HECLA MINING CO/DE/
Form 10-K
March 10, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x Annual report pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the fiscal year ended **December 31, 2005**

Commission file no. 1-8491

HECLA MINING COMPANY

(Exact name of registrant as specified in its charter)

Delaware	82-0126240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6500 N. Mineral Drive, Suite 200 Coeur d Alene, Idaho	83815-9408
(Address of principal executive offices)	(Zip Code)
	208-769-4100
	(Registrant s telephone number, including area code)

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

Title of each class		**Name of each exchange on which registered**
Common Stock, par value $0.25 per share	)	
	)	
Preferred Share Purchase Rights for	)	

Series A Junior Participating Preferred Stock, par value $0.25 per share	)	New York Stock Exchange
	)	
Series B Cumulative Convertible Preferred Stock, par value $0.25 per share	)	

Securities to be 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 o. No x.

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 o. No x.

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act.
Large Accelerated Filer o. Accelerated Filer x. Non-Accelerated Filer o.

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

The aggregate market value of the Registrant s voting Common Stock held by nonaffiliates was $536,570,480 as of June 30, 2005. There were 118,444,004 shares of the Registrant s Common Stock outstanding as of June 30, 2005, and 118,691,945 shares as of March 3, 2006.

Documents incorporated by reference herein:

To the extent herein specifically referenced in Part III, the information contained in the Proxy Statement for the 2006 Annual Meeting of Shareholders of the Registrant, which will be filed with the Commission pursuant to Regulation 14A within 120 days of the end of the Registrant s 2005 fiscal year is incorporated herein by reference. See Part III.

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Special Note on Forward-Looking Statements

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

These risks, uncertainties and other factors include, but are not limited to, those set forth under Item 1A Business Risk Factors. Given these risks and uncertainties, readers are cautioned not to place undue reliance on our forward-looking statements. Projections included in this Form 10-K have been prepared based on assumptions, which we believe to be reasonable, but not in accordance with United States generally accepted accounting principles (GAAP) or any guidelines of the Securities and Exchange Commission (SEC). Actual results will vary, perhaps materially, and we undertake no obligation to update the projections at any future date. You are strongly cautioned not to place undue reliance on such projections. All subsequent written and oral forward-looking statements attributable to Hecla Mining Company or to persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Except as required by federal securities laws, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Information set forth in Items 1A, 1B and 2 have been incorporated by reference into this Item 1.

Introduction

Hecla Mining Company is a precious metals company originally incorporated in 1891 (in this report, we or our or us refers to Hecla Mining Company and/or our affiliates and subsidiaries). We are engaged in the exploration and development of mineral properties and the mining and processing of silver, gold, lead and zinc. Our business is to discover, acquire, develop, produce and market mineral resources. Prior to 2002, we were also engaged in the mining and processing of industrial minerals.

Our current strategy is to focus our efforts and resources on expanding our proven and probable reserves and mineralized and other material through a combination of acquisitions and exploration efforts in order to position ourselves to expand our silver and gold production. In doing so, we intend to:

- Manage all our business activities in a safe, environmentally responsible and cost-effective manner;
- Give preference to projects where we will be the manager of the operation;
- Provide a work environment that promotes personal excellence and growth for all our employees; and
- Conduct our business with integrity and honesty.

Our corporate headquarters are in Coeur d Alene, Idaho, USA. For GAAP purposes and in accordance with Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information, we are organized and managed into four segments that represent our operating units and various exploration locations: the La Camorra unit and various Venezuelan exploration activities; the San Sebastian unit and various exploration activities in Mexico; the Greens Creek unit and the Lucky Friday unit. The maps show the locations of our operating units and our exploration projects, as well as the Hollister Development Block.

For the years ended December 31, 2005, 2004 and 2003, we reported net losses of $25.4 million, $6.1 million and $6.0 million, respectively. Our financial results over the past three years have been impacted by: our exploration expenditures, which totaled $16.8 million, $16.0 million and $9.6 million, respectively; increased expenditures on the Hollister Development Block as its development progresses of $9.4 million, $4.2 million and $1.4 million, respectively; and increased costs for operating supplies; and decreased production from the La Camorra and San Sebastian units. A comprehensive discussion of our financial results for the years ended December 31, 2005, 2004 and 2003, individual operating unit performance, general corporate expenses and other significant items can be found in *Item 7 - Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations*, as well as the *Consolidated Financial Statements* and *Notes* thereto.

Our results of operations are significantly affected by the prices of silver, gold, lead and zinc, which fluctuate widely and are affected by numerous factors beyond our control. Over the past three years, we have seen the prices of the metals we produce continue to rise, which has helped to offset the negative factors discussed above.

Products and Segments

Our principal operating units are differentiated by geographic region and principal products produced. We produce both metal concentrates, which we sell to custom smelters on contract, and unrefined gold and silver bullion bars (doré), which are further refined before sale to metals traders. Our principal producing operating units during 2005 included:

The La Camorra unit, located in the eastern Venezuelan State of Bolivar, has been 100% owned by us through our wholly owned subsidiary, Minera Hecla Venezolana, C.A., since June 1999. During 2005, La Camorra contributed $39.0 million, or 35.4%, to our consolidated sales;

The San Sebastian unit, located in the State of Durango, Mexico, has been 100% owned by us through our wholly owned subsidiary, Minera Hecla, S.A. de C.V., since 1999. During 2005, San Sebastian reached the end of its known mine life. We are continuing an ongoing exploration program at the San Sebastian unit. The San Sebastian unit contributed $12.6 million, or 11.5%, to our consolidated sales in 2005.

The Greens Creek unit, a 29.73% owned joint venture arrangement with Kennecott Greens Creek Mining Company, the manager, and Kennecott Juneau Mining Company, both wholly owned subsidiaries of Kennecott Minerals. Greens Creek is located on Admiralty Island, near Juneau, Alaska, and has been in production since 1989, with a temporary shutdown from April 1993 through July 1996. During 2005, our portion of Greens Creek revenue contributed $36.7 million, or 33.3%, to our consolidated sales; and

The Lucky Friday unit located in northern Idaho. Lucky Friday is 100% owned and has been a producing mine for us since 1958. During 2005, Lucky Friday contributed $21.8 million, or 19.8%, to our consolidated sales.

The table below summarizes our production for each year ended December 31:

	Year		
	2005	2004	2003
Silver (ounces)	6,013,929	6,960,580	9,817,324
Gold (ounces)	140,559	189,860	204,091
Lead (tons)	21,075	19,558	21,224
Zinc (tons)	23,289	25,644	25,341

Prior to 2005, we were organized according to the geographical areas in which we operated, and our segments included: Venezuela (the La Camorra unit), Mexico (the San Sebastian unit) and the United States (the Greens Creek unit and the Lucky Friday unit). During 2005, we separated the United States segment into the Greens Creek and Lucky Friday segments. Prior to 2003, we were organized by principal mineral mined at each location. For further information with respect to our business segments, our domestic and export sales and our customers, refer to *Note 12* of *Notes to Consolidated Financial Statements.*

Employees

As of December 31, 2005, we employed 1,191 people, and believe relations with our employees are generally good. However, our employees at the Velardeña mill went on strike in October 2004, as discussed under the *San Sebastian Unit* property description below, and our hourly employees at the La Camorra mine went on strike in July 2005, as discussed further under the *La Camorra Unit* property description.

