | | | | 1,089 |
| Common stock dividends declared ($0.0025 per common share) | | | | (998) | | | (998) |
| Series B Preferred Stock dividends declared ($0.875 per share) | | | | (138) | | | (138) |
| Common stock issued for 401(k) match (221,018 shares) | | 55 | 839 | | | | 894 |
| Common stock issued for employee incentive compensation 1,237,369 shares) | | 309 | 4,554 | | | (1,225) | 3,638 |
| Other comprehensive income | | | | | (2,105) | | (2,105) |
| Balances, March 31, 2018 | 39 | 101,290 | 1,626,298 | (209,696) | (26,767) | (19,267) | 1,471,897 |

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**Note 1. Basis of Preparation of Financial Statements**

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements and notes to the unaudited interim condensed consolidated financial statements contain all adjustments, consisting of normal recurring items and items which are nonrecurring, necessary to present fairly, in all material respects, the financial position of Hecla Mining Company and its consolidated subsidiaries (in this report, "Hecla" or "the Company" or “we” or “our” or “us” refers to Hecla Mining Company and our subsidiaries, unless the context requires otherwise). These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related footnotes as set forth in our annual report filed on Form 10-K for the year ended December 31, 2018, as it may be amended from time to time.

The results of operations for the periods presented may not be indicative of those which may be expected for a full year. The unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures are adequate for the information not to be misleading.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting period, and the disclosures of contingent liabilities. Accordingly, ultimate results could differ materially from those estimates.

**Note 2. Investments**

At March 31, 2019 and December 31, 2018, the fair value of our non-current investments was $6.8 million and $6.6 million, respectively. Our non-current investments consist of marketable equity securities which are carried at fair value. The cost basis of our non-current investments was approximately $7.8 million and $7.7 million at March 31, 2019 and December 31, 2018, respectively. During the quarter ended March 31, 2019, we recognized $0.1 million in net unrealized gains in current earnings. During the quarter ended March 31, 2018, we recognized $0.3 million in net unrealized gains in current earnings.

**Note 3. Income Taxes**

Major components of our income tax benefit (provision) for the three months ended March 31, 2019 and 2018 are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Current: | | |
| Domestic | $ — | $ — |
| Foreign | (1,077) | (1,206) |
| Total current income tax benefit (provision) | (1,077) | (1,206) |
| | | |
| Deferred: | | |
| Domestic | 2,477 | — |
| Foreign | 5,816 | 438 |
| Total deferred income tax benefit (provision) | 8,293 | 438 |
| Total income tax benefit (provision) | $ 7,216 | $ (768) |

The current income tax benefit (provision) for the three months ended March 31, 2019 and 2018 varies from the amounts that would have resulted from applying the statutory income tax rate to pre-tax income due primarily to the impact of taxation in foreign jurisdictions and a valuation allowance on the majority of U.S. deferred tax assets.

As of March 31, 2019, we have a net deferred tax liability in the U.S. of $51.6 million, a net deferred tax liability in Canada of $107.8 million and a net deferred tax asset in Mexico of $3.1 million, for a consolidated worldwide net deferred tax liability of $156.3 million.

With the acquisition of Klondex Mines Ltd. ("Klondex") on July 20, 2018 (see *Note 13*), we acquired a U.S. consolidated tax group (the "Nevada U.S. Group") that did not join the existing consolidated U.S. tax group of Hecla Mining Company and subsidiaries (“Hecla U.S.”). Under acquisition accounting, we recorded a net deferred tax liability of $60.2 million. For the three months ended March 31, 2019, we recorded a tax benefit of $2.5 million in the Nevada U.S. Group. Net operating losses acquired as of the acquisition date are subject to limitation under Internal Revenue Code Section 382. However, the annual limitation is not expected to have a material impact on our ability to utilize the losses.

For Hecla U.S., we recorded a full valuation allowance in the U.S. in December 2017 as a result of U.S. tax reform. Our circumstances at March 31, 2019 continued to support a full valuation allowance in the U.S. for Hecla U.S.

**Note 4. Commitments, Contingencies and Obligations**

*General*

We follow GAAP guidance in determining our accruals and disclosures with respect to loss contingencies, and evaluate such accruals and contingencies for each reporting period. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available prior to issuance of the financial statements indicates that it is probable that a liability could be incurred and the amount of the loss can be reasonably estimated. Legal expenses associated with the contingency are expensed as incurred. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is at least reasonably possible that a material loss could be incurred.

*Lucky Friday Water Permit Matters*

In December 2013, the EPA issued to Hecla Limited a request for information under Section 308 of the Clean Water Act directing Hecla Limited to undertake a comprehensive groundwater investigation of Lucky Friday's tailings pond no. 3 to evaluate whether the pond is causing the discharge of pollutants via seepage to groundwater that is discharging to surface water. We completed the investigation mandated by the EPA and submitted a draft report to the agency in December 2015. We are waiting for the EPA's response and we cannot predict what further action, if any, the agency may take.

*Johnny M Mine Area near San Mateo, McKinley County and San Mateo Creek Basin, New Mexico*

In May 2011, the EPA made a formal request to Hecla Mining Company for information regarding the Johnny M Mine Area near San Mateo, McKinley County, New Mexico, and asserted that Hecla Mining Company may be responsible under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") for environmental remediation and past costs the EPA has incurred at the site. Mining at the Johnny M Mine was conducted for a limited period of time by a predecessor of our subsidiary, Hecla Limited. In August 2012, Hecla Limited and the EPA entered into a Settlement Agreement and Administrative Order on Consent for Removal Action ("Consent Order"), pursuant to which Hecla Limited agreed to pay (i) $1.1 million to the EPA for its past response costs at the site and (ii) any future response costs at the site under the Consent Order, in exchange for a covenant not to sue by the EPA. Hecla Limited paid the $1.1 million to the EPA for its past response costs and in December 2014 submitted to EPA the Engineering Evaluation and Cost Analysis ("EE/CA") for the site. The EE/CA evaluates three alternative response actions: 1) no action, 2) off-site disposal, and 3) on-site disposal. The range in estimated costs of these alternatives is $0 to $221 million. In the EE/CA, Hecla Limited recommended that EPA approve on-site disposal, which is currently estimated to cost $5.6 million, on the basis that it is the most appropriate response action under CERCLA. In June 2015, the EPA approved the EE/CA, with a few minor conditions. The EPA must still publish the EE/CA for public notice and comment, and the agency will not make a final decision on the appropriate response action until the public comment process is complete. It is anticipated that Hecla Limited will implement the response action selected by the EPA pursuant to an amendment to the Consent Order or a new order. Based on the foregoing, we believe it is probable that Hecla Limited will incur a liability for remediation at the site. In the fourth quarter of 2014, we accrued $5.6 million, which continues to be our best estimate of that liability as of the date of this report. There can be no assurance that Hecla Limited's liability will not be more than $5.6 million, or that its ultimate liability will not have a material adverse effect on Hecla Limited's or our results of operations or financial position.

The Johnny M Mine is in an area known as the San Mateo Creek Basin ("SMCB"), which is an approximately 321 square mile area in New Mexico that contains numerous legacy uranium mines and mills. In addition to Johnny M, Hecla Limited's predecessor was involved at other mining sites within the SMCB. The EPA is considering listing the entire SMCB on CERCLA's National Priorities List in order to address perceived groundwater issues within the SMCB. The EE/CA discussed above relates primarily to contaminated rock and soil, not groundwater. In the event that the SMCB is listed as a Superfund site, or for other reasons, it is possible that Hecla Limited's liability at the Johnny M Site, and for any other mine site within the SMCB at which Hecla Limited's predecessor may have operated, will be greater than our current accrual of $5.6 million due to the increased scope of required remediation.

In July 2018, the EPA informed Hecla Limited that it and several other potentially responsible parties ("PRPs") may be liable for cleanup of the site or for costs incurred by the EPA in cleaning up the site. The EPA stated it has incurred approximately $9.6 million in response costs to date. Hecla Limited cannot with reasonable certainty estimate the amount or range of liability, if any, relating to this matter because of, among other reasons, the lack of information concerning the site, including the relative contributions of contamination by the various PRPs.

*Carpenter Snow Creek and Barker-Hughesville Sites in Montana*

In July 2010, the EPA made a formal request to Hecla Mining Company for information regarding the Carpenter Snow Creek Superfund site located in Cascade County, Montana. The Carpenter Snow Creek site is located in a historic mining district, and in the early 1980s Hecla Limited leased 6 mining claims and performed limited exploration activities at the site. Hecla Limited terminated the mining lease in 1988.

In June 2011, the EPA informed Hecla Limited that it believes Hecla Limited, among several other viable companies, may be liable for cleanup of the site or for costs incurred by the EPA in cleaning up the site. The EPA stated in the letter that it has incurred approximately $4.5 million in response costs and estimated that total remediation costs may exceed $100 million. Hecla Limited cannot with reasonable certainty estimate the amount or range of liability, if any, relating to this matter because of, among other reasons, the lack of information concerning the site, including the relative contributions of contamination by various other PRPs.

In February 2017, the EPA made a formal request to Hecla Mining Company for information regarding the Barker-Hughesville Mining District Superfund site located in Judith Basin and Cascade Counties, Montana. Hecla Limited submitted a response in April 2017. The Barker-Hughesville site is located in a historic mining district, and between approximately June and December 1983, Hecla Limited was party to an agreement with another mining company under which limited exploration activities occurred at or near the site.

In August 2018, the EPA informed Hecla Limited that it and several other PRPs may be liable for cleanup of the site or for costs incurred by the EPA in cleaning up the site. The EPA did not include an amount of its alleged response costs to date. Hecla Limited cannot with reasonable certainty estimate the amount or range of liability, if any, relating to this matter because of, among other reasons, the lack of information concerning past or anticipated future costs at the site and the relative contributions of contamination by various other PRPs.

*Potential Claim for Indemnification Against CoCa Mines, Inc.*

In 1991, Hecla Limited acquired CoCa Mines, Inc. (“CoCa”) and its subsidiary Creede Resources, Inc. (“CRI”). CoCa and CRI previously operated in the State of Colorado, but presently have limited assets and operations. Beginning in 2014, and most recently in January 2019, a third party has alleged that CoCa and CRI are required by a 1989 agreement to indemnify it for certain environmental costs and liabilities it may incur with respect to the Nelson Tunnel/Commodore Waste Rock Pile Superfund site in Creede, Colorado. To date, no claim for indemnification has been made against CoCa or CRI; however, in January 2019, the party alleged that it may soon reach a settlement with the EPA under CERCLA with respect to the site, at which point it would then seek reimbursement from CoCa and CRI of all amounts paid to the EPA, as well as attorneys’ fees and costs. Until any such claim is made, we cannot predict whether a liability will be incurred or the amount of any such liability; however, as noted above, both CoCa and CRI have limited assets with which to satisfy any claim.

*Montanore Project*

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 through which the adit passes. In the case, which dates back to 2008, the jury delivered a verdict against certain of our subsidiaries for $3,325,000. The subsidiaries appealed the finding of trespass and the award of damages to the Montana Supreme Court, and we believe there are strong arguments for reversal. There can be no assurance that the appeal will succeed. Further, on May 6, 2019, one of the subsidiaries received a letter from the Montana Department of Environmental Quality questioning the validity of its operating permit at Montanore in light of the trespass finding. The letter gives our subsidiary 30 days to respond. As of March 31, 2019, we have accrued $1.1 million for estimated future reclamation costs at the Montanore project, and have surety bonding in place for that amount.

*Litigation Related to Klondex Acquisition*

Following the announcement of our proposed acquisition of Klondex, Klondex and members of the Klondex board of directors were named as defendants in several putative stockholder class actions brought by purported stockholders of Klondex challenging the proposed merger. The lawsuits were all filed in the United States District Court for the District of Nevada. On December 18, 2018, the remaining three cases were consolidated into a single case, Lawson v. Klondex Mines Ltd., et al., No. 3:18-cv-00284 (D. Nev. June 15, 2018).

The plaintiffs generally claim that Klondex issued a proxy statement that included misstatements or omissions, in violation of sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended. The plaintiffs seek, among other things, to obtain rescissory damages and recover attorneys’ fees and costs.

Although it is not possible to predict the outcome of litigation matters with certainty, each of Klondex and its directors believe that each of the lawsuits are without merit, and the parties intend to vigorously defend against all claims asserted.

In addition, on September 11, 2018, a lawsuit was filed in the Ontario (Canada) Superior Court of Justice by Waterton Nevada Splitter LLC against Hecla Mining Company, our subsidiary Klondex Mines Unlimited Liability Company and Havilah Mining Corporation, an entity that was formed to own the Canadian assets of Klondex that we did not acquire as part of the Klondex acquisition in July 2018, and of which we own approximately 13%. The lawsuit alleges that Hecla and Havilah are in breach of contract in connection with the issuance to Waterton of warrants to purchase Hecla common stock and Havilah common shares to replace warrants to purchase Klondex common shares that Waterton owned prior to the July 2018 acquisition. The lawsuit claims Hecla and Havilah issued warrants to Waterton valued at $3.7 million but that Waterton was entitled to warrants valued at $8.9 million. We believe the lawsuit is without merit and will vigorously defend it.

*Debt*

As discussed in *Note 9*, on April 12, 2013, we completed an offering of $500 million aggregate principal amount of Senior Notes. The net proceeds from the offering of the Senior Notes were used to partially fund the acquisition of Aurizon Mines Ltd. ("Aurizon") and for general corporate purposes, including expenses related to the Aurizon acquisition. Through the acquisition of Aurizon, we acquired our Casa Berardi mine and other interests in Quebec, Canada. In 2014, we completed additional issuances of our Senior Notes in the aggregate principal amount of $6.5 million, which were contributed to one of our pension plans to satisfy the funding requirement for 2014. Interest on the Senior Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013.

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 (the “Notes”) to Ressources Québec, a subsidiary of Investissment Québec, a financing arm of the Québec government. The Notes were issued at a discount of 0.58%, and bear interest at a rate of 4.68% per year, payable on May 1 and November 1 of each year, commencing May 1, 2018. The Notes are senior and unsecured and are pari passu in all material respects with the Senior Notes, including with respect to guarantees of the Notes by certain of our subsidiaries. The net proceeds from the Notes are required to be used for development and expansion of our Casa Berardi mine.

See *Note 9* for more information.

*Other Commitments*

Our contractual obligations as of March 31, 2019 included approximately $4.3 million for various costs. In addition, our open purchase orders at March 31, 2019 included approximately $1.5 million, $0.4 million, $3.9 million and $2.9 million for various capital and non-capital items at the Lucky Friday, Casa Berardi, Greens Creek and Nevada Operations units, respectively. We also have total commitments of approximately $16.2 million relating to scheduled payments on finance leases, including interest, primarily for equipment at our Greens Creek, Lucky Friday, Casa Berardi and Nevada Operations units and total commitments of approximately $22.9 million on operating leases (see *Note 9* for more information). As part of our ongoing business and operations, we are required to provide surety bonds, bank letters of credit, and restricted deposits for various purposes, including financial support for environmental reclamation obligations and workers compensation programs. As of March 31, 2019, we had surety bonds totaling $185.3 million in place as financial support for future reclamation and closure costs, self-insurance, and employee benefit plans. The obligations associated with these instruments are generally related to performance requirements that we address through ongoing operations. As the requirements are met, the beneficiary of the associated instruments cancels or returns the instrument to the issuing entity. Certain of these instruments are associated with operating sites with long-lived assets and will remain outstanding until closure of the sites. We believe we are in compliance with all applicable bonding requirements and will be able to satisfy future bonding requirements as they arise.

*Other Contingencies*

We also have certain other contingencies resulting from litigation, claims, EPA investigations, and other commitments and are subject to a variety of environmental and safety laws and regulations incident to the ordinary course of business. We currently have no basis to conclude that any or all of such contingencies will materially affect our financial position, results of operations or cash flows. However, in the future, there may be changes to these contingencies, or additional contingencies may occur, any of which might result in an accrual or a change in current accruals recorded by us, and there can be no assurance that their ultimate disposition will not have a material adverse effect on our financial position, results of operations or cash flows.

**Note 5. (Loss) Earnings Per Common Share**

We are authorized to issue 750,000,000 shares of common stock, $0.25 par value per share. At March 31, 2019, there were 488,214,543 shares of our common stock issued and 5,226,791 shares issued and held in treasury, for a net of 482,987,752 shares outstanding. Basic and diluted (loss) earnings per common share, after preferred dividends, was $(0.05) and $0.02 for the three-month periods ended March 31, 2019 and 2018, respectively.

Diluted (loss) earnings per share for the three months ended March 31, 2019 and 2018 excludes the potential effects of outstanding shares of our convertible preferred stock, as their conversion would have no effect on the calculation of dilutive shares.

For the three months ended March 31, 2019, all outstanding restricted stock units, warrants and deferred shares were excluded from the computation of diluted loss per share, as our reported net loss for that period would cause their conversion and exercise to have no effect on the calculation of loss per share. For the three-month period ended March 31, 2018, 1,092,307 restricted stock units that were unvested during the quarter and 1,509,159 in deferred shares were included in the calculation of diluted earnings per share, and there were an additional 539,204 unvested restricted stock units and 212,602 deferred shares which were not dilutive.

**Note 6. Business Segments and Sales of Products**

We discover, acquire, develop, produce, and market concentrates and doré containing silver, gold, lead and zinc. We are currently organized and managed in five segments, which represent our operating units: the Greens Creek unit, the Lucky Friday unit, the Casa Berardi unit, the San Sebastian unit, and the Nevada Operations unit. The Nevada Operations unit was added as a result of our acquisition of Klondex in July 2018 (see *Note 13* for more information).

General corporate activities not associated with operating units and their various exploration activities, as well as discontinued operations and idle properties, are presented as “other.” Interest expense, interest income and income taxes are considered general corporate items, and are not allocated to our segments.

The following tables present information about reportable segments for the three months ended March 31, 2019 and 2018 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net sales to unaffiliated customers: | | |
| Greens Creek | $ 80,129 | $ 65,850 |
| Lucky Friday | 2,182 | 4,977 |
| Casa Berardi | 40,062 | 55,548 |
| San Sebastian | 12,600 | 13,334 |
| Nevada Operations | 17,644 | — |
| | $ 152,617 | $ 139,709 |
| Income (loss) from operations: | | |
| Greens Creek | $ 25,433 | $ 23,152 |
| Lucky Friday | (2,781) | (4,146) |
| Casa Berardi | (10,519) | 3,250 |
| San Sebastian | (1,512) | 5,017 |
| Nevada Operations | (13,991) | — |
| Other | (12,754) | (15,324) |
| | $ (16,124) | $ 11,949 |

The following table presents identifiable assets by reportable segment as of March 31, 2019 and December 31, 2018 (in thousands):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Identifiable assets: | | |
| Greens Creek | $ 640,241 | $ 637,386 |
| Lucky Friday | 440,433 | 437,499 |
| Casa Berardi | 739,978 | 754,248 |
| San Sebastian | 54,152 | 44,152 |
| Nevada Operations | 575,197 | 581,194 |
| Other | 244,604 | 249,465 |
| | $ 2,694,605 | $ 2,703,944 |

Our products consist of both metal concentrates, which we sell to custom smelters and brokers, and unrefined bullion bars (doré), which may be sold as doré or further refined before sale to precious metals traders. Revenue is recognized upon the completion of the performance obligations and transfer of control of the product to the customer.

For sales of metals from refined doré, which we currently have at our Casa Berardi, San Sebastian and Nevada Operations units, the performance obligation is met, the transaction price is known, and revenue is recognized at the time of transfer of control of the agreed-upon metal quantities to the customer by the refiner. For sales of doré, the performance obligation is met, the transaction price is known, and revenue is recognized at the time of transfer of title and control of the doré containing the agreed-upon metal quantities to the customer. Refining, selling and shipping costs related to sales of doré and metals from doré are recorded to cost of sales as incurred.

