



# GOLDEN

MINERALS COMPANY

NYSE American: AUMN

TSX: AUMN

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**CAUTIONARY INFORMATION**

The information in this Annual Report to Stockholders was current as of February 27, 2020 and has been updated by subsequent press releases and filings with the United States Securities and Exchange Commission (the "SEC").

**FORWARD-LOOKING STATEMENTS**

The information in this Annual Report to Stockholders contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and under applicable Canadian securities laws, including statements related to our plans, expectations and assumptions regarding the Velardeña oxide plant lease, including the expected term, anticipated revenues, care and maintenance costs, and potential future tailings expansion; expectations regarding the updated Velardeña PEA; the El Quevar project, including assumptions and projections contained in the El Quevar PEA (including life of mine, grade and production expectations), the timing of results from the current drilling program and our plans regarding further advancement of the project; the Santa Maria property, including the assumptions and projections contained in the updated Santa Maria PEA (including life of mine, grade and production expectations) and other expectations regarding the project, and the proposed sale of 100% of our interest in the property; future evaluation and drilling plans and exploration activities at Sand Canyon, Yoquivo, Rodeo and other properties; our financial outlook in 2020, including anticipated income from the use of our ATM Program and LPC Program (each defined in the Form 10-K) and expenditures during the year; expected need for external financing and statements concerning our financial condition, business strategies and business and legal risks. These statements are subject to risks and uncertainties that are described in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which is bound with and included in this Annual Report to Stockholders.

**CAUTIONARY NOTE TO U.S. INVESTORS CONCERNING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES**

The information in this Annual Report to Stockholders uses the terms "measured resources," "indicated resources" and "inferred resources" which are defined in, and required to be disclosed by, Canadian National Instrument NI 43-101 ("NI 43-101"). We advise U.S. Investors that these terms are not recognized by the SEC. The estimation of measured and indicated resources involves greater uncertainty as to their existence and economic feasibility than the estimation of proven and probable reserves. U.S. Investors are cautioned not to assume that measured or indicated mineral resources will be converted into reserves. The estimation of inferred resources involves far greater uncertainty as to their existence and economic viability than the estimation of other categories of resources. U.S. Investors are cautioned not to assume that estimates of inferred mineral resources exist, are economically minable, or will be upgraded into measured or indicated mineral resources. Disclosure of "contained ounces" in a resource is permitted disclosure under Canadian regulations, however the SEC normally only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures. Accordingly, the information contained in this Annual Report to Stockholders may not be comparable to similar information made public by U.S. companies that are not subject to NI 43-101.

# TO OUR SHAREHOLDERS:

2019 was a challenging year for Golden Minerals and I want to thank you, our shareholders, for your patience.

A large portion of the year was devoted to the potential sale of our Velardeña properties and other assets to Minera Autlán, a transaction which was ultimately terminated in September. Following the termination, we shifted our strategy and continued with our own plans to advance Velardeña.

We announced promising results at Velardeña based on test work we completed in December 2019, showing a significant improvement of gold and silver recoveries based on bio-oxidation of the pyrite concentrate. The cyanide leaching of the oxidized pyrite concentrates yields a significant improvement in overall projected gold and silver recoveries for the project. This improvement could allow for a successful restart of the project with low capital investment and improved operating margins. We expect to release an updated economic analysis of the project using the new metallurgical recovery results near the end of the first quarter.

With the projected end of the current lease of our oxide plant to Hecla at the end of this year, we have kicked off the process to obtain permits to mine our Rodeo gold deposit and process its material at Velardeña's oxide plant. We have held the Rodeo property for this purpose and we expect to have an economic analysis of the project in a new technical report within the next few months. We anticipate that the potential income from gold mined at Rodeo will compensate for the loss of the Hecla lease income and potentially provide us with a runway to start up operations again at Velardeña. The combination of the two projects appears to be a very strong path forward for the company to restart gold and silver production with the goal of achieving sustainable profitability.

We drilled at El Quevar in 2019 in a well-targeted attempt to expand the silver resource to a size that would be more attractive to develop. Results from this drill program were released in September 2019. We are continuing to advance El Quevar by seeking to contract with a partner to contribute to the funding and further exploration and development.

We also acquired our first Nevada precious metals project, Sand Canyon, during 2019 and did the work required to define drill targets and obtain permits to drill. The drilling was pushed back to early 2020, and we have recently completed the initial phase of drilling, with results expected in the second quarter.

We continue in our mission to maximize value through exploration success and future responsible silver and gold production.

Yours sincerely,



Warren M. Rehn  
President and Chief Executive Officer

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13627

**GOLDEN MINERALS COMPANY**

(Exact Name of Registrant as Specified in its Charter)

**DELAWARE**

(State of Incorporation or Organization)

**26-4413382**

(I.R.S. Employer Identification No.)

**350 Indiana Street, Suite 650  
Golden, Colorado**

(Address of principal executive offices)

**80401**

(Zip Code)

**(303) 839-5060**

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2019 was approximately \$15.4 million, based on the closing price of the registrant's common stock of \$0.28 per share on the NYSE American on June 28, 2019. For the purpose of this calculation, the registrant has assumed that its affiliates as of June 30, 2019 included all directors and officers and one shareholder that held approximately 42% of its outstanding common stock. The number of shares of common stock outstanding on February 25, 2020 was 108,104,001.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2020 Annual Meeting of Stockholders are incorporated by reference in Part III of this annual report on Form 10-K.

GOLDEN MINERALS COMPANY  
FORM 10-K  
YEAR ENDED DECEMBER 31, 2019

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

#### **FORWARD-LOOKING STATEMENTS**

Some information contained in or incorporated by reference into this annual report on Form 10-K may contain forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other applicable securities laws. We use the words “anticipate,” “continue,” “likely,” “estimate,” “expect,” “may,” “could,” “will,” “project,” “should,” “believe” and similar expressions (including negative and grammatical variations) to identify forward-looking statements. These statements include comments relating to our plans, expectations and assumptions concerning the Velardeña oxide plant lease, including the expected term, anticipated revenues, care and maintenance costs, and potential future tailings expansion; expectations regarding the updated Velardeña PEA; the El Quevar project, including assumptions and projections contained in the El Quevar PEA (including life of mine, grade and production expectations), the timing of results from the current drilling program and our plans regarding further advancement of the project; the Santa Maria property, including the assumptions and projections contained in the updated Santa Maria PEA (including life of mine, grade and production expectations) and other expectations regarding the project, and the proposed sale of 100% of our interest in the property; future evaluation and drilling plans and exploration activities at Sand Canyon, Yoquivo, Rodeo and other properties; our financial outlook in 2020, including anticipated income from the use of our ATM Program and LPC Program (each defined herein) and expenditures during the year; expected need for external financing and statements concerning our financial condition, business strategies and business and legal risks. Although we believe the expectations and assumptions reflected in those forward-looking statements are reasonable, we cannot assure you that these expectations and assumptions will prove to be correct. Our actual results could differ materially from those expressed or implied in these forward-looking statements as a result of various factors described in this annual report on Form 10-K, including:

- Lower revenue than anticipated from the oxide plant lease, which could result from delays or problems at Hecla’s San Sebastian mine or at the oxide plant, permitting problems at Hecla’s San Sebastian mine or the oxide plant, earlier than expected termination of the lease or other causes;
- Higher than anticipated care and maintenance costs at El Quevar in Argentina or the Velardeña Properties in Mexico;
- The election by the purchaser of our Santa Maria property to terminate the purchase agreement without payment of the initial cash payment of \$1.0 million;
- Decreases in silver and gold prices;
- Whether we are able to raise the necessary capital required to continue our business on terms acceptable to us or at all, and the likely negative effect of decreased silver and gold prices or unfavorable exploration results;
- Unfavorable results from exploration at the Sand Canyon, Rodeo, Yoquivo, Santa Maria or other exploration properties and whether we will be able to advance these or other exploration properties;
- Risks related to the El Quevar project in Argentina, including unfavorable results from our evaluation activities, the feasibility and economic viability and unexpected costs of maintaining the project, and whether we will be able to find a joint venture partner or secure adequate financing to further advance the project;

- Variations in the nature, quality and quantity of any mineral deposits that are or may be located at the Velardeña Properties or our exploration properties, changes in interpretations of geological information, and unfavorable results of metallurgical and other tests;
- Whether we will be able to mine and sell minerals successfully or profitably at any of our current properties at current or future silver and gold prices and achieve our objective of becoming a mid-tier mining company;
- Potential delays in our exploration activities or other activities to advance properties towards mining resulting from environmental consents or permitting delays or problems, accidents, problems with contractors, disputes under agreements related to exploration properties, unanticipated costs and other unexpected events;
- Our ability to retain key management and mining personnel necessary to successfully operate and grow our business;
- Economic and political events affecting the market prices for gold, silver, zinc, lead and other minerals that may be found on our exploration properties;
- Political and economic instability in Argentina, Mexico and other countries in which we conduct our business and future actions of any of these governments with respect to nationalization of natural resources or other changes in mining or taxation policies;
- Our ability to acquire additional concessions in Mexico based on the economic and environmental policies of Mexico's current or future governmental authorities;
- Volatility in the market price of our common stock; and
- The factors set forth under "Risk Factors" in Item 1A of this annual report on Form 10-K.

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

#### **CAUTIONARY STATEMENT REGARDING MINERALIZED MATERIAL**

*"Mineralized material" as used in this annual report on Form 10-K, although permissible under the United States Securities and Exchange Commission's ("SEC") Industry Guide 7, does not indicate "reserves" by SEC standards. We cannot be certain that any deposits at the Velardeña Properties, the El Quevar, Santa Maria or Rodeo properties or any deposits at our other exploration properties, will ever be confirmed or converted into SEC Industry Guide 7 compliant "reserves". Investors are cautioned not to assume that all or any part of the disclosed mineralized material estimates will ever be confirmed or converted into reserves or that mineralized material can be economically or legally extracted. In addition, in this annual report on Form 10-K we also modify our estimates made in compliance with National Instrument 43-101 to conform to SEC Industry Guide 7 for reporting in the United States. Mineralized material is substantially equivalent to measured and indicated mineral resources (exclusive of reserves) as disclosed for reporting purposes in Canada, except that the SEC only permits issuers to report "mineralized material" in tonnage and average grade without reference to contained ounces.*



## CONVERSION TABLE

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

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

## GLOSSARY OF SELECTED MINING TERMS

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

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

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

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

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

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

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

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

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

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

**“Euhedral”** means a well-developed degree of which mineral grains show external crystal faces.

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

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

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

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

**“Fracture System”** means a set or group of contemporaneous fractures formed by a stress system.

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

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

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

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

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

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

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

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

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

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

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

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

**“Precious Metal”** means any of several relatively scarce and valuable metals, such as gold and silver.

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

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

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

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

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

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

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

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

**“Sediment”** means solid fragmental material that originates from weathering of rocks and is transported or deposited by air, water, or ice, or that accumulates by other natural agents, such as chemical precipitation from solution or secretion by organisms, and that forms in layers on the earth’s surface at ordinary temperatures in a loose, unconsolidated form.

**“Sedimentary”** means formed by the deposition of Sediment.

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

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

**“Sulfide”** means a compound of sulfur and some other metallic element or elements.

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

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

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

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

## **ITEMS 1 AND 2: BUSINESS AND PROPERTIES**

### **Overview**

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

We remain focused on evaluating and searching for mining opportunities in North America with near term prospects of mining, and particularly for properties in Mexico within reasonable haulage distances of our Velardeña processing plants. We are also focused on evaluation activities at our El Quevar exploration property in Argentina and are continuing our exploration efforts on selected properties in our portfolio of approximately 12 exploration properties located primarily in Mexico.

Our management team is comprised of experienced mining professionals with extensive expertise in mineral exploration, mine construction and development, and mine operations. Our principal office is located in Golden, Colorado at 350 Indiana Street, Suite 650, Golden, CO 80401, and our registered office is the Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801. We also maintain an office at the Velardeña Properties in Mexico and exploration offices in Argentina and Mexico.

### **No Proven or Probable Mineral Reserves/Exploration Stage Company**

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

Prior to suspending mining and processing at the Velardeña Properties in November 2015, we had revenues from the sale of silver, gold, lead and zinc products from the Velardeña and Chicago mines. We have not completed a feasibility study with regard to any of our properties to date. Any mineralized material discovered or extracted by us should not be considered proven or probable mineral reserves. As of December 31, 2019, none of our mineralized material met the definition of proven or probable mineral reserves. We expect to remain an exploration stage company for the foreseeable future. We will not exit the exploration stage until such time, if ever, that we demonstrate the existence of proven or probable mineral reserves that meet the guidelines under SEC Industry Guide 7.

### **Company History**

We were incorporated in Delaware under the Delaware General Corporation Law in March 2009. From March 2009 through September 2011, we focused on the advancement of our El Quevar silver project in Argentina. On September 2, 2011, we completed a business combination transaction with ECU Silver Mining Inc. (“ECU”), resulting in our ownership of the Velardeña and Chicago silver, gold and base metals mines located in the Velardeña mining district in the State of Durango, Mexico as further described below under “—*Velardeña Properties*”.

## Corporate Structure

Golden Minerals Company, headquartered in Golden, Colorado, is the operating entity through which we conduct our business. We have a number of wholly-owned subsidiaries organized throughout the world, including in Mexico, Central America, South America, the Caribbean and Europe. We generally hold our exploration rights and properties through subsidiaries organized in the countries in which our rights and properties are located.

## Our Competitive Strengths and Business Strategy

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

*Velardeña Properties.* Due to continuing net operating losses, we suspended mining and sulfide processing activities at the Velardeña Properties during the first half of November 2015 in order to conserve the future value of the asset. We have placed the mine and sulfide processing plant on care and maintenance to enable a re-start of either the mine or the mill when we are able to develop mining and processing plans that at then current prices for silver and gold indicate a sustainable positive operating margin (defined as revenues less costs of sales) or we are able to locate, acquire and develop alternative mineral sources that could be economically mined and transported to the Velardeña Properties for processing. The Velardeña Properties include a 300 tonne per day flotation sulfide mill, which includes three flotation circuits in which we can process sulfide material to make lead, zinc and pyrite concentrates. The properties also include a conventional 550 tonne per day cyanide leach oxide mill with a Merrill-Crowe precipitation circuit and flotation circuit located adjacent to our Chicago mine. In July 2015, we leased the oxide plant to Minera Hecla, S.A. de C.V. (“Hecla”), a Mexican corporation and wholly-owned subsidiary of Hecla Mining Company, to process its own material through the plant. The lease with Hecla has since been extended through December 31, 2020. We continue to evaluate and search for other oxide and sulfide feed sources, focusing on sources within haulage distance of our sulfide and oxide mills at the Velardeña Properties.

*El Quevar Project.* We continue to advance our El Quevar silver project in Salta Province, Argentina. In September 2019, we released final results from the 2019 drilling program conducted at the El Quevar property, which began to outline a new shallow high-grade silver zone in the Vince area about 2 kilometers south west of the known Yaxché deposit and suggested the potential to add to existing mineralized material estimates in the northeast sector of the Yaxché deposit. We are continuing surface exploration in the district to identify further drill targets in the 57,000-hectare property area. Our property holdings contain two district-scale high sulfidation epithermal systems with potential to host additional precious metals deposits. We plan to continue to advance El Quevar as much as possible within the limits of our current exploration budget and remain open to finding a partner to contribute to the funding of further exploration and development.

*Exploration Focus.* We are focused on evaluating and searching for mining opportunities in North America with high precious metal grades and low development costs with near term prospects of mining, and particularly properties within reasonable haulage distances of our Velardeña processing plants. We are also continuing our exploration efforts on selected properties in our portfolio of approximately [12] exploration properties located in Mexico, Nevada and Argentina.

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

## **Velardeña Properties**

### *Location, Access and Facilities*

The Velardeña Properties are comprised of two underground mines and two processing plants within the Velardeña mining district, which is located in the municipality of Cuencamé, in the northeast quadrant of the State of Durango, Mexico, approximately 65 kilometers southwest of the city of Torreón, Coahuila and approximately 140 kilometers northeast of the city of Durango, which is the capital of the State of Durango. The mines are reached by a seven kilometer road from the village of Velardeña which is reached by highway from Torreón and Durango. The Velardeña mining district is situated in a hot, semi-arid region.

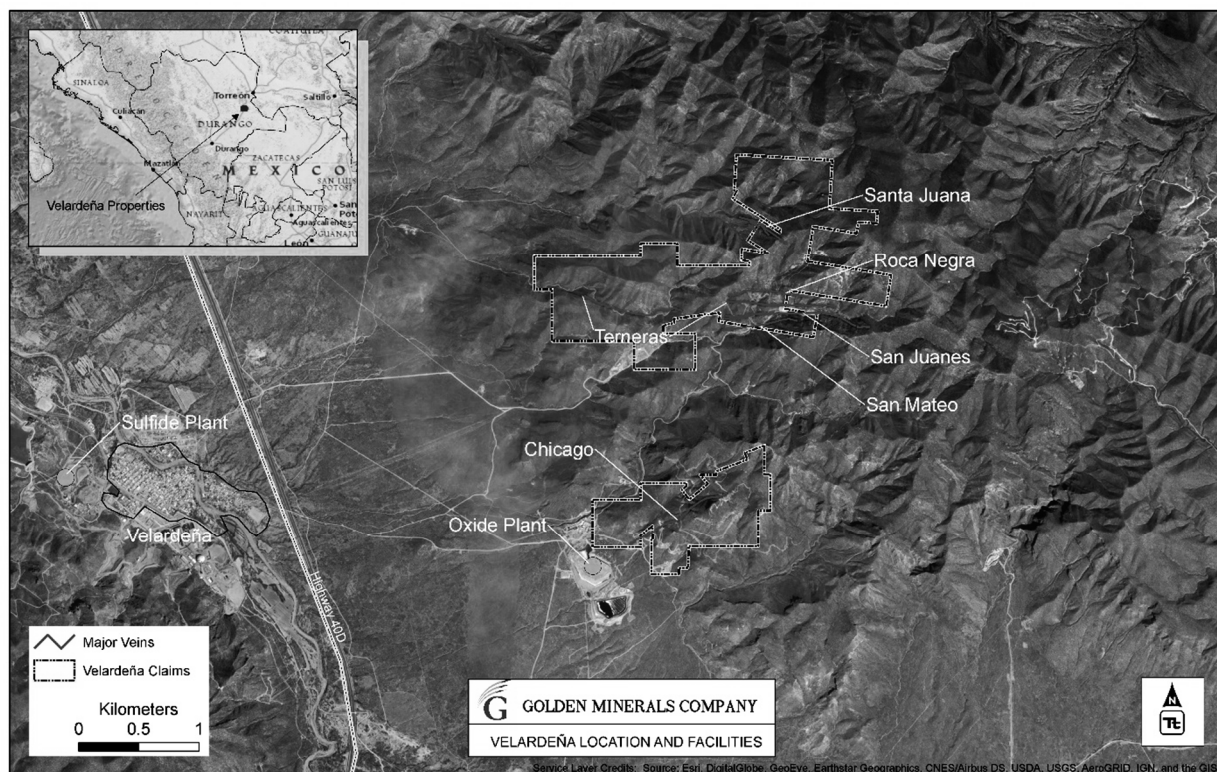
Of the two underground mines comprising the Velardeña Properties, the Velardeña mine includes five different major vein systems including the Terneras, Roca Negra, San Mateo, Santa Juana and San Juanes systems. During 2015, we mined from the San Mateo, Terneras and Roca Negra vein systems as well as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

We own a 300 tonne per day flotation sulfide mill situated near the town of Velardeña. The mill includes three flotation circuits in which we can process sulfide material to make lead, zinc and pyrite concentrates. We also own a conventional 550 tonne per day cyanide leach oxide mill with a Merrill-Crowe precipitation circuit and flotation circuit located adjacent to our Chicago mine. In July 2015, we leased the oxide plant to Hecla to process its own material through the plant. See “-*Velardeña Properties Activities*” below. The lease with Hecla has since been extended through December 31, 2020. We continue to evaluate and search for other oxide and sulfide feed sources, focusing on sources within haulage distance of our sulfide and oxide mills at the Velardeña Properties.

Prior to shutting down production at the Velardeña mines in 2015, we trucked material from the Velardeña mines to the sulfide plant. In January 2012 we completed a tailings pond expansion at the sulfide plant, which is fully permitted and has capacity to treat tailings for approximately four additional years at the average processing rate of 285 tonnes per day. At the oxide plant, Hecla is required to either leave unused at the end of the lease term an agreed amount of capacity in the tailings facility, or construct an additional expansion at its cost.

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

The following map shows the location of the Velardeña Properties.



### *Property History*

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

### *Title and Ownership Rights*

We hold the concessions comprising the Velardeña Properties through our wholly-owned Mexican subsidiary Minera William S.A. de C.V. At present, a total of 28 mineral concessions comprise the Velardeña Properties. The Velardeña Properties encompass approximately 316 hectares. The mineral concessions vary in size, and the concessions comprising each mineral property are contiguous within each of the Velardeña and Chicago properties. We are required to pay annual concession holding fees to the Mexican government to maintain our rights to the Velardeña mining concessions. In 2019, we made such payments totaling approximately \$78,000 and expect to pay approximately \$23,000 in 2020. We also own the surface rights to 144 hectares that contains the oxide plant, tailings area and access to the Chicago mine, along with surface lands that may be required for potential plant expansions.

The Velardeña Properties are subject to the Mexican ejido system requiring us to contract with the local communities, or ejidos, surrounding our properties to obtain surface access rights needed in connection with our mining and exploration activities. We currently have contracts with two ejidos to secure surface rights for our Velardeña

Properties with a total annual cost of approximately \$35,000. We have a ten-year contract with the Velardeña ejido, which provides surface rights to certain roads and other infrastructure at the Velardeña Properties through 2021, and a 25-year contract with the Vista Hermosa ejido, which provides exploration access and access rights for roads and utilities for our Velardeña Properties until 2038.

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

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

We hold water concessions in wells that provide water for the Velardeña Properties. In Mexico, water concessions are granted by the National Commission of Water (“CNA”). Currently no new water concessions are being granted by the CNA; however, companies can acquire water concessions through purchase or lease from current concession holders. We hold title to three wells located near the sulfide plant and hold certificates of registration to three wells located near the oxide plant. We are licensed to pump water from all six wells up to a permitted amount. We are required to make annual payments to the CNA to maintain our rights to these wells. In 2019 we made such payments totaling approximately \$25,000 and expect to pay approximately the same amount in 2020. We are required to pay a fine to the CNA each year if we use too much water from a particular well or alternatively if we do not use a minimum amount of water from a particular well.



### *Geology and Mineralization*

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

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

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

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

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

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

#### Velardeña Mine

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

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

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

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

2014 Technical Report

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

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

Note: Results may not tie precisely due to rounding.

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

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

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

\* Amounts represent three-year average prices.

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

The following table shows the reduction in mineralized material reported in the Tetra Tech report that resulted from extraction and processing of mineralized material in 2015. As a result of the shutdown of mining and processing in November 2015, there are no results for 2016, 2017, 2018 or 2019.

<b>Mineralized Material</b>	<b>Tonnes (in thousands)</b>	<b>Gold (Au) Grade (Grams per tonne)</b>	<b>Contained Gold (Au) oz</b>	<b>Silver (Ag) Grade (Grams per tonne)</b>	<b>Contained Silver (Ag) oz. (in thousands)</b>	<b>Lead (Pb) Grade %</b>	<b>Contained Lead (Pb) lbs. (in thousands)</b>	<b>Zinc (Zn) Grade %</b>	<b>Contained Zinc (Zn) lbs. (in thousands)</b>
<b>Mineralized Material at December 31, 2014</b>									
<u>Velardeña Mine</u>									
Oxide and mixed	572	4.1	74,780	295	5,425	1.34	16,898	1.07	13,493
Sulfide	1,032	3.9	127,741	274	9,101	1.11	25,254	1.42	32,307
<u>Chicago Mine</u>									
Oxide and mixed	91	3.2	9,362	208	609	3.77	7,563	2.8	5,617
Sulfide	98	2.8	8,822	165	520	2.97	6,417	3.49	7,540
Total Mineralized Material at December 31, 2014	1,793	3.8	220,406	272	15,655	1.42	56,132	1.49	58,958
<b>2015 Extraction</b>									
<u>Velardeña Mine</u>									
Oxide and mixed	—	—	—	—	—	—	—	—	—
Sulfide	76	2.6	6,371	156	383	0.8	1,343	1.09	1,839
<u>Chicago Mine</u>									
Oxide and mixed	—	—	—	—	—	—	—	—	—
Sulfide	5	1.9	310	117	19	2	220	2.82	311
Total Tonnes Extracted in 2015	81	2.6	6,681	154	401	0.87	1,564	1.2	2,150
<b>Metal loss adjustments during 2015</b>									
<u>Velardeña Mine</u>									
Oxide and mixed	—	—	—	—	—	—	—	—	—
Sulfide	—	—	(3,063)	—	(290)	—	(522)	—	(547)
<u>Chicago Mine</u>									
Oxide and mixed	—	—	—	—	—	—	—	—	—
Sulfide	—	—	(140)	—	(8)	—	(107)	—	(74)
Total Tonnes Extracted in 2015	—	—	(3,203)	—	(297)	—	(629)	—	(621)
<b>Mineralized Material at December 31, 2015</b>									
<u>Velardeña Mine</u>									
Oxide and mixed	572	4.1	74,780	295	5,425	1.34	16,898	1.07	13,493
Sulfide	956	3.9	118,308	274	8,429	1.11	23,389	1.42	29,921
<u>Chicago Mine</u>									
Oxide and mixed	91	3.2	9,362	208	609	3.77	7,563	2.8	5,617
Sulfide	93	2.8	8,372	165	493	2.97	6,089	3.49	7,155
Total Mineralized Material at December 31, 2015	1,712	3.8	210,522	272	14,956	1.43	53,940	1.49	56,187

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

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

### *Velardeña Properties Activities*

In 2019 we received approximately \$7.7 million in revenue from the lease of the oxide plant at Velardeña, comprised of approximately \$5.3 million for direct plant charges and fixed fees and approximately \$2.4 million for other net reimbursable costs related to the services we provide under the lease. The lease is described in detail below. We also incurred approximately \$1.7 million in expenses related to shut down costs and maintenance at our Velardeña Properties as a result of the suspension of mining and processing activities in November 2015. We retained a core group of employees, most assigned to operate the oxide plant that is leased to a third party and not affected by the shutdown. The retained employees also include an exploration group and an operations and administrative group to continue to advance our plans in Mexico, oversee corporate compliance activities, and to maintain and safeguard the longer-term value of the Velardeña assets.

In July 2015 we entered into a leasing agreement with Hecla to lease our Velardeña oxide plant for an initial term of 18 months beginning July 1, 2015. The lease agreement contained several lease extension options, and in the third quarter 2016, the lease was extended through June 2017. The 2016 extension included an agreement under which Hecla would construct, at its cost, certain tailings expansion facilities to accommodate Hecla's increased use of tailings capacity in excess of an agreed amount, while preserving flexibility for future tailings expansions. The tailings expansion has since been completed. The parties agreed that Hecla would either leave unused at the end of the lease term an agreed amount of capacity in the expanded tailings facility or construct an additional expansion at its cost. In connection with their agreement regarding tailings impoundment expansions, the parties agreed that Hecla had the right to extend the lease for an additional 18 months following June 30, 2017, or until December 31, 2018. On March 24, 2017, Hecla exercised its right to extend the lease until December 31, 2018.