Available Information

Hecla Mining Company is a Delaware corporation, with our principal executive offices located at 6500 N. Mineral Drive, Suite 200, Coeur d Alene, Idaho 83815-9408. Our telephone number is (208) 769-4100. Our web site address is www.hecla-mining.com. We file our annual, quarterly and current reports and amendments to these reports with the SEC, copies of which are available on our website or from the SEC free of charge (www.sec.gov or 800-SEC-0330 or the SEC s Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549). Charters of our audit, compensation and corporate governance and directors nominating committees, as well as our Code of Business Conduct and Ethics for Directors, Officers and Employees, are also available on our website free of charge. We will provide copies of these materials to shareholders upon request using the above-listed contact information, directed to the attention of Investor Relations.

We have included the CEO and CFO certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to this report. Additionally, we filed with the New York Stock Exchange (NYSE) the CEO s certification regarding our compliance with the NYSE s Corporate Governance Listing Standards (Listing Standards) pursuant to Section 303A.12(a) of the Listing Standards, which certification was dated May 19, 2005, and indicated that the CEO was not aware of any violations of the Listing Standards.

Item 1A. Risk Factors

The following risks and uncertainties, together with the other information set forth in this Form 10-K, should be carefully considered by those who invest in our securities. Any of the following risks could materially adversely affect our business, financial condition or operating results and could decrease the value of our common and/or preferred stock.

FINANCIAL RISKS

We have a history of losses that may continue in the future.

For the years ended December 31, 2005, 2004 and 2003, we reported net losses of $25.4 million, $6.1 million and $6.0 million, respectively. A comparison of operating results over the past three years can be found in *Results of Operations* in *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).*

Many of the factors affecting our operating results are beyond our control, including the volatility of metals prices; interest rates; global or regional political or economic policies; inflation; developments and crises; governmental regulations; continuity of orebodies; and speculation and sales by central banks and other holders and producers of gold and silver in response to these factors. We cannot foresee whether our operations will continue to generate sufficient revenue in order for us to generate net cash from operating activities. There can be no assurance that we will not continue to experience net losses in the future.

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

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

- Expectations for inflation;
- Speculative activities;
- Relative exchange rates of the U.S. dollar;
- Global and regional demand and production; and
- Political and economic conditions.

These factors are largely beyond our control and are difficult to predict. If the market prices for these metals fall below our production or development costs for a sustained period of time, we will experience losses and may have to discontinue exploration, development or operations, or incur asset write-downs at one or more of our properties.

The following table sets forth the average daily closing prices of the following metals for 1990, 1995, 2000 and each year thereafter through 2005.

	1990	1995	2000	2001	2002	2003	2004	2005
Silver[1] (per oz.)	$ 4.83	$ 5.20	$ 4.95	$ 4.37	$ 4.60	$ 4.88	$ 6.66	$ 7.31
Gold [2] (per oz.)	$ 383.46	$ 384.16	$ 279.03	$ 272.00	$ 309.97	$ 363.51	$ 409.21	$ 444.45
Lead [3] (per lb.)	$ 0.37	$ 0.29	$ 0.21	$ 0.22	$ 0.21	$ 0.23	$ 0.40	$ 0.44
Zinc [4] (per lb.)	$ 0.69	$ 0.47	$ 0.51	$ 0.40	$ 0.35	$ 0.38	$ 0.48	$ 0.63

(1) London Fix
(2) London Final
(3) London Metals Exchange - Cash
(4) London Metals Exchange - Special High Grade - Cash

On March 3, 2006, the closing prices for silver, gold, lead and zinc were $10.26 per ounce, $565 per ounce, $0.56 per pound and $1.07 per pound, respectively.

Hedging activities could expose us to losses.

From time to time, we enter into hedging activities, such as forward sales contracts and commodity put and call option contracts, to manage the metals prices received on our products and in an attempt to insulate our operating results from declines in those prices. However, hedging may prevent us from realizing possible revenues in the event that the market price of a metal exceeds the price stated in a forward sale or call option contract. In addition, we may experience losses if a counterparty fails to purchase under a contract when the contract price exceeds the spot price of a commodity or for any other reason. At December 31, 2005, we had no outstanding forward sales contracts, commodity put and call options contracts or other hedging positions.

Our costs are subject to currency fluctuations.

Our products are sold in world markets in United States dollars, although a portion of our operating expenses are incurred in local currencies, primarily the Venezuelan bolivar and Mexican peso. Foreign exchange fluctuations may materially increase our production costs, future exploration activities and costs of capital. For more specific information with regard to foreign currency as it relates to our operations in Venezuela, see *La Camorra Segment* in *MD&A*.

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

Our business activities are highly dependent on the costs of commodities such as fuel, steel and cement. The recent prices for such commodities have significantly increased and have increased our costs of production and development. A material increase in costs at any of our operating properties could have a significant effect on our profitability. For additional discussion, see *Results of Operations* in *MD&A*.

Failure to comply with debt covenants could adversely affect our financial results or condition.

In September 2005, we entered into a $30.0 million revolving credit agreement that includes various covenants and other limitations related to our indebtedness and investments that require us to maintain customary measures of financial performance. At December 31, 2005, we had $3.0 million outstanding under the credit agreement and were in compliance with our covenants. We believe we will be able to comply with such requirements in the future, although failure to do so could adversely affect our results or financial condition and may limit our ability to obtain financing. For additional information, see *Note 7* of *Notes to Consolidated Financial Statements.*

Our accounting and other estimates may be imprecise.

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

- Mineral reserves that are the basis for future cash flow estimates and units-of-production depreciation, depletion and amortization calculations;
- Future metals prices;
- Environmental, reclamation and closure obligations;
- Asset impairments, including long-lived assets and investments; and
- Reserves for contingencies and litigation.

Actual results may differ materially from these estimates using different assumptions or conditions. For additional information, see *Critical Accounting Policies* in *MD&A* and the risk factors: *Our development of new orebodies and other capital costs may cost more and provide less return than we estimated, Our ore reserve estimates may be imprecise* and *Our environmental remediation obligations may exceed the provisions we have made.*

Material weaknesses relating to our internal controls over financial reporting could adversely affect our financial results or condition and share price.

In our 2004 Annual Report on Form 10-K, management concluded that internal controls over financial reporting in place at December 31, 2004 were ineffective due to three material weaknesses. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. During 2005, these material weaknesses were remediated and we reported no material weaknesses at December 31, 2005. However, there can be no assurance that material weaknesses regarding our internal controls will not be discovered in the future, which could result in costs to remediate such controls or inaccuracies in our financial statements. A material weakness in controls over financial reporting may result in increased difficulty or expense in transactions, such as financings, or a risk of adverse reaction by the market generally that would result in a decrease of our stock prices.

OPERATION, DEVELOPMENT AND EXPLORATION RISKS

Our foreign operations are subject to additional inherent risks.

We currently conduct significant mining operations and exploration projects in Venezuela and Mexico. We anticipate that we will continue to conduct significant operations in these and possibly other international locations in the future. Because we conduct operations internationally, we are subject to political and economic risks such as:

- The effects of local political, labor and economic developments and unrest;
- Significant or abrupt changes in the applicable regulatory or legal climate;
- Exchange controls and export or sale restrictions;
- Currency fluctuations and repatriation restrictions;
- Invalidation of governmental orders, permits, or agreements;
- Renegotiation or nullification of existing concessions, licenses, permits and contracts;
- Recurring tax audits and delays in processing tax credits or refunds;
- Corruption, demands for improper payments, expropriation, and uncertain legal enforcement and physical security;
- Disadvantages of competing against companies from countries that are not subject to U.S. laws and regulations;
- Fuel or other commodity shortages;
- Illegal mining;
- Laws or policies of foreign countries and the United States affecting trade, investment and taxation;
- Civil disturbances, war and terrorist actions; and
- Seizures of assets.