For concentrate sales, which we currently have at our Greens Creek and Lucky Friday units, the performance obligation is met, the transaction price can be reasonably estimated, and revenue is recognized generally at the time of shipment. Concentrates sold at our Lucky Friday unit typically leave the mine and are received by the customer within the same day. However, there is a period of time between shipment of concentrates from our Greens Creek unit and their physical receipt by the customer, and judgment is required in determining when control has been transferred to the customer for those shipments. We have determined the performance obligation is met and title is transferred to the customer upon shipment of concentrate parcels from Greens Creek because, at that time, 1) legal title is transferred to the customer, 2) the customer has accepted the parcel and obtained the ability to realize all of the benefits from the product, 3) the concentrate content specifications are known, have been communicated to the customer, and the customer has the significant risks and rewards of ownership of it, 4) it is very unlikely a concentrate parcel from Greens Creek will be rejected by a customer upon physical receipt, and 5) we have the right to payment for the parcel.

Judgment is also required in identifying the performance obligations for our concentrate sales. Most of our concentrate sales involve "frame contracts" with smelters that can cover multiple years and specify certain terms, under which individual parcels of concentrates are sold. However, some terms are not specified in the frame contracts and/or can be renegotiated as part of annual amendments to the frame contract. We have determined parcel shipments represent individual performance obligations satisfied at a point in time when control of the shipment is transferred to the customer.

The consideration we receive for our concentrate sales fluctuates due to changes in metals prices between the time of shipment and final settlement with the customer. However, we are able to reasonably estimate the transaction price for the concentrate sales at the time of shipment using forward prices for the month of settlement, and previously recorded sales and accounts receivable are adjusted to estimated settlement metals prices until final settlement with the customer. Also, it is unlikely a significant reversal of revenue for any one concentrate parcel will occur. As such, we use the expected value method to price the parcels until the final settlement date occurs, at which time the final transaction price is known. At March 31, 2019, metals contained in concentrates and exposed to future price changes totaled 0.9 million ounces of silver, 4,096 ounces of gold, 11,108 tons of zinc, and 1,814 tons of lead. However, as discussed in *Note 11*, we seek to mitigate the risk of negative price adjustments by using financially-settled forward contracts for some of our sales.

Sales and accounts receivable for concentrate shipments are recorded net of charges for treatment, refining, smelting losses, and other charges negotiated by us with the customers, which represent components of the transaction price. Charges are estimated by us upon shipment of concentrates based on contractual terms, and actual charges typically do not vary materially from our estimates. Costs charged by customers include fixed treatment and refining costs per ton of concentrate and may include price escalators which allow the customers to participate in the increase of lead and zinc prices above a negotiated baseline. Costs for shipping concentrates to customers are recorded to cost of sales as incurred.

Sales of metal concentrates and metal products are made principally to custom smelters, brokers and metals traders. The percentage of sales contributed by each segment is reflected in the following table:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Greens Creek | 53% | 46% |
| Lucky Friday | 1% | 4% |
| Casa Berardi | 26% | 40% |
| San Sebastian | 8% | 10% |
| Nevada Operations | 12% | —% |
| | 100% | 100% |

Sales of products by metal for the thee-month periods ended March 31, 2019 and 2018 were as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Silver | $ 45,506 | $ 35,222 |
| Gold | 79,679 | 73,044 |
| Lead | 9,025 | 9,227 |
| Zinc | 24,755 | 30,109 |
| Less: Smelter and refining charges | (6,348) | (7,893) |
| Sales of products | $ 152,617 | $ 139,709 |

The following is sales information by geographic area based on the location of smelters and brokers (for concentrate shipments) and location of parent companies (for doré sales to metals traders) for the three-month periods ended March 31, 2019 and 2018 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Canada | $ 92,872 | $ 88,668 |
| Korea | 49,300 | 32,703 |
| Japan | 8,350 | 13,773 |
| United States | 4,571 | 4,081 |
| Other | — | (131) |
| Total, excluding gains/losses on forward contracts | $ 155,093 | $ 139,094 |

Sales by significant product type for the three-month periods ended March 31, 2019 and 2018 were as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Doré and metals from doré | $ 75,901 | $ 73,492 |
| Lead concentrate | 49,300 | 34,334 |
| Zinc concentrate | 23,792 | 25,652 |
| Bulk concentrate | 6,100 | 5,616 |
| Total, excluding gains/losses on forward contracts | $ 155,093 | $ 139,094 |

Sales of products for the first three months of 2019 and 2018 included net losses of $2.5 million and net gains of $0.6 million, respectively, on financially-settled forward contracts for silver, gold, lead and zinc contained in our concentrate sales. See *Note 11* for more information.

Sales of products to significant customers as a percentage of total sales were as follows for the three-month periods ended March 31, 2019 and 2018:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| CIBC | 16% | 47% |
| Scotia | 29% | 2% |
| Korea Zinc | 20% | 23% |
| Teck Metals Ltd. | 15% | 4% |
| Trafigura | 12% | —% |
| Ocean Partners | —% | 10% |

Our trade accounts receivable balance related to contracts with customers was $9.6 million at March 31, 2019 and $4.2 million at December 31, 2018, and included no allowance for doubtful accounts.

We have determined our contracts do not include a significant financing component. For doré sales and sales of metal from doré, payment is received at the time the performance obligation is satisfied. The amount of consideration for concentrate sales is variable, and we receive payment for a significant portion of the estimated value of concentrate parcels within a relatively short period of time after the performance obligation is satisfied.

We do not incur significant costs to obtain contracts, nor costs to fulfill contracts which are not addressed by other accounting standards. Therefore, we have not recognized an asset for such costs as of March 31, 2019 or December 31, 2018.

The sales and income (loss) from operations amounts reported above include results from our Lucky Friday segment. 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. In the first quarter of 2019 and 2018, suspension costs not related to production of $1.9 million and $4.1 million, respectively, along with $0.9 million in non-cash depreciation expense in each of those periods, are reported in a separate line item on our consolidated statements 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 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 March 31, 2019 was approximately $435.9 million. However, Lucky Friday has significant identified reserves and mineralized material and a current estimated mine life of approximately 17 years.

**Note 7. Employee Benefit Plans**

We sponsor defined benefit pension plans covering substantially all U.S. employees. Net periodic pension cost for the plans consisted of the following for the three months ended March 31, 2019 and 2018 (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Service cost | $ 1,100 | $ 1,252 |
| Interest cost | 1,620 | 1,377 |
| Expected return on plan assets | (1,496) | (1,634) |
| Amortization of prior service cost | 15 | 15 |
| Amortization of net loss | 1,097 | 931 |
| Net periodic pension cost | $ 2,336 | $ 1,941 |

The service cost component of net periodic benefit cost is included in the same line items of our condensed consolidated financial statements as other employee compensation costs, and the net expense for the three months ended March 31, 2019 and 2018 of $1.2 million and $0.7 million, respectively, related to all other components of net periodic pension cost is included in other (expense) income on our condensed consolidated statements of operations and comprehensive (loss) income.

We expect to contribute $2.2 million in cash or shares of our common stock to our defined benefit plans in 2019. We expect to contribute approximately $0.6 million to our unfunded supplemental executive retirement plan during 2019.

**Note 8. Stockholders' Equity**

*Stock-based Compensation Plans*

We periodically grant restricted stock unit awards, performance-based shares and shares of common stock to our employees and directors. We measure compensation cost for restricted stock units and stock grants at the closing price of our stock at the time of grant. We measure compensation cost for performance-based grants using a Monte Carlo simulation to estimate their value at grant date. Restricted stock unit and performance-based share grants vest after a specified period with compensation cost amortized over that period. Although we have no current plans to issue stock options, we may do so in the future.

Stock-based compensation expense for restricted stock unit and performance-based grants to employees and shares issued to nonemployee directors totaled $1.6 million for the first three months of 2019 and $1.1 million for the first three months of 2018.

In connection with the vesting of restricted stock units and other stock grants, employees have in the past, at their election and when permitted by us, chosen to satisfy their minimum tax withholding obligations through net share settlement, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations and pays the obligations in cash. As a result, in the first three months of 2018 we withheld 335,349 shares valued at approximately $1.2 million, or approximately $3.65 per share, with no shares withheld in the first three months of 2019.

*Common Stock Dividends*

In September 2011 and February 2012, 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, if and when declared. For illustrative purposes only, the table below summarizes potential per share dividend amounts at different quarterly average realized price levels according to the first component of the policy:

| Quarterly average realized silver price per ounce | Quarterly dividend per share | Annualized dividend per share |
|---|---|---|
| $30 | $0.01 | $0.04 |
| $35 | $0.02 | $0.08 |
| $40 | $0.03 | $0.12 |
| $45 | $0.04 | $0.16 |
| $50 | $0.05 | $0.20 |

On May 7, 2019, our Board of Directors declared a common stock dividend, pursuant to the minimum annual dividend component of the policy described above, of $0.0025 per share, for a total dividend of approximately $1.2 million payable in June 2019. Because the average realized silver price for the first quarter of 2019 was $15.70 per ounce, below the minimum threshold of $30 according to the policy, no silver-price-linked component was declared or paid. The declaration and payment of common stock dividends is at the sole discretion of our Board of Directors.

*At-The-Market Equity Distribution Agreement*

Pursuant to an equity distribution agreement dated February 23, 2016, we may issue and sell shares of our common stock from time to time through ordinary broker transactions having an aggregate offering price of up to $75 million, with the net proceeds available for general corporate purposes. The terms of sales transactions under the agreement, including trading day(s), number of shares sold in the aggregate, number of shares sold per trading day, and the floor selling price per share, are proposed by us to the sales agent. Whether or not we engage in sales from time to time may depend on a variety of factors, including share price, our cash resources, customary black-out restrictions, and whether we have any material inside information. The agreement can be terminated by us at any time. The shares issued under the equity distribution agreement are registered under the Securities Act of 1933, as amended, pursuant to a shelf registration statement on Form S-3. As of March 31, 2019, we had sold 7,173,614 shares under the agreement for total proceeds of approximately $24.5 million, net of commissions of approximately $0.6 million. No shares were sold under the agreement during the first quarter of 2019.

*Common Stock Repurchase Program*

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, depending on prevailing market conditions and other factors. The repurchase program may be modified, suspended or discontinued by us at any time. Whether or not we engage in repurchases from time to time may depend on a variety of factors, including not only price and cash resources, but customary black-out restrictions, whether we have any material inside information, limitations on share repurchases or cash usage that may be imposed by our credit agreement or in connection with issuances of securities, alternative uses for cash, applicable law, and other investment opportunities from time to time. As of March 31, 2019, 934,100 shares have been purchased at an average price of $3.99 per share, leaving approximately 19.1 million shares that may yet be purchased under the program. The closing price of our common stock at May 7, 2019, was $2.10 per share. No shares were purchased under the program during the first quarter of 2019.

*Warrants*

As discussed in *Note 13*, we issued 4,136,000 warrants to purchase one share of our common stock to holders of warrants to purchase Klondex common stock under the terms of the Klondex acquisition, and all of the warrants were outstanding as of March 31, 2019. Warrants to purchase 2,068,000 shares of common stock have an exercise price of $8.02 and expire in April 2032. Warrants to purchase 2,068,000 shares of common stock have an exercise price of $1.57 and expire in February 2029.

**Note 9. Debt, Credit Facilities and Leases**

*Senior Notes*

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, and in 2014, an additional $6.5 million aggregate principal amount of the Senior Notes was issued to one of our pension plans. The Senior Notes were subsequently exchanged for substantially identical Senior Notes registered with the SEC. The Senior Notes are governed by the Indenture, dated as of April 12, 2013, as amended (the "Indenture"), among Hecla Mining Company ("Hecla") and certain of our subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee. The net proceeds from the initial offering of the Senior Notes ($490 million) were used to partially fund the acquisition of Aurizon and for general corporate purposes, including expenses related to the Aurizon acquisition.

The Senior Notes are recorded net of a 2% initial purchaser discount totaling $10 million at the time of the April 2013 issuance and having an unamortized balance of $2.7 million as of March 31, 2019. The Senior Notes bear interest at a rate of 6.875% per year from the date of original issuance or from the most recent payment date on which interest has been paid or provided for. Interest on the Senior Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013. During each of the three month periods ended March 31, 2019 and 2018, interest expense related to the Senior Notes and amortization of the initial purchaser discount and fees related to the issuance of the Senior Notes totaled $9.1 million.

The Senior Notes are guaranteed on a senior unsecured basis by certain of our subsidiaries (the "Guarantors"). The Senior Notes and the guarantees are, respectively, Hecla's and the Guarantors' general senior unsecured obligations and are subordinated to all of Hecla's and the Guarantors' existing and future secured debt to the extent of the assets securing that secured debt. In addition, the Senior Notes are effectively subordinated to all of the liabilities of Hecla's subsidiaries that are not guaranteeing the Senior Notes, to the extent of the assets of those subsidiaries.

The Senior Notes became redeemable in whole or in part, at any time and from time to time after May 1, 2016, on the redemption dates and at the redemption prices specified in the Indenture, plus accrued and unpaid interest, if any, to the date of redemption. As of May 1, 2019, the redemption price is 100% of the outstanding principal amount.

Upon the occurrence of a change of control (as defined in the Indenture), each holder of Senior Notes will have the right to require us to purchase all or a portion of such holder's Senior Notes pursuant to a change of control offer (as defined in the Indenture), at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, subject to the rights of holders of the Senior Notes on the relevant record date to receive interest due on the relevant interest payment date.

*Ressources Québec Notes*

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 (the “RQ Notes”) to Ressources Québec, a subsidiary of Investissment Québec, a financing arm of the Québec government. Because the RQ notes are denominated in CAD, the reported USD-equivalent principal balance changes with movements in the exchange rate. The RQ Notes were issued at a discount of 0.58%, or CAD$0.2 million, and bear interest at a rate of 4.68% per year, payable on May 1 and November 1 of each year, commencing May 1, 2018. The RQ Notes are senior and unsecured and are pari passu in all material respects with the Senior Notes, including with respect to guarantees of the RQ Notes by certain of our subsidiaries. The net proceeds from the RQ Notes were required to be used for development and expansion of our Casa Berardi mine. During each of the three month periods ended March 31, 2019 and 2018, interest expense related to the RQ Notes, including discount and origination fees, totaled $0.4 million.

As of March 31, 2019, the annual future obligations related to our debt, including interest, were (in thousands):

| Twelve-month period ending March 31, | Senior Notes | RQ Notes | Total |
|---|---|---|---|
| 2020 (interest only) | $ 34,822 | $ 1,401 | $ 36,223 |
| 2021 (principal and interest) | 544,224 | 31,449 | $ 575,673 |
| Total | 579,046 | 32,850 | 611,896 |
| Less: interest | (72,546) | (2,919) | $ (75,465) |
| Principal | 506,500 | 29,931 | 536,431 |
| Less: unamortized discount | (2,708) | — | $ (2,708) |
| Long-term debt | $ 503,792 | $ 29,931 | $ 533,723 |

*Credit Facilities*

In July 2018, we entered into a $250 million senior secured revolving credit facility which replaced our previous $100 million credit facility and has a term ending on June 14, 2022, provided, however, that if we do not refinance our outstanding Senior Notes by November 1, 2020, the term of the credit facility ends on November 1, 2020. The credit facility is collateralized by the assets of certain of our subsidiaries, shares of common stock held in our material domestic subsidiaries and by our joint venture interests in the Greens Creek mine, all of our rights and interests in the joint venture agreement, and all of our rights and interests in the assets of the joint venture. Below is information on the interest rates, standby fee, and financial covenant terms under our current credit facility as of March 31, 2019:

| | |
|---|---|
| Interest rates: | |
| Spread over the London Interbank Offer Rate | 2.25 - 3.25% |
| Spread over alternative base rate | 1.25 - 2.25% |
| Standby fee per annum on undrawn amounts | 0.50% |
| | |
| Covenant financial ratios: | |
| Senior leverage ratio (debt secured by liens/EBITDA) | not more than 2.50:1 |
| Leverage ratio (total debt less unencumbered cash/EBITDA) [1] | not more than 4.50:1 |
| Interest coverage ratio (EBITDA/interest expense) | not less than 3.00:1 |

[1] The leverage ratio changed to 5.00:1 effective April 1, 2019, will return to 4.50:1 effective October 1, 2019, and then change to 4.00:1 effective January 1, 2020.

We are also able to obtain letters of credit under the facility, and for any such letters we are required to pay a participation fee of between 2.25% and 3.25% based on our total leverage ratio, as well as a fronting fee to each issuing bank of 0.20% annually on the average daily dollar amount of any outstanding letters of credit. There were $3.0 million in letters of credit outstanding as of March 31, 2019.

We believe we were in compliance with all covenants under the credit agreement as of March 31, 2019, and no amounts were outstanding as of that date. We drew $58.0 million on the facility during the first quarter of 2019 and repaid that amount in the same period. There was $85.0 million drawn on the facility as of the date of this report.

*Finance Leases*

We have entered into various lease agreements, primarily for equipment at our Greens Creek, Lucky Friday, Casa Berardi and Nevada Operations units, which we have determined to be finance leases. At March 31, 2019, the total liability balance associated with the finance leases, including certain purchase option amounts, was $15.2 million, with $5.9 million of the liability classified as current and the remaining $9.3 million classified as non-current. At December 31, 2018, the total liability balance associated with finance leases was $13.1 million, with $5.3 million of the liability classified as current and the remaining $7.9 million classified as non-current. The right-of-use assets for our finance leases are recorded in properties, plants, equipment and mineral interests, net, on our condensed consolidated balance sheets and totaled $21.9 million as of March 31, 2019 and $20.0 million as of December 31, 2018, net of accumulated depreciation. Expense during the first quarter of 2019 related to finance leases included $1.6 million for amortization of the right-of-use assets and $0.2 million for interest expense. The total obligation for future minimum payments on finance leases was $16.2 million at March 31, 2019, with $1.0 million attributed to interest.

At March 31, 2019, the annual maturities of finance lease commitments, including interest, were (in thousands):

| Twelve-month period ending March 31, | | |
|---|---|---|
| 2020 | $ | 5,903 |
| 2021 | | 5,409 |
| 2022 | | 3,754 |
| 2023 | | 1,119 |
| Total | | 16,185 |
| Less: imputed interest | | (1,025) |
| Finance lease liability | $ | 15,160 |

*Operating Leases*

We have entered into various lease agreements, primarily for equipment, buildings and other facilities, and land at our operating units and corporate offices, which we have determined to be operating leases. Some of the operating leases allow for extension of the lease beyond the current term at our option. We have considered the likelihood and estimated duration of the extension options in determining the lease term for measurement of the liability and right-of-use asset. For our operating leases as of March 31, 2019, we have assumed discount rates of between 5% and 6.5%. At March 31, 2019, the total liability balance associated with the operating leases was $20.7 million, with $6.7 million of the liability classified as current and the remaining $14.0 million classified as non-current. The right-of-use assets for our operating leases are recorded as a non-current asset on our condensed consolidated balance sheets and totaled $20.6 million as of March 31, 2019. Lease expense on operating leases during the first quarter of 2019 totaled $2.1 million. The total obligation for future minimum operating lease payments, including assumed extensions beyond the current lease terms, was $22.9 million at March 31, 2019.

At March 31, 2019, the annual maturities of undiscounted operating lease payments, including assumed extensions beyond the current lease terms, were (in thousands):

| Twelve-month period ending March 31, | | |
|---|---|---|
| 2020 | $ | 9,213 |
| 2021 | | 4,960 |
| 2022 | | 3,373 |
| 2023 | | 2,331 |
| 2024 | | 1,670 |
| More than 5 years | | 1,352 |
| Total | | 22,899 |
| Effect of discounting | | (2,234) |
| Operating lease liability | $ | 20,665 |

**Note 10. Developments in Accounting Pronouncements**

*Accounting Standards Updates Adopted*

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842). The update modified the classification criteria and requires lessees to recognize the assets and liabilities on the balance sheet for most leases. The update was effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We adopted the guidance effective January 1, 2019, and recognized a liability and right-of-use asset of $22.4 million as of that date for our identified operating leases. We elected the transition option to apply the new guidance as of that effective date without adjusting comparative periods presented. In the adoption of ASU No. 2016-02, we elected to not assess leases with terms less than twelve months in length. We also elected practical expedients which permitted us to forgo reassessing the following upon adoption: (i) whether any expired or existing contracts are or contain leases, (ii) the classification of leases as operating or capital under the previous accounting guidance, and (iii) treatment of initial indirect costs for any existing leases. In addition, we elected to not reassess whether land easements represent leases, as we did not treat them as leases under the previous guidance. See *Note 9* for information on our leases.