On August 2, 2017, we granted Hecla an option to extend the oxide plant lease for an additional period of up to two years ending no later than December 31, 2020. On October 1, 2018, Hecla exercised its option to extend the oxide plant lease until December 31, 2020. On December 2, 2019 we entered into an additional amendment of the lease agreement with Hecla to reduce the per tonne fee payable by Hecla for the duration of the lease term, commencing on January 1, 2020, from \$22 per tonne to \$11 per tonne, however, the per tonne fee reverts back to \$22 per tonne for any month in which either of the following conditions are met: (1) the Comex daily silver spot closing average price for such month is \$20 per ounce or greater, and (2) the mill head grade average from the metallurgical balance for such month is 1,000 grams per ton equivalent silver head grade or greater. If either condition is met in any month, Hecla will pay the higher fee of \$22.00 per tonne on all amounts processed in the oxide plant during such month. The reduced fee only applies to the tonnage-based payments under the lease agreement; the monthly lease payment of \$125,000 per month is not affected by the amendment. The latest amendment also extended notice period for Hecla's right to terminate the lease for any reason from 120 days' notice to 150 days. Hecla has a one-time right of first refusal to continue to lease the plant following a termination notice through December 31, 2020 if we decide to use the oxide plant for our own purposes before December 31, 2020.

Hecla is responsible for ongoing operation and maintenance of the oxide plant. During the year ended December 31, 2019, Hecla processed approximately 158,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$7.7 million, comprised of approximately \$5.3 million for direct plant charges and fixed fees and approximately \$2.4 million for other net reimbursable costs related to the services we provide under the lease. The \$2.4 million of reimbursable costs are also reported as plant lease costs, resulting in net operating margin of approximately \$5.3 million for the year ended December 31, 2019. However, because Hecla has the right to terminate the lease on 150 days' notice, there is no assurance that these amounts will be received.

### Mining and Processing

Aside from some minor test mining and crushing activities, there were no mining or processing activities, other than the Hecla lease, at our Velardeña Properties in 2018 or 2019 as a result of the shutdown of the mining and sulfide processing activities in November 2015. We expect to incur approximately \$0.4 million in quarterly holding costs for as long as mining and processing activities remain suspended.

## Environmental Matters and Permitting

We hold environmental licenses and environmental impact assessments that allow us to run our mines, plants and tailing facilities at our Velardeña Properties. We are required to update our environmental licenses and environmental impact assessments for expansion of or modification to any of the existing two processing plants. The construction of new infrastructure beyond the current plant facilities also would require additional permitting, which could include environmental impact assessments and land use permits.

### *Certain Laws Affecting Mining in Mexico*

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

## Legislation Affecting Mining

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

## The Concession System

Under Mexican law, mineral deposits are property of the Mexican republic, and a mining concession, granted by the executive branch of the federal government, is required for the exploration, exploitation and processing of mineral deposits. Mining concessions may only be granted to Mexican individuals domiciled in Mexico or companies incorporated and validly existing under the laws of Mexico. Mexican companies that have foreign shareholders must register with the National Registry of Foreign Investments and renew their registration on an annual basis. Mining concessions grant rights to explore and exploit mineral deposits but do not grant surface rights over the land where the concession is located. Mining concession holders are required to negotiate surface access with the land owner or holder (e.g., agrarian communities) or, should such negotiations prove unsuccessful, file an application with the corresponding administrative authority (Ministry of Economy or Ministry of Agrarian-Territorial-Urban Development) to obtain an easement, temporary occupancy, or expropriation of the land, as the case may be. An application for a concession must be filed with the Mining Agency or Mining Delegation located closest to the area to which the application relates.

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

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

### Environmental Legislation

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

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

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

### *Taxes in Mexico*

Mexico has a federal corporate income tax rate of 30%, and there are no state taxes on corporate net income. In determining their corporate income tax, entities are allowed to subtract from gross income various deductions permitted by law, and they are allowed a ten-year carry-forward of net operating losses. Pursuant to amendments to the federal tax laws effective January 1, 2014, a 10% withholding tax is charged on dividends distributed to shareholders, regardless of the tax residence of the recipient, out of after tax profits. However, in the case of nonresident shareholders the limitations and tax rates provided in the treaties to avoid double taxation will prevail. A foreign resident company is subject to income tax if it has a permanent establishment in Mexico. In general, a permanent establishment is a place of business where the activities of an enterprise are totally or partially carried out and includes, among others, offices, branches and mining sites.

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

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

VAT in Mexico is charged upon alienation of goods, performance of independent services, grant of temporary use or exploitation of goods, or import of goods or services that occur within Mexico’s borders, at a rate of 16%. There is no VAT in the case of export of goods or services or for the sale of gold, jewelry, and gold metalwork with a minimum gold content of 80%, excluding retail sale to the general public. The sale of mining concessions is subject to VAT as concessions are not considered to be land. VAT paid by a business enterprise on its purchases and expenses may usually be credited against its liability for VAT collected from customers on its own sales. This creditable VAT may also be directly refunded, but under new regulations beginning in January 2019, the creditable VAT can no longer offset other Mexican federal taxes.

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

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

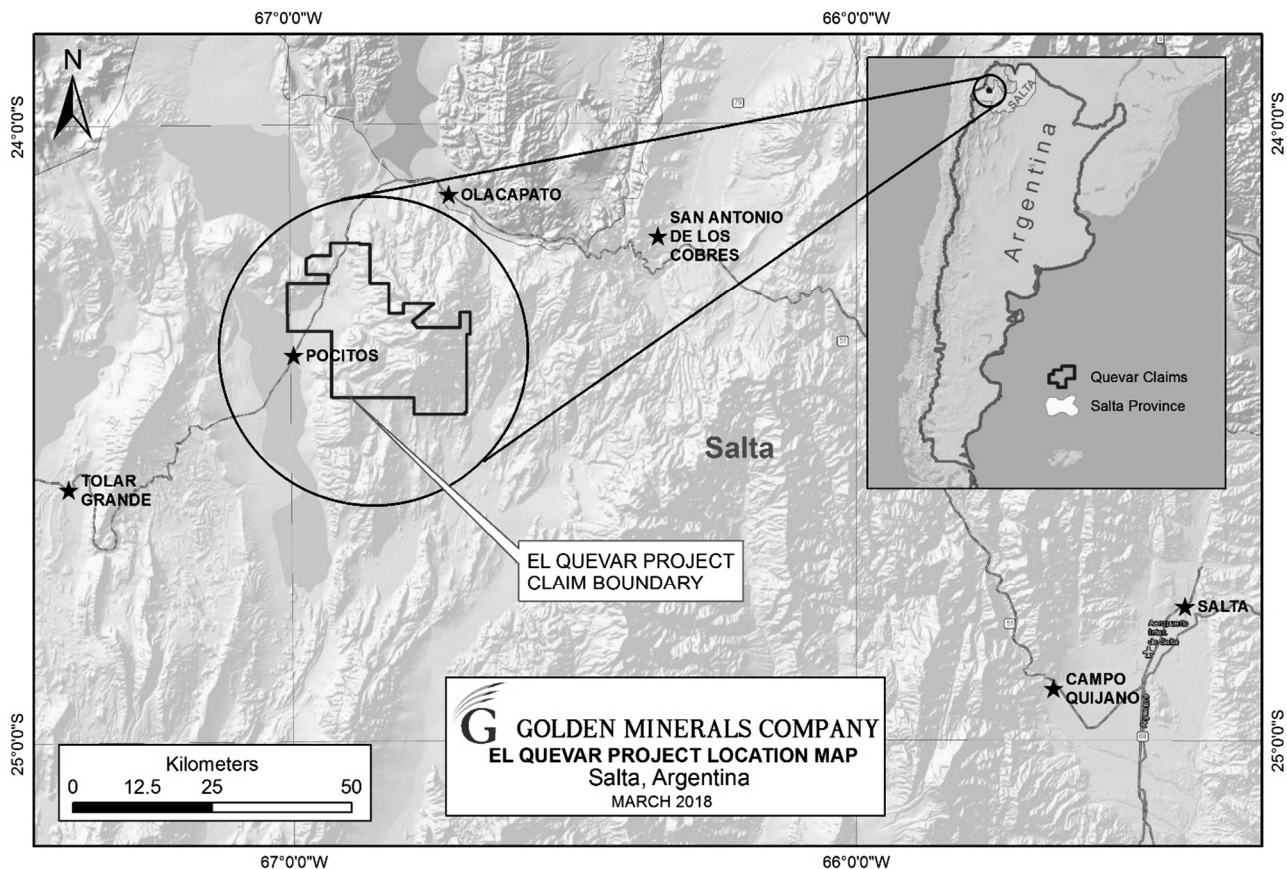
## **El Quevar**

### *Location and Access*

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

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

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



*Property History*

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

*Title and Ownership Rights*

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

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



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

We are required to pay a 1% net smelter return royalty on the value of all minerals extracted from the El Quevar II concession and a 1% net smelter return royalty on one-half of the minerals extracted from the Castor concession to the third party from whom we acquired these concessions. We can purchase one half of the royalty for \$1 million in the first two years of production. The Yaxtché deposit is located primarily on the Castor concession. We may also be required to pay a 3% royalty to the Salta Province based on the net smelter value of minerals extracted from any of our concessions less costs of processing. To maintain all of the El Quevar concessions, we paid canon payment fees to the Argentine government of approximately \$57,000 and \$36,000 in 2018 and 2019, respectively. In 2020 we expect to pay approximately \$30,000.

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

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

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

### *Geology and Mineralization*

The geology of the El Quevar project is characterized by silver-rich veins and disseminations in Tertiary volcanic rocks that are part of an eroded stratovolcano. Silver mineralization at El Quevar is hosted within a broad, generally east-west-trending structural zone and occurs as a series of north-dipping parallel sheeted vein zones, breccias and mineralized faults situated within an envelope of pervasively silicified brecciated volcanic rocks. There are at least three sub-parallel structures that extend for an aggregate length of approximately 6.5 kilometers. Several volcanic domes (small intrusive bodies) have been identified and mineralization is also found in breccias associated with these domes, especially where they are intersected by the structures. The silver mineralization at the Yaxtché zone is of epithermal origin. The cross-cutting nature of the mineralization, the assemblage of sulfide and alteration minerals, and the presence of open spaces with euhedral minerals, all point to an origin at shallow to moderate depths (a few hundred meters below surface) from hydrothermal solutions.

### *Mineralized Material Estimate*

During 2012, we released an estimate of mineralized material at our El Quevar project. This estimate assumed mining of oxide material from an open pit on the east end of the Yaxtché deposit and sulfide material from both the open pit and an underground mine on the western portion of the Yaxtché deposit. The estimate was based on results from 270 core drill holes.

In 2017, Wood Group USA, Inc. (formerly known as Amec Foster Wheeler E&C Services, Inc.) (“Wood”) undertook an analysis and re-modeling of data utilized in a 2012 mineralized material estimate based on results from 270 core drill holes and assumed mining material from the Yaxtché deposit. The Wood estimate, which we announced in February 2018, used updated geologic controls and a modeling method that optimized silver grade assuming mining would occur solely underground.

In September 2018, we completed a PEA prepared pursuant to NI 43-101 that used the February 2018 revised estimate of mineralized material for the Yaxtché deposit as a basis. The PEA contemplates a six-year underground mining operation using pre-existing and new underground development at a mine production rate of 1,200 tonnes per day using a post-pillar cut-and-fill mining method that will deliver 2.45 million tonnes of diluted sulfide material at an average grade of 409 g/t silver. As contemplated in the PEA, the mined material would be processed using a conventional single product flotation mill that would produce a silver-rich bulk concentrate suitable for sale.

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

### *Exploration and Advancement of El Quevar*

The Yaxtché deposit is the primary target currently identified at the El Quevar project. In the first quarter 2019, we initiated a 3,000 meter, approximately \$0.6 million, drilling program to further define the potential for additional mineralized material in the Yaxtché deposit and surrounding area and completed that drill program in the second quarter 2019. In September 2019, we released final results from the drilling program. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – 2019 Highlights – El Quevar” for a discussion of the 2019 drill program.

We spent approximately \$1.3 million and \$2.0 million at our El Quevar project in 2018 and 2019, respectively. The increase in 2019 was primarily related to a drilling program conducted during the year. From the inception of our exploration activities in 2004 through December 31, 2019 we have spent approximately \$82.0 million on exploration and

related activities at El Quevar, including amounts spent by our predecessor, Apex Silver Mines Limited. In 2020, we expect to spend approximately \$0.8 million at our El Quevar project to fund ongoing exploration and evaluation activities, care and maintenance and property holding costs.

We are continuing surface exploration in the district to identify further drill targets in the 57,000-hectare property area. Our property holdings contain two district-scale high sulfidation epithermal systems with potential to host additional precious metals deposits. We plan to continue to advance El Quevar as much as possible within the limits of our current exploration budget and remain open to finding a partner to contribute to the funding of further exploration and development.

### **Exploration Properties**

In addition to Velardeña and El Quevar, we currently control a portfolio of approximately 12 exploration properties located primarily in certain traditional precious metals producing regions of Mexico, Nevada and Argentina. We do not consider any of our exploration properties to be individually material, including those noted below.

In 2020 we plan to focus our exploration efforts primarily on evaluating and searching for mining opportunities in North America with near term prospects of mining. We are also focused on continuing our exploration efforts on selected properties in our portfolio of approximately 12 exploration properties located in Mexico, Nevada, and Argentina. During 2020 we expect our expenditures for the exploration program to total approximately \$3.0 million, with approximately \$0.3 million in property holding costs in Mexico, \$0.1 million in holding costs in Nevada and approximately \$0.5 million in administrative and general reconnaissance costs in Mexico.

#### *Sale of Mogotes and Pistachon Properties*

On December 18, 2019, we sold the non-strategic Mogotes and Pistachon properties in Mexico to a subsidiary of Industrias Peñoles for \$3.0 million. The Mogotes and Pistachon properties are comprised of a total of four mining concessions located near our Velardeña Properties in Durango State, Mexico and adjacent to mineral concessions controlled by subsidiaries of Industrias Peñoles. None of the claims in the properties contained any identified mineralized material estimates.

#### *Rodeo*

Our Rodeo claims are comprised of approximately 1,900-hectares located 80 kilometers west of the Velardeña Properties in Durango, Mexico. Previous exploration by other companies has identified a gold-bearing epithermal system exposed at the surface. During 2016, we completed a 2,080-meter core drilling program at the Rodeo property at a cost of approximately \$0.4 million. The results from the program show a gold and silver bearing epithermal vein and breccia system with encouraging gold and silver values over an approximate 50 to 70-meter true width. The system is exposed at the top of a northwesterly striking ridge and dips steeply to the northeast over about one kilometer of strike length.

During January 2017, Tetra Tech completed an estimate of mineralized material at the Rodeo deposit, prepared pursuant to NI 43-101, based on two different operating scenarios. The first operating scenario reflects a smaller amount of higher-grade material and estimated mineralized material of 0.4 million tonnes containing 3.3 gpt gold and 11 gpt silver. This scenario provides a potentially shorter time to processing with lower capital costs since we already own the mill, located within trucking distance of the Rodeo property. The second operating scenario reflects a larger amount of lower grade material and estimated mineralized material of 3.6 million tonnes containing 0.8 gpt gold and 12 gpt silver. The second mineralized material estimate envisions a standalone heap leach operation, depending on leachability of the material and development and operating costs. We believe the Rodeo material, as currently identified, could provide additional mined material for our Velardeña oxide mill following the completion of the Hecla lease, which is currently set to expire on December 31, 2020.

In initial test work conducted in 2017, we received confirmation of good gold and silver metallurgical recoveries for milled material in initial test work. Bottle roll cyanide leach testing of the high-grade samples resulted in gold

extractions of 80 to 86 percent. Silver extractions ranged from 72 to 76 percent for all tests. Test work also indicates that the material is not suitable for gold and silver recovery by heap leaching.

We plan to initiate a small drilling program at Rodeo to provide greater resource definition for a mine plan and to provide samples for additional metallurgical testing. We have begun the process of obtaining the required mining and environmental permits for an open pit mining operation, a process that could take up to one year. Complementary to the permitting process, we have initiated an internal study to support the potential economic results of the planned operation.

#### *Yoquivo*

The Yoquivo property was acquired in 2017 and with the recent additional acquisition of a claim internal to the exterior boundary the project consists of 1,975 hectares in 7 claims that cover an epithermal vein district hosted in Tertiary andesitic volcanic rocks that is exposed in an erosional window through Oligocene rhyolite on the eastern margin of the Sierra Madre Occidental of northern Mexico. The property is 200 km SW of Chihuahua city in the state of Chihuahua, Mexico. Surface rock sampling done in 2018 demonstrated gold and silver values of potential economic interest in several of the veins in the district. We have an option to purchase the six concessions that comprise the Yoquivo property for payments totaling \$0.75 million over four years subject to a 2% to 3% NSR royalty on production, capped at \$2.8 million.

In October 2018 we announced high-grade silver-gold assays from the Yoquivo project. Multiple silver-gold bearing epithermal veins were mapped and sampled, with the two most important veins being the San Francisco and Pertenencia veins. A new vein, the La Nina vein, was discovered in the northwest of the property where it splits off from the main San Francisco vein. Two other veins, the Esperanza and El Dolar veins have been identified and sampled. Based on sampling and mapping we have identified the most attractive targets on the property and have permits in hand to initiate the drill program. Subject to the availability of capital, we intend to begin a drill program in the second or third quarter of 2020 to test the most promising portions of the veins.

#### *Santa Maria*

On October 16, 2019, we entered into an option agreement for the sale of our right to acquire a 100% interest in the Santa Maria and Las Marias exploration properties to Magellan Gold Corporation (“Magellan”). The agreement provides for a period of up to 150 days during which Magellan will complete its due diligence review and secure financing for the project. Prior to the end of such period, Magellan will have the right to exercise its option to acquire our interests in the project. Under the terms of the agreement, if Magellan exercises its option, it will make a cash payment of \$1.0 million to us upon closing. We will retain a 6.5% NSR royalty from all production at Santa Maria until a total of \$3.0 million has been paid to us under the royalty agreement. Thereafter, we will retain a 3.0% NSR royalty for the balance of the mine’s life. If Magellan fails to achieve commercial production from the project within one year following closing, we will not be obligated to convey our interests in the project to Magellan and we will retain our interest in the project with no obligation to return any payments to Magellan.

In August 2014, we entered into an option agreement giving us the right to acquire for \$1.2 million the Santa Maria mine, a privately held property comprised of a single mining claim of 18 hectares west of Hidalgo de Parral, Chihuahua State, Mexico. Since 2015, we have completed test mining and processing of approximately 7,100 dry tonnes from the Santa Maria mine, with average grades of 338 gpt silver and 0.8 gpt gold. In March 2017, an updated PEA was completed on our behalf by the engineering firm Tetra Tech, prepared pursuant to NI 43-101, and presented a base case assessment of developing Santa Maria’s mineral deposit. In September 2018, Tetra Tech completed an updated PEA for the Santa Maria project that incorporates data accumulated since March 2017 as well as information from a 22-hole, 4,800-meter drilling program begun in August 2017 and completed in April 2018. In total, we have drilled 9,900 meters in 59 holes since acquiring the property. Since 2015, we have completed test mining and processing of 7,100 dry tonnes from the Santa Maria mine west of Hidalgo de Parral, Chihuahua, with average grades 338 g/t Ag and 0.8 g/t gold (“Au”).

We have the right to acquire 100% of the Santa Maria property under two separate option agreements representing the total concessions that comprise the property for additional payments of \$0.6 million, payable through August 2021. The first option agreement covers concessions we acquired in August 2014 and requires an additional minimum payment of approximately \$0.2 million in 2020. In addition, until the total due under the first option agreement has been paid, the property owners have the right to 50% of any net profits from mining activities from the concessions related to the option, after reimbursement of all costs incurred by us since April 2015, to the extent that such net profit payments exceed the minimum payments. The second option agreement covers concessions acquired in August 2017 and requires an additional approximately \$0.4 million be paid by making additional payments of \$0.1 million in 2020 and \$0.3 million in 2021. Under the terms of the agreement discussed above, Magellan will assume responsibility for making the additional payments if it elects to exercise the option.

### *Sand Canyon*

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

We have completed surface exploration activities on the project including mapping and geochemical sampling to identify drill targets. Based on this work we have obtained the necessary drill permits and have begun a drilling program, with initial results expected in the second quarter of 2020.

### **Executive Officers of Golden Minerals**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Warren M. Rehn	65	President and Chief Executive Officer
Robert P. Vogels	62	Senior Vice President and Chief Financial Officer

*Warren M. Rehn.* Mr. Rehn was appointed President of our company in May 2015 and appointed Chief Executive Officer and director in September 2015. Mr. Rehn previously served as Senior Vice President, Exploration and Chief Geologist since December 2012 and served as Vice President, Exploration and Chief Geologist since February 2012. From 2007 until February 2012, Mr. Rehn held various positions at Barrick Gold Exploration, Inc., serving most recently as Chief Exploration Geologist for the Bald Mountain and Ruby Hill mining units. From 2005 until 2007, Mr. Rehn was a consulting geologist for Gerson Lehman Group, which provides consulting services to various industries, including geology and mining. Mr. Rehn served as a Consulting Senior Geologist at Placer Dome Exploration, Inc. in 2004 and as an independent consulting geologist throughout the Americas from 1994 until 2003. He served as a Senior Geologist at Noranda Exploration, Inc. from 1988 until 1994. Mr. Rehn holds an M.S. in Geology from the Colorado School of Mines and a B.S. in Geological Engineering from the University of Idaho.

*Robert P. Vogels.* Mr. Vogels was named Senior Vice President and Chief Financial Officer in March 2009. Mr. Vogels served as Controller of Apex Silver from January 2005 to March 2009 and was named Vice President in January 2006. Prior to joining Apex Silver, Mr. Vogels served as corporate controller for Meridian Gold Company from January 2004 until December 2004. He served as the controller of INCO Limited's Goro project in New Caledonia from October 2002 to January 2004. Prior to joining INCO, Mr. Vogels worked from 1985 through October 2002 for Cyprus Amax Minerals Company, which was acquired in 1999 by Phelps Dodge Corp. During that time, he served in several capacities, including as the controller for its El Abra copper mine in Chile from 1997 until March 2002. Mr. Vogels began

his career in public accounting as a CPA. He holds a B.Sc. in accounting and an MBA degree from Colorado State University.

#### Board of Directors of Golden Minerals

<u>Name</u>	<u>Age</u>	<u>Occupation</u>
Jeffrey G. Clevenger (2)	70	Chairman
Warren M. Rehn	65	President and Chief Executive Officer, Company
W. Durand Eppler (1),(3)	66	Managing Director, Capstone Headwaters MB
Kevin R. Morano (2),(3)	66	Managing Principal, KEM Capital LLC
Terry M. Palmer (1),(3)	75	Retired Certified Public Accountant
Andrew N. Pullar	47	Managing Partner and Director, Sentient Equity Partners
David H. Watkins (1),(2)	75	Director, Commander Resources Ltd., Euro Resources S.A.

#### Committee Membership

- (1) Audit
- (2) Compensation
- (3) Corporate Governance and Nominating

#### Metals Market Overview

We are an emerging precious metals exploration company with silver and gold mining properties in Mexico and a large advanced exploration silver project in Argentina. Descriptions of the markets for these metals are provided below.

##### *Silver Market*

Silver has traditionally served as a medium of exchange, much like gold. Silver’s strength, malleability, ductility, thermal and electrical conductivity, sensitivity to light and ability to endure extreme changes in temperature combine to make it a widely used industrial metal. While silver continues to be used as a form of investment and a financial asset, the principal uses of silver are industrial, primarily in electrical and electronic components, photography, jewelry, silverware, batteries, computer chips, electrical contacts, and high technology printing. Silver’s anti-bacterial properties also make it valuable for use in medicine and in water purification. Additionally, the use of silver in the photovoltaic and solar panel industries is growing rapidly, and new uses of silver are being developed in connection with the use of superconductive wire and radio frequency identification devices.

Most silver product is obtained from mining in which silver is not the principal or primary product. The Silver Institute, an international silver industry association, noted that for 2018 only around 26% of output came from so-called primary silver mines, where silver is the main source of revenue.

The following table sets forth for the periods indicated on the London Fix high and low silver fixes in U.S. dollars per troy ounce. On February 25, 2020, the closing price of silver was \$18.33 per troy ounce.

<u>Year</u>	<u>Silver</u>	
	<u>High</u>	<u>Low</u>
2012	\$ 37.23	\$ 26.67
2013	\$ 32.23	\$ 18.61
2014	\$ 22.05	\$ 15.28
2015	\$ 18.23	\$ 13.71
2016	\$ 20.71	\$ 13.58
2017	\$ 18.56	\$ 15.22
2018	\$ 17.52	\$ 14.13
2019	\$ 19.31	\$ 14.38
2020*	\$ 18.78	\$ 17.47

\* Through February 25, 2020.

### *Gold Market*

Gold has two main categories of use: fabrication and investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors buy gold bullion, official coins and jewelry. The supply of gold consists of a combination of production from mining and the draw-down of existing stocks of gold held by governments, financial institutions, industrial organizations and private individuals.

The following table sets forth for the periods indicated on the London Fix PM high and low gold fixes in U.S. dollars per troy ounce. On February 25, 2020, the closing price of gold was \$1,650 per troy ounce.

<u>Year</u>	<u>Gold</u>	
	<u>High</u>	<u>Low</u>
2012	\$ 1,792	\$ 1,540
2013	\$ 1,694	\$ 1,192
2014	\$ 1,385	\$ 1,142
2015	\$ 1,296	\$ 1,049
2016	\$ 1,366	\$ 1,077
2017	\$ 1,346	\$ 1,151
2018	\$ 1,355	\$ 1,178
2019	\$ 1,546	\$ 1,270
2020*	\$ 1,672	\$ 1,527

\* Through February 25, 2020.

### **Employees**

We currently have 170 employees, including seven in Golden, approximately 152 in Mexico (including approximately 76 assigned to the oxide plant which is leased to a third party and 19 involved in exploration activities), and 11 in Argentina, primarily in connection with the El Quevar project.

### **Competition**

There is aggressive competition within the mining industry for the acquisition of a limited number of mineral resource opportunities, and many of the mining companies with which we compete have greater financial and technical

resources than we do. Accordingly, these competitors may be able to spend greater amounts on acquisitions of mineral properties of merit, as well as on exploration and advancement of their mineral properties. We also compete with other mining companies for the acquisition and retention of skilled mining engineers, mine and processing plant operators and mechanics, geologists, geophysicists and other experienced technical personnel. Our competitive position depends upon our ability to successfully and economically advance new and existing silver and gold properties. Failure to achieve and maintain a competitive position could adversely impact our ability to obtain the financing necessary for us to advance our mineral properties.

## Available Information

We make available, free of charge through our website at [www.goldenminerals.com](http://www.goldenminerals.com), our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Information on our website is not incorporated into this annual report on Form 10-K and is not a part of this report. Additionally, the public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

## ITEM 1A: RISK FACTORS

Investors in Golden Minerals should consider carefully, in addition to the other information contained in, or incorporated by reference into, this annual report on Form 10-K, the following risk factors:

***We have historically incurred operating losses and operating cash flow deficits and we expect to incur operating losses and operating cash flow deficits through 2020; our potential profitability in the foreseeable future would depend on our ability to identify, acquire and mine properties to generate sufficient revenues to fund our continuing activities.***

We have a history of operating losses and we expect that we will continue to incur operating losses unless and until such time as our Velardeña Properties, our El Quevar project, or another of our exploration properties, generates sufficient revenue to fund our continuing business activities. Although we have leased the oxide plant at the Velardeña Properties to a subsidiary of Hecla Mining Company, the cash that we expect will be generated from that lease will not be sufficient to fund all of our continuing business activities as currently conducted. In addition, the oxide plant lease may terminate sooner or produce less revenue than we anticipate. There is no assurance that we will develop additional sources of revenue.

In addition, the potential profitability of mining and processing at any of our properties would be based on a number of assumptions. For example, profitability would depend on metal prices, costs of materials and supplies, costs at the mines and processing plants and the amounts and timing of expenditures, including expenditures to maintain our Velardeña Properties, our El Quevar project and to continue exploration at other exploration properties, and potential strategic acquisitions or other transactions, in addition to other factors, many of which are and will be beyond our control. We cannot be certain we will be able to generate sufficient revenue from any source to achieve profitability and eliminate operating cash flow deficits, or to cease to require additional funding.