Consequently, our exploration, development and production activities outside of the United States may be substantially affected by factors beyond our control, any of which could materially adversely affect our financial condition or results of operations. For more information regarding our operations in Mexico and Venezuela, see *MD&A, Item 2 Property Descriptions and other various risk factors relating to our foreign operations.*

Political, social and regulatory instability in Venezuela may adversely affect us.

The success of our La Camorra unit is dependent on the political, social and regulatory stability of Venezuela. We believe we will be able to manage and operate the La Camorra unit and related exploration projects successfully. However, we face continued uncertainty relating to political, regulatory, legal enforcement, security and economic matters, exportation and exchange controls, and the possible effects of all of these uncertainties on our operations. Risks due to changes in policy or demands of governmental agencies or their officials, litigation, labor stoppages, seizures of assets, relationships with small mining groups in the vicinity of our mining operations and the impact on commodities necessary to operate, mean there can be no assurance we will be able to operate without interruptions to our operations.

Any such factors or occurrences may have a material adverse effect on our financial results or condition. Specifically, we are currently subject to the following business risks in Venezuela, which are discussed in more detail in *MD&A:*

- Requirement to sell 15% of our production within Venezuela. Markets for gold sales within Venezuela are limited, which could result in delays in sales, lower realized sales prices and operating cash flows.
- A fixed exchange rate of Venezuelan currency with the U.S. dollar, which has impacted our costs and operating cash flows. A new Criminal Exchange Law imposes strict sanctions, both criminal and economic, for currency exchanges outside the officially designated methods or for obtaining foreign currency under false pretenses.
- We are involved in litigation with the Venezuelan tax authority concerning alleged unpaid tax liabilities that predate our purchase of La Camorra in 1999, as well as tax audits of our Venezuelan tax returns for the years ended December 31, 2003 and 2002.
- The Venezuelan government announced its intention to rescind inactive, non-compliant mining concessions and created a state agency that is responsible for exploration, exploitation, processing and industrialization of gold and other minerals in Venezuela.
- In February 2004, the Venezuelan National Guard impounded a shipment of our dorè due to alleged irregularities in documentation that accompanied the shipment. The dorè was returned to us in July of that year, and all subsequent shipments of dorè have been exported without intervention by Venezuelan government authorities.

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

Capitalized development projects may cost more and provide less return than we estimate, including the Lucky Friday 5900 level expansion, development of Mina Isidora in Venezuela and the recently completed shaft at the La Camorra mine in Venezuela, which was placed into service in August 2005. If we are unable to realize a return on these investments, we may incur a related asset write-down that could adversely affect our financial results or condition.

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

- Ore reserves;
- Expected recovery rates of metals from the ore;
- Future metals prices;
- Facility and equipment costs;
- Availability of economic sources of power and adequacy of water supply;
- Exploration and drilling success;
- Capital and operating costs of a development project;
- Environmental considerations and permitting;
- Adequate access to the site, including competing land uses (such as agriculture and illegal mining);
- Currency exchange and repatriation risks;
- Applicable tax rates;
- Foreign currency fluctuation and inflation rates;
- Political risks and regulatory climate in the foreign countries in which we operate; and
- Availability of financing.

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

Our ore reserve estimates may be imprecise.

Our ore reserve figures and costs are primarily estimates and are not guarantees that we will recover the indicated quantities of these metals. You are strongly cautioned not to place undue reliance on estimates of reserves. Reserves are estimates made by our technical personnel, and no assurance can be given that the estimated amount of metal or the indicated level of recovery of these metals will be realized. Reserve estimation is an interpretive process based upon available data and various assumptions. Our reserve estimates, particularly those for properties that have not yet started producing, may change based on actual production experience. Further, reserves are valued based on estimates of costs and metals prices, which may not be consistent among our operating and non-operating properties. The economic value of ore reserves may be adversely affected by:

- Declines in the market price of the various metals we mine;
- Increased production or capital costs;
- Reduction in the grade or tonnage of the deposit;
- Increase in the dilution of the ore; and
- Reduced recovery rates.

Short-term operating factors relating to our ore reserves, such as the need to sequentially develop orebodies and the processing of new or different ore grades, may adversely affect our cash flow. We may use forward sales contracts and other hedging techniques to partially offset the effects of a drop in the market prices of the metals we mine. However, if the prices of metals that we produce decline substantially below the levels used to calculate reserves for an extended period, we could experience:

- Delays in new project development;
- Net losses;
- Reduced cash flow;
- Reductions in reserves; and
- Write-downs of asset values.

Efforts to expand the finite lives of our mines may not be successful, which could hinder our growth and decrease the value of our stock.

One of the risks we face is that our mines have a relatively small amount of proven and probable reserves, primarily because we have low volume, underground operations. Thus, we must continually replace depleted ore reserves. Our ability to expand or replace ore reserves primarily depends on the success of our exploration program. Mineral exploration, particularly for silver and gold, is highly speculative and expensive. It involves many risks and is often nonproductive. Even if we believe we have found a valuable mineral deposit, it may be several years before production is possible. During that time, it may become no longer feasible to produce those minerals for economic, regulatory, political or other reasons. As a result of high costs and other uncertainties, we may not be able to expand or replace our existing ore reserves as they are depleted, which would adversely affect our business and financial position in the future.

Our joint development and operating arrangements may not be successful.

It is possible we will enter into other joint venture arrangements in the future in order to share the risks and costs of developing and operating properties, similar to our joint venture arrangements related to the Greens Creek unit and Hollister Development Block project. In a typical joint venture arrangement, the partners own a proportionate share of the assets, are entitled to indemnification from each other party and are only responsible for any future liabilities in proportion to its interest in the joint venture. If a party fails to perform its obligations under a joint venture agreement, we could incur liabilities and losses in excess of our pro-rata share of the joint venture.

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

Mines have limited lives, which is an inherent risk in acquiring mining properties. We are actively seeking to expand our mineral reserves by acquiring other mining companies or properties. Although we are pursuing opportunities that we feel are in the best interest of our investors, these pursuits are costly and often unproductive. Inherent risks in acquisitions we may undertake in the future could adversely affect our current business and financial condition and our growth.

There is a limited supply of desirable mineral lands available in the United States and foreign countries where we would consider conducting exploration and/or production activities, and any acquisition we may undertake is subject to inherent risks. In addition to the risk associated with mines limited lives, we may not realize the value of the companies or properties that are acquired due to a possible decline in metals prices, failure to obtain permits, labor problems, changes in regulatory environment, an inability to obtain financing and other factors previously described. Acquisitions of other mining companies or properties may also expose us to new geographic, political, operating, and geological risks. In addition, we face strong competition for new properties from other mining companies, some of which have greater financial resources than we do, and we may be unable to acquire attractive new mining properties on terms that we consider acceptable.

Our business depends on good relations with our employees.