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The objective of the update is to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements, and simplify the application of existing hedge accounting guidance. The update was effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this update as of January 1, 2019 did not have a material impact on our consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02 Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in the update allow a reclassification from other comprehensive income to retained earnings for "stranded" tax effects resulting from the reduction in the historical corporate tax rate under the Tax Cuts and Jobs Act enacted in December 2017. The update was effective for fiscal years beginning after December 15, 2018. We elected to not reclassify stranded tax effects, and adoption of this update as of January 1, 2019 did not have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07 Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The update involves simplification of several aspects of accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718 to include nonemployee awards. The update was effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this update as of January 1, 2019 did not have a material impact on our consolidated financial statements.

*Accounting Standards Updates to Become Effective in Future Periods*

In August 2018, the FASB issued ASU No. 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The update removes, modifies and makes additions to certain disclosure requirements with respect to fair value measurements. The update is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. We are evaluating the impact of this update on our fair value measurement disclosures.

In August 2018, the FASB issued ASU No. 2018-14 Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. The update removes several disclosure requirements, adds two new disclosure requirements, and clarifies other disclosure requirements for employers that sponsor defined benefit pension or other post-retirement plans. The update is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. We are evaluating the impact of this update on our disclosures involving our defined benefit pension plans.

**Note 11. Derivative Instruments**

*Foreign Currency*

Our wholly-owned subsidiaries owning the Casa Berardi and San Sebastian mines are U.S. dollar ("USD")-functional entities which routinely incur expenses denominated in Canadian dollar ("CAD") and Mexican peso ("MXN"), respectively, and such expenses expose us to exchange rate fluctuations between the USD and CAD and MXN. In April 2016, we initiated a program to manage our exposure to fluctuations in the exchange rate between the USD and CAD and the impact on our future operating costs denominated in CAD. In October 2016, we also initiated a program to manage our exposure to the impact of fluctuations in the exchange rate between the USD and MXN on our future operating costs denominated in MXN. The programs utilize forward contracts to buy CAD and MXN, and each contract is designated as a cash flow hedge. As of March 31, 2019, we have 130 forward contracts outstanding to buy CAD$284.1 million having a notional amount of USD$219.6 million, and 19 forward contracts outstanding to buy MXN$99.5 million having a notional amount of USD$4.9 million. The CAD contracts are related to forecasted cash operating costs at Casa Berardi to be incurred from 2019 through 2022 and have CAD-to-USD exchange rates ranging between 1.2702 and 1.3306. The MXN contracts are related to forecasted cash operating costs at San Sebastian to be incurred from 2019 through 2020 and have MXN-to-USD exchange rates ranging between 19.9400 and 20.8550. Our risk management policy provides that up to 75% of our planned cost exposure for five years into the future may be hedged under such programs, and for potential additional programs to manage other foreign currency-related exposure areas.

As of March 31, 2019, we recorded the following balances for the fair value of the contracts:

- a current asset of $0.2 million, which is included in other current assets;
- a current liability of $2.0 million, which is included in other current liabilities; and
- a non-current liability of $2.7 million, which is included in other non-current liabilities.

Net unrealized losses of approximately $4.5 million related to the effective portion of the hedges were included in accumulated other comprehensive loss as of March 31, 2019. Unrealized gains and losses will be transferred from accumulated other comprehensive loss to current earnings as the underlying operating expenses are recognized. We estimate approximately $1.7 million in net unrealized gains included in accumulated other comprehensive loss as of March 31, 2019 would be reclassified to current earnings in the next twelve months. Net realized losses of approximately $0.5 million on contracts related to underlying expenses which have been recognized were transferred from accumulated other comprehensive loss and included in cost of sales and other direct production costs for the three months ended March 31, 2019.

*Metals Prices*

We may at times use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to fluctuations in market prices. Our risk management policy allows for up to 75% of our planned metals price exposure for five years into the future, with certain other limitations, to be hedged under such programs. These instruments do, however, expose us to (i) credit risk in the form of non-performance by counterparties for contracts in which the contract price exceeds the spot price of a commodity and (ii) price risk to the extent that the spot price exceeds the contract price for quantities of our production covered under contract positions.

We are currently using financially-settled forward contracts to manage the exposure to changes in prices of silver, gold, zinc and lead contained in our concentrate shipments between the time of shipment and final settlement. In addition, we currently use financially-settled forward contracts to manage the exposure to changes in prices of zinc and lead (but not silver and gold) contained in our forecasted future concentrate shipments. These contracts are not designated as hedges and are marked-to-market through earnings each period.

As of March 31, 2019, we recorded the following balances for the fair value of the contracts:

- a current asset of $0.2 million, which is included in other current assets and is net of $0.1 million for contracts in a fair value liability position;
- a non-current asset of $45 thousand, which is included in other non-current assets;
- a current liability of $4.0 million, which is included in other current liabilities and is net of $0.1 million for contracts in a fair value current asset position; and
- a non-current liability of $13 thousand, which is included in other non-current liabilities.

We recognized a $2.5 million net loss during the first quarter of 2019 on the contracts utilized to manage exposure to prices of metals in our concentrate shipments, which is included in sales of products. The net loss recognized on the contracts offsets gains related to price adjustments on our provisional concentrate sales due to changes to silver, gold, lead and zinc prices between the time of sale and final settlement.

We recognized a $1.8 million net loss during the first quarter of 2019 on the contracts utilized to manage exposure to prices for forecasted future concentrate shipments. The net loss on these contracts is included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing as discussed in the preceding paragraph. The net loss for the first quarter of 2019 is the result of an increase in zinc and lead prices. This program, when utilized, is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below). When those prices increase compared to the contract prices, we incur losses on the contracts.

The following tables summarize the quantities of metals committed under forward sales contracts at March 31, 2019 and December 31, 2018:

| **March 31, 2019** | **Ounces/pounds under contract (in 000's)** | | | | **Average price per ounce/pound** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Silver (ounces)** | **Gold (ounces)** | **Zinc (pounds)** | **Lead (pounds)** | **Silver (ounces)** | **Gold (ounces)** | **Zinc (pounds)** | **Lead (pounds)** |
| **Contracts on provisional sales** | | | | | | | | |
| 2019 settlements | 710 | 3 | 19,952 | 2,646 | $ 15.46 | $ 1,316 | $ 1.22 | $ 0.92 |
| **Contracts on forecasted sales** | | | | | | | | |
| 2019 settlements | — | — | 26,180 | 1,653 | N/A | N/A | $ 1.25 | $ 0.96 |
| 2020 settlements | — | — | 276 | 551 | N/A | N/A | $ 1.26 | $ 0.96 |

| **December 31, 2018** | **Ounces/pounds under contract (in 000's)** | | | | **Average price per ounce/pound** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Silver (ounces)** | **Gold (ounces)** | **Zinc (pounds)** | **Lead (pounds)** | **Silver (ounces)** | **Gold (ounces)** | **Zinc (pounds)** | **Lead (pounds)** |
| **Contracts on provisional sales** | | | | | | | | |
| 2019 settlements | 842 | 4 | 18,450 | 2,700 | $ 14.69 | $ 1,260 | $ 1.15 | $ 0.89 |

*Credit-risk-related Contingent Features*

Certain of our derivative contracts contain cross default provisions which provide that a default under our revolving credit agreement would cause a default under the derivative contract. As of March 31, 2019, we have not posted any collateral related to these contracts. The fair value of derivatives in a net liability position related to these agreements was $9.0 million as of March 31, 2019, which includes accrued interest but excludes any adjustment for nonperformance risk. If we were in breach of any of these provisions at March 31, 2019, we could have been required to settle our obligations under the agreements at their termination value of $9.0 million.

**Note 12. Fair Value Measurement**

Accounting guidance has established a hierarchy for inputs used to measure assets and liabilities at fair value on a recurring basis. The three levels included in the hierarchy are:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: significant other observable inputs; and

Level 3: significant unobservable inputs.

The table below sets forth our assets and liabilities that were accounted for at fair value on a recurring basis and the fair value calculation input hierarchy level that we have determined applies to each asset and liability category (in thousands).

| Description | Balance at March 31, 2019 | Balance at December 31, 2018 | Input Hierarchy Level |
|---|---|---|---|
| Assets: | | | |
| Cash and cash equivalents: | | | |
| Money market funds and other bank deposits | $ 11,797 | $ 27,389 | Level 1 |
| Available for sale securities: | | | |
| Equity securities – mining industry | 6,768 | 6,583 | Level 1 |
| Trade accounts receivable: | | | |
| Receivables from provisional concentrate sales | 9,586 | 4,184 | Level 2 |
| Restricted cash balances: | | | |
| Certificates of deposit and other bank deposits | 1,025 | 1,025 | Level 1 |
| Derivative contracts: | | | |
| Metal forward contracts | 207 | 209 | Level 2 |
| Foreign exchange contracts | 153 | 23 | Level 2 |
| Total assets | $ 29,536 | $ 39,413 | |
| | | | |
| Liabilities: | | | |
| Derivative contracts: | | | |
| Metal forward contracts | $ 4,057 | $ 373 | Level 2 |
| Foreign exchange contracts | 4,649 | 8,595 | Level 2 |
| Total Liabilities | $ 8,706 | $ 8,968 | |

Cash and cash equivalents consist primarily of money market funds and are valued at cost, which approximates fair value, and a small portion consists of municipal bonds having maturities of less than 90 days, which are recorded at fair value.

Current and non-current restricted cash balances consist primarily of certificates of deposit, U.S. Treasury securities, and other deposits and are valued at cost, which approximates fair value.

Our non-current available for sale securities consist of marketable equity securities of companies in the mining industry which are valued using quoted market prices for each security.

Trade accounts receivable include amounts due to us for shipments of concentrates, doré and metals from doré sold to customers. Revenues and the corresponding accounts receivable for sales of metals products are recorded when title and risk of loss transfer to the customer (generally at the time of ship loading, or at the time of customer arrival for trucked products). Sales of concentrates are recorded using estimated forward prices for the anticipated month of settlement applied to our estimate of payable metal quantities contained in each shipment. Sales are recorded net of estimated treatment and refining charges, which are also impacted by changes in metals prices and quantities of contained metals. We estimate the prices at which sales of our concentrates will be settled due to the time elapsed between shipment and final settlement with the customer. Receivables for previously recorded concentrate sales are adjusted to reflect estimated forward metals prices at the end of each period until final settlement by the customer. We obtain the forward metals prices used each period from a pricing service. Changes in metals prices between shipment and final settlement result in changes to revenues previously recorded upon shipment. The embedded derivative contained in our concentrate sales is adjusted to fair market value through earnings each period prior to final settlement.

We use financially-settled forward contracts to manage exposure to changes in the exchange rate between USD and CAD and MXN, and the impact on CAD- and MXN-denominated operating costs incurred at our Casa Berardi and San Sebastian units (see *Note 11* for more information). These contracts qualify for hedge accounting, with unrealized gains and losses related to the effective portion of the contracts included in accumulated other comprehensive loss, and unrealized gains and losses related to the ineffective portion of the contracts included in earnings each period. The fair value of each contract represents the present value of the difference between the forward exchange rate for the contract settlement period as of the measurement date and the contract settlement exchange rate.

We use financially-settled forward contracts to manage the exposure to changes in prices of silver, gold, zinc and lead contained in our concentrate shipments that have not reached final settlement. We also use financially-settled forward contracts to manage the exposure to changes in prices of zinc and lead contained in our forecasted future concentrate shipments (see *Note 11* for more information). These contracts do not qualify for hedge accounting, and are marked-to-market through earnings each period. The fair value of each contract represents the present value of the difference between the forward metal price for the contract settlement period as of the measurement date and the contract settlement metal price.

Our Senior Notes, which were recorded at their carrying value of $503.8 million, net of unamortized initial purchaser discount at March 31, 2019, had a fair value of $508.0 million at March 31, 2019. Quoted market prices, which we consider to be Level 1 inputs, are utilized to estimate fair values of the Senior Notes. See *Note 9* for more information.

**Note 13. Acquisition of Klondex**

On July 20, 2018, we acquired all of the issued and outstanding common shares of Klondex Mines Ltd. ("Klondex") for consideration valued at $2.27 per Klondex share (the "Arrangement"). The acquisition resulted in our 100% ownership of three land packages in northern Nevada totaling approximately 110 square miles and containing operating or previously-operating mines with a history of high-grade gold production, along with various other gold properties. We believe the acquisition has the potential to increase our annual gold production. Under the terms of the Arrangement, each holder of Klondex common shares had the option to receive either (i) $2.47 in cash per Klondex share (the “Cash Alternative”), (ii) 0.6272 of a Hecla share per Klondex share (the “Share Alternative”), or (iii) US$0.8411 in cash and 0.4136 of a Hecla share per Klondex share (the “Combined Alternative”), subject in the case of the Cash Alternative and the Share Alternative to pro-ration based on a maximum cash consideration of $153.2 million and a maximum number of Hecla shares issued of 75,276,176. Klondex shareholders also received shares of a newly formed company which holds the Canadian assets previously owned by Klondex (Havilah Mining Corporation ("Havilah")). Klondex had 180,499,319 issued and outstanding common shares prior to consummation of the Arrangement. An additional 1,549,626 Klondex common shares were issued immediately prior to consummation of the Arrangement related to conversion of in-the-money Klondex options and certain outstanding restricted share units, resulting in a total of 182,048,945 issued and outstanding Klondex common shares at the time of consummation of the Arrangement. In connection with the Arrangement, we also issued an aggregate of 4,136,000 warrants to purchase one share of our common stock (“Hecla Warrants”) to holders of warrants to purchase Klondex common shares. Of the Hecla Warrants, 2,068,000 have an exercise price of $8.02 and expire in April 2032, and 2,068,000 have an exercise price of $1.57 and expire in February 2029. In addition, we settled share-based payment awards held by Klondex directors and employees for cash of $2.0 million. Consideration for the Arrangement was cash of $161.7 million, 75,276,176 shares of our common stock valued at $242.4 million, and issuance of the Hecla Warrants valued at $9.8 million, for total consideration of $413.9 million. The Hecla Warrants were valued using the Black-Scholes model and based on the exercise price and term of the warrants, the price of our common stock at the time of issuance of the warrants, and assumptions for the discount rate and volatility and dividend rate of our common stock. The cash consideration includes $7.0 million for our subscription for common shares of Havilah and $1.5 million for settlement of certain equity compensation instruments.

The following summarizes the preliminary allocation of purchase price to the fair value of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

| | | |
|---|---|---|
| **Consideration:** | | |
| Cash payments | $ | 161,704 |
| Hecla stock issued (75,276,176 shares at $3.22 per share) | | 242,389 |
| Hecla warrants issued | | 9,830 |
| Total consideration | $ | 413,923 |
| | | |
| **Fair value of net assets acquired:** | | |
| Assets: | | |
| Cash | $ | 12,874 |
| Accounts receivable | | 3,453 |
| Inventory - supplies | | 6,564 |
| Inventory - finished goods, in-process material and stockpiled ore | | 10,088 |
| Other current assets | | 2,583 |
| Properties, plants, equipment and mineral interests | | 512,807 |
| Non-current investments | | 1,596 |
| Non-current restricted cash and investments | | 9,504 |
| Total assets | | 559,469 |
| Liabilities: | | |
| Accounts payable and accrued liabilities | | 17,799 |
| Accrued payroll and related benefits | | 10,352 |
| Accrued taxes | | 421 |
| Lease liability | | 2,080 |
| Debt | | 35,086 |
| Asset retirement obligation | | 19,571 |
| Deferred tax liability | | 60,237 |
| Total liabilities | | 145,546 |
| Net assets | $ | 413,923 |

The allocation of purchase price above is preliminary, as the valuation of certain components of properties, plants, equipment and mineral interests, along with the related deferred tax balances, are under review and subject to change. In the first quarter of 2019, we adjusted the previously-reported preliminary allocation of purchase price by decreasing (i) Inventory - finished goods, in-process material and stockpiled ore, (ii) Properties, plants, equipment and mineral interests, and (iii) Non-current deferred tax liability by $0.2 million, $8.7 million, and $9.1 million, respectively, and increasing Accounts payable and accrued liabilities by $0.5 million. We are currently undertaking a review of spending at the Nevada operations which may result in the following changes at the Fire Creek mine: a reduction in capital spending; ceasing current production and only developing to spirals 9,10 and 11; or a temporary cessation of all mine operations at Fire Creek. As a result, the values of certain components of properties, plants, equipment and mineral interests could be adjusted in the second quarter of 2019 when we expect to finalize the allocation of the Klondex purchase price. The outcome of the review may constitute a triggering event requiring assessment of the carrying value of our long-lived assets at Fire Creek with the potential to impact near-term estimated cash flows. The mineral interests at Fire Creek have a preliminary carrying value of approximately $220 million, of which approximately $46 million is depletable. We may recognize an impairment, which could be material, if the carrying value of the assets exceeds the estimated future undiscounted cash flows expected to result from their use and eventual disposition.

**Note 14. Guarantor Subsidiaries**

Presented below are Hecla’s unaudited interim condensed consolidating financial statements as required by Rule 3-10 of Regulation S-X of the Securities Exchange Act of 1934, as amended, resulting from the guarantees by certain of Hecla's subsidiaries (the "Guarantors") of the Senior Notes and RQ Notes (see *Note 9* for more information). The Guarantors consist of the following of Hecla's 100%-owned subsidiaries: Hecla Limited; Silver Hunter Mining Company; Rio Grande Silver, Inc.; Hecla MC Subsidiary, LLC; Hecla Silver Valley, Inc.; Burke Trading, Inc.; Hecla Montana, Inc.; Revett Silver Company; RC Resources, Inc.; Troy Mine Inc.; Revett Exploration, Inc.; Revett Holdings, Inc.; Mines Management, Inc.; Newhi, Inc.; Montanore Minerals Corp.; Hecla Alaska LLC; Hecla Greens Creek Mining Company; Hecla Admiralty Company; Hecla Juneau Mining Company; Klondex Holdings Inc.; Klondex Gold & Silver Mining Co.; Klondex Midas Holdings Limited; Klondex Aurora Mine Inc.; and Klondex Hollister Mine Inc. We completed the initial offering of the Senior Notes on April 12, 2013, and a related exchange offer for virtually identical notes registered with the SEC on January 3, 2014. We issued the RQ Notes on March 5, 2018.

The unaudited interim condensed consolidating financial statements below have been prepared from our financial information on the same basis of accounting as the unaudited interim consolidated financial statements set forth elsewhere in this report. Investments in the subsidiaries are accounted for under the equity method. Accordingly, the entries necessary to consolidate Hecla, the Guarantors, and our non-guarantor subsidiaries are reflected in the intercompany eliminations column. In the course of preparing consolidated financial statements, we eliminate the effects of various transactions conducted between Hecla and its subsidiaries and among the subsidiaries. While valid at an individual subsidiary level, such activities are eliminated in consolidation because, when taken as a whole, they do not represent business activity with third-party customers, vendors, and other parties. Examples of such eliminations include the following:

- ***Investments in subsidiaries***. The acquisition of a company results in an investment in debt or equity capital on the records of the parent company and a contribution to debt or equity capital on the records of the subsidiary. Such investments and capital contributions are eliminated in consolidation.

- ***Capital contributions***. Certain of Hecla's subsidiaries do not generate cash flow, either at all or that is sufficient to meet their capital needs, and their cash requirements are routinely met with inter-company advances from their parent companies. Generally on an annual basis, when not otherwise intended as debt, the boards of directors of such parent companies declare contributions of capital to their subsidiary companies, which increase the parents' investment and the subsidiaries' additional paid-in capital. In consolidation, investments in subsidiaries and related additional paid-in capital are eliminated.

- ***Debt.*** At times, inter-company debt agreements have been established between certain of Hecla's subsidiaries and their parents. The related debt liability and receivable balances, accrued interest expense (if any) and income activity (if any), and payments of principal and accrued interest amounts (if any) by the subsidiary companies to their parents are eliminated in consolidation.