We will require additional external financing to fund our continuing business activities in the future.

As of December 31, 2019, we had approximately \$4.6 million in cash and cash equivalents. With anticipated costs during 2020, including exploration expenditures, care and maintenance costs at the Velardeña Properties, exploration and evaluation expenditures and property holding costs at the El Quevar project, and general and administrative expenses, offset by anticipated net operating margin from the lease of the oxide plant of \$3.3 million, we expect our current cash and cash equivalent balance will be approximately zero by the end of 2020, unless we are successful in raising additional capital or selling certain exploration assets. Even with these anticipated revenues



throughout 2020, our cash balance in 2020 will not be sufficient to provide adequate cash reserves in the event of an unexpected termination of the Hecla lease, variations from anticipated care and maintenance costs at the Velardeña Properties and costs for continued exploration, project assessment and development at our other exploration properties, requiring us to seek additional funding from equity or debt or from monetization of non-core assets.

We do not have a credit, off-take or other commercial financing arrangement in place that would finance our general and administrative costs and other working capital needs to fund our continuing business activities in the future, and we believe that securing credit for these purposes may be difficult given our limited history and the continuing volatility in global credit and commodity markets. In addition, commercial financing arrangements may not be available on favorable terms or on terms that would not further restrict our flexibility and ongoing ability to meet our cash requirements over a reasonable period of time. Access to public financing has been negatively impacted by the volatility in the credit markets and metals prices, which may affect our ability to obtain equity or debt financing in the future and, if obtained, to do so on favorable terms. We also may not be able to obtain funding by monetizing additional non-core exploration or other assets at an acceptable price. We cannot assure you that we will be able to obtain financing to fund our general and administrative costs and other working capital needs to fund our continuing business activities in the future on favorable terms or at all.

Although we may be able to access public equity markets, including through issuances under our At-the-Market program we entered into in December 2016 (the “ATM Program”) or the committed equity program with Lincoln Park Capital that we entered into in May 2018 (the “LPC Program”), significant issuances under those programs may be heavily dilutive to existing shareholders.

***Hecla may terminate the oxide plant lease.***

In July 2015 we entered into a leasing agreement with a wholly owned subsidiary of Hecla Mining Company to lease our Velardeña oxide plant for an initial term of 18 months beginning July 1, 2015. The lease agreement contained several lease extension options, which Hecla exercised, extending the current lease term through December 31, 2020. Hecla is responsible for ongoing operation and maintenance of the oxide plant and during the year ended December 31, 2019, Hecla's mining and processing activities resulted in a net margin of \$5.3 million for us. The lease may terminate sooner than the end of 2020 if Hecla experiences mining problems or delays at its nearby mine, if there are disputes between Hecla and us, or for other reasons. Hecla has the right to terminate the lease on 150 days' notice. Moreover, the lease payment from Hecla is based, in part, on the amount of ore processed at the plant, and we have no control over their production.

***One of our stockholders owns a significant percentage of our common stock and could block decisions or transactions that could be beneficial to other stockholders.***

One of our stockholders, The Sentient Group, through the Sentient executive funds (“Sentient”), owns approximately 38% of our outstanding common stock. With this level of ownership, Sentient could exert significant control over us, including over the election of directors, changes in the size or the composition of the board of directors, and mergers and other business combinations involving us. Through greater control of the board of directors and increased voting power, including the potential to prevent a quorum at stockholders meetings, Sentient could control certain decisions, including decisions regarding qualification and appointment of officers, operations of the business including acquisition or disposition of our assets or purchases and sales of mining or exploration properties, dividend policy, and access to capital (including borrowing from third-party lenders and the issuance of equity or debt securities). Sentient's large share ownership will also make it difficult, if not impossible, for us to enter into a change of control transaction that may otherwise be beneficial for our other shareholders.

***If we commence mining in Mexico, we will likely enter into a collective bargaining agreement with a union that, together with labor and employment regulations, could adversely affect our mining activities and financial condition.***

As is the case at our Velardeña Properties, mine employees in Mexico are typically represented by a union, and our relationship with our employees is, and we expect in the future will be, governed by collective bargaining agreements. Any collective bargaining agreement that we enter into with a union is likely to restrict our mining flexibility in and impose additional costs on our mining activities. In addition, relations between us and our employees in Mexico may be affected by changes in regulations or labor union requirements regarding labor relations that may be introduced by the Mexican authorities or by labor unions. Changes in legislation or in the relationship between us and our employees may have a material adverse effect on our mining activities and financial condition.

***We may not mine the Velardeña Properties again.***

In mid-November 2015, we shut down the mines and sulfide processing plant at our Velardeña Properties and placed them on care and maintenance. Commencing mining again is subject to numerous risks and uncertainties, including:

- whether we are able to create mine plans or gold recovery improvements that can achieve sustainable cash positive results at current and future metals prices;
- unexpected events, including difficulties in maintaining the properties on a care and maintenance basis, potential sabotage or damage to the assets related to the suspension of mining, and variations in ore grade and relative amounts, grades and metallurgical characteristics of oxide and sulfide ores;
- continued decreases or insufficient increases in gold and silver prices to permit us to achieve sustainable cash positive results;
- actual holding and care and maintenance costs resulting from the shutdown exceeding current estimates or including unanticipated costs;
- loss of and inability to adequately replace skilled mining and management personnel;
- strikes or other labor problems; and
- our ability to obtain additional funding for general and administrative costs and other working capital needs to fund our continuing business activities as currently conducted and possibly for a potential restart of our Velardeña Properties.

Based on these risks and uncertainties, there can be no assurance that we will restart mining activities at the Velardeña Properties.

***Our ability to successfully conduct mining and processing activities resulting in long-term cash flow and profitability will be affected by changes in prices of silver, gold and other metals.***

Our ability to successfully conduct mining and processing activities in Mexico, Argentina or other countries, to establish reserves and advance our exploration properties, and to become profitable in the future, as well as our long-term viability, depend, in large part, on the market prices of silver, gold, zinc, copper and other metals. The market prices for these metals are volatile and are affected by numerous factors beyond our control, including:

- global or regional consumption patterns;
- supply of, and demand for, silver, gold, zinc, lead, copper and other metals;
- speculative activities and hedging activities;

- expectations for inflation;
- political and economic conditions; and
- supply of, and demand for, consumables required for extraction and processing of metals.

The declines in silver and gold prices in recent years have had a significant impact on our mining activities, resulting in a shutdown of mining at our Velardeña Properties in 2015, and negatively affect mining opportunities at our other properties. Additionally, future weakness in the global economy could increase volatility in metals prices or depress metals prices, which could also affect our mining and processing plans at our Velardeña Properties or make it uneconomic for us to engage in mining or exploration activities. Volatility or sustained price declines may also adversely affect our ability to build or continue our business.

***If products are processed from our Velardeña Properties or other mines in the future, they could contain higher than expected contaminants, thereby negatively impacting our financial condition.***

In 2015 we processed mined material to make gold and silver bearing lead, zinc and pyrite concentrates. Concentrate treatment charges paid to smelters and refineries include penalties for certain elements, including arsenic and antimony that exceed contract limits. In the future, if we process material from our Velardeña Properties or other mines, any such concentrates could include higher than expected contaminants, which would result in higher treatment expenses and penalty charges that could increase our costs and negatively impact our business, financial condition and results of operations. This could occur due to unexpected variations in the occurrence of these elements in the material mined, problems that occur during blending of material from various locations in the mine prior to processing and other unanticipated events.

***The El Quevar project, the Velardeña Properties, and our other properties may not contain mineral reserves.***

We are considered an exploration stage company under SEC Industry Guide 7, and none of the properties at the El Quevar project, our Velardeña Properties, or any of our other properties have been shown to contain proven or probable mineral reserves. Expenditures made in mining at the Velardeña Properties or the exploration and advancement of our El Quevar project or other properties may not result in positive cash flow or in discoveries of commercially recoverable quantities of ore. Most exploration projects do not result in the discovery of commercially mineable ore deposits, and we cannot assure you that any mineral deposit we identify will qualify as an orebody that can be legally and economically exploited or that any particular level of recovery from discovered mineralization will in fact be realized.

During 2012, we released an estimate of mineralized material at our El Quevar project and in 2018 Wood Group completed an analysis and re-modeling of the data utilized in the prior mineralized material estimate. Tetra Tech completed technical reports on our Velardeña Properties and our Santa Maria and Rodeo properties, which indicated the presence of mineralized material. Mineralized material figures based on estimates made by geologists are inherently imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling that may prove to be unreliable or inaccurate. We cannot assure you that these estimates are accurate or that proven and probable mineral reserves will be identified at the El Quevar project, the Velardeña Properties, the Santa Maria and Rodeo properties, or any of our other properties. Even if the presence of reserves is established at a project, the economic viability of the project may not justify exploitation. We have spent significant amounts on the evaluation of El Quevar prior to establishing the economic viability of that project.

Estimates of reserves, mineral deposits and mining costs also can be affected by factors such as governmental regulations and requirements, fluctuations in metals prices or costs of essential materials or supplies, environmental factors, unforeseen technical difficulties and unusual or unexpected geological formations. In addition, the grades of ore or material ultimately mined may differ from that indicated by drilling results, sampling, feasibility studies or technical reports. Short-term factors relating to reserves, such as the need for orderly development of ore bodies or the processing

of new or different grades, may also have an adverse effect on mining and on the results of operations. Silver, gold or other minerals recovered in small-scale laboratory tests may not be duplicated in large-scale tests under on-site processing conditions.

***The Velardeña Properties, the El Quevar project and our other properties are subject to foreign environmental laws and regulations which could materially adversely affect our business.***

We have conducted mining activities in Mexico and conduct mineral exploration activities primarily in Mexico. Mexico and Argentina, where the El Quevar project is located, have laws and regulations that control the exploration and mining of mineral properties and their effects on the environment, including air and water quality, mine reclamation, waste generation, handling and disposal, the protection of different species of flora and fauna and the preservation of lands. These laws and regulations require us to acquire permits and other authorizations for conducting certain activities. In many countries, there is relatively new comprehensive environmental legislation, and the permitting and authorization process may not be established or predictable. We may not be able to acquire necessary permits or authorizations on a timely basis, if at all. Delays in acquiring any permit or authorization could increase the cost of our projects and could suspend or delay the commencement of extraction and processing of mineralized material.

Our Velardeña Properties are subject to regulation by SEMARNAT, the environmental protection agency of Mexico. In order to permit new facilities at or expand existing facilities, regulations require that an environmental impact statement, known in Mexico as a Manifestación de Impacto Ambiental (the “Manifestación”), be prepared by a third-party contractor for submission to SEMARNAT. Studies required to support the Manifestación include a detailed analysis of soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. The Manifestación is then published on SEMARNAT’s web page and in its official gazette in a national and local newspaper. The Manifestación is discussed at various open hearings, including hearings in the local communities, at which third parties may voice their views. We would be required to provide proof of local community support of the Manifestación as a condition to final approval. We may not be able to obtain community support of future projects.

Environmental legislation in Mexico is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. For example, in January 2011, Article 180 of the Mexican Federal General Law of Ecological Balance and Environmental Protection was amended. Among other things, this amendment extended the term during which an individual or entity having a legitimate interest may contest administrative acts, including environmental authorizations, permits or concessions granted, without the need to demonstrate the actual existence of harm to the environment, natural resources, flora, fauna or human health, making it sufficient to argue that harm may be caused. Further, the amendment permits the contesting party to challenge a Manifestación through a variety of administrative or court procedures. As a result of the amendment, more legal actions supported or sponsored by non-governmental groups interested in halting projects may be filed against companies operating in all industrial sectors, including the mining sector. Mexican operations are also subject to the environmental agreements entered into by Mexico, the United States and Canada in connection with the North American Free Trade Agreement. Further, in August 2011, certain amendments to the Civil Federal Procedures Code of Mexico (“CFPC”) were published in the Official Daily of the Federation. The amendments establish three categories of collective actions by which 30 or more people claiming injury resulting from, among other things, environmental harm, will be deemed to have a sufficient and legitimate interest in seeking, through a civil procedure, restitution, economic compensation or suspension of the activities from which the alleged injury derived. These amendments to the CFPC may result in more litigation by plaintiffs seeking remedies for alleged environmental harms, including suspension of the activities alleged to cause harm. Future changes in environmental regulation in the jurisdictions where the Velardeña Properties are located may adversely affect our business, make our business prohibitively expensive, or prohibit it altogether.

Environmental legislation in many other countries, in addition to Mexico, is evolving in a manner that will likely require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent

environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. We cannot predict what environmental legislation or regulations will be enacted or adopted in the future or how future laws and regulations will be administered or interpreted. For example, in September 2010, the Argentine National Congress passed legislation which prohibits mining activity in glacial and surrounding areas. Although we do not currently anticipate that this legislation will impact the El Quevar project, the legislation provides an example of the evolving environmental legislation in the areas in which we operate. Compliance with more stringent laws and regulations, as well as potentially more vigorous enforcement policies or regulatory agencies or stricter interpretation of existing laws, may (i) necessitate significant capital outlays, (ii) cause us to delay, terminate or otherwise change our intended activities with respect to one or more projects, or (iii) materially adversely affect our future exploration activities.

The Velardeña Properties and many of our exploration properties are located in historic mining districts where prior owners, including ECU in the case of the Velardeña Properties, may have caused environmental damage that may not be known to us or to the regulators. At the Velardeña Properties and in most other cases, we have not sought complete environmental analyses of our mineral properties. We have not conducted comprehensive reviews of the environmental laws and regulations in every jurisdiction in which we own or control mineral properties. Insurance fully covering many environmental risks (including potential liability for pollution or other hazards as a result of disposal of waste products occurring from exploration and mining) is not generally available. To the extent environmental hazards may exist on the properties in which we currently hold interests, or may hold interests in the future, that are unknown to us at present and that have been caused by us, or previous owners or operators, or that may have occurred naturally, and to the extent we are subject to environmental requirements or liabilities, the cost of compliance with these requirements and satisfaction of these liabilities could have a material adverse effect on our financial condition and results of operations. If we are unable to fully fund the cost of remediation of any environmental condition, we may be required to suspend activities or enter into interim compliance measures pending completion of the required remediation.

In addition, U.S. or international legislative or regulatory action to address concerns about climate change and greenhouse gas emissions could negatively impact our business.

***Title to the Velardeña Properties and our other properties and rights may be defective or may be challenged.***

Our policy is to seek to confirm the validity of our rights to, title to, or contract rights with respect to, each mineral property in which we have a material interest. However, we cannot guarantee that title to our properties will not be challenged. Title insurance is not available for our mineral properties, and our ability to ensure that we have obtained secure rights to individual mineral properties or mining concessions may be severely constrained. Accordingly, the Velardeña Properties and our other mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, we may be unable to conduct activities on our properties as permitted or to enforce our rights with respect to our properties, and the title to our mineral properties may also be impacted by state action. We have not conducted surveys of all of the exploration properties in which we hold direct or indirect interests and, therefore, the precise area and location of these exploration properties may be in doubt.

In most of the countries in which we operate, failure to comply with applicable laws and regulations relating to mineral right applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners. Any such loss, reduction or imposition of partners could have a material adverse effect on our financial condition, results of operations and prospects.

Under the laws of Mexico, mineral resources belong to the state, and government concessions are required to explore for or exploit mineral reserves. Mineral rights derive from concessions granted, on a discretionary basis, by the Ministry of Economy, pursuant to the Mexican mining law and regulations thereunder. We hold title to the Velardeña Properties and our other properties in Mexico through these government concessions, but there is no assurance that title to the concessions comprising the Velardeña Properties and other properties will not be challenged or impaired.

The Velardeña Properties and other properties may be subject to prior unregistered agreements, interests or native land claims, and title may be affected by undetected defects. There could be valid challenges to the title of any of the claims comprising the Velardeña Properties that, if successful, could impair mining with respect to such properties in the future. A defect could result in our losing all or a portion of our right, title, and interest in and to the properties to which the title defect relates.

Our Velardeña Properties mining concessions and our other mining concessions in Mexico may be terminated if our obligations to maintain the concessions in good standing are not satisfied, including obligations to explore or exploit the relevant concession, to pay any relevant fees, to comply with all environmental and safety standards, to provide information to the Ministry of Economy and to allow inspections by the Ministry of Economy. In addition to termination, failure to make timely concession maintenance payments and otherwise comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure could result in reduction or expropriation of entitlements. Additionally, in 2014, new mining concessions became subject to additional review and approval by the Mexico Ministry of Energy, and in recent years the federal government has been reluctant to issue new mining concessions at all.

Mining concessions in Mexico give exclusive exploration and exploitation rights to the minerals located in the concessions but do not include surface rights to the real property, which requires that we negotiate the necessary agreements with surface landowners. Many of our mining properties are subject to the Mexican ejido system requiring us to contract with the local communities surrounding the properties in order to obtain surface rights to land needed in connection with our mining exploration activities. In connection with our Velardeña Properties, we have contracts with two ejidos to secure surface rights with a total annual cost of approximately \$25,000. The first contract is a ten-year contract with the Velardeña ejido, which provides surface rights to certain roads and other infrastructure at the Velardeña Properties through 2021. The second contract is a 25-year contract with the Vista Hermosa ejido signed in March 2013, which provides exploration access and access rights for roads and utilities for our Velardeña Properties. Our inability to maintain and periodically renew or expand these surface rights on favorable terms or otherwise could have a material adverse effect on our business and financial condition.

***Mining and processing activities are dependent on the availability of sufficient water supplies to support our mining activities.***

Mining and processing at the Velardeña Properties, as at most mines, requires significant amounts of water. At the Velardeña Properties, our ability to have sufficient water is dependent on our ability to maintain our water rights and claims. Water is provided for all of the mines comprising our Velardeña Properties by wells located in the valley adjacent to the Velardeña Properties. We hold title to three wells located near the sulfide plant and hold certificates of registration to three wells located near the oxide plant. We are licensed to pump water from all six wells up to a permitted amount. We are currently using water from the three wells associated with the oxide plant and from two of the three wells associated with the sulfide plant. We are required to make annual payments to the Mexican government to maintain our rights to these wells. We are required to pay a fine to the Mexican Government each year if we use too much water from a particular well or alternatively if we do not use a minimum amount of water from a particular well. In addition to these fines, the Mexican Government reserves the right to cancel our title to the wells for abuse of these rules.

We currently have a sufficient amount of water for the third-party processing activities at the oxide plant. However, if we began processing material from both the sulfide and oxide plants in the future, we may face shortages in our water supply, and therefore will need to obtain water from outside sources at higher costs. The loss of some or all water rights for any of our wells, in whole or in part, or shortages of water to which we have rights would require us to seek water from outside sources at higher costs and could require us to curtail or shut down mining and processing in the future. Laws and regulations may be introduced in the future which could limit our access to sufficient water resources in mining activities, thus adversely affecting our business.

***There are significant hazards involved in underground mining and processing activities at our Velardeña Properties, not all of which are fully covered by insurance. To the extent we must pay the costs associated with such risks, our business may be negatively affected.***

The mining and processing of the underground mines at our Velardeña Properties, as well as the conduct of our exploration programs that frequently require rehabilitation of and drilling in underground mine workings, are subject to numerous risks and hazards, including, but not limited to, environmental hazards, industrial accidents, encountering unusual or unexpected geological formations, formation pressures, cave-ins, underground fires or floods, power outages, labor disruptions, seismic activity, rock bursts, accidents relating to historical workings, landslides and periodic interruptions due to inclement or hazardous weather conditions. These occurrences could result in damage to, or destruction of, mineral properties or processing facilities, personal injury or death, environmental damage, reduced extraction and processing and delays in mining, asset write-downs, monetary losses and possible legal liability. Although we maintain insurance against risks inherent in the conduct of our business in amounts that we consider reasonable, this insurance contains, as in the case of our Velardeña Properties, exclusions and limitations on coverage, and will not cover all potential risks associated with mining and exploration activities, and related liabilities might exceed policy limits. As a result of any or all of the foregoing, particularly if the facilities are older, we could incur significant liabilities and costs that could adversely affect our results of operation and financial condition.

***Our Velardeña Properties and most of our exploration properties are located in Mexico and are subject to various levels of political, economic, legal, social and other risks.***

Our Velardeña Properties are located in Mexico, and, as such, are exposed to various levels of political, economic, legal and other risks and uncertainties, including local acts of violence, such as violence from drug cartels; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labor unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; acts of political corruption; changes in taxation policies; restrictions on foreign exchange and repatriation; and changing political conditions (including potential instability if the United States withdraws from or renegotiates the North American Free Trade Agreement), currency controls and governmental regulations that favor or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Furthermore, given the uncertainties surrounding the policies of the current US Administration, the political relationship between the United States and Mexico may deteriorate, creating further political risk of doing business in Mexico.

In the past, Mexico has been subject to political instability, changes and uncertainties, which have resulted in changes to existing governmental regulations affecting mineral exploration and mining activities. Mexico's status as a developing country may make it more difficult for us to obtain any required funding for our Velardeña Properties or other projects in Mexico in the future.

Our Mexican properties are subject to a variety of governmental regulations governing health and worker safety, employment standards, waste disposal, protection of historic and archaeological sites, mine development, protection of endangered and protected species, purchase, storage and use of explosives and other matters. Specifically, our activities related to the Velardeña Properties are subject to regulation by SEMARNAT, the Comisión Nacional del Agua, which regulates water rights, and Mexican mining laws. Mexican regulators have broad authority to shut down and levy fines against facilities that do not comply with regulations or standards.

Our Velardeña Properties and mineral exploration activities in Mexico may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that increase the costs related to our mining and exploration activities or the maintenance of our properties. For example, in January 2014, amendments to the Mexico federal corporate income tax law require titleholders of mining concessions to pay annually a 7.5% duty of their mining related profits and a 0.5% duty on revenues obtained from the sale of gold, silver and platinum that were effective March 2015. These additional duties applicable to Mexico mining concession titleholders

will have a significant impact on the annual costs applicable to the Velardeña Properties if we have mining-related profits or significant revenues in the future.

Changes, if any, in mining or investment policies, changes or increases in the legal rights of indigenous populations or in the difficulty or expense of obtaining rights from them that are necessary for our Velardeña Properties or shifts in political attitude may adversely affect our business and financial condition. Our mining and exploration activities may be affected in varying degrees by government regulations with respect to restrictions on extraction, price controls, export controls, currency remittance, income and other taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety. Restart of mining or use of both the oxide and sulfide plant may also require us to assure the availability of adequate supplies of water and power, which could be affected by government policy and competing businesses in the area. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on our mining and exploration activities and financial condition.

Future changes in applicable laws and regulations or changes in their enforcement or regulatory interpretation could negatively impact current or planned exploration or mining activities at our Velardeña Properties or in respect of any of our other projects in Mexico or projects with which we become involved in Mexico. Any failure to comply with applicable laws and regulations, even if inadvertent, could result in the interruption of mining and exploration or material fines, penalties or other liabilities.

***Our El Quevar exploration property is located in Argentina and is subject to various levels of political, economic, legal, social and other risks.***

Our El Quevar exploration property is located in Argentina and, as such, is exposed to various levels of political, economic, legal, social and other risks and uncertainties, including high interest rates; abrupt changes in currency values; high levels of inflation; stability and competitiveness of the Argentine peso against foreign currencies; wage and price controls; regulations to import equipment and other necessities relevant for operations; changes in governmental economic (including export duties and import regulations) or tax policies; and political and social tensions.

The Argentine economy has experienced significant volatility in recent decades, characterized by periods of low or negative gross domestic product growth, high and variable levels of inflation and currency depreciation and devaluation. Financial and securities markets in Argentina, and the Argentine economy, are influenced by economic and market conditions in other markets worldwide. The Argentine government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Argentina's economy, and taken other actions which do, or may be perceived to weaken the nation's economy especially as it relates to foreign investors and the overall investment climate.

The Argentine government has not only historically exercised significant influence over the country's economy, but the country's legal and regulatory frameworks have at times suffered radical changes due to political influence and significant political uncertainties as well. For example, in April 2014, there were nationwide strikes that paralyzed the Argentine economy, shutting down air, train and bus traffic, closing businesses and ports, emptying classrooms, shutting down non-emergency hospital attention and leaving trash uncollected. This is consistent with past periods of significant economic unrest and social and political turmoil. Future government policies to preempt, or in response to, social unrest may include expropriation, nationalization, forced renegotiation or modification of existing contracts, suspension of the enforcement of creditors' rights, new taxation policies, including royalty and tax increases and retroactive tax claims, and changes in laws and policies affecting foreign trade and investment. Such policies could destabilize the country and adversely and materially affect the economy, and thereby our business.



***Most of our costs are subject to exchange control policies, the effects of inflation and currency fluctuations between the U.S. dollar and the Mexican peso.***

Our revenue and external funding are primarily denominated in U.S. dollars. However, mining, processing, maintenance and exploration costs at the Velardeña Properties and most of our exploration properties are denominated principally in Mexican pesos. These costs principally include electricity, labor, water, maintenance, local contractors and fuel. When inflation in Mexico increases without a corresponding devaluation of the Mexican peso, our financial position, results of operations and cash flows could be adversely affected. The annual average inflation rate in Mexico was 3.6% in 2019, 4.9% in 2018 and 6.0 % in 2017. At the same time, the peso has been subject to fluctuation, which may not have been proportionate to the inflation rate and may not be proportionate to the inflation rate in the future. The value of the peso increased by 3.6% in 2019, increased by 0.5% in 2018, and increased by 4.8% in 2017. In addition, fluctuations in currency exchange rates may have a significant impact on our financial results. There can be no assurance that the Mexican government will maintain its current policies with regard to the peso or that the peso's value will not fluctuate significantly in the future. We cannot assure you that currency fluctuations, inflation and exchange control policies will not have an adverse impact on our financial condition, results of operations, earnings and cash flows.

***If we are unable to obtain all of our required governmental permits or obtain property rights on favorable terms or at all, our business could be negatively impacted.***

Future mining and current processing at our Velardeña Properties, the continued evaluation of the El Quevar project and other exploration activities will require additional permits from various governmental authorities. Our business is and will continue to be governed by laws and regulations governing mining, exploration, prospecting, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety, mining royalties and other matters. We may also be required to obtain certain property rights to access or use our properties. Obtaining or renewing licenses and permits, and acquiring property rights, can be complex and time-consuming processes. There can be no assurance that we will be able to acquire all required licenses, permits or property rights on reasonable terms or in a timely manner, or at all, and that such terms will not be adversely changed, that required extensions will be granted, or that the issuance of such licenses, permits or property rights will not be challenged by third parties. Delays in obtaining or a failure to obtain any licenses, permits or property rights or any required extensions; challenges to the issuance of licenses, permits or property rights, whether successful or unsuccessful; changes to the terms of licenses, permits or property rights; or a failure to comply with the terms of any licenses, permits or property rights that have been obtained could have a material adverse effect on our business by delaying, preventing or making future mining and processing at our Velardeña Properties and other continued processing activities economically unfeasible. U.S. or international legislative or regulatory action to address concerns about climate change and greenhouse gas emissions could also negatively impact our business. While we will continue to monitor and assess any new policies, legislation or regulations regarding such matters, we currently believe that the impact of such legislation on our business will not be significant.

***We depend on the services of key executives.***

Our business strategy is based on leveraging the experience and skill of our management team. We are dependent on the services of key executives, including Warren Rehn and Robert Vogels. Due to our relatively small size, the loss of any of these persons or our inability to attract and retain additional highly skilled employees may have a material adverse effect on our business and our ability to manage and succeed in our mining and exploration activities.

***The exploration of our mineral properties is highly speculative in nature, involves substantial expenditures and is frequently non-productive.***

Mineral exploration is highly speculative in nature and is frequently non-productive. Substantial expenditures are required to:

- establish mineral reserves through drilling and metallurgical and other testing techniques;
- determine metal content and metallurgical recovery processes to process metal from the ore;
- determine the feasibility of mine development and production; and
- construct, renovate or expand mining and processing facilities.