We are dependent upon the ability and experience of our executive officers, managers, employees and other personnel including those residing outside of the U.S., and there can be no assurance that we will be able to retain all of such employees. We compete with other companies both within and outside the mining industry in connection with the recruiting and retention of qualified employees knowledgeable in mining operations. Due to the relatively small size of our management team, the loss of these persons or our inability to attract and retain additional highly skilled employees could have an adverse effect on our business and future operations.

Many of our employees are represented by unions. We anticipate that we will be able to negotiate a satisfactory contract with each union, although there can be no assurance that this can be done or that it can be done without disruptions to production. During 2005, labor strikes and work slow-downs adversely affected our production in Mexico and Venezuela, and similar labor problems could continue to affect our financial results or condition in the future. For additional discussion of these strikes and work slow-downs, see *Results of Operations* in *MD&A.*

Mining accidents or other adverse events at an operation could decrease our anticipated production.

Production may be reduced below our historical or estimated levels as a result of mining accidents; unfavorable ground conditions; work stoppages or slow-downs; ore grades are lower than expected; the metallurgical characteristics of the ore are less economical than anticipated; or our equipment or facilities fail to operate properly or as expected.

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

Our business is subject to a number of risks and hazards including:

- Environmental hazards;
- Political and country risks;
- Civil unrest or terrorism;
- Industrial accidents;
- Labor disputes or strikes;
- Unusual or unexpected geologic formations;
- Cave-ins;
- Explosive rock failures; and
- Unanticipated hydrologic conditions, including flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

- Personal injury or fatalities;
- Damage to or destruction of mineral properties or producing facilities;
- Environmental damage;
- Delays in exploration, development or mining;
- Monetary losses; and
- Legal liability.

For some of these risks, we maintain insurance to protect against these losses at levels consistent with our historical experience, industry practice and circumstances surrounding each identified risk. Insurance against environmental risks is generally either unavailable or, we believe, too expensive for us, and, therefore, we do not maintain environmental insurance. Occurrence of events for which we are not insured may affect our cash flow and overall profitability.

LEGAL, MARKET AND REGULATORY RISKS

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

There are several ongoing legal disputes in which we are involved. If any of these disputes results in a substantial monetary judgment against us, is settled on unfavorable terms or otherwise impacts our operations, our financial results or condition could be materially adversely affected. For example, we may ultimately incur environmental remediation costs substantially in excess of the amounts we have accrued and the plaintiffs in environmental proceedings may be awarded substantial damages, which costs and damages we may not be able to recover from our insurers. For a description of the lawsuits in which we are involved, see Note 8 of *Notes to Consolidated Financial Statements.*

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

In the ordinary course of business, mining companies are required to seek governmental and lessor approvals and permits for expansion of existing operations or for the commencement of new operations. Obtaining the necessary governmental permits is a complex, time-consuming and costly process. The duration and success of our efforts to obtain permits are contingent upon many variables not within our control. Obtaining environmental permits, including the approval of reclamation plans, may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary approvals and permits will be obtained and, if obtained, that the costs involved will not exceed those that we previously estimated. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that we would not proceed with the development or operation.

We face substantial governmental regulation and environmental risk.

Our business is subject to extensive U.S. and foreign, federal, state and local laws and regulations governing development, production, labor standards, occupational health, waste disposal, use of toxic substances, environmental regulations, mine safety and other matters. See risks titled *Our environmental remediation obligations may exceed the provisions we have made* and *Our foreign operations are subject to additional inherent risks.* We have been and are currently involved in lawsuits in which we have been accused of causing environmental damage or otherwise violating environmental laws, and we may be subject to similar lawsuits in the future. New legislation and regulations may be adopted at any time that result in additional operating expense, capital expenditures or restrictions and delays in the mining, production or development of our properties.

From time to time, the U.S. Congress considers proposed amendments to the General Mining Law of 1872, as amended, which governs mining claims and related activities on federal lands. There has been no significant activity with respect to mining law reform in Congress during the past several years. The extent of any future changes is not known and the potential impact on us as a result of U.S. Congressional action is difficult to predict. Although a majority of our existing U.S. mining operations occur on private or patented property, changes to the General Mining Law, if adopted, could adversely affect our ability to economically develop mineral reserves on federal lands.

See also Our foreign operations are subject to additional inherent risks and Political, social and regulatory instability in Venezuela may effect us, and Item 7, Management Discussion Analysis.

Our environmental remediation obligations may exceed the provisions we have made.

We are subject to significant environmental obligations, particularly in northern Idaho. At December 31, 2005, we had accrued $69.2 million as a provision for environmental remediation, $55.8 million of which relates to our various liabilities in Idaho, and there is a significant risk that the costs of remediation could materially exceed this provision. For an overview of our potential environmental liabilities, see *Note 8* of *Notes to Consolidated Financial Statements.*

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

Unpatented mining claims constitute a significant portion of our undeveloped property holdings, the validity of which could be uncertain and may be contested. Although we have conducted title reviews of our property holdings, title review does not necessary preclude third parties from challenging our title. In accordance with mining industry practice, we do not generally obtain title opinions until we decide to develop a property. Therefore, while we have attempted to acquire satisfactory title to our undeveloped properties, some titles may be defective.

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

Our common and preferred stocks are listed on the New York Stock Exchange. The market price for our common shares has been volatile, often based on:

- Fluctuating proven and probable reserves;
- Factors unrelated to our financial performance or future prospects such as global economic developments and market perceptions of the attractiveness of particular industries;
- Changes in metals prices, particularly gold and silver;
- Our results of operations and financial condition as reflected in our public news releases or periodic filings with the Securities and Exchange Commission;
- Foreign political and regulatory risk;
- The success of our exploration program;
- Ability to meet production estimates;
- Environmental and legal risk;
- The extent of analytical coverage concerning our business; and
- The trading volume and general market interest in our securities.

The market price of our common shares at any given point in time may not accurately reflect our long-term value, and may prevent shareholders from realizing a profit on their investment.

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

If we were liquidated, holders of our preferred stock would be entitled to receive approximately $7.9 million (plus any accrued and unpaid dividends) from any liquidation proceeds before holders of our common stock would be entitled to receive any proceeds.

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

In July 2005, we paid outstanding dividends in arrears on our Series B Cumulative Convertible Preferred Stock totaling approximately $2.3 million. Since July 2005, we have continued to pay regular quarterly dividends on our Series B Cumulative Convertible Preferred Stock. The annual dividend payable on the preferred stock is currently $0.6 million. Prior to the fourth quarter of 2004, we had not declared preferred dividends since the second quarter of 2000. There can be no assurance that we will continue to pay dividends in the future.

Our stockholder rights plan and provisions in our certificate of incorporation, our by-laws and Delaware law could delay or deter tender offers or takeover attempts that may offer a premium for our common stock.