- ***Dividends.*** Certain of Hecla's subsidiaries which generate cash flow routinely provide cash to their parent companies through inter-company transfers. On at least an annual basis, the boards of directors of such subsidiary companies declare dividends to their parent companies, which reduces the subsidiaries' retained earnings and increases the parents' dividend income. In consolidation, such activity is eliminated.

- ***Deferred taxes***. Our ability to realize deferred tax assets and liabilities is considered on a consolidated basis for subsidiaries within the United States, with all subsidiaries' estimated future taxable income contributing to the ability to realize all such assets and liabilities. However, when Hecla's subsidiaries are viewed independently, we use the separate return method to assess the realizability of each subsidiary's deferred tax assets and whether a valuation allowance is required against such deferred tax assets. In some instances, a parent company or subsidiary may possess deferred tax assets whose realization depends on the future taxable incomes of other subsidiaries on a consolidated-return basis, but would not be considered realizable if such parent or subsidiary filed on a separate stand-alone basis. In such a situation, a valuation allowance is assessed on that subsidiary's deferred tax assets, with the resulting adjustment reported in the eliminations column of the guarantor and parent's financial statements, as is the case in the financial statements set forth below. The separate return method can result in significant eliminations of deferred tax assets and liabilities and related income tax provisions and benefits. Non-current deferred tax asset balances are included in other non-current assets on the consolidating balance sheets and make up a large portion of that item, particularly for the guarantor balances.

Separate financial statements of the Guarantors are not presented because the guarantees by the Guarantors are joint and several and full and unconditional, except for certain customary release provisions, including: (1) the sale or disposal of all or substantially all of the assets of the Guarantor; (2) the sale or other disposition of the capital stock of the Guarantor; (3) the Guarantor is designated as an unrestricted entity in accordance with the applicable provisions of the indenture; (4) Hecla ceases to be a borrower as defined in the indenture; and (5) upon legal or covenant defeasance or satisfaction and discharge of the indenture.

**Unaudited Interim Condensed Consolidating Balance Sheets**

| | As of March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 3,401 | $ 3,269 | $ 5,127 | $ — | $ 11,797 |
| Other current assets | 6,359 | 61,293 | 64,732 | (74) | 132,310 |
| Properties, plants, and equipment - net | 1,913 | 1,792,578 | 714,490 | — | 2,508,981 |
| Intercompany receivable (payable) | 162,575 | (342,867) | (182,748) | 363,040 | — |
| Investments in subsidiaries | 1,554,448 | — | — | (1,554,448) | — |
| Other non-current assets | 278,379 | 23,540 | (115,696) | (144,706) | 41,517 |
| **Total assets** | $ 2,007,075 | $ 1,537,813 | $ 485,905 | $ (1,336,188) | $ 2,694,605 |
| **Liabilities and Stockholders' Equity** | | | | | |
| Current liabilities | $ (247,045) | $ 118,535 | $ 49,545 | $ 225,786 | $ 146,821 |
| Long-term debt | 533,723 | 19,682 | 3,584 | — | 556,989 |
| Non-current portion of accrued reclamation | — | 90,083 | 14,103 | — | 104,186 |
| Non-current deferred tax liability | — | 71,173 | 95,778 | (7,526) | 159,425 |
| Other non-current liabilities | 49,827 | 5,871 | 916 | — | 56,614 |
| Stockholders' equity | 1,670,570 | 1,232,469 | 321,979 | (1,554,448) | 1,670,570 |
| **Total liabilities and stockholders' equity** | $ 2,007,075 | $ 1,537,813 | $ 485,905 | $ (1,336,188) | $ 2,694,605 |

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| **Assets** | | | | | |
| Cash and cash equivalents | $ 6,265 | $ 8,661 | $ 12,463 | $ — | $ 27,389 |
| Other current assets | 6,388 | 69,574 | 60,868 | (69) | 136,761 |
| Properties, plants, and equipment - net | 1,913 | 1,795,994 | 722,097 | — | 2,520,004 |
| Intercompany receivable (payable) | 171,905 | (222,815) | (171,834) | 222,744 | — |
| Investments in subsidiaries | 1,577,564 | — | — | (1,577,564) | — |
| Other non-current assets | 276,641 | 9,030 | (122,969) | (142,912) | 19,790 |
| **Total assets** | $ 2,040,676 | $ 1,660,444 | $ 500,625 | $ (1,497,801) | $ 2,703,944 |
| **Liabilities and Stockholders' Equity** | | | | | |
| Current liabilities | $ (234,133) | $ 118,863 | $ 45,922 | $ 205,542 | $ 136,194 |
| Long-term debt | 532,799 | 141,870 | 1,989 | (135,988) | 540,670 |
| Non-current portion of accrued reclamation | — | 94,602 | 10,377 | — | 104,979 |
| Non-current deferred tax liability | — | 64,639 | 98,689 | 10,209 | 173,537 |
| Other non-current liabilities | 51,047 | 5,659 | 895 | — | 57,601 |
| Stockholders' equity | 1,690,963 | 1,234,811 | 342,753 | (1,577,564) | 1,690,963 |
| **Total liabilities and stockholders' equity** | $ 2,040,676 | $ 1,660,444 | $ 500,625 | $ (1,497,801) | $ 2,703,944 |

**Unaudited Interim Condensed Consolidating Statements of Operations**

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Revenues | $ (2,477) | $ 102,432 | $ 52,662 | $ — | $ 152,617 |
| Cost of sales | (461) | (66,869) | (43,056) | — | (110,386) |
| Depreciation, depletion, amortization | — | (20,872) | (17,915) | — | (38,787) |
| General and administrative | (4,393) | (5,111) | (455) | — | (9,959) |
| Exploration and pre-development | (16) | (1,544) | (3,698) | — | (5,258) |
| Research and development | — | (353) | (50) | — | (403) |
| Loss on derivative contracts | (1,799) | — | — | — | (1,799) |
| Acquisition costs | 42 | (55) | — | — | (13) |
| Equity in earnings of subsidiaries | (22,433) | — | — | 22,433 | — |
| Other (expense) income | 6,004 | (5,730) | (12,642) | (6,393) | (18,761) |
| (Loss) income before income taxes | (25,533) | 1,898 | (25,154) | 16,040 | (32,749) |
| (Provision) benefit from income taxes | — | (3,916) | 4,739 | 6,393 | 7,216 |
| Net (loss) income | (25,533) | (2,018) | (20,415) | 22,433 | (25,533) |
| Preferred stock dividends | (138) | — | — | — | (138) |
| (Loss) income applicable to common stockholders | (25,671) | (2,018) | (20,415) | 22,433 | (25,671) |
| Net (loss) income | (25,533) | (2,018) | (20,415) | 22,433 | (25,533) |
| Changes in comprehensive (loss) income | 4,259 | — | — | — | 4,259 |
| Comprehensive (loss) income | $ (21,274) | $ (2,018) | $ (20,415) | $ 22,433 | $ (21,274) |

| | Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Revenues | $ 615 | $ 70,211 | $ 68,883 | $ — | $ 139,709 |
| Cost of sales | 475 | (34,701) | (38,643) | — | (72,869) |
| Depreciation, depletion, amortization | — | (11,260) | (16,794) | — | (28,054) |
| General and administrative | (3,833) | (3,448) | (454) | — | (7,735) |
| Exploration and pre-development | (55) | (1,939) | (6,371) | — | (8,365) |
| Research and development | — | (482) | (954) | — | (1,436) |
| Gain on derivative contracts | 4,007 | — | — | — | 4,007 |
| Acquisition costs | (2,360) | — | (147) | — | (2,507) |
| Equity in earnings of subsidiaries | 17,768 | — | — | (17,768) | — |
| Other (expense) income | (8,377) | (6,794) | 6,917 | (5,488) | (13,742) |
| Income (loss) before income taxes | 8,240 | 11,587 | 12,437 | (23,256) | 9,008 |
| (Provision) benefit from income taxes | — | (5,488) | (768) | 5,488 | (768) |
| Net income (loss) | 8,240 | 6,099 | 11,669 | (17,768) | 8,240 |
| Preferred stock dividends | (138) | — | — | — | (138) |
| Income (loss) applicable to common stockholders | 8,102 | 6,099 | 11,669 | (17,768) | 8,102 |
| Net income (loss) | 8,240 | 6,099 | 11,669 | (17,768) | 8,240 |
| Changes in comprehensive income (loss) | (2,104) | — | 38 | (38) | (2,104) |
| Comprehensive income (loss) | $ 6,136 | $ 6,099 | $ 11,707 | $ (17,806) | $ 6,136 |

**Unaudited Interim Condensed Consolidating Statements of Cash Flows**

| | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Cash flows from operating activities | $ (38,879) | $ 36,481 | $ (17,553) | $ 39,981 | $ 20,030 |
| Cash flows from investing activities: | | | | | |
| Additions to properties, plants, and equipment | — | (25,401) | (7,670) | — | (33,071) |
| Other investing activities, net | 23,116 | (1) | 2 | (23,116) | 1 |
| Cash flows from financing activities: | | | | | |
| Dividends paid to stockholders | (1,348) | — | — | — | (1,348) |
| Borrowings on debt | 58,000 | — | — | — | 58,000 |
| Payments on debt | (58,000) | (746) | (515) | — | (59,261) |
| Other financing activity | 14,247 | (15,725) | 18,305 | (16,865) | (38) |
| Effect of exchange rate changes on cash | — | — | 95 | — | 95 |
| Changes in cash, cash equivalents and restricted cash and cash equivalents | (2,864) | (5,392) | (7,336) | — | (15,592) |
| Beginning cash, cash equivalents and restricted cash and cash equivalents | 6,265 | 9,686 | 12,463 | — | 28,414 |
| Ending cash, cash equivalents and restricted cash and cash equivalents | $ 3,401 | $ 4,294 | $ 5,127 | $ — | $ 12,822 |

| | Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Parent | Guarantors | Non-Guarantors | Eliminations | Consolidated |
| | | | (in thousands) | | |
| Cash flows from operating activities | $ 21,183 | $ 18,747 | $ 13,396 | $ (36,943) | $ 16,383 |
| Cash flows from investing activities: | | | | | |
| Additions to properties, plants, and equipment | — | (8,082) | (9,553) | — | (17,635) |
| Other investing activities, net | (16,260) | 151 | — | 15,579 | (530) |
| Cash flows from financing activities: | | | | | |
| Dividends paid to stockholders | (1,136) | — | — | — | (1,136) |
| Payments on debt | — | (644) | (678) | — | (1,322) |
| Other financing activity | (1,186) | (20,118) | (1,285) | 21,364 | (1,225) |
| Effect of exchange rate changes on cash | — | — | 876 | — | 876 |
| Changes in cash, cash equivalents and restricted cash and cash equivalents | 33,625 | (9,946) | 2,756 | — | 26,435 |
| Beginning cash, cash equivalents and restricted cash and cash equivalents | 103,878 | 32,048 | 51,213 | — | 187,139 |
| Ending cash, cash equivalents and restricted cash and cash equivalents | $ 137,503 | $ 22,102 | $ 53,969 | $ — | $ 213,574 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*Certain statements contained in this Form 10-Q, including in Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure About Market Risk, 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. Our forward-looking statements include our current expectations and projections about future results, performance, results of litigation, prospects and opportunities, including reserves and other mineralization. We have tried to identify these forward-looking statements by using words such as "may," "will," "expect," "anticipate," "believe," "intend," "feel," "plan," "estimate," "project," "forecast" 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 results, performance, prospects or opportunities 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 Part I, Item 1A – Risk Factors in our annual report filed on Form 10-K for the year ended December 31, 2018, as updated in Part II, Item 1A – Risk Factors in this quarterly report on Form 10-Q for the quarter ended March 31, 2019. Given these risks and uncertainties, readers are cautioned not to place undue reliance on our 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 do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**Overview**

Hecla Mining Company and our subsidiaries have provided precious and base metals to the U.S. and worldwide since 1891. We discover, acquire, develop, produce and market silver, gold, lead and zinc.

We produce lead, zinc and bulk concentrates, which we sell to custom smelters and brokers, and unrefined doré containing gold and silver, which is sold to refiners or further refined before sale of the metals to traders. We are organized into five segments that encompass our operating and development units: Greens Creek, Lucky Friday, Casa Berardi, San Sebastian and Nevada Operations. The map below shows the locations of our operating units, our exploration and pre-development projects, as well as our corporate offices located in Coeur d'Alene, Idaho and Vancouver, British Columbia.

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;
- fully integrate the acquisition of Klondex Mines Ltd. ("Klondex") discussed further below, which gives us ownership of a mill, operating mines and other mineral interests in northern Nevada;
- continuing to optimize and improve operations at our units, which includes incurring research and development expenditures that may not result in tangible 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;
- maintaining and investing in exploration and pre-development projects in the vicinities of seven mining districts and projects, most of which we believe to be under-explored and under-invested: North Idaho's Silver Valley in the historic Coeur d'Alene Mining District; our Greens Creek unit on Alaska's Admiralty Island located near Juneau; the silver-producing district near Durango, Mexico; the Abitibi region of northwestern Quebec, Canada; our projects in northern Nevada; the Rock Creek and Montanore projects in northwestern Montana; and the Creede district of southwestern Colorado; and
- continuing to seek opportunities to acquire or invest in mining properties and companies.

A number of key factors may impact the execution of our strategy, including regulatory issues and metals prices. Metals prices can be very volatile. As discussed in the *Critical Accounting Estimates* section below, metals prices are influenced by a number of factors beyond our control. Average market prices of silver, gold, lead, and zinc in the first three months of 2019 were lower than their levels from the comparable period last year, as illustrated by the table in *Results of Operations* below. While we believe current 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.

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. The net proceeds from the Senior Notes were primarily used for 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 were used for development and expansion of our Casa Berardi unit. Also, we drew $58 million under our revolving credit facility during the first quarter of 2019, all of which was repaid during that period, with $85.0 million drawn as of the date of this report. Amounts drawn on the revolving credit facility are subject to a variable rate of interest. See *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* 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.

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 $413.9 million at the time of consummation of the acquisition. See *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information. As a result of the acquisition, we own 100% of three land packages in northern Nevada totaling approximately 110 square miles and containing operating or previously-operating mines with a history of high-grade gold production, which we believe to be prospective and under-explored. The acquired properties include the Hatter Graben development project, where we have started construction of an access drift, the Fire Creek mine, which we believe has been under-developed and has the potential for continued production, and various other gold properties. We believe the acquisition has the potential to increase our annual gold production. 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* in our annual report filed on Form 10-K for the year ended December 31, 2018, as updated in *Part II, Item 1A – Risk Factors* in this quarterly report on Form 10-Q for the quarter ended March 31, 2019, for risks associated with our acquisition of Klondex.

On June 15, 2015, we completed the acquisition of Revett Mining Company, giving us 100% ownership of the Rock Creek project, a significant undeveloped silver and copper deposit in northwestern Montana. And, on September 13, 2016, we completed the acquisition of Mines Management, Inc., giving us 100% ownership of the Montanore project, another significant undeveloped silver and copper deposit located approximately 10 miles from our Rock Creek project. Development of Rock Creek and Montanore has been challenged by non-governmental organizations and governmental agencies at various times, including a recent questioning of the validity of the operating permit at Montanore by the Montana Department of Environmental Quality. In addition, a State court remanded back to the Montana Department of Natural Resources and Conservation for further consideration a water right permit it had issued for the Rock Creek project. This decision does not impact advancing the evaluation phase of the project as recently authorized by the U.S. Forest Service in its Record of Decision. The evaluation phase is necessary to obtain needed information to further assess the mineralization, geohydrology and other potential environmental effects of a future full mining project at Rock Creek. Thus, there can be no assurance that we will be able to obtain the permits required to develop these projects. In *Part II, Item 1A – Risk Factors* in this quarterly report on Form 10-Q for the quarter ended March 31, 2019, see *Legal challenges could prevent the Rock Creek or Montanore projects from ever being developed* for more information.

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 approximately $1.0 million to $1.5 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.

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 its investigations and inspections and continue to evaluate our safety practices.

Another challenge for us is the risk associated with environmental litigation and ongoing reclamation activities. As described in *Part I, Item 1A. Risk Factors* of our annual report filed on Form 10-K for the year ended December 31, 2018 and *Note 4* of *Notes to Condensed Consolidated Financial Statements (Unaudited),* 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.

**Results of Operations**

Sales of products by metal for the three-month periods ended March 31, 2019 and 2018 were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Silver | $ 45,506 | $ 35,222 |
| Gold | 79,679 | 73,044 |
| Lead | 9,025 | 9,227 |
| Zinc | 24,755 | 30,109 |
| Less: Smelter and refining charges | (6,348) | (7,893) |
| Sales of products | $ 152,617 | $ 139,709 |

The fluctuations in sales for the first quarter of 2019 compared to the same period of 2018 were primarily due to:

- Higher quantities and silver, gold and lead sold as a result of higher production of those metals, partially offset by lower zinc volume. 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:

| | | Three Months Ended March 31, | |
|---|---|---|---|
| | | 2019 | 2018 |
| Silver - | Ounces produced | 2,923,131 | 2,534,095 |
| | Payable ounces sold | 2,898,083 | 2,091,464 |
| Gold - | Ounces produced | 60,021 | 57,808 |
| | Payable ounces sold | 60,936 | 54,839 |
| Lead - | Tons produced | 5,784 | 5,627 |
| | Payable tons sold | 4,848 | 3,868 |
| Zinc - | Tons produced | 13,944 | 15,211 |
| | Payable tons sold | 9,533 | 10,104 |

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.

- Lower average realized prices for silver, gold, lead and zinc. These price variances are illustrated in the table below.

| | | Three months ended March 31, | |
|---|---|---|---|
| | | 2019 | 2018 |
| Silver – | London PM Fix ($/ounce) | $ 15.57 | $ 16.77 |
| | Realized price per ounce | $ 15.70 | $ 16.84 |
| Gold – | London PM Fix ($/ounce) | $ 1,304 | $ 1,329 |
| | Realized price per ounce | $ 1,308 | $ 1,332 |
| Lead – | LME Final Cash Buyer ($/pound) | $ 0.92 | $ 1.14 |
| | Realized price per pound | $ 0.93 | $ 1.19 |
| Zinc – | LME Final Cash Buyer ($/pound) | $ 1.23 | $ 1.55 |
| | Realized price per pound | $ 1.30 | $ 1.49 |

Average realized prices typically 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 the customers, we must estimate the prices at which sales of our metals will be settled. Previously recorded sales are adjusted to estimated settlement metals prices each period through final settlement. For the first quarter of 2019, we recorded net positive price adjustments to provisional settlements of $0.5 million compared to net negative price adjustments to provisional settlements of $0.1 million in the first quarter of 2018. The price adjustments related to silver, gold, lead and zinc contained in our concentrate shipments were largely offset by gains and losses on forward contracts for those metals for each period. See *Note 11* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* 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 first quarter of 2019, we recorded a loss applicable to common stockholders of $25.7 million ($0.05 per basic common share), compared to income of $8.1 million ($0.02 per basic common share) during the first quarter of 2018. The following factors contributed to the results for the first three months of 2019 compared to the same period in 2018:

- A gross loss at our Nevada Operations unit of $13.8 million in the first quarter of 2019, and gross profit at our Casa Berardi, San Sebastian and Lucky Friday units in the first quarter of 2019 that was lower by $15.4 million, $7.3 million and $0.9 million, respectively, compared to the first quarter of 2018. This was partially offset by gross profit that was higher by $2.0 million for the first quarter of 2019 at our Greens Creek unit. See *The Greens Creek Segment, The Lucky Friday Segment, The Casa Berardi Segment, The San Sebastian Segment* and *The Nevada Operations Segment* sections below.
- A net foreign exchange loss in the first quarter of 2019 of $3.1 million versus a net gain of $2.6 million in the same period of 2018, with the variance primarily related to the impact of strengthening of the CAD relative to the USD on remeasurement of our assets and liabilities in Quebec. During the first quarter of 2019, the applicable CAD-to-USD exchange rate decreased from 1.3643 to 1.3364, compared to an increase in the rate from 1.2545 to 1.2893 during the first quarter of 2018.
- A loss on base metal derivatives contracts of $1.8 million in the first quarter of 2019 compared to a gain of $4.0 million in the same period of 2018. See *Note 11* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.
- Higher general and administrative accruals by $2.2 million in the first quarter of 2019 compared to the first quarter of 2018 due to increased expense for incentive compensation.
- Lower research and development costs by $1.0 million in the first quarter of 2019 compared to the same period of 2018.