If we discover a deposit or ore at a property, it usually takes several years from the initial phases of exploration until production is possible. During this time, the economic feasibility of a project may change because of increased costs, lower metal prices or other factors. As a result of these uncertainties, we may not successfully acquire additional mineral rights, or our exploration programs may not result in proven and probable reserves at all or in sufficient quantities to justify developing the El Quevar project or any of our exploration properties.

The decisions about future advancement of exploration projects may be based on feasibility studies, which derive estimates of mineral reserves, operating costs and project economic returns. Estimates of economic returns are based, in part, on assumptions about future metal prices and estimates of average cash operating costs based upon, among other things:

- anticipated tonnage, grades and metallurgical characteristics of ore to be mined and processed;
- anticipated recovery rates of silver and other metals from the ore;
- cash operating costs of comparable facilities and equipment; and
- anticipated climatic conditions.

Actual cash operating costs, production and economic returns may differ significantly from those anticipated by our studies and estimates.

***Lack of infrastructure could forestall or prevent further exploration and advancement.***

Exploration activities, as well as any advancement activities, depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important factors that affect capital and operating costs and the feasibility and economic viability of a project. Unanticipated or higher than expected costs and unusual or infrequent weather phenomena, or government or other interference in the maintenance or provision of such infrastructure, could adversely affect our business, financial condition and results of operations.

***Our exploration activities are in countries with developing economies and are subject to the risks of political and economic instability associated with these countries.***

We currently conduct exploration activities almost exclusively in countries with developing economies, including Argentina and Mexico. These countries and other emerging markets in which we may conduct business have from time to time experienced economic or political instability. We may be materially adversely affected by risks associated with conducting exploration activities in countries with developing economies, including:

- political instability and violence;
- war and civil disturbance;
- acts of terrorism or other criminal activity;

- expropriation or nationalization;
- changing fiscal, royalty and tax regimes;
- fluctuations in currency exchange rates;
- high rates of inflation;
- uncertain or changing legal requirements respecting the ownership and maintenance of mineral properties, mines and mining activities, and inconsistent or arbitrary application of such legal requirements;
- uncertain or changing economic and environmental policies of governmental authorities in Mexico or Argentina;
- underdeveloped industrial and economic infrastructure;
- corruption; and
- unenforceability of contractual rights.

Changes in mining or investment policies or shifts in the prevailing political climate in any of the countries in which we conduct exploration activities could adversely affect our business.

***We conduct our business in countries that may be adversely affected by changes in the local government's policies toward or laws governing the mining industry.***

We have exploration activities primarily in Mexico and Argentina. In these regions there exist uncertainties regarding future changes in applicable law related to mining and exploration. For instance, in January 2014, amendments to the Mexico federal corporate income tax law required titleholders of mining concessions to pay annually a 7.5% duty of their mining related profits and a 0.5% duty on revenues obtained from the sale of gold, silver and platinum that were effective March 2015. These additional duties applicable to Mexico mining concession titleholders will have a significant impact on the annual costs applicable to the Velardeña Properties if we have mining related profits or significant revenues in the future.

Additionally, effective January 2015, the Argentina National Mining Code was amended, increasing the annual canon payment by approximately four times. In 2018 and 2019, our annual canon fees payable to the Argentine government was \$57,000 and \$36,000 respectively, and we expect to pay approximately \$30,000 in 2020.

In addition to the risk of increased transaction costs, we do not maintain political risk insurance to cover losses that we may incur as a result of nationalization, expropriation or similar events in Mexico or Argentina where we explore or have mining and processing activities.

***We compete against larger and more experienced companies.***

The mining industry is intensely competitive. Many large mining companies are primarily makers of precious or base metals and may become interested in the types of deposits on which we are focused, which include silver, gold and other precious metals deposits or polymetallic deposits containing significant quantities of base metals, including zinc, lead and copper. Many of these companies have greater financial resources, experience and technical capabilities than we do. We may encounter increasing competition from other mining companies in our efforts to acquire mineral properties and hire experienced mining professionals. Increased competition in our business could adversely affect our ability to attract necessary capital funding or acquire suitable mining properties or prospects for mineral exploration in the future.

***We are dependent on information technology systems, which are subject to certain risks, including cybersecurity risks and data leakage risks.***

We are dependent upon information technology systems in the conduct of our business. Any significant breakdown, invasion, virus, cyber attack, security breach, destruction or interruption of these systems by employees, others with authorized access to our systems, or unauthorized persons could negatively impact our business. To the extent any invasion, cyber attack or security breach results in disruption to our business, loss or disclosure of, or damage to, our data or confidential information, our reputation, business, results of operations and financial condition could be materially adversely affected. Our systems and insurance coverage for protecting against cyber security risks may not be sufficient. Although to date we have not experienced any material losses relating to cyber attacks, we may suffer such losses in the future. We may be required to expend significant additional resources to continue to modify or enhance our protective measures. We also may be subject to significant litigation, regulatory investigation and remediation costs associated with any information security vulnerabilities, cyber attacks or security breaches.

***The existence of a significant number of warrants may have a negative effect on the market price of our common stock.***

In May 2016, we issued 8.0 million registered shares of common stock at a purchase price of \$0.50 per share in a registered direct offering resulting in gross proceeds of \$4.0 million. In connection with the offering, each investor received an unregistered warrant to purchase three-quarters of a share of common stock for each share of common stock purchased. The resulting 6,000,000 warrant shares have an exercise price of \$0.75 per share, became exercisable on November 7, 2016 and were exercisable until November 6, 2021, five years from the initial exercise date. In connection with the July 2019 offering and private placement (discussed in more detail below), we agreed to exchange, on a one-for-one basis, 4,500,000 of the May 2016 warrants for Series B warrants to purchase 4,500,000 shares of common stock at an exercise price of \$0.35 per share. Each Series B warrant is exercisable six months from the date of issuance and has a term expiring in May 2022.

As noted above, on July 17, 2019, we issued 8,653,846 registered shares of common stock in a registered direct offering. In connection with the offering, each investor received an unregistered Series A warrant to purchase a share of common stock at an exercise price of \$0.35 per share for each share of common stock purchased. Each Series A warrant is exercisable six months from the date of issuance and has a term expiring in January 2025.

The existence of securities available for exercise and resale is referred to as an “overhang,” and, particularly if the warrants are “in the money,” the anticipation of potential sales could exert downward pressure on the market price of our common stock.

***Failure to meet the maintenance criteria of the NYSE American may result in the delisting of our common stock, which could result in lower trading volumes and liquidity, lower prices of our common shares and make it more difficult for us to raise capital.***

Our common stock is listed on the NYSE American LLC (the “NYSE American”), and we are subject to its continued listing requirements, including maintaining certain share prices and a minimum amount of stockholders’ equity. On August 19, 2019, we received written notification (the “Notice”) from the NYSE American that we are not in compliance with Section 1003(a)(iii) of the NYSE American Company Guide (the “Company Guide”). We are required to report a stockholders’ equity of \$6.0 million or more if we have reported losses from continuing operations and/or net losses in its five most recent fiscal years. The Notice noted that we reported a stockholders’ equity of \$4,380,000 as of June 30, 2019 and losses from continuing operations and/or net losses in each of its five most recent fiscal years ended December 31, 2018. As a result, we have become subject to the procedures and requirements of Section 1009 of the Company Guide and were required to submit a plan of compliance by September 18, 2019 to the NYSE American addressing how we intend to regain compliance with Section 1003(a)(iii) of the Company Guide by February 19, 2021.

In order to maintain our listing, we timely submitted a plan of compliance to the NYSE American addressing how we intend to regain compliance with Section 1003(a)(iii) of the Company Guide by February 21, 2021. On November 1, 2019, we received notice from the NYSE American that it had accepted our plan of compliance and granted a plan period through February 19, 2021, subject to periodic review by the NYSE American, including quarterly monitoring for compliance with the initiatives outlined in the plan of compliance. If we are not in compliance with the continued listing standards by February 19, 2021, or if we do not make progress consistent with the plan of compliance during the plan period, the NYSE American staff may initiate delisting proceedings as appropriate. If we are delisted from the NYSE American, it may have an adverse impact on our share price and may make it more difficult for us to raise capital in the future. In particular, if we are delisted from the NYSE American, we will be unable to sell our common stock pursuant to the ATM Program.

***If our common stock were delisted and determined to be a “penny stock,” a broker-dealer could find it more difficult to trade our common stock and an investor may find it more difficult to acquire or dispose of our common stock in the secondary market.***

If our common stock were removed from listing on the NYSE American, it may be subject to the so-called “penny stock” rules. The SEC has adopted regulations that define a “penny stock” to be any equity security that has a market price per share of less than \$5.00, subject to certain exceptions, such as any securities listed on a national securities exchange. For any transaction involving a “penny stock,” unless exempt, the rules impose additional sales practice requirements on broker-dealers, subject to certain exceptions. If our common stock were delisted and determined to be a “penny stock,” a broker-dealer may find it more difficult to trade our common stock and an investor may find it more difficult to acquire or dispose of our common stock on the secondary market. These factors could significantly negatively affect the market price of our common stock and our ability to raise capital.

#### **ITEM 1B: UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 3: LEGAL PROCEEDINGS**

None.

#### **ITEM 4: MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 5: MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock began trading on the NYSE American under the symbol “AUMN” on March 19, 2010. Our common stock is also listed on the Toronto Stock Exchange, also referred to as the “TSX”, and trades under the symbol “AUMN”.

As of February 26, 2020, we had 175 record holders of our common stock of record based upon the stockholders list provided by our transfer agent, Computershare Trust Company, N.A.

#### **Dividends**

We have not declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings, if any, to fund the growth of our business.

## ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

Due to our status as a Smaller Reporting Company, the presentation of this information is not required.

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

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes beginning on page F-1 in this annual report on Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Risk Factors" in this annual report on Form 10-K.*

### Our Company

We were incorporated in Delaware under the Delaware General Corporation Law in March 2009, and are the successor to Apex Silver Mines Limited for purposes of reporting under the Exchange Act. During the year ended December 31, 2019, our only sources of income were revenues from the lease of our Velardeña oxide plant, sales of non-core assets, and a tax refund received by an Argentine subsidiary. We incurred net operating losses for the years ended December 31, 2019 and 2018.

We remain focused on evaluating and searching for mining opportunities in North America with near term prospects of mining, and particularly for properties in Mexico within reasonable haulage distances of our Velardeña processing plants. We are also focused on evaluation activities at our El Quevar exploration property in Argentina and are continuing our exploration efforts on selected properties in our portfolio of approximately 12 exploration properties located in Mexico, Nevada and Argentina.

### 2019 Highlights

#### *Sale of Mogotes and Pistachon Properties*

On December 18, 2019, we sold the non-strategic Mogotes and Pistachon properties in Mexico to a subsidiary of Industrias Peñoles for \$3.0 million. The Mogotes and Pistachon properties are comprised of a total of four mining concessions located near our Velardeña Properties. None of the claims in the properties contained any identified mineralized material.

#### *Option Agreement for Santa Maria*

On October 16, 2019, we entered into an option agreement for the sale of our right to acquire a 100% interest in the Santa Maria and Las Marias exploration properties to Magellan Gold Corporation ("Magellan"). The agreement provides for a period of up to 150 days during which Magellan will complete its due diligence review and secure financing for the project. Prior to the end of such period, Magellan will have the right to exercise its option to acquire our interests in the project. Under the terms of the agreement, if Magellan exercises its option, it will make a cash payment of \$1.0 million to us upon closing. We will retain a 6.5% NSR royalty from all production at Santa Maria until a total of \$3.0 million has been paid to us under the royalty agreement. Thereafter, we will retain a 3.0% NSR royalty for the balance of the mine's life. If Magellan fails to achieve commercial production from the project within one year following closing, we will not be obligated to convey our interests in the project to Magellan and we will retain our interest in the project with no obligation to return any payments to Magellan.

### *El Quevar*

In the first quarter 2019, we initiated a 3,000 meter, approximately \$0.6 million, drilling program to further define the potential for additional mineralized material in the Yaxtché deposit and surrounding area and completed that drill program in the second quarter 2019. In September 2019 we released final results from the 2019 drilling program. A new shallow high-grade silver zone was partially outlined in the Vince area about 2 kilometers south west of the known Yaxtché deposit. Four drill holes cut silver intercepts with grades of 500 to 600 g/t Ag over widths of 1 to 4 meters. These results extend a historical drill intercept by about 200 meters northeast along strike. The zone is open to the north. Other significant results of the program include a 2.1 meter interval grading 340 g/t Ag, in Yaxtché East. This hole represents an approximate 50 meters step out from previous drilling and demonstrates the potential to add to the mineral resources in the northeast sector of the Yaxtché deposit. Drilling at the Argentina prospect located approximately one kilometer east of Yaxtché has also returned silver values in one drill hole with 2 meters of 358 g/t Ag. These results coincide with previous drilling in the area (8 meters of 779 g/t Ag) and are considered encouraging for the area to host mineralization of potential economic significance.

We are continuing surface exploration in the district to identify further drill targets in the 57,000-hectare property area. Our property holdings contain two district-scale high sulfidation epithermal systems with potential to host additional precious metals deposits. We plan to continue to advance El Quevar by contracting with a partner to contribute to the funding of further exploration and development.

### *Velardeña Oxide Plant Lease Agreement*

During the year ended December 31, 2019, Hecla processed approximately 158,000 tonnes of material through the oxide plant, resulting in total revenues to us of approximately \$7.7 million, comprised of approximately \$5.3 million for direct plant charges and fixed fees and approximately \$2.4 million for other net reimbursable costs related to the services we provide under the lease. Hecla is responsible for the ongoing operation and maintenance of the oxide plant. The \$2.4 million of reimbursable costs are also reported as plant lease costs, resulting in net operating margin of approximately \$5.3 million for the year ended December 31, 2019.

On October 1, 2018, a wholly-owned subsidiary of Hecla Mining Company (“Hecla”) exercised its option, pursuant to an agreement entered into with us in August 2017, to extend the lease of our Velardeña oxide plant until December 31, 2020. On December 2, 2019 we entered into an additional amendment of the lease agreement with Hecla to reduce the per tonne fee payable by Hecla for the duration of the lease term, commencing on January 1, 2020, from \$22.00 per tonne to \$11.00 per tonne, however, the per tonne fee reverts back to \$22 per tonne for any month in which either of the following conditions are met: (1) the Comex daily silver spot closing average price for such month is \$20.00 per ounce or greater, or (2) the mill head grade average from the metallurgical balance for such month is 1,000 grams per ton equivalent silver head grade or greater. If either condition is met in any month, Hecla will pay the higher fee of \$22.00 per tonne on all amounts processed in the oxide plant during such month. The reduced fee only applies to the tonnage-based payments under the lease agreement; the monthly lease payment of \$125,000 per month is not affected by the amendment. The latest amendment also extended the notice period for Hecla’s right to terminate the lease for any reason from 120 days’ notice to 150 days. Hecla has a one-time right of first refusal to continue to lease the plant following a termination notice through December 31, 2020 if we decide to use the oxide plant for our own purposes before December 31, 2020.

We expect Hecla to continue to process material near or above the intended approximately 400 tonnes per day rate during 2020, which would generate a net operating margin to us, net of reimbursable costs, of approximately \$0.8 million per quarter. However, because Hecla has the right to terminate the lease with 150 days’ notice, there is no assurance that these amounts will continue through 2020.

### *Velardeña PEA update*

The Velardeña Properties contain two underground mines that were last operated in late 2015, at which point mining activities were suspended when a combination of low metals prices and dilution and metallurgical challenges rendered operations unprofitable. We elected to preserve the asset for future use, and since that time we have evaluated and tested various mining methods and processing alternatives that could enable sustainable profitable operations.

The recent rise in precious metals prices, the advancement of alternative processing technologies in the industry, and the results of our testing activities prompted us to engage the engineering firm Tetra Tech to complete an updated PEA for the Velardeña Properties, prepared pursuant to NI 43-101. The updated PEA is expected to incorporate refinements to the resource model as well as a bio-oxidation processing methodology designed to enhance the recovery of gold from pyrite and arsenopyrite that is common in the veins at both the Velardeña and Chicago mines. Recent test work completed in late 2019 and announced in January 2020 has shown bio-oxidation and subsequent cyanide leaching of the pyrite concentrates from the Santa Juana mine area to achieve gold and silver recoveries over 90%. We expect the PEA to be completed during the first quarter of 2020.

### *Rodeo*

Rodeo, a 1,900-hectare gold project located about 80 kilometers west of Velardeña, contains approximately 46,000 ounces of gold with an average grade of 3.3 g/t, as referenced in a mineral resource estimate prepared in accordance with NI 43-101 by Tetra Tech dated January 26, 2017. Rodeo represents a source of mineralized material that may be processed at Velardeña's oxide mill following completion of the Hecla lease, which is currently set to expire on December 31, 2020.

We plan to initiate a small drilling program at Rodeo to provide greater resource definition for a mine plan and to provide samples for additional metallurgical testing. We have begun the process of obtaining the required mining and environmental permits for an open pit mining operation, a process that could take up to one year. Complementary to the permitting process, we have initiated an internal study to support the potential economic results of the planned operation.

### *Sand Canyon*

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

We have completed surface exploration activities on the project including mapping and geochemical sampling to identify drill targets. Based on this work we have obtained the necessary drill permits and have begun a drilling program, with initial results expected in the second quarter of 2020.

### *Registered direct purchase agreement, commitment purchase agreement and registration rights agreement*

On May 9, 2018 we entered into a registered direct purchase agreement (the "Registered Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC") pursuant to which LPC purchased 3,153,808 shares of our common stock at a



price of \$0.4122 per share, the closing price of our common stock on the NYSE American on May 8, 2018, for an aggregate purchase price of \$1.3 million. On the same day, we also entered into a commitment purchase agreement (the “Commitment Purchase Agreement” and together with the Registered Purchase Agreement, the “LPC Program”) pursuant to which we have the right for a period of three years, at our sole discretion, to sell up to an additional \$10.0 million of our common stock to LPC, subject to certain limitations and conditions contained in the Commitment Purchase Agreement.

Subject to the terms of the Commitment Purchase Agreement, we will control the timing and amount of any future sale of common stock to LPC. LPC has no right to require any sales by us under the Commitment Purchase Agreement but is obligated to make purchases at our sole direction, as governed by such agreement. There are no upper limits to the price LPC may be obligated to pay to purchase common stock from us and the purchase price of the shares will be based on the prevailing market prices of our shares at the time of each sale to LPC. LPC has agreed not to cause or engage in any manner whatsoever, any direct or indirect short selling or hedging of our shares of common stock. We have the right to terminate the Commitment Purchase Agreement at any time, at our discretion, without any cost or penalty.

During the year ended December 31, 2019 we sold 2,113,642 shares of common stock to LPC under the LPC Program at an average sales price per share of approximately \$0.28, resulting in net proceeds of approximately \$0.6 million. Subsequent to December 31, 2019, through February 26, 2020, we have sold an aggregate of approximately 825,000 common shares under the LPC Program at an average price of \$0.27 for total proceeds of approximately \$0.2 million.

#### *Offering and private placement transaction*

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

As a result of anti-dilution provisions in our outstanding 2014 warrants, the closing of the Offering resulted in adjustments that reduced the exercise price and increased the number of shares issuable under 2014 warrants. Pursuant to the anti-dilution provisions in the 2014 warrants, the number of shares of common stock issuable upon exercise of the 2014 warrants was increased from 5,551,344 shares to 5,686,365 shares (135,021 share increase), and the 2014 warrants’ exercise price was decreased from \$0.84 per share to approximately \$0.80 per share. The 5,686,365 warrants expired on September 10, 2019, five years from the original date of issuance.

#### *Termination of the Agreement to Sell the Velardeña Properties and Other Assets to Autlán*

On June 26, 2019, we entered into a Purchase and Sale Agreement (the “Agreement”) along with our indirectly wholly-owned subsidiary, Minera de Cordilleras S. de R.L. de C.V., to sell certain assets to Compañía Minera Autlán S.A.B. de C.V. (“Autlán”) for \$22 million. Upon execution of the Agreement, Autlán paid us a deposit of US\$1.5 million. Under the terms of the Agreement, Autlán had agreed to purchase three of our Mexican subsidiaries, which together hold the Velardeña Properties, including the Velardeña and Chicago mines (which are currently on care and maintenance), two processing plants, mining equipment and other adjacent exploration properties. The sale would have also included the

Velardeña oxide plant lease as well as the Rodeo and Santa Maria project concessions. The Agreement provided for a period of up to 75 days for Autlán to conduct due diligence related to the three subsidiary companies, the Rodeo concessions and the Santa Maria concessions. Under the Agreement, Autlán had the right to terminate the Agreement at any time during the due diligence period. On September 11, 2019, we announced that Autlán exercised its right to terminate the Agreement. As a result of the termination of the Agreement, we were required to repay the \$1.5 million deposit amount, plus interest at 3% per annum, within 90 days following termination (on or before December 8, 2019). In lieu of us not making the repayment by December 8, 2019, Autlán had the option to receive the Rodeo concessions as full settlement of the deposit. Autlán declined to receive the Rodeo concessions, and as a result, we are required to repay the deposit by making monthly payments equal to \$257,000, until the deposit amount is repaid with interest at approximately 11% per annum. Our first payment was made on December 9, 2019 and as of February 26, 2020, we have repaid approximately \$0.8 million of the deposit.

## Results of Operations

For the results of operations discussed below, we compare the results of operations for the year ended December 31, 2019 to the results of operations for the year ended December 31, 2018.

*Revenue from oxide plant lease.* We recorded revenue of \$7.7 million and \$7.2 million for the years ended December 31, 2019 and 2018 respectively, from the lease of our Velardeña oxide plant to Hecla. The increase in revenue for the year ended December 31, 2019 is due to additional material delivered by Hecla to our oxide plant.

*Oxide plant lease costs.* During the years ended December 31, 2019 and 2018 we recorded \$2.4 and \$2.3 million, respectively, of costs related to the oxide plant lease consisting primarily of reimbursable labor and utility costs which for accounting purposes were also included in revenue from the oxide plant lease.

*Exploration Expense.* Our exploration expense, including work at the Sand Canyon, Yoquivo, Santa Maria and other properties, totaled \$4.1 million for the year ended December 31, 2019. Our exploration expense totaled \$3.9 million for the year ended December 31, 2018. Exploration expense for both years was incurred primarily in Mexico and includes property holding costs, costs incurred by our local exploration offices, and allocated corporate administrative expenses.

*Velardeña shutdown and care and maintenance costs.* We recorded \$1.8 million and \$1.9 million for the years ended December 31, 2019 and 2018, respectively, for expenses related to care and maintenance at our Velardeña Properties as the result of the suspension of mining and processing activities in November 2015. The higher care and maintenance costs in 2018 are related to increased maintenance.

*El Quevar Project Expense.* During the year ended December 31, 2019 we recorded an expense of approximately \$2.0 million primarily related to exploration, holding and evaluation costs for the Yaxtché deposit at our El Quevar project in Argentina. During the year ended December 31, 2018 we incurred \$1.3 million primarily related to holding and evaluation costs for the Yaxtché deposit at our El Quevar project in Argentina. The increase in 2019 was primarily related to a drilling program conducted during the year. For both years, additional nominal costs incurred in Argentina and not related to the El Quevar project are included in "Exploration Expense", discussed above.

*Administrative Expense.* Administrative expenses totaled \$3.6 million for the year ended December 31, 2019 compared to \$3.4 million for the year ended December 31, 2018. Administrative expenses, including costs associated with being a public company, are incurred primarily by our corporate activities in support of the Velardeña Properties, El Quevar project and our exploration portfolio. The \$3.6 million of administrative expenses we incurred during 2019 is comprised of \$1.5 million of employee compensation and directors' fees, \$1.2 million of professional fees and \$0.9 million of insurance, rents, travel expenses, utilities and other office costs. The \$3.4 million of administrative expenses we incurred during 2018 is comprised of \$1.6 million of employee compensation and directors' fees, \$0.9 million of professional fees and \$0.9 million of insurance, travel expenses, rents, utilities and other office costs. Administrative expenses were higher in the period ended December 31, 2019 due to increased legal costs associated with the proposed

Agreement with Autlán, as discussed above in “*Termination of the Agreement to sell the Velardeña Properties and other Assets to Autlán.*”

*Stock based compensation.* During the year ended December 31, 2019 we incurred expense related to stock-based compensation in the amount of \$0.8 million compared to \$0.2 million for the year ended December 31, 2018. Stock based compensation varies from period to period depending on the number and timing of shares granted, the type of grant, the market value of the shares on the date of grant and other variables. The 2019 and 2018 stock-based compensation amounts include \$0.5 million of expense and a \$0.1 million reduction of expense, respectively, related to KELTIP grants made to two officers and the related fair value adjustments to the KELTIP liability (see Note 17 to the consolidated financial statements filed as part of this Form 10-K for a discussion of KELTIP grants).

*Reclamation and accretion expense.* During each of the years ended December 31, 2019 and 2018, we incurred \$0.2 million of reclamation expense related to the accretion of an asset retirement obligation at the Velardeña Properties.

*Other Operating Income, Net.* We recorded other operating income of \$3.2 million for the year ended December 31, 2019, consisting of \$3.0 million for the sale of the Mogotes and Pistachon properties in Mexico and \$0.2 million for the sale of surplus equipment in Argentina and property in Peru. We recorded \$5.1 million of other operating income for the year ended December 31, 2018, consisting of \$4.0 million related to an option payment and the ultimate sale of our Celaya property, \$0.7 million from payments received on our Zacatecas Properties and \$0.4 million related to the sale of two non-strategic Mexican subsidiaries.

*Depreciation, depletion and amortization.* During the year ended December 31, 2019 we incurred depreciation, depletion and amortization expense of \$1.1 million compared to \$1.2 million for the year ended December 31, 2018.

*Interest and Other Income, net.* We recorded \$0.2 million of interest and other expense, net for the year ended December 31, 2019 primarily related to the sale of common stock we owned in a junior mining company. During the year ended December 31, 2018 we recorded approximately \$0.1 million of interest income and other income primarily related to mark-to-market gains on short-term investments.

*Gain (Loss) on Foreign Currency.* We recorded a \$0.1 million foreign currency loss for each of the years ended December 31, 2019 and 2018. Foreign currency gains and losses are primarily related to the effect of currency fluctuations on monetary assets net of liabilities held by our foreign subsidiaries that are denominated in currencies other than U.S. dollars.

*Income Taxes.* We recorded a nil amount of tax expense for the years ended December 31, 2019 and 2018 related to a Mexican subsidiary.

### **Liquidity and Capital Resources**

At December 31, 2019, our aggregate cash and cash equivalents totaled \$4.6 million, compared to the \$3.3 million in similar assets held at December 31, 2018. The December 31, 2019 balance is due in part from the following expenditures and cash inflows for the year ended December 31, 2019. Expenditures totaled \$11.4 million from the following:

- \$4.0 million in exploration expenditures, including work at the Sand Canyon, Yoquivo, Santa Maria and other properties;
- \$2.0 million in evaluation activities, care and maintenance and property holding costs at the El Quevar project;
- \$1.8 million in care and maintenance costs at the Velardeña Properties; and

- \$3.6 million in general and administrative expenses.

The foregoing expenditures were offset by cash inflows of \$12.7 million from the following:

- \$5.3 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs);
- \$3.0 million from the sale of certain nonstrategic mineral claims to Peñoles;
- \$1.9 million of net proceeds from the sale of our common stock in a registered direct offering (as described above);
- \$1.3 million received as a deposit, net of repayments, related to the proposed sale of the Velardeña Properties and other mineral concessions to Autlán (as described above);
- \$0.6 million, net of commitment fees and other offering related costs, from the LPC Program (as described above);
- \$0.1 million from the sale of miscellaneous assets and \$0.1 million from the sale of an investment in a junior mining company; and
- \$0.4 million from a decrease in working capital related primarily to an increase in accrued liabilities for value added taxes collected from the sale of mineral claims to Peñoles, as described above (these value added taxes were required to be remitted to the Mexican government in January 2020).