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

- The rights issued in connection with our stockholder rights plan that will substantially dilute the ownership of any person or group that acquires 15% or more of our outstanding common stock unless the rights are first redeemed by our board of directors, at its discretion. Furthermore, our board of directors may amend the terms of these rights, at its discretion, including an amendment to lower the acquisition threshold to as low as 10% of the outstanding common stock;

- The classification of our board of directors into three classes serving staggered three-year terms, which makes it more difficult to quickly replace board members;

- The ability of our board of directors to issue shares of preferred stock with rights as it deems appropriate without stockholder approval;

- A provision that special meetings of our board of directors may be called only by our chief executive officer or a majority of our board of directors;

- A provision that special meetings of stockholders may only be called pursuant to a resolution approved by a majority of our entire board of directors;

- A prohibition against action by written consent of our stockholders;

- A provision that our board members may only be removed for cause and by an affirmative vote of at least 80% of the outstanding voting stock;

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

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

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

The existence of the stockholder rights plan and these provisions may deprive stockholders of an opportunity to sell our stock at a premium over prevailing prices. The potential inability of our stockholders to obtain a control premium could adversely affect the market price for our common stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Property Descriptions

OPERATING PROPERTIES

The La Camorra Unit

The La Camorra unit refers to our Venezuelan operating properties and exploration projects, which are discussed below. For additional information with regard to our Venezuelan operating properties, see the *La Camorra Segment* in *MD&A.* At the present time, the La Camorra mine is operating and development of Mina Isidora is continuing. Limited production of ore in 2005 from Mina Isidora was achieved and Mina Isidora will be ramping up to a full production rate in mid-2006. All ore from Mina Isidora is shipped to the mill at the La Camorra mine for processing.

The mill uses a conventional carbon-in-leach process. The ore is crushed with a three-stage system consisting of a primary jaw crusher with secondary and tertiary cone crusher with a multi-deck vibrating screen. The grinding circuit includes a primary and a secondary ball mill. The ground ore is mixed with a cyanide solution and clarified, followed by countercurrent carbon-in-leach gold adsorption. The carbon is then stripped and the gold recovered and poured into gold bars for shipment to a third-party refiner. Mill recovery averages approximately 95%.

All mill equipment, infrastructure and facilities are in good condition. The mill was constructed in 1994 and has been periodically upgraded. The mill is capable of processing approximately 700 tons per day.

During 2004, we started a custom-milling program for small mining cooperatives working in the area of Mina Isidora. The cooperatives sell their ore to us for further processing at our La Camorra mill. See *Custom Milling Business* below.

Information with respect to the La Camorra unit s production and average costs per ounce of gold produced is set forth in the table below.

	Years Ended December 31,		
Production	**2005**	**2004**	**2003**
Ore processed (tons) (1)	191,900	199,453	197,591
Gold (ounces) (1)	101,474	130,437	126,567
Average Cost per Ounce of Gold Produced (2)			
Cash operating costs	$ 330	$ 176	$ 154
Total cash costs	$ 337	$ 180	$ 154
Total production costs	$ 437	$ 271	$ 222

(1) During 2005, 2004 and 2003, 17,252, 24,264 and 15,155 tons milled, respectively, and 4,602, 4,789 and 3,049 gold ounces produced were generated from our custom milling business and other purchases of ore from third parties not mined at La Camorra.

(2) Cash costs per ounce of gold represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe cash costs per ounce of gold provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7, MD&A,* under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

The La Camorra Mine

The La Camorra mine is located approximately 180 miles southeast of Puerto Ordaz in the eastern Venezuelan State of Bolivar. The mine is accessed via a gravel road that we maintain and is six miles east of state highway 10, which is a paved two-lane road running from Upata south to the Brazilian border.

We acquired the La Camorra mine in 1999 from Monarch Resources Investments Limited (Monarch), and it is 100% owned by us through our Venezuelan subsidiary, Minera Hecla Venezolana, C.A. (MHV). The purchase agreement includes a provision to pay Monarch a net smelter return (NSR) royalty on production exceeding a cumulative total of 600,000 ounces of gold from the properties acquired in Venezuela from Monarch. The royalty is based on a sliding scale that is dependent on the price of gold. When the gold price is below $300 per troy ounce, there is no royalty; when the price is between $300.00 and $399.99 per troy ounce the royalty is 1%; when the price is between $400.00 and $499.99 per troy ounce, the royalty is 2%; and when the price is $500.00 and above, the royalty is 3%. The 600,000 ounce production milestone was reached during the second quarter of 2004. Gold production since that time has been subject to the provisions of the royalty agreement, the payments of which have been offset by our costs incurred related to on-going tax litigation, as discussed in *Note 8* of *Notes to Consolidated Financial Statements.*

The La Camorra mine is located on an exploration concession granted by the Ministry of Energy and Mines in 1964 that has been converted to a fifty-year exploitation license. The mine is a high-grade underground gold mine that exploits two shear-zone hosted quartz veins known as the Main zone and the Betzy vein. It lies in the Botanamo greenstone belt of the Precambrian Guayana Shield and is hosted by the Caballape Group of volcanoclastic rocks. The formations most likely date from Archean to Proterozoic in age and consist primarily of intermediate volcanics with subordinate metasediments. Gold mineralization at La Camorra is confined to narrow, near vertical quartz veins hosted in an east-west trending, left-lateral shear zone. Most economic mineralization in the La Camorra veins occur in distinct ore shoots. Gold occurs both as free particles in quartz and attached to, or included in, pyrite. Locally, gold is also seen on chloritic partings.

At the end of 2005, the principal working levels of the La Camorra mine lay between the elevations of 400 and 560 meters below sea level. The proven and probable reserves extend to the 610-meter elevation and exploration drill holes have intersected gold mineralization below the current reserve limits at the 950-meter level.

At the end of 2003, the mine had been developed to the 480-meter level. Engineering studies undertaken in 2002 and 2003 indicated that the combination of ventilation and haulage requirements and logistics would make mining below the 500-meter level extremely difficult and marginally economic without the development of a shaft. In August 2003, the board of directors approved the development of a production shaft at the La Camorra mine based on the long lead-time necessary to construct the shaft and to develop further ore reserves. The production shaft is complete and was commissioned during the second half of 2005. The shaft loading station is at the 405-meter level and is 550 meters below sea level.

Access to the underground workings at the La Camorra mine is made via the shaft and a ramp from the surface excavated at a -15% grade and connecting numerous levels. The main access ramp has been developed to a depth of approximately 578 meters below sea level.

Ore is mined primarily by longhole stoping and is extracted from the stopes using rubber-tired equipment and hauled to the surface in mine haulage trucks and during the second half of 2005, the production shaft. Sub-economic material is used to backfill and stabilize mined-out stopes. The mine is currently producing approximately 450 tons of ore per day.

Site infrastructure, equipment and facilities are in good condition and includes a water supply system, maintenance shop, warehouse, living quarters, a dining facility, administration building and a National Guard post. We also share a housing facility located near the town of El Callao with units for approximately 50 families. Mine electric power is purchased from Eleoriente (a state-owned electric company). Diesel-powered electric generators are available on-site for operation of critical equipment during power outages. At December 31, 2005, the net book value of the La Camorra mine property and its associated plant and equipment was approximately $32.7 million.

Our reclamation plan has been approved by the Ministry of Environment and Natural Resources. Planned activities include regrading and revegetation of disturbed areas. The reclamation and closure accrual as of December 31, 2005, was $2.2 million.

At December 31, 2005, there were 401 hourly and 118 salaried employees associated with the La Camorra mine. The hourly employees are covered by a collective bargaining agreement, the contract for which will expire in October 2006. In addition, there were 32 employees contracted to fill-in for vacation and absentee purposes, and 31 employees at the administrative office in Puerto Ordaz as of December 31, 2005.

Information with respect to the La Camorra mine s proven and probable ore reserves is set forth in the table below.