- Lower suspension-related costs at Lucky Friday by $2.2 million in the first quarter of 2019 compared to the first quarter of 2018 due to increased production, as discussed in *The Lucky Friday Segment* section below.
- $2.5 million in costs in the first quarter of 2018 related to our acquisition of Klondex.
- Exploration and pre-development expense decreased by $3.1 million in the first quarter of 2019 compared to the first quarter of 2018. In 2019, we have continued exploration work at our Greens Creek, San Sebastian, Casa Berardi and Nevada Operations units, and on our land package near our Lucky Friday unit. "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 of $0.9 million in the first quarter of 2019 was related to advancement of our Montanore and Rock Creek projects.
- An income tax benefit of $7.2 million in first quarter of 2019 compared to an income tax provision of $0.8 million in the first quarter of 2018. The benefit in the 2019 period is primarily the result of losses in Nevada and Quebec.

***The Greens Creek Segment***

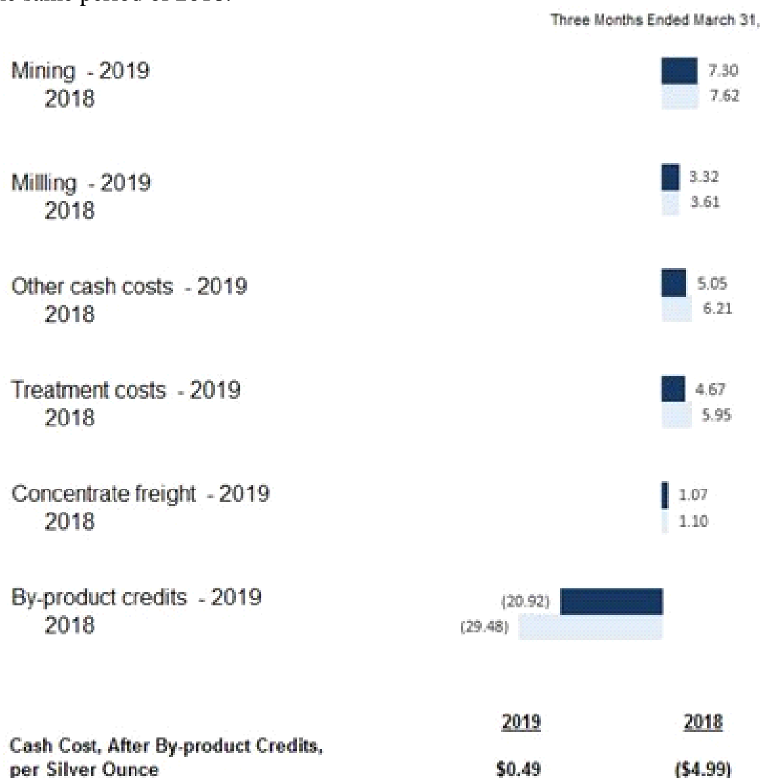
| *Dollars are in thousands (except per ounce and per ton amounts)* | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Sales | $ 80,129 | $ 65,850 |
| Cost of sales and other direct production costs | (41,743) | (31,222) |
| Depreciation, depletion and amortization | (12,370) | (10,639) |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | (54,113) | (41,861) |
| Gross profit | $ 26,016 | $ 23,989 |
| Tons of ore milled | 206,825 | 211,430 |
| Production: | | |
| Silver (ounces) | 2,232,747 | 1,913,232 |
| Gold (ounces) | 14,328 | 13,118 |
| Zinc (tons) | 13,518 | 14,799 |
| Lead (tons) | 4,782 | 5,021 |
| Payable metal quantities sold: | | |
| Silver (ounces) | 2,241,172 | 1,460,981 |
| Gold (ounces) | 13,864 | 9,006 |
| Zinc (tons) | 9,533 | 9,792 |
| Lead (tons) | 4,344 | 2,924 |
| Ore grades: | | |
| Silver ounces per ton | 13.46 | 11.71 |
| Gold ounces per ton | 0.10 | 0.10 |
| Zinc percent | 7.32 | 8.05 |
| Lead percent | 2.83 | 2.96 |
| Mining cost per ton | $ 78.83 | $ 68.99 |
| Milling cost per ton | $ 35.86 | $ 32.64 |
| Cash Cost, After By-product Credits, per Silver Ounce (1) | $ 0.49 | $ (4.99) |
| All-In Sustaining Cost ("AISC"), After By-product Credits, per Silver Ounce (1) | $ 3.24 | $ 0.59 |

(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 $2.0 million increase in gross profit during the first quarter of 2019 compared to the same 2018 period was the result of higher metals sales volumes due to the timing of concentrate shipments, partially offset by lower average prices for silver, gold, zinc and lead.

Mining and milling costs per ton increased by 14% and 10%, respectively, in the first quarter of 2019 compared to the same period in 2018, primarily as a result of lower mill throughput.

The chart below illustrates the factors contributing to the variances in Cash Cost, After By-product Credits, per Silver Ounce for the first quarter of 2019 compared to the same period of 2018:




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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash Cost, Before By-product Credits, per Silver Ounce | $ 21.41 | $ 24.49 |
| By-product credits | (20.92) | (29.48) |
| Cash Cost, After By-product Credits, per Silver Ounce | $ 0.49 | $ (4.99) |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| AISC, Before By-product Credits, per Silver Ounce | $ 24.16 | $ 30.07 |
| By-product credits | (20.92) | (29.48) |
| AISC, After By-product Credits, per Silver Ounce | $ 3.24 | $ 0.59 |

The increase in Cash Costs, After By-Product Credits, per Silver Ounce for the first quarter of 2019 compared to 2018 was the result of lower by-product credits, partially offset by higher silver production. The increase in AISC, After By-Product Credits, per Silver Ounce was due to lower by-product credits, partially offset by higher silver production and lower capital spending.

Mining and milling costs per ounce decreased in the first quarter of 2019 compared to 2018 on a per-ounce basis due primarily to higher silver production.

Other cash costs per ounce for the first quarter of 2019 were lower compared to 2018 due to the effect of higher silver production and lower expense for Alaska mine license tax.

Treatment costs were lower in the first quarter of 2019 compared to 2018 as a result of improved terms, higher silver production and lower silver prices, 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.

By-product credits per ounce were lower in the first quarter of 2019 compared to 2018 due to (i) lower gold, zinc and lead prices, (ii) lower zinc and lead production, due to lower mill throughput and ore grades, and (iii) the impact of higher silver production.

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 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.

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.

***The Lucky Friday Segment***

| *Dollars are in thousands (except per ounce and per ton amounts)* | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Sales | $ 2,182 | $ 4,977 |
| Cost of sales and other direct production costs | (2,012) | (3,479) |
| Depreciation, depletion and amortization | (169) | (621) |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | (2,181) | (4,100) |
| Gross profit | $ 1 | $ 877 |
| Tons of ore milled | 13,803 | 9,559 |
| Production: | | |
| Silver (ounces) | 173,627 | 99,780 |
| Lead (tons) | 1,002 | 606 |
| Zinc (tons) | 426 | 412 |
| Payable metal quantities sold: | | |
| Silver (ounces) | 86,845 | 155,743 |
| Lead (tons) | 504 | 944 |
| Zinc (tons) | — | 312 |
| Ore grades: | | |
| Silver ounces per ton | 13.33 | 11.10 |
| Lead percent | 7.97 | 6.92 |
| Zinc percent | 3.54 | 4.79 |
| Mining cost per ton | $ 131.25 | $ 114.76 |
| Milling cost per ton | $ 36.45 | $ 21.67 |

(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 decreased by $0.9 million in the first quarter of 2019 compared to 2018 due to lower metal sales volumes, due to the timing of concentrate shipments, and lower average prices for silver, lead and zinc. During the first quarters of 2019 and 2018, limited production was performed by salaried staff as a result of the ongoing strike by unionized employees starting in mid-March 2017, discussed further below.

Mining cost per ton increased by 14% in the first quarter of 2019 compared to the same period in 2018 due primarily to higher costs. Milling cost per ton in the first quarter of 2019 decreased by 26%, compared to the first quarter of 2018 due to higher throughput. Mining and milling cost per ton for the first quarters of 2019 and 2018 are not indicative of future operating results under full production, as there was reduced mill throughput during those periods. In addition, 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.

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 $1.9 million and $4.1 million in the first quarters of 2019 and 2018, respectively, which are combined with non-cash depreciation expense of $0.9 million for each of 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 March 31, 2019 was approximately $435.9 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 4* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for contingencies related to various accidents and other events occurring at the Lucky Friday mine in prior periods.

***The Casa Berardi Segment***

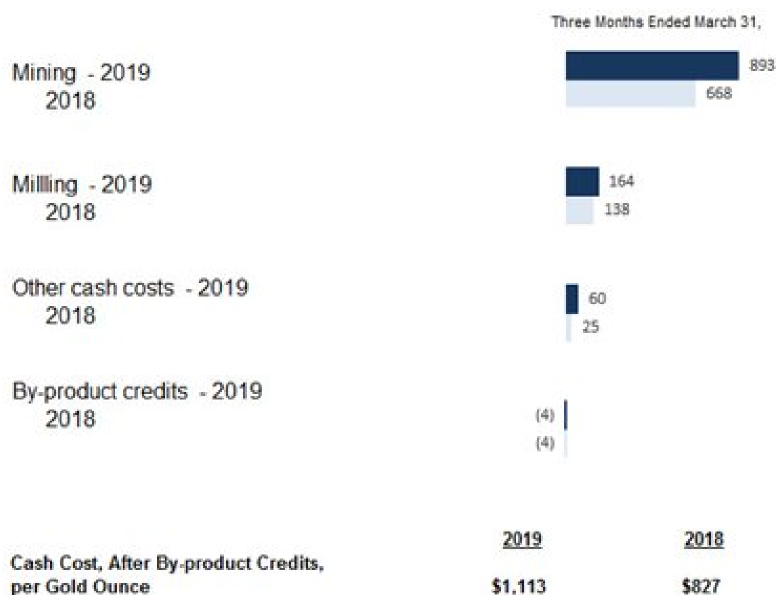
| *Dollars are in thousands (except per ounce and per ton amounts)* | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| Sales | $ 40,062 | $ 55,548 |
| Cost of sales and other direct production costs | (32,926) | (33,077) |
| Depreciation, depletion and amortization | (16,155) | (16,110) |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | (49,081) | (49,187) |
| Gross (loss) profit | $ (9,019) | $ 6,361 |
| Tons of ore milled | 329,751 | 348,549 |
| Production: | | |
| Gold (ounces) | 31,799 | 40,177 |
| Silver (ounces) | 8,240 | 8,891 |
| Payable metal quantities sold: | | |
| Gold (ounces) | 30,613 | 41,645 |
| Silver (ounces) | 8,462 | 8,835 |
| Ore grades: | | |
| Gold ounces per ton | 0.12 | 0.135 |
| Silver ounces per ton | 0.03 | 0.03 |
| Mining cost per ton | $ 86.14 | $ 76.95 |
| Milling cost per ton | $ 15.77 | $ 15.96 |
| Cash Cost, After By-product Credits, per Gold Ounce (1) | $ 1,113 | $ 827 |
| AISC, After By-product Credits, per Gold Ounce (1) | $ 1,338 | $ 1,086 |

(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 decreased by $15.4 million for the first quarter of 2019 compared to the same period in 2018 primarily due to lower gold volume, resulting from reduced mill throughput, recoveries and ore grades, and lower gold prices. The lower mill throughput and recoveries were a result of planned adjustments to a number of mill components, to accommodate a higher throughput, and the requirement for a new carbon in leach drive train, which is being installed in May 2019. The reduced production in the first quarter of 2019 is expected to be made-up over the remainder of the year.

Mining cost per ton for the first quarter of 2019 was higher than the first quarter of 2018 by 12% due to lower ore production. Milling cost per ton for the first quarter of 2019 was within 1% of its level for the first quarter of 2018.

The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, per Gold Ounce for the first quarter of 2019 compared to the same period of 2018:




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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash Cost, Before By-product Credits, per Gold Ounce | $ 1,117 | $ 831 |
| By-product credits | (4) | (4) |
| Cash Cost, After By-product Credits, per Gold Ounce | $ 1,113 | $ 827 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| AISC, Before By-product Credits, per Gold Ounce | $ 1,342 | $ 1,090 |
| By-product credits | (4) | (4) |
| AISC, After By-product Credits, per Gold Ounce | $ 1,338 | $ 1,086 |

The increase in Cash Cost, After By-product Credits, per Gold Ounce for the first quarter of 2019 compared to the first quarter of 2018 was primarily the result of lower gold production. The increase in AISC, After By-product Credits, per Gold Ounce was due to lower gold production and higher exploration spending, partially offset by lower capital spending.

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.

***The San Sebastian Segment***

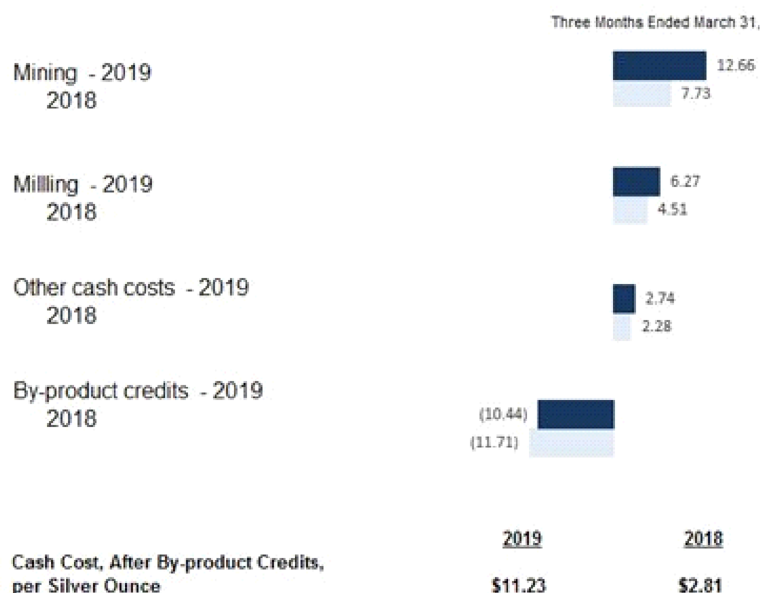
| *Dollars are in thousands (except per ounce and per ton amounts)* | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Sales | $ 12,600 | $ 13,334 |
| Cost of sales and other direct production costs | (10,591) | (5,091) |
| Depreciation, depletion and amortization | (1,760) | (684) |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | (12,351) | (5,775) |
| Gross profit | $ 249 | $ 7,559 |
| Tons of ore milled | 44,475 | 34,397 |
| Production: | | |
| Silver (ounces) | 441,079 | 512,192 |
| Gold (ounces) | 3,530 | 4,513 |
| Payable metal quantities sold: | | |
| Silver (ounces) | 496,550 | 465,905 |
| Gold (ounces) | 3,730 | 4,188 |
| Ore grades: | | |
| Silver ounces per ton | 10.94 | 16.10 |
| Gold ounces per ton | 0.095 | 0.142 |
| Mining cost per ton | $ 125.59 | $ 115.12 |
| Milling cost per ton | $ 62.21 | $ 67.13 |
| Cash Cost, After By-product Credits, per Silver Ounce (1) | $ 11.23 | $ 2.81 |
| AISC, After By-product Credits, per Silver Ounce (1) | $ 16.55 | $ 8.37 |

(1) A reconciliation of this non-GAAP measure 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 $7.3 million decrease in gross profit in the first quarter of 2019 compared to the same period of 2018 is primarily due to lower silver and gold ore grades and higher costs, as a result of transitioning from open pit to underground mining, and lower average silver and gold prices. The ore processed in the first quarter of 2018 came from higher grade deposits mined from shallow open pits. Production from the existing open pits substantially ended in December 2017; however, during the first quarter of 2018, mill throughput primarily came from ore stockpiled from the open pits. In January 2017, we started development of a new underground portal and work to rehabilitate historic underground infrastructure which should allow 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 first quarter. The underground ore production has lower grades than the open pits.

Mining cost per ton for the first quarter of 2019 was higher than the first quarter of 2018 by 9% due to the transition to underground production, partially offset by higher ore tonnage. Milling cost per ton decreased by 7% in the first quarter of 2019 compared to the first quarter of 2018 due to the higher ore tonnage.

The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, Per Silver Ounce for the first quarter of 2019 compared to the same period of 2018:




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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash Cost, Before By-product Credits, per Silver Ounce | $ 21.67 | $ 14.52 |
| By-product credits | (10.44) | (11.71) |
| Cash Cost, After By-product Credits, per Silver Ounce | $ 11.23 | $ 2.81 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| AISC, Before By-product Credits, per Silver Ounce | $ 26.99 | $ 20.08 |
| By-product credits | (10.44) | (11.71) |
| AISC, After By-product Credits, per Silver Ounce | $ 16.55 | $ 8.37 |

The increase in Cash Cost, After By-product Credits, per Silver Ounce in the first quarter of 2019 compared to the same period of 2018 was primarily the result of lower silver production and higher mining costs, due to the transition from open pit to underground mining, and lower by-product credits per ounce due to lower gold production and prices. The same factors along with higher capital spending, partially offset by lower exploration costs, resulted in the increase in AISC, After By-product Credits, per Silver Ounce in the first quarter of 2019 compared to the same period of 2018.

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 periodically review our revenues to ensure that reporting of primary products and by-products is appropriate. 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 will not receive sufficient revenue from gold at San Sebastian to warrant classification of such as a co-product. 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.

***The Nevada Operations Segment***

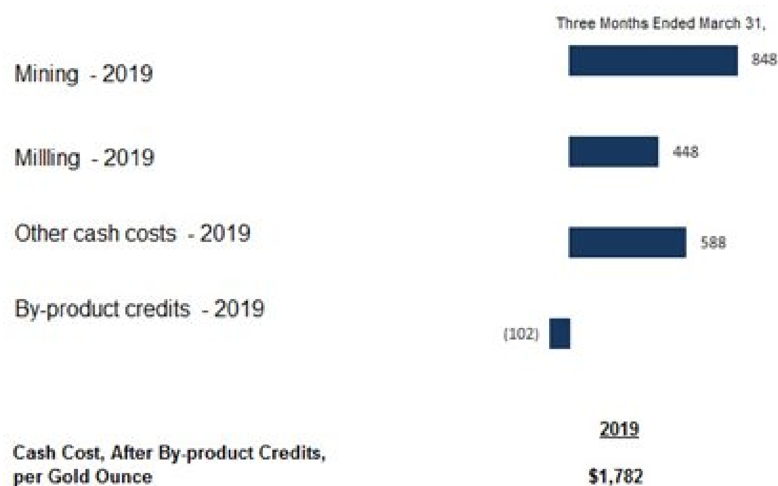
On July 20, 2018, we completed the acquisition of all of the issued and outstanding common shares of Klondex for total consideration of $413.9 million. See *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information. The acquisition gives us 100% ownership of the Fire Creek, Midas and Hollister mines, where gold is the primary metal produced, the Aurora mill, and interests in various gold exploration properties, all located in northern Nevada.

| *Dollars are in thousands (except per ounce and per ton amounts)* | Three Months Ended March 31, 2019 |
|---|---|
| Sales | $ 17,644 |
| Cost of sales and other direct production costs | (23,114) |
| Depreciation, depletion and amortization | (8,333) |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | (31,447) |
| Gross profit (loss) | $ (13,803) |
| Tons of ore milled | 41,365 |
| Production: | |
| Gold (ounces) | 10,364 |
| Silver (ounces) | 67,438 |
| Payable metal quantities sold: | |
| Gold (ounces) | 12,729 |
| Silver (ounces) | 65,054 |
| Ore grades: | |
| Gold ounces per ton | 0.300 |
| Silver ounces per ton | 2.49 |
| Mining cost per ton | $ 212.56 |
| Milling cost per ton | $ 112.35 |
| Cash Cost, After By-product Credits, per Gold Ounce (1) | $ 1,782 |
| AISC, After By-product Credits, per Gold Ounce (1) | $ 3,056 |

(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 and depreciation, depletion and amortization exceeded sales by $13.8 million in the first quarter of 2019. Sales were impacted by ore grades that were lower than expected, and cost of sales and other direct production costs for the first quarter of 2019 includes write-downs totaling $9.7 million of the values of stockpile, in-process and finished goods inventory to their net realizable value.