In addition to the \$4.6 million cash balance at December 31, 2019, in October 2019 we entered into an option to purchase agreement for the sale of our interest in the Santa Maria property, and we expect to receive an initial cash payment of \$1.0 million in connection with the transaction by the end of the first quarter 2020. We also expect to receive approximately \$3.3 million in net operating margin from the lease of the oxide plant during the next twelve-month period ending December 31, 2020. In addition, subsequent to December 31, 2019 we received approximately \$0.4 million from the sale of our common stock under the LPC Program and the ATM Program during the year to date period ended February 25, 2020. Our forecasted expenditures during the twelve months ending December 31, 2020 are as follows:

- Approximately \$3.0 million on exploration activities and property holding costs related to our portfolio of exploration properties located primarily in Mexico, including project assessment and evaluation costs relating to Sand Canyon, Yoquivo and other properties;
- Approximately \$1.3 million related to repayment of the remaining Autlán deposit;
- Approximately \$1.8 million at the Velardeña Properties for care and maintenance;
- Approximately \$0.8 million at the El Quevar project to fund ongoing exploration and evaluation activities, care and maintenance and property holding costs;
- Approximately \$0.3 million related to the payment of income taxes due in Canada;
- Approximately \$3.2 million on general and administrative costs; and
- Approximately \$0.5 million related to an increase in working capital related to a decrease in accrued liabilities.

Our forecasted expenditures of \$10.9 million are greater than the cash resources of \$9.3 million, noted above, that are projected to be available during the period. Therefore, through December 31, 2020, we will take appropriate actions, which may include sales of certain of our exploration assets, reductions to our currently budgeted level of spending, and/or raising additional equity capital through sales under the ATM Program, the LPC Program or otherwise.

The actual amount of cash expenditures that we incur during the twelve-month period ending December 31, 2020 may vary significantly from the amounts specified above and will depend on a number of factors including variations from anticipated care and maintenance costs at the Velardeña Properties and costs for continued exploration, project assessment, and development at our other exploration properties, including Sand Canyon, Yoquivo, Rodeo and El Quevar. Likewise, although we believe it is probable that we will receive the sources of cash described above, the actual amount of cash receipts that we receive during the period may vary significantly from the amounts specified above due to, among other things, a decrease in the quantity of material processed under the oxide plant lease, an unexpected early termination of the oxide plant lease by the lessee, or the election by the purchaser of the Santa Maria property to terminate the proposed acquisition prior to payment of the initial \$1.0 million portion of the purchase price. If cash expenditures are greater than anticipated or if cash receipts are less than anticipated, we would need to take more aggressive actions to maintain sufficient cash balances over the next twelve months, which may include sales of certain of our exploration assets, reductions to our currently budgeted level of spending, and/or raising additional equity capital through sales under the ATM Program, the LPC Program or otherwise.

The consolidated financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business. However, our continuing operations are dependent upon our ability to secure sufficient funding and to generate future profitable operations. The underlying value and recoverability of the amounts shown as property, plant and equipment are dependent on our ability to generate positive cash flows from operations and to continue to fund exploration and development activities that would lead to profitable mining activities or to generate proceeds from the disposition of property, plant and equipment. There can be no assurance that we will be successful in generating future profitable operations or securing additional funding in the future on terms acceptable to us or at all.

There can be no assurance that we will be successful in generating future profitable operations or securing additional funding in the future on terms acceptable to us or at all. We believe the continuing cash flow from the lease of the oxide plant, use of the ATM Program and the LPC Program, and the potential for additional asset dispositions make it probable that we will have sufficient cash to meet our financial obligations and continue our business strategy beyond one year from the filing of our consolidated financial statements for the period ended December 31, 2019.

### **Critical Accounting Policies and Estimates**

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment, to the specific set of circumstances existing in our business. Discussed below are the accounting policies that we believe are critical to our financial statements due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported.

#### *Mineral Reserves*

When and if we determine that a mineral property has proven and probable reserves, subsequent development costs are capitalized to mineral properties. When mineral properties are developed and operations commence, capitalized costs are charged to operations using the units-of-production method over proven and probable reserves. "Mineralized material" as used in this annual report, although permissible under SEC's Industry Guide 7, does not indicate "reserves" by SEC standards, and therefore all development costs incurred by us are expensed when incurred. We cannot

be certain that any part of the deposits at the Velardeña Properties or the Yaxtché deposit at the El Quevar project will ever be confirmed or converted into SEC Industry Guide 7 compliant “reserves”.

#### *Asset Retirement Obligations*

We record asset retirement obligations in accordance with Auditing Standards Codification (“ASC”) 410, “Asset Retirement and Environmental Obligations” (“ASC 410”), which establishes a uniform methodology for accounting for estimated reclamation and abandonment costs. According to ASC 410, the fair value of a liability for an asset retirement obligation (“ARO”) is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. An offsetting asset retirement cost is capitalized as part of the carrying value of the assets with which it is associated and depreciated over the useful life of the asset.

#### *Long Lived Assets*

Long lived assets are recorded at cost and per the guidance of ASC 360 we assess the recoverability of our long lived assets, including goodwill, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the sum of estimated future net cash flows on an undiscounted basis is less than the carrying amount of the related asset, impairment is considered to exist. The related impairment loss is measured by comparing estimated future net cash flows on a discounted basis or by comparing other market indicators to the carrying amount of the asset.

#### **Table of Contractual Obligation**

The following table summarizes our contractual obligations at December 31, 2019:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>More Than 5 Years</u>
(in thousands of \$)					
Operating leases(1)	755	161	324	261	9
El Quevar and Velardeña concession payments(2)	265	53	106	106	— (3)

- (1) The operating lease obligations are related to our corporate headquarters office in Golden, Colorado, which expires January 31, 2025, as well as another office lease associated with our Velardeña Properties and El Quevar project.
- (2) In 2020 and subsequent years, we expect to make annual maintenance payments of approximately \$23,000 to the Mexico federal government to maintain the Velardeña Properties concessions and \$60,000 to maintain related surface rights under a contract with the local community ejido. In 2020 and subsequent years, we expect to pay approximately \$30,000 per year to the Argentina federal government in order to maintain our El Quevar concessions.
- (3) We cannot currently estimate the life of the Velardeña Properties or the El Quevar project. This table assumes that no annual maintenance payments will be made more than five years after December 31, 2019. If we continue to hold the Velardeña Properties concessions beyond five years, we expect that we would make annual maintenance payments of approximately \$23,000 per year for the life of the Velardeña Properties concessions. If we continue to hold the El Quevar concessions beyond five years, we expect that we would make annual maintenance payments of approximately \$30,000 per year for the life of the El Quevar concessions.

From time to time we enter into lease or option agreements related to exploration properties that are of interest to us. These agreements typically contain escalating payments required to maintain our exploration rights to the property. Such agreements are not included in the above table because exploration success is historically low and we have the right to terminate the agreements at any time.

#### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

### **ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Interest Rate Risk**

We invest substantially all of our excess cash with high credit-quality financial institutions or in U.S. government and debt securities rated “investment grade” or better. The rates received on such investments may fluctuate with changes in economic conditions. Based on the average cash, restricted cash, investments and restricted investment balances outstanding during the year ended December 31, 2019, a 1.0% decrease in interest rates would have resulted in a reduction in interest income for the period of less than approximately \$0.1 million.

#### **Foreign Currency Exchange Risk**

Although most of our expenditures are in U.S. dollars, certain purchases of labor, supplies and capital assets are denominated in other currencies. As a result, currency exchange fluctuations may impact the costs of our mining and exploration activities. To reduce this risk, we maintain minimum cash balances in foreign currencies and complete most of our purchases in U.S. dollars.

#### **Commodity Price Risk**

We are primarily engaged in the exploration and mining of properties containing silver, gold, zinc, lead and other minerals. As a result, decreases in the price of any of these metals have the potential to negatively impact our ability to establish reserves and mine on our properties. For further detail regarding the effect on our expected cash flow from fluctuations in silver and gold prices, see “*Item 7: Management’s Discussion and Analysis—Liquidity and Capital Resources*” above.

### **ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and supplementary information filed as part of this Item 8 are listed under Part IV, Item 15, “Exhibits, Financial Statement Schedules” and contained in this annual report on Form 10-K at page F-1.

### **ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A: CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2019.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective and designed to provide reasonable assurance that (i) information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The management of Golden Minerals, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of our controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

### **Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, management has concluded that, as of December 31, 2019, our internal control over financial reporting is effective based on these criteria.

### **Changes in Internal Control over Financial Reporting**

Due to the adoption of ASU 2016-02 and ASU 2018-11, we have modified our internal control over financial reporting to include procedures to ensure the appropriate accounting treatment for our operating leases. Other than with respect to the accounting for our operating leases, there have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting..

### **ITEM 9B: OTHER INFORMATION**

None.



## **PART III**

### **ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

For Information regarding our executive officers, see “Items 1 and 2: Business and Properties—Executive Officers of Golden Minerals” and “Items 1 and 2: Business and Properties—Board of Directors of Golden Minerals.”

Additional information is incorporated by reference from the information in our proxy statement for the 2020 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

We have adopted a code of ethics that applies to all of our employees, including the principal executive officer, principal financial officer, principal accounting officer, and those of our officers performing similar functions. The full text of our code of ethics can be found on the Corporate Governance page on our website. In the event our Board of Directors approves an amendment to or waiver from any provision of our code of ethics, we will disclose the required information pertaining to such amendment or waiver on our website.

### **ITEM 11: EXECUTIVE COMPENSATION**

Incorporated by reference from the information in our proxy statement for the 2020 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

### **ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference from the information in our proxy statement for the 2020 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

### **ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated by reference from the information in our proxy statement for the 2020 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

### **ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated by reference from the information in our proxy statement for the 2020 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days of the end of the fiscal year to which this report relates.

## PART IV

### ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- a. Documents filed as part of this annual report on Form 10-K or incorporated by reference:
- (1) Our consolidated financial statements are listed on the “Index to Financial Statements” on Page F-1 to this report.
  - (2) Financial Statement Schedules (omitted because they are either not required, are not applicable, or the required information is disclosed in the notes to the financial statements or related notes).
  - (3) The following exhibits are filed with this annual report on Form 10-K or incorporated by reference.

**ITEM 16: PREPARATION OF STATEMENT OR REPORT**

Not applicable

**EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of Golden Minerals Company.(2)
3.2	First Amendment to the Amended and Restated Certificate of Incorporation of Golden Minerals Company.(3)
3.3	Second Amendment to the Amended and Restated Certificate of Incorporation of Golden Minerals Company. (15)
3.4	Bylaws of Golden Minerals Company.(2)
4.1	Specimen of Common Stock Certificate.(4)
4.2	Warrant Agreement by and between Golden Minerals Company and Computershare Trust Company N.A., dated as of May 6, 2016. (14)
4.3	Form of Series A Warrant. (25)
4.4	Form of Series B Warrant. (25)
4.5	Description of Registrant's Securities *
10.1	Form of Indemnification Agreement.(2)
10.2	Form of Change of Control Agreement.(2)
10.3	Amendment No. 1 to Change of Control Agreement.(5)
10.4	Golden Minerals Company Amended and Restated 2009 Equity Incentive Plan.(6)
10.5	Form of Restricted Stock Award Agreement Pursuant to the 2009 Equity Incentive Plan.(7)
10.6	Non-Employee Directors Deferred Compensation and Equity Award Plan.(7)
10.7	Form of Non-Qualified Stock Option Award Agreement Pursuant to the Amended and Restated 2009 Equity Incentive Plan.(8)

10.8	Registration Rights Agreement by and among Golden Minerals Company, Sentient Global Resources Fund III, L.P., SGRF III Parallel I, L.P. and Sentient Global Resources Fund IV, L.P. dated as of October 7, 2011.(9)
10.9	Registration Rights Agreement between Golden Minerals Company and Sentient Global Resources Fund IV, L.P. dated as of September 19, 2012.(1)
10.10	Registration Rights Agreement between Golden Minerals Company and Sentient Global Resources Fund IV, L.P. dated as of September 10, 2014.(11)
10.11	Golden Minerals Company 2013 Key Employee Long-Term Incentive Plan.(10)
10.12	Master Agreement and Lease Agreement, dated as of July 1, 2015, by and between Minera William S.A de C.V. and Minera Hecla, S.A. de C.V.(12)
10.13	First Amendment to Master Agreement and Lease Agreement by and between Minera William S.A de C.V. and Minera Hecla, S.A. de C.V., dated as of July 1, 2016 (18)
10.14	Second Amendment to the Master Agreement and Lease Agreement by and between Minera William S.A de C.V. and Minera Hecla, S.A. de C.V., dated as of August 2, 2017 (20)
10.15	Third Amendment to the Master Agreement and Lease Agreement by and between Minera William S.A de C.V. and Minera Hecla, S.A. de C.V., dated as of December 2, 2019 (23)
10.16	Fourth Amendment to the Master Agreement and Lease Agreement by and between Minera William S.A de C.V. and Minera Hecla, S.A. de C.V., dated as of January 31, 2020 and effective as of December 2, 2019 *
10.17	Registration Rights Agreement between Golden Minerals Company and Sentient Global Resources Fund IV, L.P. dated as of February 11, 2016.(13)
10.18	Registration Rights Agreement between Golden Minerals Company and Sentient Global Resources Fund IV, L.P. dated as of June 10, 2016. (16)
10.19	Form of Unit Agreement Pursuant to the 2013 Key Employee Long-Term Incentive Plan. (17)
10.20	At the Market Offering Agreement, dated as of December 20, 2016, between Golden Minerals Company and H.C. Wainwright & Co., LLC, as amended by the Amendment dated November 23, 2018. (19) (21)
10.21	Purchase Agreement, dated as of May 9, 2018 between Golden Minerals Company and Lincoln Park Capital Fund, LLC (Registered Purchase Agreement). (22)
10.22	Purchase Agreement, dated as of May 9, 2018 between Golden Minerals Company and Lincoln Park Capital Fund, LLC (Commitment Purchase Agreement). (22)

10.23	Registration Rights Agreement, dated as of May 9, 2018 between Golden Minerals Company and Lincoln Park Capital Fund, LLC. (22)
10.24	Purchase and Sale Agreement dated as of June 26, 2019 by and between Golden Minerals Company, Minera de Cordilleras S. de R.L. de C.V. and Compañía Minera Autlán S.A.B. de C.V. (24)
10.25	Form of Securities Purchase Agreement between Golden Minerals Company and certain institutional investors, dated as of July 17, 2019. (25)
21.1	Subsidiaries of the Company.*
23.1	Consent of Plante Moran PLLC.*
23.2	Consent of Tetra Tech.*
23.3	Consent of Wood Group PLC *
31.1	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).*
31.2	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002).*
32.1	Certificate of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*

(1) Incorporated by reference to our Current Report on Form 8-K filed September 19, 2012.

(2) Incorporated by reference to our Current Report on Form 8-K filed March 30, 2009.

(3) Incorporated by reference to our Current Report on Form 8-K filed September 9, 2011.

(4) Incorporated by reference to our Form S-1/A Registration Statement filed November 16, 2009.

- (5) Incorporated by reference to our Current Report on Form 8-K filed May 28, 2013.
- (6) Incorporated by reference to our Quarterly Report on Form 10-Q filed August 6, 2014.
- (7) Incorporated by reference to our Quarterly Report on Form 10-Q filed August 10, 2009.
- (8) Incorporated by reference to our Quarterly Report on Form 10-Q filed May 4, 2010.
- (9) Incorporated by reference to our Current Report on Form 8-K filed October 11, 2011.
- (10) Incorporated by reference to our Current Report on Form 8-K filed December 18, 2013.
- (11) Incorporated by reference to our Current Report on Form 8-K filed September 10, 2014.
- (12) Incorporated by reference to our Current Report on Form 8-K filed July 20, 2015..
- (13) Incorporated by reference to our Current Report on Form 8-K filed on February 18, 2016.
- (14) Incorporated by reference to our Current Report on Form 8-K filed on May 6, 2016.
- (15) Incorporated by reference to our Current Report on Form 8-K filed on May 20, 2016.
- (16) Incorporated by reference to our Current Report on Form 8-K filed on June 14, 2016.
- (17) Incorporated by reference to our Quarterly Report on Form 10-Q filed August 11, 2016.
- (18) Incorporated by reference to our Quarterly Report on Form 10-Q filed on November 3, 2016.
- (19) Incorporated by reference to our Current Report on Form 8-K filed on December 20, 2016.
- (20) Incorporated by reference to our Current Report on Form 8-K filed on August 3, 2017
- (21) Incorporated by reference to our Current Report on Form 8-K filed on November 23, 2018.
- (22) Incorporated by reference to our Current Report on Form 8-K filed on May 9, 2018.
- (23) Incorporated by reference to our Current Report on Form 8-K filed on December 6, 2019.
- (24) Incorporated by reference to our Quarterly Report on Form 10-Q filed on August 7, 2019.
- (25) Incorporated by reference to our Current Report on Form 8-K filed on July 19, 2019.

\* Filed herewith.

\*\* Furnished herewith.



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**GOLDEN MINERALS COMPANY**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA INDEX**

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## **Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Golden Minerals Company

### ***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Golden Minerals Company (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### ***Adoption of New Accounting Standards***

As discussed in Note 5 to the consolidated financial statements, the Company has changed its method for accounting for leases in 2019 due to the adoption of the new lease standard. The Company adopted the new lease standard using a modified retrospective approach.

### ***Basis for Opinion***

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2013.

Denver, Colorado  
February 27, 2020

**GOLDEN MINERALS COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)

	December 31, 2019	December 31, 2018
	(in thousands, except share data)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 6)	\$ 4,593	\$ 3,293
Short-term investments (Note 6)	—	330
Lease receivables	448	481
Inventories, net (Note 8)	231	229
Derivative at fair value (Note 9)	254	—
Prepaid expenses and other assets (Note 7)	669	633
Total current assets	<u>6,195</u>	<u>4,966</u>
Property, plant and equipment, net (Note 10)	6,031	7,109
Other long term assets (Note 11)	1,131	569
Total assets	<u>\$ 13,357</u>	<u>\$ 12,644</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Accounts payable and other accrued liabilities (Note 12)	\$ 2,127	\$ 1,969
Deferred revenue, current (Note 18)	472	293
Other current liabilities (Note 14)	1,824	12
Total current liabilities	<u>4,423</u>	<u>2,274</u>
Asset retirement and reclamation liabilities (Note 13)	2,839	2,683
Deferred revenue, non-current (Note 18)	—	307
Other long term liabilities (Note 14)	494	10
Total liabilities	<u>7,756</u>	<u>5,274</u>
Commitments and contingencies (Note 21)		
Equity (Note 17)		
Common stock, \$.01 par value, 200,000,000 shares authorized; 106,734,279 and 95,620,796 shares issued and outstanding respectively	1,067	955
Additional paid in capital	521,314	517,806
Accumulated deficit	<u>(516,780)</u>	<u>(511,391)</u>
Shareholders' equity	<u>5,601</u>	<u>7,370</u>
Total liabilities and equity	<u>\$ 13,357</u>	<u>\$ 12,644</u>

The accompanying notes form an integral part of these consolidated financial statements.

**GOLDEN MINERALS COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Expressed in United States dollars)

	The Year Ended December 31,	
	2019	2018
(in thousands except per share data)		
<b>Revenue:</b>		
Oxide plant lease (Note 18)	\$ 7,730	\$ 7,217
Total revenue	<u>7,730</u>	<u>7,217</u>
<b>Costs and expenses:</b>		
Oxide plant lease costs (Note 18)	(2,377)	(2,289)
Exploration expense	(4,109)	(3,909)
El Quevar project expense	(2,011)	(1,266)
Velardeña care and maintenance costs	(1,797)	(1,889)
Administrative expense	(3,614)	(3,355)
Stock based compensation	(782)	(226)
Reclamation expense	(228)	(210)
Other operating income, net (Note 10)	3,238	5,138
Depreciation and amortization	(1,098)	(1,171)
Total costs and expenses	<u>(12,778)</u>	<u>(9,177)</u>
Income (loss) from operations	(5,048)	(1,960)
<b>Other income and (expense):</b>		
Interest and other income (expense), net (Note 19)	(201)	112
Other income	—	—
Loss on foreign currency	(102)	(84)
Total other income (loss)	<u>(303)</u>	<u>28</u>
Income (loss) from operations before income taxes	(5,351)	(1,932)
Income taxes (Note 16)	(35)	(13)
Net loss	<u>\$ (5,386)</u>	<u>\$ (1,945)</u>
<b>Net loss per common share — basic</b>		
Loss	<u>\$ (0.05)</u>	<u>\$ (0.02)</u>
<b>Weighted average Common Stock outstanding - basic (1)</b>	101,058,219	94,003,165

(1) Potentially dilutive shares have not been included because to do so would be anti-dilutive

The accompanying notes form an integral part of these consolidated financial statements.

**GOLDEN MINERALS COMPANY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in United States dollars)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (loss)	
	(in thousands except share data)					
<b>Balance, December 31, 2017</b>	<b>91,929,709</b>	<b>\$ 919</b>	<b>\$ 516,284</b>	<b>\$ (509,082)</b>	<b>\$ (40)</b>	<b>\$ 8,081</b>
Cumulative adjustment related to change in accounting principle (Note 5)	—	—	—	(89)	40	(49)
Adjustment related to correction of immaterial error (Note 3)	—	—	—	(154)	—	(154)
<b>Adjusted balance at January 1, 2018</b>	<b>91,929,709</b>	<b>\$ 919</b>	<b>\$ 516,284</b>	<b>\$ (509,325)</b>	<b>\$ —</b>	<b>\$ 7,878</b>
Stock compensation accrued and shares issued for vested stock awards	537,279	4	312	—	—	316
Registered direct purchase agreement, net (Note 17)	3,153,808	32	1,202	—	—	1,234
Deemed dividend on warrants (Note 5)	—	—	8	(8)	—	—
Net loss	—	—	—	(1,945)	—	(1,945)
<b>Balance, December 31, 2018</b>	<b>95,620,796</b>	<b>\$ 955</b>	<b>\$ 517,806</b>	<b>\$ (511,278)</b>	<b>\$ —</b>	<b>\$ 7,483</b>
Adjustment related to correction of immaterial error (Note 3)	—	—	—	(113)	—	(113)
<b>Adjusted balance at January 1, 2019</b>	<b>95,620,796</b>	<b>\$ 955</b>	<b>\$ 517,806</b>	<b>\$ (511,391)</b>	<b>\$ —</b>	<b>\$ 7,370</b>
Stock compensation accrued and shares issued for vested stock awards (Note 17)	312,000	3	556	—	—	559
Modification of previously awarded KELITIP Units (Note 17)	—	—	583	—	—	583
Shares issued under the at-the-market offering agreement, net (Note 17)	33,995	1	11	—	—	12
Shares issued under the Lincoln Park commitment purchase agreement, net (Note 17)	2,113,642	21	507	—	—	528
Registered direct offering agreement, net (Note 17)	8,653,846	87	1,848	—	—	1,935
Deemed dividend on warrants (Note 5)	—	—	3	(3)	—	—
Net loss	—	—	—	(5,386)	—	(5,386)
<b>Balance, December 31, 2019</b>	<b>106,734,279</b>	<b>\$ 1,067</b>	<b>\$ 521,314</b>	<b>\$ (516,780)</b>	<b>\$ —</b>	<b>\$ 5,601</b>

The accompanying notes form an integral part of these consolidated financial statements.

**GOLDEN MINERALS COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in United States dollars)

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities:		
Net cash used in operating activities (Note 20)	\$ (4,395)	\$ (5,711)
Cash flows from investing activities:		
Proceeds from sale of assets	3,144	5,097
Proceeds from sale of trading securities	113	—
Acquisitions of property, plant and equipment	(38)	(152)
Net cash from investing activities	\$ 3,219	\$ 4,945
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	2,476	809
Net cash from financing activities	\$ 2,476	\$ 809
Net increase in cash and cash equivalents	1,300	43
Cash and cash equivalents, beginning of period	3,293	3,250
Cash and cash equivalents, end of period	\$ 4,593	\$ 3,293

The accompanying notes form an integral part of these consolidated financial statements.

**GOLDEN MINERALS COMPANY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**

**1. Nature of Operations**

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

During November 2015 the Company suspended mining and sulfide processing activities at its Velardeña Properties in order to conserve the asset until the Company is able to develop mining and processing plans that at then current prices for silver and gold indicate a sustainable positive operating margin (defined as revenues less costs of sales) or the Company is able to locate, acquire and develop alternative mineral sources that could be economically mined and transported to the Velardeña Properties for processing. The Company has placed the mine and sulfide processing plant on care and maintenance to enable a re-start of either the mine or mill when mining and processing plans and metals prices support a cash positive outlook. The Company incurred approximately \$1.7 million and \$1.9 million in care and maintenance costs for the years ended December 31, 2019 and December 31, 2018, respectively.

The Company has retained a core group of employees at the Velardeña Properties, most of whom have been assigned to operate and provide administrative support for the oxide plant, which is leased to a subsidiary of Hecla Mining Company (“Hecla”) and not affected by the shutdown. The retained employees also include an exploration group and an operations and administrative group to continue to advance the Company’s plans in Mexico, oversee corporate compliance activities, and to maintain and safeguard the longer-term value of the Velardeña Properties assets.

The Velardeña oxide plant began processing material for Hecla in mid-December 2015, and the Company recorded net operating margin under the lease of approximately \$5.3 million in 2019. On March 24, 2017, Hecla exercised its right to extend the lease through December 31, 2018. On August 2, 2017, the Company granted Hecla an additional option to extend the lease for an additional period of up to two years ending no later than December 31, 2020 in exchange for a \$1.0 million cash payment and the purchase of \$1.0 million, or approximately 1.8 million shares, of the Company’s common stock, issued at par at a price of \$0.55 per share, based on an undiscounted 30-day volume weighted average stock price (see Note 17). On October 1, 2018, Hecla exercised this option to extend the lease through December 31, 2020. On December 2, 2019, the Company entered into a third amendment to the lease agreement with Hecla reducing the per tonne charge from \$22.00 to \$11.00 under certain silver price and head grade limits as fully discussed in Note 18. The third amendment also increased the notice period required for Hecla to terminate the lease from 120 days to 150 days.

On June 26, 2019, the Company entered into a Purchase and Sale Agreement (the “Agreement”) along with its indirectly wholly-owned subsidiary, Minera de Cordilleras S. de R.L. de C.V., to sell certain assets to Compañía Minera Autlán S.A.B. de C.V. (“Autlán”) for \$22.0 million. Upon execution of the Agreement, Autlán paid the Company a deposit of \$1.5 million (see Note 14). Under the terms of the Agreement, Autlán had agreed to purchase three of the Company’s Mexican subsidiaries, which together hold the Velardeña Properties, including the Velardeña and Chicago mines (which are currently on care and maintenance), two processing plants, mining equipment and other adjacent exploration properties. The sale would have also included the Velardeña oxide plant lease as well as the Rodeo and Santa Maria project concessions. Under the Agreement, Autlán had the right to terminate the Agreement at any time during a due diligence period. On September 11, 2019, the Company announced that Autlán exercised its right to terminate the Agreement. As a result of the termination of the Agreement, the Company was required to repay the \$1.5 million deposit amount, plus interest at 3% per annum, within 90 days following termination (on or before December 8, 2019). In lieu of

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the Company not making the repayment by December 8, 2019, Autlán had the option to receive the Rodeo concessions, which they declined, as full settlement of the deposit. As a result, the Company is now required to repay the deposit by making monthly payments equal to \$257,000, commencing on December 9, 2019, until the deposit amount is repaid with interest at approximately 11% per annum. The \$1.3 million deposit remaining to be paid at December 31, 2019 is recorded in *“Other Current Liabilities”* on the accompanying Condensed Consolidated Balance Sheets (see Note 14).