	Years Ended December 31,		
	2005	2004	2003
Proven and Probable Ore Reserves [1,2,3,4]			
Total tons	193,642	356,192	318,644
Gold (ounces per ton)	0.62	0.60	0.69
Contained gold (ounces)	120,716	213,244	220,552

(1) The Company s estimates of proven and probable reserves are based on a gold price of $400, $350 and $335 per ounce, respectively, in 2005, 2004 and 2003. Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. An independent audit of the 2004 year-end reserves at the La Camorra mine was completed in 2005 by Roscoe Postle Associates Inc. (RPA). Following the audit, RPA made several recommendations for our proven and probable reserve calculation, all of which we reviewed and addressed in the 2005 proven and probable reserves, which were not subject to audit by RPA.

(2) The 2005 year-end proven and probable reserves decrease in tonnage and grade, as well as an associated decrease in ounces when compared to the 2004 year-end proven and probable reserves, are a result of a combination of new drill data and underground sampling information, a revision of ore shoot limits and the depletion of reserves by mining.

(3) The 2004 year-end reserves show an increase in tonnage and decrease in grade resulting in a decrease in ounces when compared to the 2003 year-end reserves. The changes are a result of a combination of new drill data and underground sampling information, a revision of ore shoot limits and the increase in mine dilution being applied to the Betzy vein material together with a depletion of reserves by mining.

(4) Proven and probable ore reserves at the La Camorra mine are based on drill spacing of 30 to 50 meters and closely spaced chip sample information. Cutoff grade assumptions are developed based on reserve prices, anticipated mill recoveries and cash operating costs. The cutoff grade at La Camorra is 14 grams of gold per tonne.

In addition, we have the exploration rights to approximately 9,500 hectares (36-square miles) adjacent to the La Camorra mine. This property is controlled through eight different contracts with the Venezuelan state-owned development company, Corporacion Venezolana de Guayana, as well as five different concessions with the Ministry of Basic Industries and Mines (formerly the Ministry of Energy and Mines). The contracts and concessions were granted at various times with expiration dates between 2011 and 2020, and most are renewable for a period of 10 to 20 years.

In 2005, proven and probable reserves decreased at the La Camorra mine as the deposit exhibited lower ore grades. No significant exploration results were returned from drilling on the La Camorra veins during 2005. In 2006, exploration activity will focus on strike extensions to the Main and Betsy veins and other known veins on the concession and on the properties surrounding the mine, once the appropriate permits are granted.

The Block B Concessions

In March 2002, we acquired the Block B exploration and mining lease near El Callao in the Venezuelan State of Bolivar from CVG-Minerven, a Venezuelan government-owned gold mining company. The lease runs through March 2023. The area s mining history dates back to the 1800s. Block B is a seven-square-mile property position in the El Callao gold mining district and contains many historic mines including the Chile, Laguna and Panama mines, which collectively produced over 1.6 million ounces of gold between 1921 and 1946.

Pursuant to the lease agreement, we will pay CVG-Minerven a royalty of 2% to 3% on production from Block B, based on production levels. The royalty terms are: (i) 2% if the price of gold is below $290 per ounce of refined gold during the month preceding payment; (ii) 2.5% if the price of gold is equal or greater than $290 and equal to or below $310 per ounce of refined gold during the month preceding payment; and (iii) 3% if the price of gold is greater than $310 per ounce of refined gold during the month preceding payment. As a result of limited production in 2005, $0.3 million in royalty expense was incurred. Prior to inception of production, we made lease payments of $30,000 in 2004 and $24,000 in 2003 to CVG-Minerven.

The El Callao area is accessed on a maintained, asphalt highway that runs from Puerto Ordaz, on the south side of the River Orinoco, through to Santa Elena on the Brazilian border. Overall good infrastructure exists and an 115kw electricity power line supplies the area predominantly populated by miners operating underground small-scale mines. The population of El Callao is approximately 25,000 people.

Geologically, the gold is found in shear-zone hosted quartz veins and stockworks in Proterozoic greenstone volcanics, primarily andesitic to basaltic lavas and pyroclastics. Gold occurs as free gold in quartz and is also commonly associated with coarse-grained pyrite. Upon acquisition, exploration began on the Chile vein system, which we believed to host high-grade gold mineralization. The Chile mine itself was an important gold producer that historically produced more than 550,000 ounces of gold at an average grade of over one ounce per ton. Since the mine shut down in the 1940s, two phases of exploration drilling were undertaken prior to our work in the Block B lease area, one in the 1960s, and more recent drill testing in the 1980s that encountered high grades west of the old mine.

We completed a detailed exploration drilling campaign including 163 drill holes and 40,000 meters of drilling resulting in the discovery of what we refer to as Mina Isidora (formerly the Chile mine), which we anticipate will be accessible by both a ramp and an inclined shaft. Mina Isidora reported limited production during 2005 (17,503 tons, resulting in approximately 22,000 ounces of gold). Mina Isidora ore is shipped to the mill at the La Camorra mine for processing. At December 31, 2005, the net book value for the development of Mina Isidora totaled $32.6 million. In addition, we had an accrual for future reclamation and closure costs of $0.5 million. At December 31, 2005, there were 70 salaried and 205 hourly employees associated with Block B.

Information with respect to Mina Isidora s proven and probable ore reserves is set forth in the table below.

Proven and Probable Ore Reserves [1,2,3]	**Years Ended December 31,**		
	2005	**2004**	**2003**
Total tons	398,754	338,965	500,011
Gold (ounces per ton)	0.80	1.03	0.66
Contained gold (ounces)	320,676	350,547	327,303

(1) Proven and probable ore reserves are calculated and reviewed in-house and are subject to periodic audit by others, although audits are not performed on an annual basis. Associated Mining Consultants, Ltd., whom has referred to Mina Isidora as the Isidora Gold Project within their consent included as exhibit 23.5 to this document, completed an independent audit of the 2003 year-end reserves at Mina Isidora in 2004. Our estimates of proven and probable reserves were based on a gold price of $400, $350 and $335 per ounce, respectively, in 2005, 2004 and 2003.

(2) Proven and probable ore reserves at Mina Isidora are based on diamond drill hole spacing of 30 to 35 meters, geostatistical modeling. Cutoff grade assumptions are developed based on reserve prices, anticipated mill recoveries and cash operating costs.

(3) The changes to the Mina Isidora ore reserves in 2005 compared to 2004 are attributed to additional drill data, changes in modeling techniques, changes in mining assumptions and costs. The cutoff grade at Isidora is 12 grams of gold per tonne.

Outside the Mina Isidora area, other exploration work on the Block B concessions has included geologic mapping, geophysical surveying, geochemical sampling and 20,000 meters of exploration diamond drilling. This work has lead to the discovery of two mineralized zones, the Twin and Conductora mineralized zones, located approximately one-kilometer northeast of the Mina Isidora orebody.

The Twin structure was discovered through drilling during in the second quarter of 2004, and is host to a large mineralized zone known as the Twin mineralized zone. The Twin mineralized zone has a minimum strike length of 750 meters and a minimum vertical extent of 350 meters, and is still open down dip and along strike. Mineralization is somewhat erratic with values ranging from three grams per tonne to over 18 grams per tonne and widths from one meter to over 20 meters. The gold mineralization is associated with disseminated pyrite in a moderate-to-strong schistose shear zone, with moderate-to-intense ankerite/sericite alteration and minor quartz veining. Additional drilling is planned for 2006.

The Conductora structure, which is a possible extension to the northeast of the Twin structure, is a second shear zone that has been traced over a strike length of about 700 meters and is still open in both directions along strike and also down dip. The structure is host to the Conductora mineralized zone, which has erratic gold values associated with sulphides in narrow, quartz veins and/or wide zones of quartz veinlets in moderate-to-intensely schistose rocks with strong ankerite/sericite alteration.