The chart below illustrates the factors contributing to Cash Cost, After By-product Credits, Per Gold Ounce for the first quarter of 2019:




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

| | Three Months Ended March 31, 2019 |
|---|---|
| Cash Cost, Before By-product Credits, per Gold Ounce | $ 1,884 |
| By-product credits | (102) |
| Cash Cost, After By-product Credits, per Gold Ounce | $ 1,782 |

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

| | Three Months Ended March 31, 2019 |
|---|---|
| AISC, Before By-product Credits, per Gold Ounce | $ 3,158 |
| By-product credits | (102) |
| AISC, After By-product Credits, per Gold Ounce | $ 3,056 |

We believe the identification of silver as a by-product credit is appropriate at 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 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 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, construction of a new tailings dam, installation of a carbon-in-leach circuit in order to improve recoveries at the Midas mill, where ore from each of the mines is processed, and start of development of a new drift to the Hatter Graben area at Hollister. However, because total production and capital costs exceeded sales, we are currently undertaking a review of the Nevada operations. The review will include an evaluation of: the level of development at Fire Creek and the other mining operations in Nevada; grade control procedures; different mining methods and plans; alternative methods of processing Fire Creek ore by third-parties; and the rate of development of the Hatter Graben project. This review may result in, among other possible outcomes, the following changes at the Fire Creek mine: a reduction in capital spending; ceasing current production and only developing to spirals 9,10 and 11; or a temporary cessation of all mine operations at Fire Creek. We anticipate this review to be completed in the second quarter of 2019. See *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

***Corporate Matters***

*Employee Benefit Plans*

Our defined benefit pension plans provide a significant benefit to our employees, but also represent a significant liability to us. The liability recorded for the funded status of our plans was $50.4 million and $48.3 million as of March 31, 2019 and December 31, 2018, respectively. We expect to contribute a total of approximately $2.2 million in cash or shares of our common stock to our defined benefit plans in 2019. While the economic variables which will determine future funding requirements are uncertain, we expect contributions to continue to be required in future years under current plan provisions, and we periodically examine the plans for affordability and competitiveness. See *Note 7 of Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

*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 the Canadian parent U.S. corporate status, the Nevada U.S. 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 $60.2 million was recorded for the fair market value of assets acquired in excess of carryover tax basis. See *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* 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 Hecla U.S. 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. net deferred tax assets at March 31, 2019.

Our net U.S. deferred tax liability for the Nevada U.S. Group at March 31, 2019 was $51.6 million compared to the $63.2 million net deferred tax liability at December 31, 2018. The $11.6 million decrease includes $9.1 million related to an adjustment to the purchase price allocation for the July 2018 acquisition of Klondex (see *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*) and $2.5 million for current period activity. 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 U.S. tax reporting.

Our net Canadian deferred tax liability at March 31, 2019 was $107.8 million, a decrease of $2.5 million from the $110.3 million net deferred tax liability at December 31, 2018. 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 March 31, 2019 was $3.1 million, an increase of $1.1 million from the net deferred tax asset of $2.0 million at December 31, 2018. A $1.7 million partial valuation allowance remains on deferred tax assets in Mexico.

As a result of the Tax Cuts and Jobs Act enacted in December 2017, our Alternative Minimum Tax ("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 removed 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.

***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 three-month periods ended March 31, 2019 and 2018.

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 use AISC, After By-product Credits, per Ounce 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 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 Nevada Operations.

| *In thousands (except per ounce amounts)* | Three Months Ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Greens Creek | Lucky Friday[2] | San Sebastian | Corporate[3] | Total Silver |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | $ 54,113 | $ 2,181 | $ 12,351 | | $ 68,645 |
| Depreciation, depletion and amortization | (12,370) | (169) | (1,760) | | (14,299) |
| Treatment costs | 10,352 | 810 | 131 | | 11,293 |
| Change in product inventory | (3,865) | 1,483 | (853) | | (3,235) |
| Reclamation and other costs | (415) | — | (312) | | (727) |
| Exclusion of Lucky Friday costs | — | (4,305) | — | | (4,305) |
| Cash Cost, Before By-product Credits [1] | 47,815 | — | 9,557 | | 57,372 |
| Reclamation and other costs | 737 | — | 123 | | 860 |
| Exploration | 81 | — | 1,717 | 441 | 2,239 |
| Sustaining capital | 5,312 | — | 506 | 61 | 5,879 |
| General and administrative | | | | 9,959 | 9,959 |
| AISC, Before By-product Credits [1] | 53,945 | — | 11,903 | | 76,309 |
| By-product credits: | | | | | |
| Zinc | (23,285) | — | — | | (23,285) |
| Gold | (16,518) | — | (4,602) | | (21,120) |
| Lead | (6,917) | — | — | | (6,917) |
| Total By-product credits | (46,720) | — | (4,602) | | (51,322) |
| Cash Cost, After By-product Credits | $ 1,095 | $ — | $ 4,955 | | $ 6,050 |
| AISC, After By-product Credits | $ 7,225 | $ — | $ 7,301 | | $ 24,987 |
| Divided by ounces produced | 2,233 | — | 441 | | 2,674 |
| Cash Cost, Before By-product Credits, per Ounce | $ 21.41 | $ — | $ 21.67 | | $ 21.45 |
| By-product credits per ounce | (20.92) | — | (10.44) | | (19.19) |
| Cash Cost, After By-product Credits, per Ounce | $ 0.49 | $ — | $ 11.23 | | $ 2.26 |
| AISC, Before By-product Credits, per Ounce | $ 24.16 | $ — | $ 26.99 | | $ 28.53 |
| By-product credits per ounce | (20.92) | — | (10.44) | | (19.19) |
| AISC, After By-product Credits, per Ounce | $ 3.24 | $ — | $ 16.55 | | $ 9.34 |

| *In thousands (except per ounce amounts)* | Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| | Casa Berardi | Nevada Operations [4] | Total Gold |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | $ 49,081 | $ 31,447 | $ 80,528 |
| Depreciation, depletion and amortization | (16,155) | (8,333) | (24,488) |
| Treatment costs | 442 | 38 | 480 |
| Change in product inventory | 2,268 | (3,246) | (978) |
| Reclamation and other costs | (129) | (379) | (508) |
| Cash Cost, Before By-product Credits [1] | 35,507 | 19,527 | 55,034 |
| Reclamation and other costs | 129 | 378 | 507 |
| Exploration | 1,346 | 118 | 1,464 |
| Sustaining capital | 5,692 | 12,707 | 18,399 |
| General and administrative | | | — |
| AISC, Before By-product Credits [1] | 42,674 | 32,730 | 75,404 |
| By-product credits: | | | |
| Zinc | | | — |
| Gold | | | — |
| Lead | | | — |
| Silver | (126) | (1,057) | (1,183) |
| Total By-product credits | (126) | (1,057) | (1,183) |
| Cash Cost, After By-product Credits | $ 35,381 | $ 18,470 | $ 53,851 |
| AISC, After By-product Credits | $ 42,548 | $ 31,673 | $ 74,221 |
| Divided by ounces produced | 32 | 10 | 42 |
| Cash Cost, Before By-product Credits, per Ounce | $ 1,116.59 | $ 1,884.17 | $ 1,305.27 |
| By-product credits per ounce | (3.96) | (101.99) | (28.06) |
| Cash Cost, After By-product Credits, per Ounce | $ 1,112.63 | $ 1,782.18 | $ 1,277.21 |
| AISC, Before By-product Credits, per Ounce | $ 1,341.95 | $ 3,158.05 | $ 1,788.37 |
| By-product credits per ounce | (3.96) | (101.99) | (28.06) |
| AISC, After By-product Credits, per Ounce | $ 1,337.99 | $ 3,056.06 | $ 1,760.31 |

| *In thousands (except per ounce amounts)* | Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| | Total Silver | Total Gold | Total |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | $ 68,645 | $ 80,528 | $ 149,173 |
| Depreciation, depletion and amortization | (14,299) | (24,488) | (38,787) |
| Treatment costs | 11,293 | 480 | 11,773 |
| Change in product inventory | (3,235) | (978) | (4,213) |
| Reclamation and other costs | (727) | (508) | (1,235) |
| Exclusion of Lucky Friday costs | (4,305) | — | (4,305) |
| Cash Cost, Before By-product Credits [1] | 57,372 | 55,034 | 112,406 |
| Reclamation and other costs | 860 | 507 | 1,367 |
| Exploration | 2,239 | 1,464 | 3,703 |
| Sustaining capital | 5,879 | 18,399 | 24,278 |
| General and administrative | 9,959 | — | 9,959 |
| AISC, Before By-product Credits [1] | 76,309 | 75,404 | 151,713 |
| By-product credits: | | | |
| Zinc | (23,285) | — | (23,285) |
| Gold | (21,120) | — | (21,120) |
| Lead | (6,917) | — | (6,917) |
| Silver | | (1,183) | (1,183) |
| Total By-product credits | (51,322) | (1,183) | (52,505) |
| Cash Cost, After By-product Credits | $ 6,050 | $ 53,851 | $ 59,901 |
| AISC, After By-product Credits | $ 24,987 | $ 74,221 | $ 99,208 |
| Divided by ounces produced | 2,674 | 42 | |
| Cash Cost, Before By-product Credits, per Ounce | $ 21.45 | $ 1,305.27 | |
| By-product credits per ounce | (19.19) | (28.06) | |
| Cash Cost, After By-product Credits, per Ounce | $ 2.26 | $ 1,277.21 | |
| AISC, Before By-product Credits, per Ounce | $ 28.53 | $ 1,788.37 | |
| By-product credits per ounce | (19.19) | (28.06) | |
| AISC, After By-product Credits, per Ounce | $ 9.34 | $ 1,760.31 | |

| *In thousands (except per ounce amounts)* | Three Months Ended March 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greens Creek | Lucky Friday(2) | San Sebastian | Corporate (3) | Total Silver | Casa Berardi (Gold) | Total |
| Cost of sales and other direct production costs and depreciation, depletion and amortization | $ 41,861 | $ 4,100 | $ 5,775 | | $ 51,736 | $ 49,187 | $ 100,923 |
| Depreciation, depletion and amortization | (10,639) | (621) | (684) | | (11,944) | (16,110) | (28,054) |
| Treatment costs | 11,388 | 572 | 204 | | 12,164 | 535 | 12,699 |
| Change in product inventory | 5,154 | (1,022) | 2,638 | | 6,770 | (101) | 6,669 |
| Reclamation and other costs | (912) | (45) | (494) | | (1,451) | (142) | (1,593) |
| Exclusion of Lucky Friday costs | — | (2,984) | — | | (2,984) | — | (2,984) |
| Cash Cost, Before By-product Credits (1) | 46,852 | — | 7,439 | | 54,291 | 33,369 | 87,660 |
| Reclamation and other costs | 849 | — | 106 | | 955 | 143 | 1,098 |
| Exploration | 360 | — | 2,312 | 444 | 3,116 | 1,190 | 4,306 |
| Sustaining capital | 9,482 | — | 430 | 117 | 10,029 | 9,067 | 19,096 |
| General and administrative | | | | 7,735 | 7,735 | | 7,735 |
| AISC, Before By-product Credits (1) | 57,543 | — | 10,287 | | 76,126 | 43,769 | 119,895 |
| By-product credits: | | | | | | | |
| Zinc | (32,142) | — | — | | (32,142) | | (32,142) |
| Gold | (15,292) | — | (5,998) | | (21,290) | | (21,290) |
| Lead | (8,974) | — | — | | (8,974) | | (8,974) |
| Silver | | | | | | (148) | (148) |
| Total By-product credits | (56,408) | — | (5,998) | | (62,406) | (148) | (62,554) |
| Cash Cost, After By-product Credits | $ (9,556) | $ — | $ 1,441 | | $ (8,115) | $ 33,221 | $ 25,106 |
| AISC, After By-product Credits | $ 1,135 | $ — | $ 4,289 | | $ 13,720 | $ 43,621 | $ 57,341 |
| Divided by ounces produced | 1,913 | — | 512 | | 2,425 | 40 | |
| Cash Cost, Before By-product Credits, per Ounce | $ 24.49 | $ — | $ 14.52 | | $ 22.38 | $ 830.56 | |
| By-product credits per ounce | (29.48) | — | (11.71) | | (25.73) | (3.68) | |
| Cash Cost, After By-product Credits, per Ounce | $ (4.99) | $ — | $ 2.81 | | $ (3.35) | $ 826.88 | |
| AISC, Before By-product Credits, per Ounce | $ 30.07 | $ — | $ 20.08 | | $ 31.39 | $ 1,089.40 | |
| By-product credits per ounce | (29.48) | — | (11.71) | | (25.73) | (3.68) | |
| AISC, After By-product Credits, per Ounce | $ 0.59 | $ — | $ 8.37 | | $ 5.66 | $ 1,085.72 | |

(1) Includes all direct and indirect operating costs related to the physical activities of producing metals, including mining, processing and other plant costs, third-party refining and marketing expense, on-site general and administrative costs, royalties and mining production taxes, before by-product revenues earned from all metals other than the primary metal produced at each unit. AISC, Before By-product Credits also includes on-site exploration, reclamation, and sustaining capital costs.

(2) The unionized employees at Lucky Friday have been on strike since March 13, 2017, and production at Lucky Friday has been limited since that time. For the first quarter of 2019 and 2018, costs related to suspension of full production totaling approximately $1.9 million and $4.1 million, respectively, along with $0.9 million in non-cash depreciation expense for each of those periods, have been excluded from the calculations of cost of sales and other direct production costs and depreciation, depletion and amortization, Cash Cost, Before By-product Credits, Cash Cost, After By-product Credits, AISC, Before By-product Credits, and AISC, After By-product Credits.

(3) AISC, Before By-product Credits for our consolidated silver properties includes corporate costs for general and administrative expense, exploration and sustaining capital.

(4) The Nevada Operations were acquired on July 20, 2018 as a result of the acquisition of Klondex (see *Note 13* of *Notes to Condensed Consolidated Financial Statement (Unaudited)* for more information).

***Financial Liquidity and Capital Resources***

Our liquid assets include (in millions):

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents held in U.S. dollars | $ 7.8 | $ 15.7 |
| Cash and cash equivalents held in foreign currency | 4.0 | 11.7 |
| Total cash and cash equivalents | 11.8 | 27.4 |
| Marketable equity securities, non-current | 6.8 | 6.6 |
| Total cash, cash equivalents and investments | $ 18.6 | $ 34.0 |

Cash and cash equivalents decreased by $15.6 million in the first three months of 2019. Cash held in foreign currencies represents balances in Canadian dollars and Mexican pesos, with the $7.9 million decrease in the first quarter of 2019 resulting from decreases in both Canadian dollars and Mexican pesos held. The value of non-current marketable equity securities increased by $0.2 million (see *Note 2* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information).

As further discussed in *Note 13* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*, on July 20, 2018, we completed the acquisition Klondex for total consideration of approximately $413.9 million, consisting of $252.2 million in shares of our common stock and warrants to purchase shares of our common stock and $161.7 million in cash. Klondex had cash, cash equivalents and restricted cash and cash equivalents not relating to their Canadian assets of approximately $22.4 million and $35.0 million drawn on their revolving credit facility at the time of the acquisition. We paid off the amount drawn on the Klondex revolving credit facility in July 2018.

As discussed in *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited),* on April 12, 2013, we completed an offering of Senior Notes in the total principal amount of US$500 million, which have a total principal balance of $506.5 million as of March 31, 2019. The Senior Notes are due May 1, 2021 and bear interest at a rate of 6.875% per year from the most recent payment date to which interest has been paid or provided for. In addition, in March 2018 we entered into a note purchase agreement pursuant to which we issued our Series 2018-A Senior Notes due May 1, 2021 (the "RQ Notes") for total principal of CAD$40 million (approximately USD$30.8 million at the time of the transaction) to Ressources Québec. The RQ Notes bear interest at a rate of 4.68% per year. Interest on the Senior Notes and RQ Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013 and May 1, 2018, respectively, and we have made all interest payments payable to date. Also, in July 2018 we entered into a new $250 million revolving credit facility. Interest is payable on amounts drawn from the revolving credit facility at a rate of between 2.25% and 3.25% over the London Interbank Offered Rate, or between 1.25% and 2.25% over an alternative base rate, with interest payable on March 31, June 30, September 30, and December 31 of each year. We drew $58.0 million on the facility and repaid that amount in the first quarter of 2019. There were no amounts drawn on the credit facility as of March 31, 2019, with $85.0 million drawn as of the date of this report.

As further discussed in the *Lucky Friday Segment* section above, the union employees at Lucky Friday have been on strike since March 13, 2017, and production at Lucky Friday has been limited since that time. 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.

As discussed in *Note 8* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*, in February 2016 we entered into an equity distribution agreement under which we may issue and sell shares of our common stock from time to time having an aggregate offering price of up to $75 million, with the net proceeds available for general corporate purposes. Whether or not we engage in sales from time to time may depend on a variety of factors, including share price, our cash resources, customary black-out restrictions, and whether we are in possession of any material non-public information, and the agreement can be terminated by us at any time. As of March 31, 2019, we had sold 7,173,614 shares through the at-the-market program for net proceeds of $24.5 million. There were no shares sold under the at-the-market program during the first quarter of 2019.

Pursuant to our common stock dividend policy described in *Note 8* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*, our Board of Directors declared and paid dividends on common stock totaling $1.2 million in the first quarter of 2019 and $1.0 million in the first quarter of 2018. On May 7, 2019, our Board of Directors declared a dividend on common stock totaling $1.2 million payable in June 2019. Our dividend policy has a silver-price-linked component which ties the amount of declared common stock dividends to our realized silver price for the preceding quarter. Another component of our common stock dividend policy anticipates paying an annual minimum dividend. The declaration and payment of dividends on common stock is at the sole discretion of our board of directors, and there can be no assurance that we will continue to declare and pay common stock dividends in the future.

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, depending on prevailing market conditions and other factors. The repurchase program may be modified, suspended or discontinued by us at any time. Whether or not we engage in repurchases from time to time may depend on a variety of factors, including not only price and cash resources, but customary black-out restrictions, whether we have any material inside information, limitations on share repurchases or cash usage that may be imposed by our credit agreement or in connection with issuances of securities, alternative uses for cash, applicable law, and other investment opportunities from time to time. As of March 31, 2019, 934,100 shares have been purchased in prior periods at an average price of $3.99 per share, leaving 19.1 million shares that may yet be purchased under the program. The closing price of our common stock at May 7, 2019, was $2.10 per share. No shares were purchased under the program during the first quarter of 2019.

We may defer some capital investment and/or exploration and pre-development activities, engage in asset sales or secure additional capital if necessary to maintain liquidity. We also may pursue additional acquisition opportunities, which could require additional equity issuances or other forms of financing. There can be no assurance that such financing will be available to us.