The Company remains focused on evaluating and searching for mining opportunities in North America (including Mexico) with near term prospects of mining, and particularly for properties within reasonable haulage distances of our processing plants at the Velardeña Properties. The Company is also focused on advancing our El Quevar exploration property in Argentina and on advancing selected properties in our portfolio of approximately 12 properties, located primarily in Mexico. The Company is also reviewing strategic opportunities, focusing primarily on development or operating properties in North America, including Mexico.

The Company is considered an exploration stage company under the criteria set forth by the SEC as the Company has not yet demonstrated the existence of proven or probable mineral reserves, as defined by SEC Industry Guide 7, at the Velardeña Properties, or any of the Company’s other properties. As a result, and in accordance with GAAP for exploration stage companies, all expenditures for exploration and evaluation of the Company’s properties are expensed as incurred. As such, the Company’s financial statements may not be comparable to the financial statements of mining companies that do have proven and probable mineral reserves. Such companies would typically capitalize certain development costs including infrastructure development and mining activities to access the ore. The capitalized costs would be amortized on a units-of-production basis as reserves are mined. The amortized costs are typically allocated to inventory and eventually to cost of sales as the inventories are sold. As the Company does not have proven and probable reserves, substantially all expenditures at the Company’s Velardeña Properties for mine construction activity, as well as costs associated with the mill facilities, and for items that do not have a readily identifiable market value apart from the mineralized material, have been expensed as incurred. Such costs are charged to cost of metals sold or project expense during the period depending on the nature of the costs. Certain of the costs may be reflected in inventories prior to the sale of the product. The term *“mineralized material”* as used herein, although permissible under SEC Industry Guide 7, does not indicate *“reserves”* by SEC standards. The Company cannot be certain that any deposits at the Velardeña Properties or any other exploration property will ever be confirmed or converted into SEC Industry Guide 7 compliant *“reserves”*.

## **2. Liquidity**

At December 31, 2019, the Company’s aggregate cash and cash equivalents totaled \$4.6 million, compared to the \$3.3 million in similar assets held at December 31, 2018. The December 31, 2019 balance is due in part to the following expenditures and cash inflows for the year ended December 31, 2019. Expenditures totaled \$11.4 million from the following:

- \$4.0 million in exploration expenditures, including work at the Sand Canyon, Yoquivo, Santa Maria and other properties;
- \$2.0 million in evaluation activities, care and maintenance and property holding costs at the El Quevar project; and
- \$1.8 million in care and maintenance costs at the Velardeña Properties; and
- \$3.6 million in general and administrative expenses.



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The foregoing expenditures were offset by cash inflows of \$12.7 million from the following:

- \$5.3 million of net operating margin received pursuant to the oxide plant lease (defined as oxide plant lease revenue less oxide plant lease costs);
- \$3.0 million from the sale of certain nonstrategic mineral claims to Peñoles;
- \$1.9 million of net proceeds from the sale of the Company's common stock in a registered direct offering (as described in Note 17);
- \$1.3 million received as a deposit, net of repayments, related to the proposed sale of the Velardeña Properties and other mineral concessions to Autlán (as described in Notes 1 and 14);
- \$0.6 million, net of commitment fees and other offering related costs, from the LPC Program (as described in Note 17);
- \$0.1 million from the sale of miscellaneous assets and \$0.1 million from the sale of an investment in a junior mining company (as described in Note 6); and
- \$0.4 million from a decrease in working capital primarily related to an increase in accrued liabilities for value added taxes collected from the sale of mineral claims to Peñoles (as described in Note 14; these value added taxes were required to be remitted to the Mexican government in January 2020).

In addition to the \$4.6 million cash balance at December 31, 2019, in October 2019 the Company entered into an option to purchase agreement for the sale of its interest in the Santa Maria property and expects to receive an initial cash payment of \$1.0 million in connection with the transaction by the end of the first quarter 2020. The Company also expects to receive approximately \$3.3 million in net operating margin from the lease of the oxide plant during the next twelve-month period ending December 31, 2020. In addition, subsequent to December 31, 2019 the Company received approximately \$0.4 million from the sale of our common stock under the LPC Program and the ATM Program during the year to date period ended February 25, 2020. The Company's forecasted expenditures during the twelve months ending December 31, 2020 are as follows:

- Approximately \$3.0 million on exploration activities and property holding costs related to our portfolio of exploration properties located primarily in Mexico, including project assessment and evaluation costs relating to Sand Canyon, Yoquivo and other properties;
- Approximately \$1.3 million related to repayment of the remaining Autlán deposit;
- Approximately \$1.8 million at the Velardeña Properties for care and maintenance;
- Approximately \$0.8 million at the El Quevar project to fund ongoing exploration and evaluation activities, care and maintenance and property holding costs;
- Approximately \$0.3 million related to the payment of income taxes due in Canada;
- Approximately \$3.2 million on general and administrative costs; and

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- Approximately \$0.5 million related to an increase in working capital related to a decrease in accrued liabilities.

The Company's forecasted expenditures of \$10.9 million are greater than the cash resources of \$9.3 million, noted above, that are projected to be available during the period. Therefore, through December 31, 2020, the Company will take appropriate actions, which may include sales of certain of the Company's exploration assets, reductions to the Company's currently budgeted level of spending, and/or raising additional equity capital through sales under the ATM Program (as defined in Note 17 below), the LPC Program or otherwise.

The actual amount of cash expenditures that the Company incurs during the twelve-month period ending December 31, 2020 may vary significantly from the amounts specified above and will depend on a number of factors, including variations from anticipated care and maintenance costs at the Velardeña Properties and costs for continued exploration, project assessment, and development at the Company's other exploration properties, including Sand Canyon, Yoquivo and El Quevar. Likewise, although the Company believes it is probable it will receive the sources of cash described above, the actual amount of cash receipts that the Company receives during the period may vary significantly from the amounts specified above due to, among other things, a decrease in the quantity of material processed under the oxide plant lease, an unexpected early termination of the oxide plant lease by the lessee, or the election by the purchaser of the Santa Maria property to terminate the proposed acquisition prior to payment of the initial \$1.0 million portion of the purchase price. If cash expenditures are greater than anticipated or if cash receipts are less than anticipated, the Company would need to take more aggressive actions to maintain sufficient cash balances over the next twelve months, which may include sales of certain of the Company's exploration assets, reductions to the Company's currently budgeted level of spending, and/or raising additional equity capital through sales under the ATM Program, the LPC Program or otherwise.

The consolidated financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business. However, the continuing operations of the Company are dependent upon its ability to secure sufficient funding and to generate future profitable operations. The underlying value and recoverability of the amounts shown as property, plant and equipment in Note 10 are dependent on the ability of the Company to generate positive cash flows from operations and to continue to fund exploration and development activities that would lead to profitable mining activities or to generate proceeds from the disposition of property, plant and equipment.

There can be no assurance that the Company will be successful in generating future profitable operations or securing additional funding in the future on terms acceptable to the Company or at all. The Company believes the continuing cash flow from the lease of the oxide plant, use of the ATM Program and the LPC Program, and the potential for additional asset dispositions make it probable that the Company will have sufficient cash to meet its financial obligations and continue its business strategy beyond one year from the filing of the Company's consolidated financial statements for the period ended December 31, 2019.

### **3. Correction of Immaterial Error – Income Taxes**

In the third quarter 2019, the Company became aware that it had failed to timely file withholding tax returns and pay taxes that were due at the end of 2017 and 2018 relating to return of capital distributions made to the Company by one of the Company's wholly-owned subsidiaries (see Note 16). The effect of correcting this error was to reduce beginning retained earnings by \$154,000 and \$113,000 at January 1, 2018 and January 1, 2019, respectively as reflected in the accompanying Condensed Consolidated Statements of Changes in Equity.

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The Company evaluated the materiality of the error described above from a qualitative and quantitative perspective. Based on such evaluation, the Company concluded that the correction would not be material to any individual prior period, nor did it have an effect on the trend of financial results, taking into account the requirements of the SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements ("SAB 108"). Accordingly, we are correcting the error for every effected period of the 2018 Consolidated Financial Statements included in this Form 10-K.

**4. Summary of Significant Accounting Policies**

The Company's consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions relate to mineralized material and related future metals prices that are the basis for future cash flow estimates utilized in impairment calculations; depreciation, depletion and amortization calculations; environmental reclamation and closure obligations; valuation allowances for deferred tax assets and the fair value of financial instruments. The Company based its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ significantly from these estimates under different assumptions or conditions.

The policies adopted, considered by management to be significant, are summarized as follows:

*a. Basis of consolidation*

All of the Company's consolidated subsidiaries are 100% owned and as such the Company does not have a noncontrolling interest in any of its subsidiaries. All intercompany transactions and balances have been eliminated at consolidation.

*b. Translation of foreign currencies*

Substantially all expenditures and sales are made in U.S. dollars. Accordingly, the Company and its subsidiaries use the U.S. dollar as their functional and reporting currency.

*c. Cash and cash equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*d. Inventories*

Materials and supplies inventories are valued at the lower of average cost or net realizable value. Cost includes applicable taxes and freight. The Company routinely counts and evaluates its material and supplies to determine the existence of any obsolete stock that is subject to impairment.

*e. Mining properties, exploration and development costs*

The Company expenses general prospecting costs and the costs of acquiring and exploring unevaluated mineral properties. When a mineral property is determined to have proven and probable reserves, subsequent development

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costs are capitalized to mineral properties. For acquired mineral properties with proven and probable reserves, the Company capitalizes acquisition costs and subsequent development costs. When mineral properties are developed and operations commence, capitalized costs are charged to operations using the units-of-production method over proven and probable reserves. Upon abandonment or sale of a mineral property, all capitalized costs relating to the specific property are written off in the period abandoned or sold and a gain or loss is recognized in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

As discussed in Note 1, the Company is considered an exploration stage company under the criteria set forth by the SEC since it has not yet demonstrated the existence of proven or probable reserves at any of the Company's properties. As such, during the periods prior to November 2016 when the Company suspended mining and processing activities, the Company expensed costs as incurred related to extraction of mineralized material at the Velardeña Properties.

On a quarterly basis the Company evaluates its exploration properties to determine if they meet the Company's minimum requirements for continued evaluation. The rights to the properties that do not meet the minimum requirements are relinquished and the carrying values, if any, are written off and reflected in "Other operating income, net" on the accompanying Consolidated Statements of Operations and Comprehensive Loss.

*f. Property, plant and equipment and long lived asset impairment*

Buildings are depreciated using the straight-line method over the estimated useful lives of 30 to 40 years or the life of the mine whichever is shorter. Mining equipment and machinery, excluding the plant, are depreciated using the straight-line method over useful lives of three to eight years or the lease period, whichever is shorter. Mineral properties and the plant are depreciated using units of production based on estimated mineralized material. Other furniture and equipment are depreciated using the straight-line method over estimated useful lives of three to five years.

As discussed above, the Company does not have any properties with proven or probable reserves.

Property, plant and equipment are recorded at cost and per the guidance of ASC 360 the Company assesses the recoverability of its property, plant and equipment, including goodwill, whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the sum of estimated future net cash flows on an undiscounted basis is less than the carrying amount of the related asset, impairment is considered to exist. The related impairment loss is measured by comparing estimated future net cash flows on a discounted basis or by comparing other market indicators to the carrying amount of the asset.

The Company evaluated its remaining long lived assets at December 31, 2019 and 2018, and determined that no impairment was required.

*g. Asset Retirement Obligations*

The Company records asset retirement obligations ("ARO") in accordance with ASC 410, "Asset Retirement and Environmental Obligations" ("ASC 410"), which establishes a uniform methodology for accounting for estimated reclamation and abandonment costs. According to ASC 410, the fair value of an ARO is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. An offsetting asset retirement cost ("ARC") is capitalized as part of the carrying value of the assets with which it is associated, and depreciated over the useful life of the asset (see Note 13).

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The Company prepares estimates of the timing and amount of expected cash flows when an ARO is incurred. The fair value of the ARO is measured by discounting the expected cash flows using a discount rate that reflects the credit adjusted risk-free rate of interest. The Company records the fair value of an ARO when it is incurred and layer adjustments of the ARO are recorded as an adjustment to the corresponding ARC. The ARO is adjusted to reflect the passage of time (accretion cost) calculated by applying the discount rate implicit in the initial fair value measurement to the beginning-of-period carrying amount of the ARO. The Company records accretion costs to expense as incurred.

*h. Value Added Taxes*

The Company pays value added tax ("VAT") in Mexico as well as other countries, primarily related to exploration projects. The amounts are generally charged to expense as incurred because of the uncertainty of recoverability.

*i. Revenue Recognition*

The Company recognizes oxide plant lease fees and reimbursements for labor, utility and other costs as "Revenue from Oxide plant lease" in the Consolidated Statements of Operations following the guidance of Topic Leases 842 ("ASC 842"). ASC 842 supports recording as gross revenue the reimbursement of expenses incurred directly by the Company in performing its obligations under the lease in situations where the entity has control over the specific goods or services transferred to a customer as a principal versus as an agent. The actual costs incurred for reimbursed direct labor and utility costs are reported as "Oxide plant lease costs" in the Consolidated Statements of Operations. The Company recognizes lease fees during the period the fees are earned per the terms of the lease (see Note 18).

*j. Stock compensation*

Stock based compensation costs are recognized per the guidance of ASC 718, "Compensation — Stock Compensation" ("ASC 718"), using a graded vesting attribution method whereby costs are recognized over the requisite service period for each separately vesting portion of the award (see Note 17). Stock grants are valued at their grant date at fair value which in the case of options requires the use of the Black-Scholes option pricing model. Per ASC 718 the grants may be classified as equity grants or liability grants depending on the terms of the grant.

*k. Leases*

Effective January 1, 2019 the Company adopted ASU 2016-02 and ASU No. 2018-11, which requires lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement (see Note 5).

*l. Net income (loss) per Share of Common Stock*

Basic income (loss) per share is computed by dividing net income (loss) available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding for the period. Diluted income (loss) per share reflects the potential dilution that would occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock.

At December 31, 2019 and 2018, all potentially dilutive shares were excluded from the computation of diluted earnings per share because to include them would have been anti-dilutive.

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*m. Comprehensive Income (Loss)*

Comprehensive income (loss) is defined as all changes in equity (deficit), exclusive of transactions with stockholders, such as capital investments. Comprehensive income (loss) includes net income (loss) and changes in certain assets and liabilities that are reported directly in equity.

During the first quarter 2018 the Company adopted ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which amended its accounting treatment for the recognition, measurement, presentation and disclosure of certain financial assets. ASU 2016-01 requires equity investments that have a readily determinable fair value to be measured at fair value through net income. Previously, entities would recognize changes in fair value of available-for-sale equity securities in other comprehensive income and would recognize in net income impairment losses that were other-than-temporary. There will no longer be an available-for-sale classification (with changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. The Company recognized retrospectively the cumulative effect of initially adopting ASU 2016-01 (see Note 5). Accordingly, the Company did not recognize any other comprehensive income or loss for the periods ended December 31, 2018 and 2019.

*n. Income Taxes*

The Company accounts for income taxes in accordance with the provisions of ASC 740, "Income Taxes" ("ASC 740"), on a tax jurisdictional basis. The Company files United States and certain other foreign country income tax returns, and pays taxes reasonably determined to be due. The tax rules and regulations in these countries are highly complex and subject to interpretation. The Company's income tax returns are subject to examination by the relevant taxing authorities and in connection with such examinations, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules within the country involved. In accordance with ASC 740, the Company identifies and evaluates uncertain tax positions, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the balance sheet.

The Company classifies income tax related interest and penalties as income tax expense.

*o. Recently Adopted Standards*

During the first quarter 2019 the Company adopted ASU 2016-02, "Leases" ("ASU 2016-02") and ASU No. 2018-11 "Leases (Topic 842)" ("ASU 2018-11"), which require lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For a lessor, the accounting applied is largely unchanged from previous guidance. The Company currently leases administrative offices in the U.S. and in several foreign locations under lease agreements that typically exceed one year. The Company has elected the modified retrospective method of adopting ASU 2016-02 (see Note 5).

During the first quarter 2018 the Company adopted ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which amended its accounting treatment for the recognition, measurement, presentation and disclosure of certain financial assets. ASU 2016-01 requires equity investments that have a readily determinable fair value to be measured at fair value through net income. Previously, entities would recognize changes in fair value of available-for-sale equity securities in other comprehensive income and would recognize in net income impairment losses that were other-than-temporary. There will no longer be an available-for-sale classification

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(with changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. The Company recognized retrospectively the cumulative effect of initially adopting ASU 2016-01 (see Note 5).

During the first quarter 2018 the Company adopted ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" ("ASU 2016-08"), which clarifies principal versus agent when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606, Revenue from Contracts with Customers, requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent). The adoption of ASU 2016-08 during the first quarter 2018, did not result in a material impact on its consolidated financial position or results of operations or the requirement for retrospective reporting.

During the first quarter 2018 the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which was issued by the Financial Accounting Standards Board ("FASB") in May 2014. The Company also adopted ASU No. 2017-05, "Other Income (Subtopic 310-20)" ("ASU 2017-05"), which was issued by the FASB in February 2017 clarifying the scope of Subtopic 610-20, which was originally issued as part of ASU 2014-09. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized and the related cash flows. The Company has elected the modified retrospective method of adopting ASU 2014 (see Note 5).

*p. Recently Issued Pronouncements*

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU 2016-13 will be effective for the Company as of January 1, 2020. As the Company's principle credit risk is related to its *Lease Receivables* the Company does not expect the adoption of this update to result in a material impact on its consolidated financial position or results of operations.

## **5. Change in Accounting Principle**

### *Leases*

Effective January 1, 2019 the Company adopted ASU 2016-02 and ASU 2018-11, which requires lessees to recognize a right-of-use asset and a lease liability for all leases with terms greater than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For a lessor, the accounting applied is largely unchanged from previous guidance. The Company currently leases administrative offices in the U.S. and in several foreign locations under lease agreements that typically exceed one year. The Company has elected the modified retrospective method of adopting ASU 2016-02 per Topic 842. The Company has elected to apply several practical expedients available under the application of ASU 2016-02 and ASU 2018-11, which allowed the Company to forego reassessing the classification of existing or expiring leases, evaluating whether any existing or expiring contracts contain leases or reassessing previously recorded indirect costs. The Company did not elect the practical expedient permitting the combination of lease and non lease components of the contract. The adoption of ASU 2016-02 and ASU 2018-11 at January 1, 2019 resulted in only a negligible difference to amounts already recorded by the Company in its Consolidated Balance Sheets as of December 31, 2018, and as result the Company did not record

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an adjustment to the beginning balance of retained earnings at January 1, 2019, as required under the modified retrospective method.

The Company took possession of new office space and began a new long-term lease for its principal headquarters office with an effective commencement date of June 1, 2019. The new office lease will expire five years and eight full calendar months following the commencement date. There are no options to extend the lease beyond the stated term. The Company recorded a right of use asset of approximately \$465,000 and a lease liability of approximately \$450,000 in the second quarter of 2019 based on the net present value of the future lease payments discounted at 9.5%, which represents the Company's incremental borrowing rate for purposes of applying the guidance of Topic 842. As required, the Company will recognize a single lease cost on a straight-line basis.

The Company also has long-term office leases in Mexico and Argentina that expired in 2019 and recorded a combined lease liability of approximately \$45,000 and combined right of use asset of approximately \$45,000 relating to both of those leases at January 1, 2019. In November 2019, the Company renewed its Mexican office lease for four years and recorded a right of use asset and lease liability of approximately \$174,000. In December 2019, the Company also renewed its Argentina office lease for two years and recorded a right of use asset and lease liability of approximately \$18,000.

The Company has included its right of use assets for the office leases described above in "*Other long-term assets*" (Note 11) and its office lease liabilities in "*Other liabilities*", short term and long term (Note 14), in the Company's Consolidated Balance Sheets for the period ended December 31, 2019.

*Other Income Related to the Sale of Exploration Properties*

During the first quarter 2018 the Company adopted ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") which was issued by the FASB in May 2014. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In addition, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing and uncertainty of revenue that is recognized and the related cash flows. The Company has elected the modified retrospective method of initially adopting ASU 2014-09.

ASU 2014-09 requires, in certain instances, that transactions covered by ASC Topic 610, "Other Income" ("Topic 610") follow the recognition, measurement and disclosure guidelines established by ASU 2014-09. The Company generally follows the guidance of Topic 610 with respect to the recognition of income from the farm-out or sale of exploration properties. As of the beginning of 2018, the Company had one open contract impacted by the adoption of ASU 2014-09, involving an option agreement under which Santacruz Silver Mining Ltd. ("Santacruz") may acquire the Company's interest in certain nonstrategic mineral claims located in the Zacatecas Mining District, Zacatecas, Mexico (the "Zacatecas Properties") for a series of payments totaling \$1.5 million (Note 10). In applying ASU 2014-09, approximately \$49,000 of the income recognized from the Santacruz transaction in the fourth quarter of 2017 would have been recognized in the first quarter of 2018. Accordingly, the Company has recognized retrospectively the cumulative effect of initially adopting ASU 2014-09 by recording a negative adjustment to retained earnings of \$49,000 at the beginning of 2018, included in the Company's Consolidated Statement of Changes in Equity, and recording \$49,000 in "*Other operating income, net*" in the accompanying Consolidated Statements of Operations for the period ended December 31, 2018. See Note 10 for a further description of the contract with Santacruz and the identification of performance obligations and other significant judgments used in applying the guidance of Topic 606 to the contract.



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*Available for Sale Securities*

During the first quarter 2018 the Company adopted ASU No. 2016-01, which amended its accounting treatment for the recognition, measurement, presentation and disclosure of certain financial assets. ASU 2016-01 requires equity investments that have readily determinable fair values to be measured at fair value through net income. Previously, entities would recognize changes in fair value of available-for-sale equity securities in other comprehensive income and would recognize in net income impairment losses that were other-than-temporary. There will no longer be an available-for-sale classification (with changes in fair value reported in other comprehensive income) for equity securities with readily determinable fair values. At December 31, 2017, the Company had equity securities classified as available-for-sale and reported at fair value of \$238,000, with cumulative unrealized losses of \$40,000 recorded in “*Accumulated other comprehensive loss*” on its Consolidated Balance Sheets. The Company has recognized the cumulative effect of initially adopting ASU 2016-01 by recording a negative adjustment to retained earnings and other comprehensive income of \$40,000 at the beginning of 2018, included in the Company’s Consolidated Statement of Changes in Equity, and has recorded a gain of approximately \$51,000 in “*Interest and other income, net*” in the accompanying Consolidated Statements of Operations for the period ended December 31, 2018.

*Warrant Liability*

In July 2017, the FASB issued ASU 2017-11, “Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part 1) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception” (“ASU 2017-11”). For freestanding equity-classified financial instruments, ASU 2017-11 requires entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Certain equity transactions following the issuance of the 2014 warrants have triggered anti-dilution clauses in the warrant agreements resulting in additional warrant shares and a reduction to the original strike price of the warrants. ASU 2017-11 prescribes a method to measure the value of a deemed dividend related to a triggering event by computing the difference in fair value between two instruments that have terms consistent with the actual instrument but that do not have a down round feature, where the number of warrant shares and strike price of one instrument corresponds to the actual instrument before the triggering event and the number of warrant shares and strike price of the other instrument corresponds to the actual instrument immediately after the triggering event. Following ASU 2017-11, for the years ending December 31, 2019 and December 31, 2018, the Company reduced its accumulated deficit by approximately \$3,000 and \$8,000 respectively related to triggering events.

**6. Cash and Cash Equivalents and Short-Term Investments**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Short-term investments include investments with maturities greater than three months, but not exceeding 12 months, or highly liquid investments with maturities greater than 12 months that the Company intends to liquidate during the next 12 months for working capital needs.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
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The following tables summarize the Company's short-term investments at December 31, 2018:

December 31, 2018	Cost	Estimated Fair Value (in thousands)	Carrying Value
Investments:			
Short-term:			
Trading securities	\$ 275	\$ 330	\$ 330
Total trading securities	<u>275</u>	<u>330</u>	<u>330</u>
Total short term	\$ <u>275</u>	\$ <u>330</u>	\$ <u>330</u>

The short-term investments at December 31, 2018 consist of 7,500,000 common shares, approximately 10% of the outstanding common shares, of Golden Tag Resources, Ltd. ("Golden Tag"), a junior mining company that was a joint venture partner in the Company's previously owned San Diego exploration property in Mexico. The Company acquired the shares during 2015 and 2016 in transactions involving the sale of its remaining 50% interest in the San Diego property to Golden Tag. All the Golden Tag shares were sold during the third quarter 2019, resulting in net proceeds of approximately \$113,000. For the year ended December 31, 2019 the Company recorded total losses related to ownership of the Golden Tag shares of approximately \$217,000 recorded in "Interest and other income (expense), net" in the accompanying Consolidated Statements of Operations. The Company had no short-term investments at December 31, 2019.

*Credit Risk*

The Company invests substantially all of its excess cash with high credit-quality financial institutions or in U.S. government or debt securities. Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. For cash and equivalents and investments, credit risk represents the carrying amount on the balance sheet. The Company mitigates credit risk for cash and equivalents and investments by placing its funds and investments with high credit-quality financial institutions, limiting the amount of exposure to each of the financial institutions, monitoring the financial condition of the financial institutions and investing only in government and corporate securities rated "investment grade" or better. The Company invests with financial institutions that maintain a net worth of not less than \$1 billion and are members in good standing of the Securities Investor Protection Corporation.

**7. Prepaid Expenses and Other Assets**

Prepaid expenses and other assets consist of the following:

	December 31, 2019	December 31, 2018
	(in thousands)	
Prepaid insurance	\$ 494	\$ 358
Recoupable deposits and other	<u>175</u>	<u>275</u>
	\$ <u>669</u>	\$ <u>633</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
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**8. Inventories**

Inventories at the Velardeña Properties were as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Material and supplies	\$ 231	\$ 229
	\$ 231	\$ 229

The material and supplies inventory at December 31, 2019 and 2018 are related to the Velardeña Properties and are reduced by a \$0.2 million obsolescence reserve.

**9. Derivative at Fair Value**

On December 3, 2019 the Company entered into an amendment to the plant lease agreement with Hecla, reducing the variable per tonne fee contained in the lease agreement from \$22.00 to \$11.00. Under certain silver price and delivered ore head grade limits, as fully discussed in Note 18, the variable per tonne fee could be increased back to the previous \$22.00 per tonne. Pursuant to ASC Topics 815-Derivatives and Hedging (“ASC 815”) and 842-Leases (“ASC 842”), arrangements with variable lease payments must be evaluated to assess whether they contain embedded derivatives. If embedded derivatives are not “clearly and closely related” to the lease contract, they must be bifurcated and accounted for separately from the host contract. The Company determined that the potential for the Company to receive an additional \$11.00 variable per tonne fee if certain conditions relating to the silver price and delivered ore head grades are met does not qualify for the “clearly and closely related” exception, and as a result, the potential additional \$11.00 variable per tonne fee constitutes a derivative that must be valued and accounted for apart from the host lease contract. Per the guidance of ASC 842, the Company has determined that the amendment to the lease agreement constituted a modification that must be accounted for as a new lease commencing on December 2, 2019, the date the amendment was agreed upon by both parties, and expiring on December 31, 2020. The Company is treating the fair value of the derivative received at the time of the modification to the lease agreement as an upfront lease payment that will be amortized over the remaining life of the lease on a straight line basis (see Note 15 for a discussion of the valuation method used to compute the fair value of the derivative). At December 2, 2019, the Company had recorded a “*Derivative at fair value*” asset and “*Deferred Revenue*” of approximately \$194,000 on the Consolidated Balance Sheet related to the amended lease agreement. At December 31, 2019 the company recognized additional “*Revenue - plant lease*” on the Company’s Consolidated Statements of Operations and an increase to the derivative of approximately \$59,000 related to the change in the fair value of the derivative between the December 2, 2019 amendment date and December 31, 2019. The Company also recognized approximately \$15,000 “*Revenue - plant lease*” on the Company’s Consolidated Statements of Operations related to the amortization of the deferred revenue.