Geological interpretation is continuing to determine the relationship between the Twin and Conductora structures and mineralized zones. The significance of the Twin/Conductora discovery is that it outlines a previously unidentified shear structure and a new style of mineralization on the Block B concession that might exist in other unexplored areas.

Custom Milling Business

During 2004, we completed construction of a small scale crushing and sampling plant on the Block B concessions that allows us to purchase ore produced from small underground mines in the area. Ores purchased from the small mines are initially crushed, sampled and assayed at the sampling plant, and then trucked to the mill at the La Camorra mine for further processing. The sampling plant is designed to process up to 400 tons of purchased ore per day, and includes an assay lab, operated by an outside analytical assay firm, where ore samples are ground and assayed. Ore is received from small mining groups, crushed, sampled and assayed, and then payment for the ore is calculated and made to the miners generally within three days of receipt of the ore.

As a part of this program, we provide small mine operators with financing and technical assistance, including technical advice on mining techniques, grade controls and safety standards. The small mine activity in Venezuela is a significant part of the country s mining industry, and we believe working with the miners provides goodwill and develops positive relationships with local mining groups, as well as assistance to the communities that are impacted by our operations. We have received a positive response from local and national politicians and citizens for our efforts in helping the small mining cooperatives to improve their practices, and for assisting in providing a stimulus to the local economy.

As part of the custom milling business, we enter into contracts with the small mining groups and advance funds in the form of equipment and working capital, and collect such advances from ore delivered to the sampling and crushing plant. As of December 31, 2005, we had a receivable from small mining cooperatives totaling $2.0 million, net of a reserve of $1.1 million. The net book value of the plant and equipment associated with the custom milling business was $2.6 million at December 31, 2005. In addition, we had an accrual for future reclamation and closure costs of $0.2 million.

The San Sebastian Unit

The San Sebastian mine is located approximately 56 miles northeast of the city of Durango, Mexico, on concessions acquired in 1999. Access to San Sebastian is via Mexico highway 40, approximately 12 kilometers east of Guadalupe Victoria, and then approximately 23 kilometers of paved rural road through the towns of Ignacio Allende and Emiliano Zapata. The processing plant is located near Velardeña, Durango, Mexico, and was acquired in April 2001.

Our concession holdings cover approximately 200-square miles, including the Francine vein, the Don Sergio vein and multiple outlying active exploration areas. Production from the Francine vein has been from a high-grade silver vein with significant gold credits. Production from the Don Sergio vein has been from a high-grade gold vein with some silver credits. Mineral concession titles are obtained and held under the laws of Mexico, and are valid for 50 years with the possibility of extending another 50 years. There are work assessment and tax requirements that are variable and increase with the time that the concession is held.

Several epithermal veins within the Saladillo Valley include the Francine, Profesor, Middle and North vein systems that are proximal to each other and hosted within a series of shales with interbedded fine-grained sandstones interpreted to belong to the Cretaceous Caracol Formation. The Don Sergio, Jessica, Andrea and Antonella veins located in the Cerro Pedernalillo area, about six kilometers from Francine, are hosted by the same formation with the addition of dioritic intrusive rocks.

Underground development along the Francine vein started in May 2001, and reached full production during the second quarter of 2002. Mining of economic ore on the upper Francine vein was completed during the first quarter of 2005. The mine has been placed on care and maintenance as exploration continues on the property including the Hugh Zone, which is located several hundred meters below historic mining. Mining of economic ore on the Don Sergio vein was completed in the fourth quarter of 2005 and reclamation of this portion of the mine site is underway. San Sebastian s life-of-mine production over four years was 11.2 million ounces of silver and 155,937 ounces of gold. During 2006, surface drilling will continue on the Hugh Zone. If such results are favorable, a decision to initiate an underground exploration and feasibility program could be made before the end of 2006.

The Francine vein strikes northwest and dips southwest and is located on the southwestern limb of a doubly plunging anticline. The vein ranges in true thickness from more than four meters to less than half a meter, and consists of several episodes of banded quartz, silica-healed breccias and minor amounts of calcite. The vein is oxidized to a depth of approximately 100 vertical meters and the wall rocks contain an alteration halo of less than two meters next to the vein. Mineralization within the oxidized portion of the vein contains limonite, hematite, silver halides and various copper carbonates. Higher-grade gold and silver mineralization is associated with disseminated hematite and limonite after pyrite and chalcopyrite, copper carbonates including malachite and azurite and hydrous copper silicates including chrysocolla. Native gold occurs associated with hematite and limonite. Mineralization in the sulfide portion of the Francine vein contains pyrite, chalcopyrite, sphalerite, galena, native silver, argentite and trace amounts of aguilarite.

Access to both underground workings has been through ramps from the surface connecting one or more levels. Ore has been mined by the cut-and-fill stoping method and extracted from the stopes using rubber-tired equipment and hauled to the surface in trucks. Run of mine ore has been hauled in trucks by contractors to our processing facility near Velardeña. The mill has been a conventional leach, counter-current decantation and Merrill Crowe precipitation circuit. The ore has been crushed in a two-staged crushing plant consisting of a primary jaw, a secondary cone crusher and a double-deck vibrating screen. The grinding circuit includes a primary ball mill and cyclone classifiers. The ground ore has been thickened followed by agitated leaching and four stages of counter-current decantation to wash solubilized silver and gold from the pulp. The solution bearing silver and gold has been clarified, deaerated and zinc dust added to precipitate silver and gold that is recovered in plate and frame filters. The precious metal precipitate was smelted and refined into doré, and was then shipped to a third-party refiner. Processing of economic ore was completed during the fourth quarter of 2005, and the mill has been placed on care and maintenance.

At December 31, 2005, the net book value of the San Sebastian unit property and its associated plant and equipment was $3.4 million. The mill was constructed in 1994 and is capable of processing approximately 550 tons per day. Site infrastructure includes a water supply system, maintenance shop, warehouse, laboratory, tailings impoundment and various offices. Equipment and facilities, including the mill, are in good condition and have been supported by ongoing diagnostic and preventative maintenance programs. Long-term future operations at the mill would require replacement of the water supply pipeline.

As of December 31, 2005, $1.1 million has been accrued for reclamation and closure costs, and there were 44 hourly and 25 salaried employees performing exploration, care and maintenance, reclamation and security functions. Due to the curtailment of mining activity, the collective bargaining agreement with the National Mine and Mill Workers Union for hourly mill employees was terminated during the fourth quarter of 2005. Electric power is purchased from Comisiòn Federal de Electricidad (a Mexico federal electric company).

Information with respect to the San Sebastian unit s production, average cost per ounce of silver produced and proven and probable ore reserves are set forth in the table below.

	Years Ended December 31,		
Production	**2005**	**2004**	**2003**
Ore milled (tons) (1)	71,671	128,711	150,717
Silver (ounces) (1)	717,860	2,042,173	4,085,038
Gold (ounces) (1)	17,160	33,563	47,721
Average Cost per Ounce of Silver Produced (2,3)			
Cash operating costs	$ 1.85	$ (0.10)	$ (0.46)
Total cash costs	$ 2.27	$ 0.21	$ (0.25)
Total production costs	$ 6.14	$ 2.11	$ 0.71
Proven and Probable Ore Reserves (4, 5)			
Total tons		30,300	170,711
Silver (ounces per ton)		15.4	22.3
Gold (ounces per ton)		0.29	0.26
Contained silver (ounces)		465,400	3,812,503
Contained gold (ounces)		8,600	43,731

(1) Silver and gold production during 2005 was impacted by a strike initiated in October 2004, by hourly employees at the Velardeña mill, as well as by the curtailment of mining activity discussed above. The strike ended in June 2005, with a satisfactory labor agreement that we believe will not inhibit our ability to work in the area in the future.