As a result of our current cash balances, the performance of our current and expected operations, current metals prices, proceeds from potential at-the-market sales of common stock, and availability of our revolving credit facility, we believe we will be able to meet our obligations and other potential cash requirements during the next 12 months. Our obligations and other uses of cash may include, but are not limited to: debt service obligations related to the Senior Notes, RQ Notes and revolving credit facility, capital expenditures at our operations, potential acquisitions of other mining companies or properties, regulatory matters, litigation, potential repurchases of our common stock under the program described above, and payment of dividends on common stock, if declared by our board of directors. Throughout the second half of 2018 and the first quarter of 2019, we borrowed under our revolving credit facility in order to meet our ongoing working capital requirements. All amounts borrowed under the facility were repaid, with no outstanding balance as of March 31, 2019. We anticipate similarly borrowing under our credit facility during the rest of 2019. We currently estimate a total of approximately $150 million will be spent on capital expenditures, primarily for equipment, infrastructure, and development at our mines, in 2019, including $33.1 million incurred in the first three months of March 31, 2019. We also estimate exploration and pre-development expenditures will total approximately $28 million in 2019, including $5.3 million already incurred as of March 31, 2019. Our expenditures for these items and our related plans for 2019 may change based upon our financial position, metals prices, and other considerations. Our ability to fund the activities described above will depend on our operating performance, metals prices, our ability to estimate revenues and costs, sources of liquidity available to us, including the revolving credit facility, and other factors. A sustained downturn in metals prices, or significant increase in operational or capital costs or other uses of cash, our inability to access the credit facility or the sources of liquidity discussed above, or other factors beyond our control could impact our plans.

| | Three Months Ended | |
|---|---|---|
| | March 31, 2019 | March 31, 2018 |
| **Cash provided by operating activities (in millions)** | $ 20.0 | $ 16.4 |

Cash provided by operating activities in the first quarter of 2019 increased by $3.6 million compared to the same period in 2018. The increase was due to working capital and other operating asset and liability changes resulting in a net cash outflow of $0.8 million in the first three months of 2019, which was lower than the net cash outflow of $10.8 million in the first three months of 2018. The $10.1 million variance attributable to working capital and other asset and liability changes was primarily the result of higher payroll accruals due to the timing of payment of incentive compensation related to prior year performance, a smaller increase in accounts receivable and lower product inventory, partially offset by reductions to accounts payable. The lower cash outflow related to working capital and other asset and liability changes was partially offset by lower income adjusted for non-cash items.

| | Three Months Ended | |
|---|---|---|
| | March 31, 2019 | March 31, 2018 |
| **Cash used in investing activities (in millions)** | $ (33.1) | $ (18.2) |

During the first quarter of 2019 we invested $33.1 million in capital expenditures, not including $3.5 million in capital lease additions, compared to $17.6 million in the same period in 2018, with the variance primarily due to the addition of the Nevada Operations unit acquired in July 2018 and higher costs at San Sebastian, partially offset by lower costs at Greens Creek and Casa Berardi. During the first quarter of 2018, we purchased bonds having a cost basis of $31.2 million and bonds valued at $30.5 million matured, with no such activity during the first quarter of 2019.

| | Three Months Ended | |
|---|---|---|
| | March 31, 2019 | March 31, 2018 |
| **Cash provided by (used in) financing activities (in millions)** | $ (2.6) | $ 27.3 |

In the first quarter of 2019, we had $58.0 million in draws on our revolving credit facility, with that amount repaid during the quarter. In the first quarter of 2018, we received proceeds of $31.0 million from the issuance of Notes to Ressources Québec, as discussed above. We paid cash dividends on our common stock of $1.2 million and $1.0 million, respectively, in the first quarter of 2019 and 2018 and cash dividends of $0.1 million on our Series B Preferred Stock during each of those periods. We made repayments on our capital leases of $1.3 million in the first quarter of both 2019 and 2018. In addition, during the first quarter of 2018, we acquired treasury shares for $1.2 million as the result of employees' elections to utilize net share settlement to satisfy their tax withholding obligations related to incentive compensation paid in stock. See *Note 8* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

***Contractual Obligations, Contingent Liabilities and Commitments***

The table below presents our fixed, non-cancelable contractual obligations and commitments primarily related to our Senior Notes, RQ Notes, outstanding purchase orders, certain capital expenditures, our credit facility and lease arrangements as of March 31, 2019 (in thousands):

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1-3 years | 4-5 years | More than 5 years | Total |
| Purchase obligations (1) | 8,732 | $ — | $ — | $ — | $ 8,732 |
| Commitment fees (2) | 1,250 | 2,500 | 260 | — | 4,010 |
| Contractual obligations (3) | 4,335 | — | — | — | 4,335 |
| Finance lease commitments (4) | 5,903 | 9,163 | 1,119 | — | 16,185 |
| Operating lease commitments (5) | 9,214 | 8,333 | 4,000 | 1,352 | 22,899 |
| Supplemental executive retirement plan (6) | 644 | 1,666 | 2,223 | 6,058 | 10,591 |
| Defined benefit pension plans (6) | 2,200 | — | — | — | 2,200 |
| Senior Notes (7) | 34,822 | 544,224 | — | — | 579,046 |
| RQ Notes (8) | 1,401 | 31,449 | — | — | 32,850 |
| Total contractual cash obligations | $ 68,501 | $ 597,335 | $ 7,602 | $ 7,410 | $ 680,848 |

(1) Consists of open purchase orders of approximately $3.8 million at the Greens Creek unit, $1.5 million at the Lucky Friday unit, $0.4 million at the Casa Berardi unit and $2.9 million at the Nevada Operations unit.

(2) We have a $250 million revolving credit agreement under which we are required to pay a standby fee of 0.5% per annum on undrawn amounts under the revolving credit agreement. With the exception of $3.0 million in letters of credit outstanding, there was no amount drawn under the revolving credit agreement as of March 31, 2019. The table above assumes no amounts will be drawn during the agreement's term; however, as discussed above, we anticipate borrowing under our credit facility throughout 2019. For more information on our credit facility, see *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited).*

(3) As of March 31, 2019, we were committed to approximately $4.3 million for various items.

(4) Includes scheduled finance lease payments of $9.6 million, $1.3 million, $3.6 million and $1.7 million (including interest), respectively, for equipment at our Greens Creek, Lucky Friday, Casa Berardi and Nevada Operations units. These leases have fixed payment terms and contain bargain purchase options at the end of the lease periods (see *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information).

(5) We enter into operating leases in the normal course of business. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease arrangements.

(6) We sponsor defined benefit pension plans covering substantially all U.S. employees and provide certain post-retirement benefits for qualifying retired employees, along with a supplemental executive retirement plan. These amounts represent our estimate of the future funding requirements for these plans. We believe we will have funding requirements related to our defined benefit plans beyond one year; however, such obligations are not fixed in nature and are difficult to estimate, as they involve significant assumptions. See *Note 7* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

(7) On April 12, 2013, we completed an offering of $500 million in aggregate principal amount of our Senior Notes due May 1, 2021. The Senior Notes bear interest at a rate of 6.875% per year from the original date of issuance or the most recent payment date to which interest has been paid or provided for. Interest on the Senior Notes is payable on May 1 and November 1 of each year, commencing November 1, 2013, and we have made all interest payments payable to date. Since the initial offering, we have issued an additional $6.5 million in aggregate principal amount of the Senior Notes to fund obligations under our defined benefit pension plan. See *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

(8) On March 5, 2018, we issued the RQ Notes in the principal amount of CAD$40 million (approximately USD$30.8 million at the time of the transaction) . The RQ Notes bear interest at a rate of 4.68% per year, payable on May 1 and November 1 of each year, commencing May 1, 2018, and we have made all interest payments payable to date. See *Note 9* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information.

We record liabilities for costs associated with mine closure, reclamation of land and other environmental matters. At March 31, 2019, our liabilities for these matters totaled $109.5 million. Future expenditures related to closure, reclamation and environmental expenditures at our sites are difficult to estimate, although we anticipate we will incur expenditures relating to these obligations over the next 30 years. For additional information relating to our environmental obligations, see *Note 4* of *Notes to Condensed Consolidated Financial Statements (Unaudited).*

***Off-Balance Sheet Arrangements***

At March 31, 2019, we had no existing off-balance sheet arrangements, as defined under SEC regulations, that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

***Critical Accounting Estimates***

Our significant accounting policies are described in *Part IV*, *Note 1* of *Notes to Consolidated Financial Statements* in our annual report filed on Form 10-K for the year ended December 31, 2018. As described in *Note 1* of our annual report, we are required to make estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue, and expenses. Our estimates are based on our experience and our interpretation of economic, political, regulatory, and other factors that affect our business prospects. Actual results may differ significantly from our estimates.

We believe that our most critical accounting estimates are related to future metals prices; obligations for environmental, reclamation, and closure matters; mineral reserves; and accounting for business combinations, as they require us to make assumptions that are highly uncertain at the time the accounting estimates are made and changes in them are reasonably likely to occur from period to period. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosures presented below. In addition, there are other items within our financial statements that require estimation, but are not deemed to be critical. However, changes in estimates used in these and other items could have a material impact on our financial statements.

*Future Metals Prices*

Metals prices are key components in estimates that determine the valuation of some of our significant assets and liabilities, including properties, plants, equipment and mineral interests, deferred tax assets, and certain accounts receivable. Metals prices are also an important component in the estimation of reserves. As shown under *Part I*, *Item 1. - Business* in our annual report filed on Form 10-K for the year ended December 31, 2018, metals prices have historically been volatile. Silver demand arises from investment demand, particularly in exchange-traded funds, industrial demand, and consumer demand. Gold demand arises primarily from investment and consumer demand. Investment demand for silver and gold can be influenced by several factors, including: the value of the U.S. dollar and other currencies, changing U.S. budget deficits, widening availability of exchange-traded funds, interest rate levels, the health of credit markets, and inflationary expectations. Uncertainty related to the political environment in the U.S., Britain's exit from the European Union and a global economic recovery, including recent uncertainty in China, could result in continued investment demand for precious metals. Industrial demand for silver is closely linked to world Gross Domestic Product growth and industrial fabrication levels, as it is difficult to substitute for silver in industrial fabrication. Consumer demand is driven significantly by demand for jewelry and other retail products. We believe that long-term industrial and economic trends, including urbanization and growth of the middle class in countries such as China and India, will result in continued consumer demand for silver and gold and industrial demand for silver. However, China has recently experienced a lower rate of economic growth which could continue in the near term. There can be no assurance whether these trends will continue or how they will impact prices of the metals we produce. In the past, we have recorded impairments to our asset carrying value because of low prices, and we can offer no assurance that prices will either remain at their current levels or increase.

Processes supporting valuation of our assets and liabilities that are most significantly affected by prices include analysis of asset carrying values, depreciation, reserves, and deferred income taxes. On at least an annual basis - and more frequently if circumstances warrant - we examine our depreciation rates, reserve estimates, and the valuation allowances on our deferred tax assets. We examine the carrying values of our assets as changes in facts and circumstances warrant. In our evaluation of carrying values and deferred taxes, we apply several pricing views to our forecasting model, including current prices, analyst price estimates, forward-curve prices, and historical prices (see *Mineral Reserves*, below, regarding prices used for reserve estimates). Using applicable accounting guidance and our view of metals markets, we use the probability-weighted average of the various methods to determine whether the values of our assets are fairly stated, and to determine the level of valuation allowances, if any, on our deferred tax assets. In addition, estimates of future metals prices are used in the valuation of certain assets in the determination of the purchase price allocations for our acquisitions (see *Business Combinations* below).

Sales of concentrates sold directly to customers are recorded as revenues upon completion of the performance obligations and transfer of control of the product to the customer (generally at the time of shipment) using estimated forward metals prices for the estimated month of settlement. Due to the time elapsed between shipment of concentrates to the customer and final settlement with the customer, we must estimate the prices at which sales of our metals will be settled. Previously recorded sales and trade accounts receivable are adjusted to estimated settlement prices until final settlement by the customer. Changes in metals prices between shipment and final settlement result in changes to revenues and accounts receivable previously recorded upon shipment. As a result, our trade accounts receivable balances related to concentrate sales are subject to changes in metals prices until final settlement occurs. For more information, see *Note 6* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*.

We utilize financially-settled forward contracts to manage our exposure to changes in prices for silver, gold, zinc and lead. See *Item 3. – Quantitative and Qualitative Disclosures About Market Risk - Commodity-Price Risk Management* below for more information on our contract programs. These contracts do not qualify for hedge accounting and are therefore marked-to-market through earnings each period. Changes in silver, gold, zinc and lead prices between the dates that the contracts are entered into and their settlements will result in changes to the fair value asset or liability associated with the contracts, with a corresponding gain or loss recognized in earnings.

*Obligations for Environmental, Reclamation and Closure Matters*

Accrued reclamation and closure costs can represent a significant and variable liability on our balance sheet. We have estimated our liabilities under appropriate accounting guidance, and on at least an annual basis - and more frequently if warranted - management reviews our liabilities with our Audit Committee. However, the ranges of liability could exceed the liabilities recognized. If substantial damages were awarded, claims were settled, or remediation costs incurred in excess of our accruals, our financial results or condition could be materially adversely affected.

*Mineral Reserves*

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages, as described in *Part I*, *Item 2. - Properties* in our annual report filed on Form 10-K for the year ended December 31, 2018. Our assessment of reserves occurs at least annually, and periodically utilizes external audits.

Reserves are a key component in the valuation of our properties, plants and equipment. Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values in an effort to ensure that carrying values are reported appropriately. Our forecasts are also used in determining the level of valuation allowances on our deferred tax assets. Reserves also play a key role in the valuation of certain assets in the determination of the purchase price allocations for acquisitions. Annual reserve estimates are also used to determine conversions of mineral assets beyond the known reserve resulting from business combinations to depreciable reserves, in periods subsequent to the business combinations (see *Business Combinations* below). Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals or that we will do so at a profitable level.

*Business Combinations*

We are required to allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The valuation of assets acquired and liabilities assumed requires management to make significant estimates and assumptions, especially with respect to long-lived assets (including mineral assets beyond the known reserve). These estimates include future metals prices and mineral reserves, as discussed above. Management may also be required to make estimates related to the valuation of deferred tax assets or liabilities as part of the purchase price allocation for business combinations. In some cases, we use third-party appraisers to determine the fair values of property and other identifiable assets. In addition, costs related to business combinations are included in earnings as incurred, and our financial results for periods in which business combinations are pursued could be adversely affected as a result.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our exposure to market risks and risk management activities includes forward-looking statements that involve risks and uncertainties, as well as summarizes the financial instruments held by us at March 31, 2019, which are sensitive to changes in commodity prices and foreign exchange rates and are not held for trading purposes. Actual results could differ materially from those projected in the forward-looking statements. In the normal course of business, we also face risks that are either non-financial or non-quantifiable (See *Part I, Item 1A. – Risk Factors* of our annual report filed on Form 10-K for the year ended December 31, 2018, as updated in *Part II, Item 1A – Risk Factors* in this quarterly report on Form 10-Q for the quarter ended March 31, 2019).

*Metals Prices*

Changes in the market prices of silver, gold, lead and zinc can significantly affect our profitability and cash flow. As discussed in *Item 2. Management's Discussion and Analysis - Critical Accounting Estimates*, metals prices can fluctuate due to numerous factors beyond our control. As discussed below, we utilize financially-settled forward contracts to manage our exposure to changes in prices for silver, gold, zinc and lead.

*Provisional Sales*

Sales of all metals products sold directly to customers, including by-product metals, are recorded as revenues when all performance obligations have been completed and the transaction price can be determined or reasonably estimated. For concentrate sales, revenues are generally recorded at the time of shipment at forward prices for the estimated month of settlement. Due to the time elapsed between shipment to the customer and the final settlement with the customer we must estimate the prices at which sales of our metals will be settled. Previously recorded sales are adjusted to estimated settlement metals prices until final settlement by the customer. Changes in metals prices between shipment and final settlement will result in changes to revenues previously recorded upon shipment. Metals prices can and often do fluctuate widely and are affected by numerous factors beyond our control (see *Part I, Item 1A – Risk Factors – A substantial or extended decline in metals prices would have a material adverse effect on us* in our annual report filed on Form 10-K for the year ended December 31, 2018). At March 31, 2019, metals contained in concentrates and exposed to future price changes totaled 0.9 million ounces of silver, 4,096 ounces of gold, 11,108 tons of zinc, and 1,814 tons of lead. If the price for each metal were to change by 10%, the change in the total value of the concentrates sold would be approximately $5.2 million. However, as discussed in *Commodity-Price Risk Management* below, we utilize a program designed and intended to mitigate the risk of negative price adjustments with limited mark-to-market financially-settled forward contracts for our silver, gold, zinc and lead sales.

*Commodity-Price Risk Management*

We may at times use commodity forward sales commitments, commodity swap contracts and commodity put and call option contracts to manage our exposure to fluctuation in the prices of certain metals we produce. Contract positions are designed to ensure that we will receive a defined minimum price for certain quantities of our production, thereby partially offsetting our exposure to fluctuations in market prices. Our risk management policy allows for up to 75% of our planned metals price exposure for five years into the future, with certain other limitations, to be hedged under such programs. These instruments do, however, expose us to (i) credit risk in the form of non-performance by counterparties for contracts in which the contract price exceeds the spot price of a commodity and (ii) price risk to the extent that the spot price exceeds the contract price for quantities of our production covered under contract positions.

We are currently using financially-settled forward contracts to manage the exposure to changes in prices of silver, gold, zinc and lead contained in our concentrate shipments between the time of shipment and final settlement. In addition, we are using financially-settled forward contracts to manage the exposure to changes in prices of zinc and lead (but not silver and gold) contained in our forecasted future concentrate shipments. These contracts do not qualify for hedge accounting and are marked-to-market through earnings each period.

As of March 31, 2019, we recorded the following balances for the fair value of the contracts:

- a current asset of $0.2 million, which is included in other current assets and is net of $0.1 million for contracts in a fair value liability position;
- a non-current asset of $45 thousand, which is included in other non-current assets;
- a current liability of $4.0 million, which is included in other current liabilities and is net of $0.1 million for contracts in a fair value current asset position; and
- a non-current liability of $13 thousand, which is included in other non-current liabilities.

We recognized a $2.5 million net loss during the first quarter of 2019 on the contracts utilized to manage exposure to prices of metals in our concentrate shipments, which is included in sales of products. The net loss recognized on the contracts offsets gains related to price adjustments on our provisional concentrate sales due to changes to silver, gold, lead and zinc prices between the time of sale and final settlement.

We recognized a $1.8 million net loss during the first quarter of 2019 on the contracts utilized to manage exposure to prices for forecasted future concentrate shipments. The net loss on these contracts is included as a separate line item under other income (expense), as they relate to forecasted future shipments, as opposed to sales that have already taken place but are subject to final pricing as discussed in the preceding paragraph. The net loss for the first quarter of 2019 is the result of an increase in zinc and lead prices. This program, when utilized, is designed to mitigate the impact of potential future declines in lead and zinc prices from the price levels established in the contracts (see average price information below). When those prices increase compared to the contract prices, we incur losses on the contracts.

The following tables summarize the quantities of metals committed under forward sales contracts at March 31, 2019 and December 31, 2018:

| March 31, 2019 | Ounces/pounds under contract (in 000's) | | | | Average price per ounce/pound | | | |
|---|---|---|---|---|---|---|---|---|
| | Silver (ounces) | Gold (ounces) | Zinc (pounds) | Lead (pounds) | Silver (ounces) | Gold (ounces) | Zinc (pounds) | Lead (pounds) |
| **Contracts on provisional sales** | | | | | | | | |
| 2019 settlements | 710 | 3 | 19,952 | 2,646 | $ 15.46 | $ 1,316 | $ 1.22 | $ 0.92 |
| **Contracts on forecasted sales** | | | | | | | | |
| 2019 settlements | — | — | 26,180 | 1,653 | N/A | N/A | $ 1.25 | $ 0.96 |
| 2020 settlements | — | — | 276 | 551 | N/A | N/A | $ 1.26 | $ 0.96 |

| December 31, 2018 | Ounces/pounds under contract (in 000's) | | | | Average price per ounce/pound | | | |
|---|---|---|---|---|---|---|---|---|
| | Silver (ounces) | Gold (ounces) | Zinc (pounds) | Lead (pounds) | Silver (ounces) | Gold (ounces) | Zinc (pounds) | Lead (pounds) |
| **Contracts on provisional sales** | | | | | | | | |
| 2019 settlements | 842 | 4 | 18,450 | 2,700 | $ 14.69 | $ 1,260 | $ 1.15 | $ 0.89 |

*Foreign Currency*

We operate or have mining interests in Canada and Mexico, which exposes us to risks associated with fluctuations in the exchange rates between the U.S. dollar ("USD") and the Canadian dollar ("CAD") and Mexican peso ("MXN"), respectively. We have determined the functional currency for our Canadian and Mexican operations is the USD. As such, foreign exchange gains and losses associated with the re-measurement of monetary assets and liabilities from CAD and MXN to USD are recorded to earnings each period. For the three months ended March 31, 2019, we recognized a net foreign exchange loss of $3.1 million. Foreign currency exchange rates are influenced by a number of factors beyond our control. A 10% change in the exchange rate between the USD and CAD from the rate at March 31, 2019 would have resulted in a change of approximately $11.9 million in our net foreign exchange gain or loss. A 10% change in the exchange rate between the USD and MXN from the rate at March 31, 2019 would have resulted in a change of approximately $1.0 million in our net foreign exchange gain or loss.