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**10. Property, Plant and Equipment**

*Property, plant and equipment, net*

The components of property, plant, and equipment, net were as follows:

	December 31, 2019	December 31, 2018
	(in thousands)	
Mineral properties	\$ 9,353	\$ 9,353
Exploration properties	2,518	2,518
Royalty properties	200	200
Buildings	3,755	4,278
Mining equipment and machinery	16,049	16,024
Other furniture and equipment	884	888
Asset retirement cost	866	866
	<u>33,625</u>	<u>34,127</u>
Less: Accumulated depreciation and amortization	(27,594)	(27,018)
	<u>\$ 6,031</u>	<u>\$ 7,109</u>

*Equipment Related to the Oxide Plant Lease*

Certain assets of the Company are related to the lease of the Velardeña oxide plant to Hecla (see Note 1). The net book value of the equipment involved in the lease was \$0.5 million and \$0.8 million for the years ended December 31, 2019 and December 31, 2018, respectively.

*Sale of Mogotes and Pistachon Properties*

On December 18, 2019, the Company sold the non-strategic Mogotes and Pistachon properties in Mexico to a subsidiary of Industrias Peñoles for \$3.0 million. The Mogotes and Pistachon properties are comprised of a total of four mining concessions located near the Company's Velardeña Properties. Upon receipt of the cash payment, which occurred on the date the properties were sold, all of the Company's rights and obligations relating to the properties were transferred and the Company had no further performance obligations under the agreement. The Company had previously expensed all costs associated with the Mogotes and Pistachon properties and accordingly recognized a gain of \$3.0 million included in "Other operating income, net" in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

*Property Held for Sale*

On October 16, 2019, the Company entered into an option to purchase agreement for the sale of the Company's option to earn a 100% interest in the Santa Maria and Las Marias exploration properties to Magellan Gold Corporation. The agreement provides for a period of up to 150 days for Magellan to complete due diligence and secure financing for the project. Under the terms of the agreement, if Magellan exercises its option, Magellan will make a cash payment of \$1.0 million to the Company upon closing. The Company will retain a 6.5% NSR royalty from all production at Santa Maria until a total of \$3.0 million has been paid to the Company. Thereafter, the Company will retain a 3.0% NSR royalty for the balance of the mine's life. Under the terms of the option to purchase agreement, the Company has not yet transferred any of its rights and obligations relating to the Santa Maria property and has not recognized any income with respect to the agreement. The Company had previously expensed all costs associated with the two properties and will

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
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record income from the agreement as cash is received and the Company's fulfills its performance obligations under the agreement.

*Celaya Farm-out*

In August 2016, the Company, through its wholly owned Mexican subsidiary, entered into an earn-in agreement with a 100% owned Mexican subsidiary of Electrum Group, LLC, a privately-owned company (together "Electrum"), related to the Company's Celaya exploration property in Mexico. The Company received an upfront payment of \$0.2 million and Electrum agreed to incur exploration expenditures totaling at least \$0.5 million in the first year of the agreement, reduced by certain costs Electrum previously incurred on the property since December 2015 in its ongoing surface exploration program. Electrum initially earned the right to acquire an undivided 60% interest in a joint venture company to be formed to hold the Celaya project by incurring exploration expenditures totaling at least \$2.5 million during the initial first three years of the agreement. Electrum would serve as manager of the joint venture. Prior to subsequent amendments to the agreement, the Company would have been allowed to maintain a 40% interest in the Celaya project, following the initial earn-in period, by contributing its pro-rata share of an additional \$2.5 million in exploration or development expenditures incurred over a second three-year period.

In February 2018, the Company and Electrum amended the Celaya earn-in agreement to permit Electrum to earn, at its option, an incremental 20% interest in the Celaya project in exchange for a payment of \$1.0 million. Following the amendment, Electrum could have increased its total interest in the project to 80% by contributing 100% of the \$2.5 million of additional expenditures required in the second three-year earn-in period. Following the second earn-in period, and prior to the Company entering into a second and final amendment of the agreement, the Company could have maintained its 20% participating interest, or its interest could ultimately have been converted into a carried 10% net profits interest if the Company elected not to participate as a joint venture owner.

In September 2018, the Company and Electrum entered into a second and final amendment of the Celaya earn-in agreement pursuant to which Electrum acquired 100% of the Company's remaining interest in the Celaya project in exchange for a payment of \$3.0 million. The transaction was set out in a definitive Assignment of Rights Agreement (the "Assignment Agreement") containing customary terms and conditions. The earn-in agreement was terminated upon entry into the Assignment Agreement.

The Company had previously expensed all its costs associated with the Celaya property and accordingly recognized gains of \$1.0 million from the execution of the first amendment to the agreement and \$3.0 million upon execution of the Assignment Agreement, during the year ended December 31, 2018, with the amounts included in "Other operating income, net" in the accompanying Consolidated Statements of Operations.

*Zacatecas Farm-out*

In April 2016, the Company entered into an option agreement, which was later amended in February 2018, under which Santacruz Silver Mining Ltd. ("Santacruz") has acquired the Company's interest in the Zacatecas Properties for a series of payments totaling approximately \$1.5 million through October 2018, including \$249,000, \$225,000 and \$212,000 paid to the Company during the first, second and third quarters of 2018, respectively. The final payment due the Company of \$13,000 was received in October 2018. Upon receipt of each cash payment, the agreement imposed a performance obligation on the Company to provide Santacruz an exclusive right to the Zacatecas Properties to conduct exploration activities during the period from receipt of the payment until the next payment due date, with a final obligation, following receipt of the final payment, to formally acknowledge completion of the sale enabling Santacruz to register the title to the properties in their name. At December 31, 2018, there were no further performance obligations and the Company had taken all steps necessary for Santacruz to take title to the properties.

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The Company has previously expensed all its costs associated with the Zacatecas Properties. The Company recognized income, equal to the cash payments made, evenly over the period covered by each payment. The Company recognized approximately \$748,000 of income under the agreement during the year ended December 31, 2018, which is included in “Other operating income, net” in the accompanying Consolidated Statements of Operations .

**11. Other Long-Term Assets**

Other long-term assets at December 31, 2019 and December 31, 2018 consist of the following:

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred offering costs	\$ 511	\$ 569
Right of use assets	620	—
	\$ 1,131	\$ 569

The deferred offering costs are associated with the LPC Program and ATM Agreement (see Note 17). The right of use assets is related to certain office leases (see Note 5).

**12. Accounts Payable and Other Accrued Liabilities**

The Company’s accounts payable and other accrued liabilities consist of the following:

	December 31, 2019	December 31, 2018
	(in thousands)	
Accounts payable and accruals	\$ 710	\$ 282
Accrued employee compensation and benefits	724	1,344
Value added tax payable	401	76
Income taxes payable	292	267
	\$ 2,127	\$ 1,969

December 31, 2019

Accounts payable and accruals at December 31, 2019 are primarily related to amounts due to contractors and suppliers in the amounts of \$0.3 million related to the Company’s Velardeña Properties and \$0.3 million related to corporate administrative and exploration activities.

Accrued employee compensation and benefits at December 31, 2019 consist of \$0.2 million of accrued vacation payable and \$0.5 million related to withholding taxes and benefits payable. Included in the \$0.7 million of accrued employee compensation and benefits is \$0.5 million related to activities at the Velardeña Properties.

The VAT payable is primarily related to VAT collected on the sale of the Mogotes and Pistachon properties in Mexico with such amount being remitted to the Mexican government in January 2020. The Company has recorded VAT

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paid in Mexico and related to the Velardeña Properties as a recoverable asset. At December 31, 2019, the Company recorded approximately \$73,000 of VAT receivable as a reduction to VAT payable presented in the table above.

The income taxes payable are related to certain Canadian taxes due on capital distributions the Company received from its Canadian subsidiary (see Note 16).

December 31, 2018

Accounts payable and accruals at December 31, 2018 are primarily related to amounts due to contractors and suppliers in the amounts of \$0.1 million related to the Company's Velardeña Properties and \$0.2 million related to exploration and corporate administrative activities

Accrued employee compensation and benefits at December 31, 2018 consist of \$0.2 million of accrued vacation payable and \$0.7 million related to withholding taxes and benefits payable and \$0.4 million related to the Company's 2013 Key Employee Long-Term Incentive Plan (the "KELTIP") (see Note 17). Included in the \$1.3 million of accrued employee compensation and benefits is \$0.6 million related to activities at the Velardeña Properties.

The VAT payable is primarily related to VAT collected on revenue from the Hecla lease revenue (note 18). The Company has recorded VAT paid in Mexico and related to the Velardeña Properties as a recoverable asset. At December 31, 2018, the Company recorded approximately \$30,000 of VAT receivable as a reduction to VAT payable presented in the table above.

The income taxes payable are related to certain Canadian taxes due on capital distributions the Company received from its Canadian subsidiary (see Note 16).

**13. Asset Retirement and Reclamation Liabilities**

The Company retained the services of a mining engineering firm to prepare a detailed closure plan for the Velardeña Properties. The plan was completed during the second quarter 2012 and indicated that the Company had an ARO and offsetting ARC of approximately \$1.9 million. The estimated \$3.5 million ARO and ARC that was recorded at the time of the acquisition of the Velardeña Properties was adjusted accordingly.

The Company will continue to accrue additional estimated ARO amounts based on an asset retirement plan as activities requiring future reclamation and remediation occur. During the year ended December 31, 2019 the Company recognized approximately \$0.2 million of accretion expense.

The following table summarizes activity in the Velardeña Properties ARO:

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Beginning balance	\$ 2,660	\$ 2,448
Changes in estimates, and other	(60)	2
Accretion expense	225	210
Ending balance	\$ 2,825	\$ 2,660

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The change in estimate of the ARO recorded during 2019 is primarily the result of changes in assumptions related to inflation factors and the timing of future expenditures used in the determination of future cash flows.

The ARO set forth on the accompanying Consolidated Balance Sheets at December 31, 2019 and December 31, 2018 includes a nominal amount of reclamation liability related to activities at the El Quevar project in Argentina.

**14. Other Liabilities**

*Other Current Liabilities*

The following table sets forth the Company's other current liabilities at December 31, 2019 and 2018:

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Autlán refundable deposit	\$ 1,251	\$ —
Premium financing	455	—
Office lease liability	118	12
	<u>\$ 1,824</u>	<u>\$ 12</u>

The Autlán refundable deposit at December 31, 2019 is the remaining principal plus interest liability related to the deposit received for the proposed sale of our Velardeña Properties and other mineral concessions to Autlán (see Note 1). As a result of termination of the Agreement, the Company is required to repay the original \$1.5 million deposit amount by making monthly payments of \$257,000, commencing on December 9, 2019, until the deposit amount is repaid with interest at approximately 11% per annum. Through December 31, 2019 the Company paid Autlán approximately \$0.3 million against the original \$1.5 million deposit, including interest of approximately \$11,000, leaving a balance due at December 31, 2019 of approximately \$1.3 million, including accrued interest. The Company recorded approximately \$19,000 of interest expense for the year ended December 31, 2019 related to the Autlán refundable deposit.

The premium financing at December 31, 2019 consists of the remaining balance, plus accrued interest, related to premiums payable for the Company's directors and officers insurance and general liability insurance. In June 2019 the company financed \$151,000 of its premium for general liability insurance. The premium is payable in twelve equal payments at an interest rate of 5.74% per annum. At December 31, 2019, the remaining balance, plus accrued interest, was approximately \$51,000. In December 2019 the company financed \$482,000 of its premium for directors and officers insurance. The premium is payable in twelve equal payments at an interest rate of 5.74% per annum. At December 31, 2019 the remaining balance, plus accrued interest, was approximately \$404,000.

The office lease liability is related to lease liabilities for office space at the Company's principal headquarters in Golden, Colorado and in Mexico and Argentina (see Note 5).

*Other Long-Term Liabilities*

Other long-term liabilities of \$0.5 million for the period ended December 31, 2019 are primarily related to lease liabilities for office space at the Company's principal headquarters in Golden Colorado and in Mexico and Argentina (see Note 5).



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**15. Fair Value Measurements**

Financial assets and liabilities and nonfinancial assets and liabilities are measured at fair value on a recurring (annual) basis under a framework of a fair value hierarchy which prioritizes the inputs into valuation techniques used to measure fair value into three broad levels. This hierarchy gives the highest priority to quoted prices (unadjusted) in active markets and the lowest priority to unobservable inputs. Further, financial assets and liabilities should be classified by level in their entirety based upon the lowest level of input that was significant to the fair value measurement. The three levels of the fair value hierarchy per ASC 820 are as follows:

**Level 1:** Unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

**Level 2:** Quoted prices in inactive markets for identical assets or liabilities, quoted prices for similar assets or liabilities in active markets, or other observable inputs either directly related to the asset or liability or derived principally from corroborated observable market data.

**Level 3:** Unobservable inputs due to the fact that there is little or no market activity. This entails using assumptions in models which estimate what market participants would use in pricing the asset or liability.

***Recurring Fair Value Measurements***

The following table summarizes the Company's financial assets and liabilities measured on a recurring basis at fair value at December 31, 2019 and 2018 by respective level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>At December 31, 2019</b>				
Assets:				
Cash and cash equivalents	\$ 4,593	\$ —	\$ —	\$ 4,593
Derivative at fair value	—	—	254	254
	<u>\$ 4,593</u>	<u>\$ —</u>	<u>\$ 254</u>	<u>\$ 4,847</u>
<b>At December 31, 2018</b>				
Assets:				
Cash and cash equivalents	\$ 3,293	\$ —	\$ —	\$ 3,293
Short-term investments	330	—	—	330
	<u>\$ 3,623</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,623</u>

The Company's cash equivalents, comprised principally of U.S. treasury securities, are classified within Level 1 of the fair value hierarchy.

At December 31, 2019, the Company had recorded a "Derivative at Fair Value" asset on the Consolidated Balance Sheets related to the amendment to the Hecla plant lease agreement (see Notes 9 and 18). The Company has determined that the portion of the variable lease payment that is based on the average price of silver and the average grade of material processed during a given month represents an embedded derivative (see Note 9). The Company assesses the fair value of the derivative at the end of each reporting period, with changes in the value recorded as an increase or decrease to "Oxide Plant Revenue" on the Company's Consolidated Statements of Operations. The derivative

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asset was recorded at fair value as of December 2, 2019, the effective date of the lease amendment, and at December 31, 2019, based primarily on a valuation performed by a third-party expert using a Monte Carlo simulation and an option pricing model to calculate the potential discounted cash flow from the derivative based on the probability that the price of silver will have an average price for any given month during 2020 that equals or exceeds \$20.00 per ounce or a grade processed equal to or exceeding 1,000 grams per tonne combined with a risk adjusted estimate of material to be processed. The valuation falls within Level 3 of the fair value hierarchy. The valuation policies are approved by the Chief Financial Officer who reviews and approves the inputs used in the fair value calculations and the changes in fair value measurements from period to period for reasonableness. Fair value measurements are discussed with the Company's Chief Executive Officer, as deemed appropriate. The valuation model primarily takes into consideration the potential

At December 31, 2019 the Company did not have any financial assets or liabilities classified within Level 2 of the fair value hierarchy. At December 31, 2018 the Company did not have any financial assets or liabilities classified within Level 2 or Level 3 of the fair value hierarchy.

*Non-recurring Fair Value Measurements*

There were no non-recurring fair value measurements at December 31, 2019 or December 31, 2018.

The Company assesses the fair value of its long lived assets if circumstances indicate a change in the fair value has occurred. The valuation policies are approved by the Chief Financial Officer who reviews and approves the inputs used in the fair value calculations and the changes in fair value measurements from period to period for reasonableness. Fair value measurements are discussed with the Company's Chief Executive Officer, as deemed appropriate.

No fair value adjustments to long lived assets were recorded during the years ended December 31, 2019 and December 31, 2018.

**16. Income Taxes**

The Company accounts for income taxes in accordance with the provisions of ASC 740 on a tax jurisdictional basis. The provision for income taxes consists of the following:

	For the Year Ended December 31,	
	2019	2018
<b>CURRENT TAXES:</b>	(in thousands)	
United States	\$ —	\$ —
Other Countries	35	13
	\$ 35	\$ 13
<b>DEFERRED TAXES:</b>		
United States	\$ —	\$ —
Other Countries	—	—
	\$ —	\$ —
<b>Total income tax provision</b>	<b>\$ 35</b>	<b>\$ 13</b>

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Income (loss) from operations before income taxes by country consists of the following:

	For the Year Ended December 31,	
	2019	2018
	(in thousands)	
United States	\$ (7,373)	\$ (1,930)
Other Countries	2,022	(2)
	<u>\$ (5,351)</u>	<u>\$ (1,932)</u>

The Company recorded \$35,000 and \$13,000 of current tax expense for the years ended December 31, 2019 and December 31, 2018, respectively, stemming primarily from taxable income of a subsidiary in Mexico. No deferred taxes were recorded in 2019 or 2018, as any such tax expense or benefit incurred during the year has been offset against a change in the valuation allowance of various deferred tax assets in each country.

A reconciliation of the provision for income taxes computed at the statutory rate to the provision for income taxes as shown in the Consolidated Statements of Operations and Comprehensive Loss is summarized below.

	For Year Ended December 31,	
	2019	2018
	(in thousands)	
Tax expense (benefit) at U.S. rate of 21%	\$ (1,124)	\$ (406)
Other adjustments:		
Rate differential of other jurisdictions	292	67
Effects of foreign earnings	(937)	(455)
Change in valuation allowance	(78)	(16,142)
Provision to tax return true-ups	(24)	(2,012)
Exchange rate changes on deferred tax assets	1,340	5,891
GILTI inclusion	537	—
Inflation adjustment on net operating losses	(1,183)	(550)
Expired net operating losses	1,138	13,669
Other	74	(49)
Income tax provision	<u>\$ 35</u>	<u>\$ 13</u>

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The components of the deferred tax assets and deferred tax liabilities are as follows:

	For the year ended December 31,	
	2019	2018
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 112,553	\$ 117,665
Stock-based compensation	671	593
Property, plant and equipment	2,940	3,284
Other	2,985	2,809
	<u>119,149</u>	<u>124,351</u>
Less: Valuation allowance	<u>(118,283)</u>	<u>(123,652)</u>
Total deferred tax assets	<u>866</u>	<u>699</u>
Deferred tax liabilities:		
Property, plant and equipment	(686)	(699)
Other	(180)	—
Total deferred tax liabilities	<u>(866)</u>	<u>(699)</u>
Net deferred tax asset (liability)	\$ —	\$ —

In accordance with ASC 740, the Company presents deferred tax assets net of its deferred tax liabilities on a tax jurisdictional basis on its Consolidated Balance Sheets. The net deferred tax liability as of December 31, 2019 and December 31, 2018 was zero.

At the end of 2017 a new U.S. tax law was enacted, lowering the U.S. corporate tax rate beginning in 2018 to 21% from the top rate of 35%. In addition, the new U.S. tax law introduced the Global Intangible Low Taxed Income (GILTI) tax. During 2019, one of the Company's foreign subsidiaries had significant taxable income prior to net operating loss carryovers, which resulted in a GILTI income inclusion of approximately \$2.6M. The GILTI income was fully offset by the Company's current U.S. income tax losses. There was no significant GILTI income inclusion in 2018. No other provisions of the new tax law had a material impact on the Company's financial statements for the periods ended December 31, 2019 and 2018.

At December 31, 2019 the Company had net operating loss carryforwards in the U.S. and in certain non-U.S. jurisdictions totaling \$435.6 million. Of these, \$80.1 million is related to the Velardeña Properties in Mexico and expires in future years through 2028, \$13.7 million is related to other Mexico exploration activities expiring in future years through 2029, \$88.5 million exists in Spain and has no expiration date, and \$176.6 million exists in other non-U.S. countries, which will expire in future years through 2036. In the U.S. there are \$76.7 million of net operating loss carryforwards which have no expiration.

The valuation allowance offsetting the net deferred tax assets of the Company of \$123.5 million and \$118.3 million at December 31, 2019 and 2018, respectively, relates primarily to the uncertain utilization of certain deferred tax assets, primarily net operating loss carryforwards, in various tax jurisdictions. The Company continually assesses both positive and negative evidence to determine whether it is more likely than not that deferred tax assets can be realized prior to their expiration.

In the third quarter 2019, the Company became aware that it had failed to timely file withholding tax returns and pay taxes that were due relating to return of capital distributions made to the Company by ECU Silver Mining Inc.

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(the Company's wholly-owned Canadian subsidiary) at the end of 2017 and 2018. The capital distributions constituted dividends under Canadian tax law, subject to a 5% withholding tax. The Canadian withholding taxes, which constituted taxes on income for the months of December 2017 and December 2018, totaled approximately \$292,000 at December 31, 2019, including an estimate of interest due of approximately \$23,000 on the late filing. The Company has accrued this amount in "other accrued liabilities" in its Condensed Consolidated Balance Sheets at December 31, 2019. The Company has treated the income tax expense related to this liability as the correction of an accounting error and has adjusted the beginning balance of retained earnings at January 1, 2018 and January 1, 2019 (Note 3). In February 2020 the Company applied to enter into the Canadian Revenue Agency's Voluntary Disclosure Program, whereby the Company paid the taxes and the estimated interest due and requested abatement of any penalties or additional interest that may apply. If the Canada Revenue Agency denies the Company's request for abatement, additional interest and penalties could be assessed.

The Company, a Delaware corporation, and its subsidiaries file tax returns in the United States and in various foreign jurisdictions. The tax rules and regulations in these countries are highly complex and subject to interpretation. The Company's tax returns are subject to examination by the relevant taxing authorities and in connection with such examinations, disputes can arise with the taxing authorities over the interpretation or application of certain tax rules within the country involved. In accordance with ASC 740, the Company identifies and evaluates uncertain tax positions, and recognizes the impact of uncertain tax positions for which there is less than a more-likely-than-not probability of the position being upheld upon review by the relevant taxing authority. Such positions are deemed to be "unrecognized tax benefits" which require additional disclosure and recognition of a liability within the financial statements. If recognized, none of the unrecognized tax benefits would affect the Company's effective tax rate. The Company had no unrecognized tax benefits at December 31, 2019 or December 31, 2018.

Below is a reconciliation of the beginning and ending amount of gross unrecognized tax benefits, which excludes any estimated penalties and interest on all identified unrecognized tax benefits. The Company's unrecognized tax benefits as of December 31, 2019 and 2018 are completely offset by net deferred tax benefits and therefore do not appear on the Consolidated Balance Sheet.

	The Year Ended December 31,	
	2019	2018
	(in thousands)	
Gross unrecognized tax benefits at beginning of period	\$ 373	\$ 586
Increases for tax positions taken during prior years	—	—
Decreases relating to settlements with taxing authorities	—	—
Reductions due to lapse of statute of limitations	(104)	(213)
Gross unrecognized tax benefits at end of period	\$ 269	\$ 373

Tax years as early as 2014 remain open and are subject to examination in the Company's principal tax jurisdictions. The Company does not expect a significant change to its net unrecognized tax benefits over the next 12 months. No interest and penalties were recognized in the Consolidated Statement of Operations and Comprehensive Loss for the year ended December 31, 2019 or 2018, and there were no interest and penalties recognized in the statement of financial position as of December 31, 2019 and 2018. The Company classifies income tax related interest and penalties as income tax expense.

**17. Equity**

Offering and private placement transaction

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On July 17, 2019, the Company entered into an agreement with certain institutional investors providing for the issuance and sale of 8,653,846 shares of the Company's common stock at a price of \$0.26 per share, and in a concurrent private placement transaction, the issuance of 8,653,846 Series A warrants to purchase up to 8,653,846 shares of the Company's common stock at an exercise price of \$0.35 per share, for aggregate gross proceeds of \$2.25 million (the "Offering"). Each Series A warrant became exercisable on January 17, 2020 and will expire on January 17, 2025, five years from the initial exercise date. Each of the investors in the Offering held warrants that were issued by the Company in May 2016 and were exercisable until November 2021 at an exercise price of \$0.75 per share. In connection with the Offering, the Company also agreed to exchange, on a one-for-one basis, the May 2016 warrants for Series B warrants to purchase 4,500,000 shares of common stock at an exercise price of \$0.35 per share. Each Series B warrant became exercisable on January 17, 2020 and will expire on May 20, 2022 but are otherwise subject to the same terms and conditions as the Series A warrants.

The net proceeds of the Offering were recorded in equity and appear as a separate line item in the Condensed Consolidated Statements of Changes in Equity. Total costs for the Offering were approximately \$0.3 million, including the placement agent fee of six percent of aggregate gross proceeds, listing fees and legal and other costs. Such costs were recorded as a reduction to "Additional paid in capital" on the Condensed Consolidated Balance Sheets. Using the Black Scholes model, the fair value of the Series A warrants issued was approximately \$2.1 million and the incremental fair value of the Series B warrants, when compared to the warrants that they replaced, was approximately \$0.3 million. The Black Scholes inputs for the Series A warrants included the closing stock price on July 16, 2019 (the day preceding the date the Company entered into the agreement to issue the shares) of \$0.33, the exercise price and exercise period of the warrants, the Company's applicable volatility rate for the period of the Series A warrants of 95%, and the applicable risk-free rate of 1.9%. The Black Scholes inputs for the Series B warrants included the closing stock price on July 16, 2019 of \$0.33, the exercise price and exercise period of the warrants, the Company's applicable volatility rate for the period of the Series B warrants of 88%, and the applicable risk-free rate of 1.9%.

*Registered direct purchase agreement and commitment purchase agreement and registration rights agreement*

On May 9, 2018 the Company entered into a registered direct purchase agreement (the "Registered Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC") pursuant to which LPC purchased 3,153,808 shares of the Company's common stock at a price of \$0.4122 per share, the closing price of the Company's common stock on the NYSE American on May 8, 2018, for an aggregate purchase price of \$1.3 million.

On May 9, 2018, the Company also entered into a commitment purchase agreement (the "Commitment Purchase Agreement" and together with the Registered Purchase Agreement, the "LPC Program") and a registration rights agreement (the "Registration Rights Agreement") with LPC, pursuant to which the Company, at its sole discretion, has the right to sell up to an additional \$10.0 million of the Company's common stock to LPC, subject to certain limitations and conditions contained in the Commitment Purchase Agreement. The Company closed on the Commitment Purchase Agreement in July 2018.

On June 7, 2018, pursuant to the terms of the Registration Rights Agreements, the Company filed a registration statement on Form S-1 (File No. 333-225483) (the "Registration Statement") registering the resale up to 15,222,941 shares of the Company's common stock to be issued to LPC pursuant to the terms of the Commitment Purchase Agreement. The Registration Statement was declared effective on June 28, 2018. Proceeds from the LPC Program will be used for general corporate purposes, including advancing the exploration program at the Company's El Quevar property in Argentina.

Subject to the terms of the Commitment Purchase Agreement, the Company will control the timing and amount of any future sale of the Company's common stock to LPC. LPC has no right to require any sales by the Company under

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the Commitment Purchase Agreement but is obligated to make purchases at the Company's sole direction, as governed by such agreement. There are no upper limits to the price LPC may be obligated to pay to purchase common stock from the Company and the purchase price of the shares will be based on the prevailing market prices of the Company's shares at the time of each sale to LPC. LPC has agreed not to cause or engage in any manner whatsoever, any direct or indirect short selling or hedging of the Company's shares of common stock. The Company has the right to terminate the Commitment Purchase Agreement at any time, at its discretion, without any cost or penalty.

In consideration for LPC's commitment to purchase shares pursuant to the Commitment Purchase Agreement, the Company paid LPC a commitment fee of \$300,000 and incurred an additional approximate \$190,000 in stock exchange fees, legal and other associated costs in connection with the LPC Program. The total costs for the LPC Program will be recorded as a reduction to equity as common stock is sold to LPC. As of December 31, 2018, approximately \$58,000 of LPC Program costs had been amortized against \$1.3 million in proceeds received, resulting in \$432,000 of deferred LPC Program costs, recorded in "*Other long-term assets*" on the Consolidated Balance Sheets. As of December 31, 2018, no additional common stock had been sold to LPC under the LPC Program following the initial sale of common stock pursuant to the Registered Purchase Agreement.