(2) The low costs per silver ounce are due in part to significant by-product credits from gold production and an increase in price over the last three years. For the years ended December 31, 2005, 2004 and 2003, gold by-product credits were approximately $10.78, $6.61 and $4.25 per silver ounce, respectively, and were deducted from operating costs in the calculation of cash costs per ounce. If our accounting policy had been changed to treat gold production as a co-product, the following total cash costs per ounce would have been reported:

	2005	2004	2003
Silver	$ 7.79	$ 3.42	$ 2.14
Gold	$ 326	$ 208	$ 160

(3) Cash costs per ounce of silver represent measurements that management uses to monitor and evaluate the performance of our mining operations that are not in accordance with GAAP. We believe cash costs per ounce of silver provide an indicator of profitability and efficiency at each location and on a consolidated basis, as well as providing a meaningful basis to compare our results to those of other mining companies and other mining operating properties. A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found in *Item 7, MD&A*, under *Reconciliation of Total Cash Costs (non-GAAP) to Costs of Sales and Other Direct Production Costs and Depreciation, Depletion and Amortization (GAAP).*

(4) Our estimates of proven and probable reserves have been based on the following metals prices:

	December 31, 2004	2003
Silver	$ 5.60	$ 4.95
Gold	$ 350	$ 335

(5) Proven and probable reserves were exhausted during the fourth quarter of 2005.

The Greens Creek Unit

We hold a 29.73% interest in the Greens Creek unit through a joint venture arrangement with Kennecott Greens Creek Mining Company and Kennecott Juneau Mining Company. The term of the joint venture arrangement continues for 20 years after the effective date (May 1994), and for so long thereafter as products are produced from the properties or the participants continue to have an ownership interest in the assets, unless the arrangement is terminated earlier or is extended.

The partners of the joint venture arrangement are obligated to contribute funds to adopted programs in proportion to their respective participating interests. A participant s interest in the joint venture arrangement would change: 1) upon election to contribute less to an adopted budget than the percentage reflected by its participating interest; 2) in the event of a participant s default in making its agreed-upon contribution to an adopted budget, followed by the election of the other participant to invoke remedies as permitted in the agreement; 3) transfer by a participant of less than all of its participating interest in accordance with the terms of the agreement; or 4) acquisition by a participant of some or all of the other participant s interest, however arising.

The Greens Creek orebody contains silver, zinc, gold and lead, and lies adjacent to the Admiralty Island National Monument, an environmentally sensitive area. The Greens Creek property includes 17 patented lode claims and one patented mill site claim, in addition to property leased from the U.S. Forest Service. Greens Creek also has title to mineral rights on 7,500 acres of federal land adjacent to the properties. The entire project is accessed and served by 13 miles of road and consists of the mine, an ore concentrating mill, a tailings impoundment area, a ship-loading facility, camp facilities and a ferry dock.

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

Pursuant to a 1996 land exchange agreement, the joint venture transferred private property equal to a value of $1.0 million to the U.S. Forest Service and received exploration and mining rights to approximately 7,500 acres of land with mining potential surrounding the existing mine. Production from new ore discoveries on the exchanged lands will be subject to federal royalties included in the land exchange agreement. The royalty is only due on production from reserves that are not part of Greens Creek s extralateral rights. Thus far, there has been no discovery triggering payment of the royalty. The royalty is 3% if the average value of the ore during a year is greater than $120 per ton of ore, and 0.75% if the value is $120 per ton or less. The benchmark of $120 per ton is escalated annually by the Gross Domestic Product percentage increase until the year 2016.

Greens Creek is an underground mine which produces approximately 2,000 tons of ore per day. The primary mining methods are cut and fill and longhole stoping. The ore is processed on-site at a mill, which produces lead, zinc and bulk concentrates, as well as doré containing silver and gold. The doré is sold to a precious metal refiner and the three concentrate products are sold to a number of major smelters worldwide. Concentrates are shipped from a marine terminal located on Admiralty Island about nine miles from the mine site.

The Greens Creek unit is currently powered by diesel generators located on site. However, an agreement was reached during 2005 to purchase excess hydroelectric power from the local power company, and installation of the necessary infrastructure is expected to be complete during the first half of 2006. It is estimated that 23% to 35% of the diesel-generated power will be replaced, as a result of this project, through 2008. Construction of a new hydroelectric plant by the local power company is anticipated by 2009, at which time it is estimated that it will have the capacity to supply 95% of Greens Creek power.

The employees at Greens Creek are employees of Kennecott Greens Creek Mining Company, and are not represented by a bargaining agent. There were 266 employees at the Greens Creek unit at December 31, 2005. Our interest in the net book value of the Greens Creek unit property and its associated plant and equipment was approximately $47.5 million. All equipment, infrastructure and facilities, including camp and concentrate storage facilities, are in good condition.

As of December 31, 2005, we have accrued $5.0 million for reclamation and closure costs. A reclamation trust fund has been established and funded for $27.3 million, into which we have paid approximately $8.1 million. This fund replaced other forms of security that had been provided to regulatory agencies.

Kennecott Greens Creek Mining Company s geology and engineering staff computes the estimated ore reserves for the Greens Creek unit with technical support from Rio Tinto plc. We review geologic interpretation and reserve methodology, but the reserve compilation is not independently confirmed by us in its entirety. Information with respect to our 29.73% share of production, average costs per ounce of silver produced and proven and probable ore reserves is set forth in the following table.

Production	Years Ended December 31, (reflects 29.73% interest) 2005	2004	2003
Ore milled (tons)	213,354	239,456	232,297
Silver (ounces)	2,873,532	2,886,264	3,480,800
Gold (ounces)	21,631	25,624	29,564
Zinc (tons)	19,209	22,649	22,809
Lead (tons)	6,515	7,384	8,289
Average Cost per Ounce of Silver Produced (1)			
Cash operating costs	$ 1.30	$ 0.98	$ 1.10
Total cash costs	$ 1.46	$ 1.13	$ 1.18
Total production costs	$ 4.02	$ 3.47	$ 3.64
Proven and Probable Ore Reserves (2,3,4,5,6,7)			
Total tons	2,223,872	2,358,189	2,226,361
Silver (ounces per ton)	14.5	14.1	14.1
Gold (ounces per ton)	0.12	0.11	0.12
Zinc (percent)	10.2	10.2	10.7
Lead (percent)	3.9	3.9	4.0
Contained silver (ounces)	32,150,190	33,334,025	31,386,366
Contained gold (ounces)	256,959	261,604	256,726
Contained zinc (tons)	227,807	240,467	237,202
Contained lead (tons)	86,465	92,916	89,422

(1) Includes by-product credits from gold, lead and zinc production. Cash costs per ounce of silver represent measurements that are not in accordance with GAAP that management uses to monitor and evaluate the performance of our mining operations. We believe cash costs per ounce of silver provide an indicator of profitability and efficiency at each location and on a c