In April 2016, we initiated a program to manage our exposure to fluctuations in the exchange rate between the USD and CAD and the impact on our future operating costs denominated in CAD. In October 2016, we also initiated a program to manage our exposure to the impact of fluctuations in the exchange rate between the USD and MXN on our future operating costs denominated in MXN. The programs utilize forward contracts to buy CAD and MXN, and each contract is designated as a cash flow hedge. As of March 31, 2019, we have 130 forward contracts outstanding to buy CAD$284.1 million having a notional amount of USD$219.6 million, and 19 forward contracts outstanding to buy MXN$99.5 million having a notional amount of USD$4.9 million. The CAD contracts are related to forecasted cash operating costs at Casa Berardi to be incurred from 2019 through 2022 and have CAD-to-USD exchange rates ranging between 1.2702 and 1.3306. The MXN contracts are related to forecasted cash operating costs at San Sebastian to be incurred from 2019 through 2020 and have MXN-to-USD exchange rates ranging between 19.9400 and 20.8550. Our risk management policy allows for up to 75% of our planned cost exposure for five years into the future to be hedged under such programs, and for potential additional programs to manage other foreign currency-related exposure areas.

As of March 31, 2019, we recorded the following balances for the fair value of the contracts:

- a current asset of $0.2 million, which is included in other current assets;
- a current liability of $2.0 million, which is included in other current liabilities; and
- a non-current liability of $2.7 million, which is included in other non-current liabilities.

Net unrealized losses of approximately $4.5 million related to the effective portion of the hedges were included in accumulated other comprehensive loss as of March 31, 2019. Unrealized gains and losses will be transferred from accumulated other comprehensive loss to current earnings as the underlying operating expenses are recognized. We estimate approximately $1.7 million in net unrealized gains included in accumulated other comprehensive loss as of March 31, 2019 would be reclassified to current earnings in the next twelve months. Net realized losses of approximately $0.5 million on contracts related to underlying expenses which have been recognized were transferred from accumulated other comprehensive loss and included in cost of sales and other direct production costs for the three months ended March 31, 2019.

**Item 4. Controls and Procedures**

An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as required by Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures, including controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management (including our CEO and CFO), were effective as of March 31, 2019, in assuring them in a timely manner that material information required to be disclosed in this report has been properly recorded, processed, summarized and reported. There were no changes in our internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system which is determined to be effective cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

Part II - Other Information

Hecla Mining Company and Subsidiaries

**Item 1. Legal Proceedings**

For information concerning legal proceedings, refer to *Note 4* of *Notes to Condensed Consolidated Financial Statements (Unaudited)*, which is incorporated by reference into this Item 1.

**Item 1A. Risk Factors**

*Part I, Item 1A - Risk Factors* of our annual report filed on Form 10-K for the year ended December 31, 2018 sets forth information relating to important risks and uncertainties that could materially adversely affect our business, financial condition or operating results. Certain of those risk factors have been updated as set forth below.

**Financial Risks**

***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.

As discussed below in the risk factor, "*We may not realize all of the anticipated benefits from our acquisitions, including our recent acquisition of Klondex,*" we are currently undertaking a review of various operational aspects of our Nevada Operations, including the Fire

Creek mine, which we anticipate completing in the second quarter of 2019. The outcome of the review may constitute a triggering event requiring assessment of the carrying value of our long-lived assets at Fire Creek. We may recognize an impairment, which could be material, if the carrying value of the assets exceeds the estimated future undiscounted cash flows expected to result from their use and eventual disposition.

**Operation, Development, Exploration and Acquisition Risks**

***We face inherent risks in acquisitions of other mining companies or properties, including our recently-acquired Nevada Operations, 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.

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.

See the risk factor below, "*We may not realize all of the anticipated benefits from our acquisitions, including our recent acquisition of Klondex,"* for developments at our recently-acquired Nevada Operations.

***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.

See the risk factor below, "*We may not realize all of the anticipated benefits from our acquisitions, including our recent acquisition of Klondex,"* for developments at our recently-acquired Nevada Operations.

***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, ore grades or mill recoveries that are lower than required for portions of the orebodies to be economic, and fluctuations in market prices.

At our Nevada Operations unit acquired via the Klondex acquisition in July 2018, we recognized total capital and production costs in excess of revenues, and a $13.8 million operating loss, in the first quarter of 2019. As a result, we are currently undertaking a review of the Nevada Operations which will include an evaluation of: the level of development at Fire Creek and the other mining operations in Nevada; grade control procedures; different mining methods and plans; alternative methods of processing Fire Creek ore by third-parties; and the rate of development of the Hatter Graben project. This review may result in, among other possible outcomes, the following changes at the Fire Creek mine: a reduction in capital spending; ceasing current production and only developing to spirals 9,10 and 11; or a temporary cessation of all mine operations at Fire Creek. See the risk factor above, "*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,"* for discussion of the potential effects that could result from such outcomes.

***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. See the risk factors above, "*We may not realize all of the anticipated benefits from our acquisitions, including our recent acquisition of Klondex*," and "*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."*

**Legal, Regulatory and Market Risks**

***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 have appealed 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. Further, on May 6, 2019, one of our Montana subsidiaries received a letter from the Montana Department of Environmental Quality ("DEQ") questioning the validity of its operating permit at Montanore in light of the trespass finding. The letter gives our subsidiary 30 days to respond. 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 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.

**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 Quarterly Report.

**Item 5. Other Information**

On May 8, 2019, we entered into an amendment to our revolving credit agreement dated July 16, 2018 with the various financial institutions and other persons from time to time parties as lender (the "Lenders") and The Bank of Nova Scotia, as administrative agent for the Lenders and as letter of credit issuer. The amendment changed our leverage ratio (total debt less unencumbered cash/EBITDA) from not more than 4.50:1 to not more than the following: 5.00:1 effective April 1, 2019, returning to 4.50:1 effective October 1, 2019, and then changing to 4.00:1 effective January 1, 2020.

From time to time we enter into forward contracts to buy CAD and MXN to manage our exposure to fluctuations in the exchange rates between those currencies and the USD and the impact on our future operating costs denominated in CAD and MXN. We also enter into financially settled forward contracts to manage exposures to our metals contained in our concentrate shipments, both between the time of shipment and final settlement as well as forecasted future concentrate shipments (only lead and zinc). These currency and metal sales contracts are with The Bank of Nova Scotia, ING Capital, Canadian Imperial Bank of Commerce and JPMorgan Chase Bank, each of which is a lender under the credit agreement. See *Note 11* of *Notes to Condensed Consolidated Financial Statements (Unaudited)* for more information the types of derivatives contracts we enter into with the lenders.

**Item 6. Exhibits**

Hecla Mining Company and Wholly Owned Subsidiaries
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| 3.1 | Restated Certificate of Incorporation of the Registrant. Filed as exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (File No 1-8491) and incorporated herein by reference. |
| 3.2 | Bylaws of the Registrant as amended to date. Filed as exhibit 3.1 to Registrant's Current Report on Form 8-K filed on August 22, 2014 (File No. 1-8491) and incorporated herein by reference. |
| 4.1 | Designations, Preferences and Rights of Series B Cumulative Convertible Preferred Stock of the Registrant. Included as Annex II to Restated Certificate of Incorporation of Registrant. Filed as exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 (File No. 1-8491) and incorporated herein by reference. |
| 4.2(a) | Indenture dated as of April 12, 2013, among Hecla Mining Company, as Issuer, certain subsidiaries of Hecla Mining Company, as Guarantors thereto, and The Bank of New York Mellon Trust Company, N.A., as Trustee. Filed as exhibit 10.1 to Registrant's Current Report on Form 8-K filed on April 15, 2013 (File No. 1-8491) and incorporated herein by reference. |
| 4.2(b) | Supplemental Indenture, dated as of April 14, 2014, among Hecla Mining Company, as Issuer, certain subsidiaries of Hecla Mining Company, as Guarantors thereto, and The Bank of New York Mellon Trust Company, N.A., as Trustee. Filed as exhibit 4.2 to Registrant's Registration Statement on Form S-3ASR filed on April 14, 2014 (Registration No. 333-19524) and incorporated herein by reference. |
| 4.2(c) | Supplemental Indenture dated August 5, 2015, among Hecla Mining Company, as Issuer, certain subsidiaries of Hecla Mining Company, as Guarantors thereto, and The Bank of New York Mellon Trust Company, N.A., as Trustee. Filed as exhibit 4.2 (d) to Registrant's Form 10-K for the year ended December 31, 2015 (File No. 1-8491) and incorporated herein by reference. |
| 4.2(d) | Supplemental Indenture, dated October 26, 2016, among Hecla Mining Company, as Issuer, certain subsidiaries of Hecla Mining Company, as Guarantors hereto, and The Bank of New York Mellon Trust, N.A., as Trustee. Filed as exhibit 4.2 (e) to Registrant's Form 10-K for the year ended December 31, 2016 (File No. 1-8491) and incorporated herein by reference. |

| | |
|---|---|
| 4.2(e) | Supplemental Indenture dated as of November 30, 2018, among Hecla Mining Company, as Issuer, certain subsidiaries of Hecla Mining Company, as Guarantors thereto, and The Bank of New York Mellon Trust, N.A., as Trustee. Filed as exhibit 4.2 (e) to Registrant's Form 10-K for the year ended December 31, 2018 (File No. 1-8491) and incorporated herein by reference. |
| 10.1 | Short-Term Incentive Plan. (1) * |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. * |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 32.2 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. * |
| 95 | Mine safety information listed in Section 1503 of the Dodd-Frank Act. * |
| 99.1 | Contribution Agreement, dated as of February 26, 2016, among Hecla Mining Company, as sponsor of the Retirement Plan, the Retirement Committee, as the named fiduciary of the Retirement Plan, and U.S. Bank National Association, as trustee of the Retirement Plan Trust. Filed as exhibit 99.1 to Registrant's Registration Statement on Form S-3 ASR filed on February 26, 2016 (Registration No. 333-209751) and incorporated herein by reference. |
| 99.2 | Contribution Agreement, dated as of February 26, 2016, among Hecla Mining Company, Hecla Limited as sponsor of the Lucky Friday Pension Plan, the Pension Committee, as the named fiduciary of the Pension Plan, and U.S. Bank National Association, as trustee of the Retirement Plan Trust. Filed as exhibit 99.2 to Registrant's Registration Statement on Form S-3 ASR filed on February 26, 2016 (Registration No. 333-209751) and incorporated herein by reference. |
| 101.INS | XBRL Instance. ** |
| 101.SCH | XBRL Taxonomy Extension Schema.** |
| 101.CAL | XBRL Taxonomy Extension Calculation.** |
| 101.DEF | XBRL Taxonomy Extension Definition.** |
| 101.LAB | XBRL Taxonomy Extension Labels.** |
| 101.PRE | XBRL Taxonomy Extension Presentation.** |

___________________

(1) Indicates a management contract or compensatory plan or arrangement.

* Filed herewith.

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

*Items 2 and 3 of Part II are not applicable and are omitted from this report.*

Hecla Mining Company and Subsidiaries

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HECLA MINING COMPANY
(Registrant)

| | | | |
|---|---|---|---|
| Date: | May 9, 2019 | By: | /s/ Phillips S. Baker, Jr.<br>Phillips S. Baker, Jr., President,<br>Chief Executive Officer and Director |
| Date: | May 9, 2019 | By: | /s/ Lindsay A. Hall<br>Lindsay A. Hall, Senior Vice President and<br>Chief Financial Officer |



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# Section 2: EX-10.1 (EXHIBIT 10.1)

**Exhibit 10.1**

Appendix B

**HECLA MINING COMPANY**

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**SHORT TERM INCENTIVE PLAN**

**Introduction**

Effective as of July 2, 1994, Hecla Mining Company adopted the Hecla Mining Company Performance Pay Compensation Plan (the "Prior Plan"). Effective as of February 20, 2019, pursuant to action of the Board of Directors of Hecla Mining Company (the "Board"), the Prior Plan is hereby amended and restated, and is now known as the Hecla Mining Company Short Term Incentive Plan and shall have the terms and conditions set forth herein (the "Plan" or "STIP").

**Purpose**

This Plan is designed to provide a significant and variable economic opportunity to selected officers and employees of the Company as a reflection of their individual and group contributions to the success of the Company.

**Definitions**

"Short Term Incentive Plan Goals" shall mean the performance goals in effect for the Plan Year as recommended by management and approved by the Committee. The Committee may modify the Short Term Incentive Plan Goals as it sees fit and will finally approve them to be in effect for that Performance Period. Short Term Incentive Plan factors are divided into the following components, which may be modified by the Committee from time to time, including with respect to the relative weights:

- Quantitative corporate performance factors, normally comprising 50% of the overall potential Award;
- Qualitative set of goals, normally comprising 25% of the overall potential Award; and
- Discretionary factor as determined by the Committee, normally comprising 25% of the overall potential Award.

"Short Term Incentive Plan Pay" or "STIP Pay" shall consist of an award from the Company payable to a participant pursuant to the terms of the Plan either in cash or in equity under one of the Company's stock plans.

"Base Salary" is the annual salary approved by the Board for Executives or by the Company for other Plan participants.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committee" shall mean the Compensation Committee of the Board.

"Company" shall mean Hecla Mining Company, a Delaware Corporation, and its subsidiaries.

"Disinterested Person" shall mean a member of the Board who qualifies as an “outside director” for purposes of Section 162(m) of the Code.

"Participants" shall mean eligible officers and employees who are designated by the Committee for participation in the Plan.

"Payment Date" shall mean the date following the conclusion of a particular Performance Period on which the Committee certifies that applicable STIP Goals have been satisfied and authorizes payment of corresponding STIP Pay Awards.

"Performance Period" will be determined by the Committee and normally coincides with the Company's fiscal year.

"Target Award" shall mean the percentage of each Participant's base salary that is established for achievement of target performance level in consideration of quantitative, qualitative and discretionary factors as determined by the Board. The Target Award for each plan participant will be determined by the Committee prior to each Performance Period. Participants may be awarded up to twice their Target for exceptional performance against all criteria.

**Administration**

The AIP shall be administered by the Committee or such other committee of the Board which is composed of not less than two Disinterested Persons, each of whom shall be appointed by and serve at the pleasure of the Board.

In administering the Plan the Committee may at is option employ compensation consultants, accountants and counsel (who may be the independent auditors, outside counsel, or compensation consultants of the Company) and other persons to assist or render advice to the Committee, all at the expense of the Company.

**Eligibility**

The Committee shall, in its sole discretion, determine for each Performance Period those officers and employees of the Company who shall be eligible to participate in the STIP (the "Participants") based upon such Participants' opportunity to have a substantial impact on the Company’s operating results. Nothing contained in the Plan shall be construed as or be evidence of any contract or employment with any Participant for a term of any length nor shall participation in the Plan in any Performance Period by any Participant require continued participation by such Participant in any subsequent Performance Period.

Appendix B

**Determination of Performance Pay**

The form and amount of Short Term Incentive Plan Pay awarded to a Participant shall be determined by and in the discretion of the Committee. The Committee may condition the earning of STIP Pay upon the attainment of specified Performance Goals measured over a period not greater than one year relating to the Participant or the Company, or a subsidiary, division or department of the Company for or within which the Participant is primarily employed, or upon such other factors or criteria as the Committee shall determine, which Performance Goals may be different for each Participant. Short Term Incentive Plan Pay payable under the Plan will consist of a cash or equity award from the Company, based upon a degree of achievement of such Performance Goals over the Performance Period.

The Committee may, in its sole discretion, increase or decrease the amount of any Short Term Incentive Plan Pay payable to a Participant and may award Short Term Incentive Plan Pay to Participants even though the Short Term Incentive Plan Pay is not earned. Short Term Incentive Plan Pay earned or otherwise awarded will be paid on the Payment Date.

**Termination of Employment**

In the event that a Participant's employment with the Company terminates for any reason prior to the Payment Date, other than death or disability, such Participant shall not be eligible to receive any STIP Pay.

**Amendments and Terminations**

The Board shall have the right to modify the Plan from time to time without prior approval of the Company's stockholders.

**Deferral Elections**

The Participants are permitted to defer the receipt of Short Term Incentive Plan Pay payable hereunder in accordance with the Company’s Key Employee Deferred Compensation Plan or any similar plan or program.

HECLA MINING COMPANY

By: ______________________________

Phillips S. Baker, Jr.
President and CEO

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# Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATIONS

I, Phillips S. Baker, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hecla Mining Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2019

/s/ Phillips S. Baker, Jr.
Phillips S. Baker, Jr.
President, Chief Executive Officer and Director

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# Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATIONS

I, Lindsay A. Hall, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hecla Mining Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2019

/s/ Lindsay A. Hall
Lindsay A. Hall
Senior Vice President and Chief Financial Officer

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# Section 5: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

CERTIFICATIONS

I, Phillips S. Baker, Jr., President, Chief Executive Officer and Director of Hecla Mining Company ("Hecla"), certify that to my knowledge:

1. This quarterly report of Hecla on Form 10-Q ("report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Hecla.

Date: May 9, 2019

/s/ Phillips S. Baker, Jr.
Phillips S. Baker, Jr.
President, Chief Executive Officer and Director

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Hecla Mining Company and will be retained by Hecla and furnished to the Securities and Exchange Commission or its staff upon request.

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The foregoing certification is being furnished in accordance with Securities and Exchange Commission Release No. 34-47551 and shall not be considered filed as part of the Form 10-Q.

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# Section 6: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

CERTIFICATIONS

I, Lindsay A. Hall, Senior Vice President and Chief Financial Officer of Hecla Mining Company ("Hecla"), certify that to my knowledge:

1. This quarterly report of Hecla on Form 10-Q ("report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Hecla.

Date: May 9, 2019

/s/ Lindsay A. Hall
Lindsay A. Hall
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906 has been provided to Hecla Mining Company and will be retained by Hecla and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished in accordance with Securities and Exchange Commission Release No. 34-47551 and shall not be considered filed as part of the Form 10-Q.

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# Section 7: EX-95 (EXHIBIT 95)

Exhibit 95

Mine Safety Disclosures

Our mines are operated subject to the regulation of the Federal Mine Safety and Health Administration ("MSHA"), under the Federal Mine Safety and Health Act of 1977 (the "Mine Act"). In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law, and amended in December 2011. When MSHA believes a violation of the Mine Act has occurred, it may issue a citation for such violation, including a civil penalty or fine, and the mine operator must abate the alleged violation.

As required by the reporting requirements of the Dodd-Frank Act, as amended, the table below presents the following information for the three-month period ended March 31, 2019.

| Mine | Section 104 S&S Citations | Section 104(b) Orders | Section 104(d) Citations and Orders | Section 110(b)(2) Violations | Section 107(a) Orders | Total Dollar Value of MSHA Assessments Proposed | Total Number Of Mining Related Fatalities | Received Notice of Pattern of Violations Under Section 104(e) | Received Notice of Potential to have Patterns Under Section 104(e) | Legal Actions Pending as of Last Day of Period | Legal Actions Initiated During Period | Legal Actions Resolved During Period |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Greens Creek | 0 | 0 | 0 | — | — | $593 | — | no | no | 2 | 2 | 0 |
| Lucky Friday | 1 | 0 | 0 | — | — | $2,061 | — | no | no | 0 | 0 | 0 |
| Troy | 0 | 0 | 0 | — | — | $0 | — | no | no | 0 | 0 | 0 |
| Fire Creek | 2 | 0 | 0 | --- | --- | $2,652 | --- | no | no | 0 | 0 | 0 |
| Hollister | 4 | 0 | 0 | -- | -- | $2,349 | --- | no | no | 0 | 0 | 0 |
| Midas | 1 | 0 | 0 | --- | --- | $7,699 | --- | no | no | 0 | 0 | 0 |
| Aurora | 1 | 0 | 0 | --- | --- | $302 | --- | no | no | 0 | 0 | 0 |

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