During the year ended December 31, 2019 the Company sold 2,113,642 shares of common stock to LPC under the LPC Program at an average sales price per share of approximately \$0.28, resulting in net proceeds of approximately \$590,000. In addition, approximately \$58,000 of LPC Program costs were amortized, resulting in a remaining balance of \$376,000 of deferred LPC Program costs, recorded in "*Other long-term assets*" on the Condensed Consolidated Balance Sheets as of December 31, 2019. Subsequent to December 31, 2019 the Company sold an aggregate of approximately 825,000 common shares under the Commitment Purchase Agreement at an average price of \$0.27 per common share for total proceeds of approximately \$0.2 million during the year to date period ended February 25, 2020.

*At the Market Offering Agreement*

In December 2016, the Company entered into an at-the-market offering agreement (as amended from time to time, the "ATM Agreement") with H. C. Wainwright & Co., LLC ("Wainwright"), under which the Company may, from time to time, issue and sell shares of the Company's common stock through Wainwright as sales manager in an at-the-market offering under a prospectus supplement for aggregate sales proceeds of up to \$5.0 million (the "ATM Program") or a maximum of 10 million shares. On September 29, 2017, the Company entered into an amendment to the ATM Agreement with Wainwright to reflect a new registration statement on Form S-3 (File No. 333-220461) under which shares of the Company's common stock may be sold under the ATM Program. On November 23, 2018 the Company entered into a second amendment of the ATM Agreement extending the agreement until the earlier of December 20, 2020, or the date that the ATM Agreement is terminated in accordance with the terms therein. Offers or sales of common shares under the ATM Program will be made only in the United States and no offers or sales of common shares under the ATM Agreement will be made in Canada. The common stock will be distributed at the market prices prevailing at the time of sale. As a result, prices of the common stock sold under the ATM Program may vary as between purchasers and during the period of distribution. The ATM Agreement provides that Wainwright will be entitled to compensation for its services at a commission rate of 2.0% of the gross sales price per share of common stock sold.

The Company reimbursed certain legal expenses of Wainwright totaling \$50,000 and incurred additional accounting, legal, and regulatory costs of approximately \$109,000 in connection with establishing the ATM Program. Such costs have been deferred and will be amortized to equity as sales are completed under the ATM Program. At December 31, 2019 and December 31, 2018, respectively, unamortized costs totaling \$135,000 and \$136,000 appear on the accompanying Consolidated Balance Sheets as "*Other long-term assets.*"

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During the year ended December 31, 2019, the Company sold an aggregate of 33,995 shares of common stock under the ATM Agreement at an average price of \$0.34 per share of common stock for total proceeds of approximately \$11,000. Subsequent to December 31, 2019 the Company sold an aggregate of approximately 545,000 common shares under the ATM Program at an average price of \$0.31 per common share for total proceeds of approximately \$0.2 million during the year to date period ended February 25, 2020.

The Company did not sell any stock under the ATM Program during the year ended December 31, 2018. During the years ended December 31, 2019 and 2018, the Company incurred a nil amount and approximately \$15,000, respectively in additional accounting, legal, and regulatory costs associated with the ATM Program that were included in "*General and administrative costs*" in the Consolidated Statement of Operations.

*Equity Incentive Plans*

Under the Company's Amended and Restated 2009 Equity Incentive Plan (the "Equity Plan") awards of the Company's common stock may be made to officers, directors, employees, consultants and agents of the Company and its subsidiaries. The Company recognizes stock-based compensation costs using a graded vesting attribution method whereby costs are recognized over the requisite service period for each separately vesting portion of the award.

The following table summarizes the status of the Company's restricted stock grants issued under the Equity Plan at December 31, 2019 and 2018 and changes during the years then ended:



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	The Year Ended December 31,			
	2019		2018	
<b>Restricted Stock Grants</b>	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	340,001	\$ 0.45	203,334	\$ 0.55
Granted during the period	312,000	0.26	280,000	0.37
Restrictions lifted during the period	(333,998)	0.41	(143,333)	0.44
Forfeited during the period	—	—	—	—
Outstanding at end of period	318,003	\$ 0.30	340,001	\$ 0.45

During the year ended December 31, 2019 the Company recognized approximately \$0.1 million of compensation expense related to the restricted stock grants. The Company expects to recognize additional compensation expense related to these awards of approximately \$0.1 million over the next 18 months. During the year ended December 31, 2019, 312,000 shares were granted to two employees, with 104,000 shares vesting on the grant date and the remaining shares vesting equally on the first and second anniversaries of the grant date. In addition, during 2019, restrictions were lifted on 229,998 shares granted to five employees in a prior year.

During the year ended December 31, 2018 the Company recognized approximately \$0.1 million of compensation expense related to the restricted stock grants. During the year ended December 31, 2018, 280,000 shares were granted to six employees, with one third of the grants vesting on the grant date and the remaining shares vesting equally on the first and second anniversaries of the grant date. In addition to the vesting of one third of the shares granted in 2018, restrictions were lifted on 50,000 shares granted to an employee in a prior year.

The following table summarizes the status of the Company's stock option grants issued under the Equity Plan at December 31, 2019 and 2018 and changes during the years then ended:

	The Year Ended December 31,			
	2019		2018	
<b>Equity Plan Options</b>	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of period	30,310	\$ 8.06	40,310	\$ 8.05
Granted during the period	—	—	—	—
Forfeited or expired during period	—	\$ —	(10,000)	8.00
Exercised during period	—	—	—	—
Outstanding at end of period	30,310	\$ 8.06	30,310	\$ 8.06
Exercisable at end of period	30,310	\$ 8.06	30,310	\$ 8.06
Granted and vested	30,310	\$ 8.06	30,310	\$ 8.06

The Company does not expect to record any additional expense related to these options.

Also, pursuant to the Equity Plan, the Company's Board of Directors adopted the Non-Employee Director's Deferred Compensation and Equity Award Plan (the "Deferred Compensation Plan"). Pursuant to the Deferred Compensation Plan the non-employee directors receive a portion of their compensation in the form of Restricted Stock

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Units (“RSUs”) issued under the Equity Plan. The RSUs vest on the first anniversary of the grant and each vested RSU entitles the director to receive one unrestricted share of common stock upon the termination of the director’s board service.

The following table summarizes the status of the RSU grants issued under the Deferred Compensation Plan at December 31, 2019 and 2018 and changes during the years then ended:

	The Year Ended December 31,			
	2019		2018	
Restricted Stock Units	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	2,230,038	\$ 0.93	1,887,317	\$ 1.16
Granted during the period	600,000	0.24	600,000	0.42
Restrictions lifted during the period	—	—	(257,279)	1.44
Forfeited during the period	—	—	—	—
Outstanding at end of period	2,830,038	\$ 0.78	2,230,038	\$ 0.93

For the years ended December 31, 2019 and 2018 the Company recognized approximately \$0.2 million of compensation expense, each year, related to the RSU grants. During each of the years 2019 and 2018, 100,000 RSUs were granted to each of the six board members. Restrictions lifted on 257,279 RSU shares during 2018 relate to the retirement of a member of the Company’s Board of Directors during the year. The Company expects to recognize additional compensation expense related to the RSU grants of approximately \$0.1 million over the next six months.

*Key Employee Long-Term Incentive Plan*

The Company’s 2013 Key Employee Long-Term Incentive Plan (the “KELTIP”) provides for the grant of units (“KELTIP Units”) to certain officers and key employees of the Company, which units will, once vested, entitle such officers and employees to receive an amount, in cash or in Company common stock (such method of settlement at the sole discretion of the Board of Directors) issued pursuant to the Company’s Equity Plan, measured generally by the price of the Company’s common stock on the settlement date. KELTIP Units are not an actual equity interest in the Company and are solely unfunded and unsecured obligations of the Company that are not transferable and do not provide the holder with any stockholder rights. Payment of the settlement amount of vested KELTIP Units is deferred generally until the earlier of a change of control of the Company or the date the grantee ceases to serve as an officer or employee of the Company.

On February 26, 2019, the Company awarded an additional total of 705,000 KELTIP Units to two officers of the Company. Due to the Company’s desire to preserve its limited current cash reserves for funding expenditures related to its portfolio of exploration projects, the Company determined it no longer had the current intent to settle any of its outstanding KELTIP Units in cash. The Company now intends to settle all of the KELTIP Units, including those previously issued, in common stock of the Company, an option that the Board of Directors holds in its sole discretion so long as sufficient shares remain available under the Equity Plan. As a result, the Company recorded approximately \$254,000 of compensation expense, included in “*Stock based compensation*” in the Consolidated Statement of Operations for the KELTIP Units awarded on February 26, 2019 with a similar amount recorded as “Additional Paid-in Capital” in the Consolidated Statements of Changes in Equity. The Company has treated the previously awarded KELTIP Units as effectively modified at February 26, 2019. The Company marked-to-market the prior KELTIP Units as of that date and recorded approximately \$227,000 of additional compensation expense, included in “*Stock based compensation*” in the

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Consolidated Statement of Operations and recorded approximately \$583,000 as “Additional Paid-in Capital” in the Consolidated Statements of Changes in Equity, an amount representing the sum of the compensation expense recorded on February 26, 2019 and the liability for the KELTIP Units recorded at December 31, 2018. All KELTIP Units are recorded in equity at December 31, 2019. At December 31, 2019 2,325,000 KELTIP Units were outstanding.

At December 31, 2018 the Company had awarded 1,620,000 KELTIP Units to two officers of the Company, reported as a liability of approximately \$356,000 and included in “Accounts payable and other accrued liabilities” in the Consolidated Balance Sheets on the basis that the Company had the intent to settle the obligation in cash.

Through December 31, 2018, the KELTIP Units were marked to market at the end of each reporting period and for the year ended December 31, 2018 the Company recognized an approximate \$334,000 reduction to compensation expense related to the KELTIP Units. At December 31, 2018 1,620,000 KELTIP Units were outstanding.

Common stock warrants

The following table summarizes the status of the Company’s common stock warrants at December 31, 2019 and December 31, 2018, and the changes during the years then ended:

	The Year Ended December 31,			
	2019		2018	
	Number of Underlying Shares	Weighted Average Exercise Price Per Share	Number of Underlying Shares	Weighted Average Exercise Price Per Share
<b>Common Stock Warrants</b>				
Outstanding at beginning of period	11,517,696	\$ 0.81	11,478,172	\$ 0.81
Granted during the period:				
Series A warrants	8,653,846	0.35	—	—
Dilution adjustment	168,669	0.80	39,524	0.87
Expired during period	(5,686,365)	0.80	—	—
Exchanged during the period:				
May 2016 warrants	(4,500,000)	0.75	—	
Series B warrants	4,500,000	0.35	—	
Exercised during period	—		—	—
Outstanding at end of period	14,653,846	\$ 0.39	11,517,696	\$ 0.81

The warrants relate to prior and current registered offerings and private placements of the Company’s stock.

In September 2014, the Company closed on a registered public offering and concurrent private placement with The Sentient Group (“Sentient”) in which it sold units, consisting of one share of common stock and a five-year warrant to acquire one half of a share of common stock at an exercise price of \$1.21 per share. A total of 4,746,000 warrant shares were issued that became exercisable on March 11, 2015. Pursuant to the anti-dilution clauses in the 2014 warrant agreements, the exercise price of the warrants has been adjusted downward as a result of the subsequent issuance of the Company’s common stock in separate transactions, including the conversion of the Senior Secured Convertible Note which the Company entered into in October 2015 to borrow \$5.0 million from Sentient, the Company’s largest stockholder, the May 2016 Offering and private placement, the ATM Program, the issuance of shares to Hecla in August 2017, the Registered Purchase Agreement with LPC and LPC share sales (discussed above) and the July 17, 2019 offering and private placement transaction. Prior to their expiration on September 10, 2019, the number of shares of common stock issuable upon exercise of the September 2014 warrants increased from the original 4,746,000 shares to 5,686,365

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shares (940,365 share increase) and the exercise price had been reduced from the original \$1.21 per share to \$0.80 per share. The 5,686,365 warrants expired on September 10, 2019, five years from the original date of issuance.

In May 2016, the Company issued 8.0 million registered shares of common stock at a purchase price of \$0.50 per share in a registered direct offering (the "Offering") resulting in gross proceeds of \$4.0 million. In connection with the Offering, each investor received an unregistered warrant to purchase three-quarters of a share of common stock for each share of common stock purchased. The resulting 6,000,000 warrant shares have an exercise price of \$0.75 per share, became exercisable on November 7, 2016 and will expire on November 6, 2021, five years from the initial exercise date. In connection with the July 2019 registered direct offering discussed above, the Company agreed to exchange, on a one-for-one basis, 4,500,000 of the May 2016 warrants for Series B warrants to purchase 4,500,000 shares of common stock at an exercise price of \$0.35 per share. Each Series B warrant is exercisable six months from the date of issuance and has a term expiring in May 2022.

As discussed above, on July 17, 2019, the Company issued 8,653,846 registered shares of common stock in a registered direct offering. In a concurrent private placement transaction, each investor received a Series A warrant to purchase a share of common stock for each share of common stock purchased. Each Series A warrant is exercisable six months from the date of issuance and has a term expiring in January 2025.

All outstanding warrants are recorded in equity at December 31, 2019 and December 31, 2018.

## **18. Revenue, Deferred Revenue and Related Costs**

### *Oxide Plant Lease and Oxide Plant Lease Costs*

For the year ended December 31, 2019 the Company recorded revenue of approximately \$7.7 million and related costs of approximately \$2.4 million associated with the lease of the Velardeña Properties oxide plant. The Company recognizes oxide plant lease fees and reimbursements for labor, utility and other costs as "*Revenue: Oxide plant lease*" in the Consolidated Statements of Operations following the guidance of ASC 842. ASC 842 supports recording as gross revenue the reimbursement of expenses incurred directly by the Company in performing its obligations under the lease in situations where the entity has control over the specific goods or services transferred to a customer as a principal versus as an agent. The actual costs incurred for reimbursed direct labor and utility costs are reported as "*Oxide plant lease costs*" in the Consolidated Statements of Operations. The Company recognizes lease fees during the period the fees are earned per the terms of the lease. The oxide plant lease revenue includes a minimum fixed fee of \$125,000 per month that is not dependent on tonnes processed. The monthly fixed fee remains payable for as long as the lease is in effect.

On August 2, 2017, the Company granted Hecla an option to extend the oxide plant lease for an additional period of up to two years ending no later than December 31, 2020 (the "Extension Period") in exchange for a \$1.0 million upfront cash payment and the purchase of \$1.0 million, or approximately 1.8 million shares, of the Company's common stock, issued at par at a price of \$0.55 per share, based on an undiscounted 30-day volume weighted average stock price. The option and lease extension were memorialized in (i) an Option Agreement dated August 2, 2017 among the Company and Hecla Mining Company (the "Option Agreement"), and (ii) a Second Amendment to Master Agreement and Lease Agreement dated August 2, 2017 among Minera William S.A. de C.V., an indirect subsidiary of the Company, and Minera Hecla S.A. de C.V. ("Hecla"), an indirect subsidiary of Hecla Mining Company (the "Second Amendment"). Under the Second Amendment, Hecla had an option to extend the lease to December 31, 2020 by exercising the option no later than October 3, 2018. On October 1, 2018 Hecla exercised the Second Amendment option and extended the lease to December 31, 2020. All fixed fees and throughput related charges remained the same as under the original lease. Similar

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volume limitations apply to any required future tailings expansions, which Hecla will fund, leaving unused at the end of the lease term an agreed amount of capacity in the expanded tailings facility.

The Company will recognize the \$1.0 million of income from granting the option over the expected life of the lease through December 31, 2020 on a straight-line basis, including such income in "*Revenue: Oxide plant lease*" in the Consolidated Statements of Operations and Comprehensive Loss. During each of the years ended December 31, 2019 and 2018, the company recognized approximately \$0.3 million of amortized income related to the upfront cash payment, included in "*Revenue: Oxide plant lease*" in the Consolidated Statements of Operations and Comprehensive Loss. As of December 31, 2019, the unamortized portion of the lease option totaled approximately \$0.3 million recorded as short term "*Deferred revenue*" on the Consolidated Balance Sheets.

On December 2, 2019 the Company and Hecla entered into a Third Amendment to the Master Agreement and Lease Agreement dated August 2, 2017. Under the terms of the Third Amendment, the Company has agreed to reduce the per tonne fee payable by Hecla for the duration of the lease term, commencing on January 1, 2020 from \$22.00 per tonne to \$11.00 per tonne. However, the Company will receive \$22.00 per tonne processed during any month in which one of the following conditions occur: (1) the Comex daily silver spot closing average price for such month is equal to or greater than \$20.00 per ounce, or (2) the mill head grade average from the metallurgical balance for such month is equal to or greater than 1,000 grams per ton equivalent silver head grade. If either of the conditions are met in any month, Hecla will pay the \$22.00 fee on all amounts processed in the oxide plant during such month. The reduced fee only applies to the tonnage-based payments under the Lease Agreement; the monthly lease payment of \$125,000 per month is not affected by the Third Amendment. Under the terms of the Lease Agreement, Hecla had the right to terminate the Lease Agreement at any time upon 120 days written notice. The Third Amendment extended the advance notice required to 150 days.

The Company has determined that the ability to receive the higher \$22.00 per tonne fee, as described above, creates a derivative asset. The Company treated the derivative asset as an upfront lease payment that will be amortized over the remaining life of the lease and also recorded deferred revenue equal to the value of the derivative asset, as more fully described in Note 9. The amortization of the upfront lease payment and the increase in the derivative asset at December 31, 2019 were recorded as an increase of approximately \$74,000 to "*Revenue: Oxide plant lease*" in the Consolidated Statements of Operations for the period ended December 31, 2019.

Hecla has a one-time right of first refusal to continue to lease the plant following a termination notice through December 31, 2020 if the Company decides to use the oxide plant for its own purposes before December 31, 2020.

For the year ended December 31, 2018 the Company recorded revenue of approximately \$7.2 million and related costs of approximately \$2.3 million associated with the lease of the Velardeña Properties oxide plant.

#### **19. Interest and Other Income**

For the year ended December 31, 2019 the Company recognized approximately \$0.2 million other expense primarily related to the sale of Golden Tag shares held by the Company (Note 6).

For the year ended December 31, 2018 the Company recorded approximately \$0.1 million of interest and other income, primarily related to mark-to-market gains on short term investments (Note 6).

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**20. Cash flow information**

The following table reconciles net loss for the period to cash used in operations:

	Year Ended December 31,	
	2019	2018
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (5,386)	\$ (1,945)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,098	1,171
Accretion of asset retirement obligation	225	163
Loss (gain) on trading securities	217	(92)
Asset write off	19	13
Gain on reduction of asset retirement obligation	(63)	—
Gain on sale of assets	(3,144)	(5,144)
Stock compensation	782	226
Changes in operating assets and liabilities from continuing operations:		
Decrease (increase) in lease receivable	33	(167)
(Increase) decrease in prepaid expenses and other assets	(37)	549
(Increase) decrease in inventories	(2)	13
Increase in derivative at fair value	(254)	—
Increase in other long term assets	(562)	(432)
(Decrease) increase in reclamation liability	(5)	24
Increase in accounts payable and accrued liabilities	514	236
Decrease in deferred revenue	(128)	(292)
Increase in other current liabilities	1,811	—
Increase (decrease) in other long term liabilities	484	(34)
Other	3	—
Net cash used in operating activities	\$ (4,395)	\$ (5,711)

The Company did not make any cash payments for interest or income taxes during the years ended December 31, 2019 and 2018.

**21. Commitments and Contingencies**

Leases and Purchase Commitments

The Company has non-cancelable operating lease commitments as follows:

	2020	2021	2022	2023	2024	Thereafter
El Quevar mining concessions (estimated)	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ —
Velardeña mining concessions (estimated)	\$ 23	\$ 23	\$ 23	\$ 23	\$ 23	\$ —
Office space	\$ 161	\$ 166	\$ 158	\$ 151	\$ 110	\$ 9

**GOLDEN MINERALS COMPANY**  
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**(Expressed in United States dollars)**

The Company is required to make payments to the Argentine government to maintain its rights to the El Quevar mining concessions. The Company has made such payments totaling approximately \$36,000 and \$57,000 for the years ended December 31, 2019 and 2018, respectively.

The Company is required to pay concession holding fees to the Mexican government to maintain its rights to the Velardeña Properties mining concessions. During the years ended December 31, 2019 and 2018 the Company made such payments totaling approximately \$78,000 and \$78,000 respectively and annual payments under its surface rights agreement with the local ejido of approximately \$58,000 and \$51,000 respectively.

The Company has office leases for its corporate headquarters in Golden, Colorado, as well as for its Velardeña Properties offices in Mexico, and exploration offices in Mexico and Argentina. The lease for the corporate headquarters office space was renegotiated and extended during the first quarter 2019 and now expires in January 2025. The new lease reflects an approximately 45% reduction in space and an approximately 45% reduction in cost that began on April 1, 2019. Payments associated with the corporate headquarters lease were recorded to rent expense by the Company in the amounts of \$183,000 and \$237,000 for the years ended December 31, 2019 and 2018, respectively. The lease for the Mexican offices was renegotiated and extended during the fourth quarter 2019 and now expires in October 2023. Payments associated with the Mexican office lease were recorded to rent expense by the Company in the amounts of \$50,000 and \$45,000 for the years ended December 31, 2019 and 2018, respectively. The lease for the Argentina office was renegotiated and extended during the fourth quarter 2019 and now expires in November 2022. Payments associated with the Argentina office lease were recorded to rent expense by the Company in the amounts of \$8,000 and \$10,000 for the years ended December 31, 2019 and 2018, respectively.

The Company cannot currently estimate the life of the Velardeña Properties or the El Quevar project. The table above assumes that no annual maintenance payments will be made more than five years after December 31, 2019. If the Company continues mining and processing or evaluations of restart at the Velardeña Properties beyond five years, the Company expects that it would make annual maintenance payments of approximately \$23,000 per year for the life of the Velardeña mine. If the Company continues to evaluate development opportunities at the El Quevar project, the Company expects that it would make annual maintenance payments of approximately \$30,000 per year for the life of the El Quevar mine.

Payments associated with other exploration concessions the Company owns are not included because the Company has not completed exploration work on these concessions. Exploration success is historically low and the Company has the right to terminate the payments and release the concessions at any time.

Contingencies

No loss contingencies were recorded at December 31, 2019 and December 31, 2018.

**22. Foreign Currency**

The Company conducts exploration and mining activities primarily in Mexico and Argentina, and gains and losses on foreign currency transactions are related to those activities. The Company's functional currency is the U.S. dollar but certain transactions are conducted in the local currencies resulting in foreign currency transaction gains or losses.

**23. Segment Information**

The Company's sole activity is the mining, construction and exploration of mineral properties containing precious metals. The Company's reportable segments are based upon the Company's revenue producing activities and

**GOLDEN MINERALS COMPANY**  
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**(Expressed in United States dollars)**

cash consuming activities. The Company reports two segments, one for its Velardeña Properties in Mexico and the other comprised of non-revenue producing activities including exploration, construction and general and administrative activities. Intercompany revenue and expense amounts have been eliminated within each segment in order to report on the basis that management uses internally for evaluating segment performance. The financial information relating to the Company's segments is as follows:

The Year ended December 31, 2019	Revenue	Costs Applicable to Sales	Depreciation, Depletion and Amortization	Exploration, El Quevar, Velardeña and Administrative Expense	Pre-Tax (Income)/Loss	Total Assets	Capital Expenditures
(in thousands)							
Velardeña Properties	\$ 7,730	\$ 2,377	\$ 796	\$ 2,538	\$ (4,301)	\$ 8,069	\$ 11
Corporate, Exploration & Other	—	—	302	8,993	9,652	5,288	27
	<u>\$ 7,730</u>	<u>\$ 2,377</u>	<u>\$ 1,098</u>	<u>\$ 11,531</u>	<u>\$ 5,351</u>	<u>\$ 13,357</u>	<u>\$ 38</u>
<b>The Year ended December 31, 2018</b>							
Velardeña Properties	\$ 7,217	\$ 2,289	\$ 816	\$ 2,362	\$ (1,320)	\$ 5,699	\$ 79
Corporate, Exploration & Other	—	—	355	8,057	3,252	6,945	73
	<u>\$ 7,217</u>	<u>\$ 2,289</u>	<u>\$ 1,171</u>	<u>\$ 10,419</u>	<u>\$ 1,932</u>	<u>\$ 12,644</u>	<u>\$ 152</u>

All of the revenue for the two years presented was from the Company's Velardeña Properties in Mexico (see Note 18) and was all attributable to the lease of the oxide plant.

**24. Related Party Transactions**

The following sets forth information regarding transactions between the Company (and its subsidiaries) and its officers, directors and significant stockholders.

*Administrative Services:*

Beginning in August 2016, the Company began providing limited accounting and other administrative services to Minera Indé, an indirect subsidiary of Sentient. The services are provided locally in Mexico by the administrative staff at the Company's Velardeña Properties. The Company charges Minera Indé \$15,000 per month for the services, which provides reimbursement to the Company for its costs incurred plus a small profit margin. Amounts received under the arrangement reduce costs incurred for the care and maintenance of the Velardeña Properties and allows the Company to maintain a larger more experienced staff at the Velardeña Properties to support the oxide plant lease and potential future mining or processing activities. The Company's Board of Directors and Audit Committee approved the agreement. For each of the years ended December 31, 2019 and 2018 the Company charged Minera Indé approximately \$180,000 for services, offsetting costs that are recorded in "Velardeña shutdown and care and maintenance" in the Consolidated Statements of Operations and Comprehensive Loss.



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**JEFFREY G. CLEVINGER<sup>2</sup>**

Chairman

**WARREN M. REHN**

President & Chief Executive Officer  
Golden Minerals Company

**W. DURAND EPPLER<sup>1,3</sup>**

Managing Director  
Capstone Headwaters MB

**KEVIN R. MORANO<sup>2,3</sup>**

Managing Principal  
KEM Capital LLC

**TERRY M. PALMER<sup>1,3</sup>**

Retired  
Certified Public Accountant

**ANDREW N. PULLAR**

Managing Partner and Director  
Sentient Equity Partners

**DAVID H. WATKINS<sup>1,2</sup>**

Director  
Commander Resources Ltd.

**COMMITTEE MEMBERSHIP**

1. Audit
2. Compensation
3. Corporate Governance and Nominating

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## OFFICERS

**WARREN M. REHN**

President and Chief Executive  
Officer

**ROBERT P. VOGELS**

Senior Vice President and Chief  
Financial Officer

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## SHAREHOLDER INFORMATION

**CORPORATE HEADQUARTERS**

350 Indiana Street, Suite 650  
Golden, Colorado 80401 USA  
+1 303 839 5060 or  
1 888 696 2739 (in U.S.)  
www.goldenminerals.com

**ANNUAL MEETING**

Wednesday, June 10, 2020  
9:00 a.m. local time. Meeting to  
be held virtually; registration  
information available at  
[http://www.viewproxy.com/  
GoldenMinerals/2020](http://www.viewproxy.com/GoldenMinerals/2020)

**INVESTOR RELATIONS CONTACT**

Karen Winkler  
Director of Investor Relations  
+1 303 839 5060 or  
1 888 696 2739 (in U.S.)  
Investor.Relations@  
goldenminerals.com

**TRANSFER AGENT**

Computershare  
P.O. Box 505000  
Louisville, KY 40233-5000  
+1 781 575 3120 or  
1 800 962 4284 (in U.S.)

**INDEPENDENT ACCOUNTANTS**

Plante & Moran, PLLC  
8181 E. Tufts Avenue,  
Suite 600  
Denver, CO 80237

**STOCK INFORMATION**

Our common stock trades on the  
NYSE American and the Toronto  
Stock Exchange under the  
symbol AUMN.

