

GOLD RESOURCE CORP
Form 10-Q
August 07, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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: 001-34857

GOLD RESOURCE CORPORATION

(Exact Name of Registrant as Specified in its charter)

Colorado 84-1473173
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
2886 Carriage Manor Point, Colorado Springs, Colorado 80906

(Address of Principal Executive Offices) (Zip Code)

(303) 320-7708

(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 post such files). Yes No

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

Larger accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 54,179,369 shares of common stock outstanding as of August 6, 2014.

GOLD RESOURCE CORPORATION

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References in this report to agreements to which Gold Resource Corporation is a party and the definition of certain terms from those agreements are not necessarily complete and are qualified by reference to the agreements. Readers should refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and the exhibits listed therein.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

GOLD RESOURCE CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (U.S. dollars in thousands, except shares)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,627	\$ 14,973
Gold and silver bullion	3,785	3,801
Accounts receivable	6,083	2,307
Inventories	6,358	7,468
Income taxes receivable	-	6,488
Deferred tax assets	3,973	3,973
Prepaid expenses and other assets	5,374	5,808
Total current assets	55,200	44,818
Land and mineral rights	227	227
Property, equipment and mine development - net	24,508	18,127
Inventories	903	903
Deferred tax assets	27,663	27,663
Investments (including \$2,710 and nil, respectively, measured at fair value)	2,941	231
Total assets	\$ 111,442	\$ 91,969
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,773	\$ 2,873
Accrued expenses	4,796	5,613
Capital lease obligations	1,484	1,469
IVA taxes payable	1,131	925
Income taxes payable	5,161	-
Dividends payable	542	538
Total current liabilities	17,887	11,418
Capital lease obligations	1,641	2,387
Reclamation and remediation liabilities	2,894	2,887
Total liabilities	22,422	16,692
Shareholders' equity:		
Preferred stock - \$0.001 par value, 5,000,000 shares authorized: no shares issued and outstanding	-	-
Common stock - \$0.001 par value, 100,000,000 shares authorized: 54,515,767 and 54,115,767 shares issued and outstanding, respectively	55	54
Additional paid-in capital	90,095	88,044

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Retained earnings/Accumulated (deficit)	5,925	(5,766)
Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive (loss)	(1,171)	(1,171)
Total shareholders' equity	89,020	75,277
Total liabilities and shareholders' equity	\$ 111,442	\$ 91,969

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

GOLD RESOURCE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 for the three and six months ended June 30, 2014 and 2013
 (U.S. dollars in thousands, except shares and per share amounts)
 (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Sales of metals concentrate, net	\$ 33,669	\$ 26,660	\$ 64,821	\$ 68,971
Mine cost of sales:				
Production costs	14,801	14,931	29,021	30,642
Depreciation and amortization	1,044	557	1,789	1,093
Reclamation and remediation	-	28	-	57
Total mine cost of sales	15,845	15,516	30,810	31,792
Mine gross profit	17,824	11,144	34,011	37,179
Costs and expenses:				
General and administrative expenses	2,249	3,457	5,262	7,842
Exploration expenses	1,597	2,806	2,885	6,105

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Facilities and mine construction	-	5,649	-	11,654
Total costs and expenses	3,846	11,912	8,147	25,601
Operating income (loss)	13,978	(768)	25,864	11,578
Other income (expense)	214	(1,862)	683	(1,898)
Income (loss) before income taxes	14,192	(2,630)	26,547	9,680
Provision (benefit) for income taxes	6,384	(1,257)	11,613	3,667
Net income (loss)	\$ 7,808	\$ (1,373)	\$ 14,934	\$ 6,013
Other comprehensive income (loss):				
Currency translation gain	-	(45)	-	(11)
Comprehensive income (loss)	\$ 7,808	\$ (1,418)	\$ 14,934	\$ 6,002
Net income (loss) per common share:				
Basic:	\$ 0.14	\$ (0.03)	\$ 0.28	\$ 0.11
Diluted:	\$ 0.14	\$ (0.03)	\$ 0.27	\$ 0.11

Weighted average shares outstanding:

Basic	54,179,369	53,272,776	54,057,822	52,977,712
Diluted	54,556,217	53,272,776	54,629,512	55,434,474

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

GOLD RESOURCE CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 for the six months ended June 30, 2014 and 2013
 (U.S. dollars in thousands)
 (Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	\$ 14,934	\$ 6,013
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,895	1,188
Reclamation and remediation	-	57
Stock-based compensation	1,956	3,690
Unrealized foreign currency exchange loss (gain)	10	217
Impairment loss on gold and silver bullion	-	1,743
Unrealized gain due to changes in fair value of investments	(802)	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,796)	3,086
Inventories	1,104	363
Prepaid expenses and other assets	433	(2,250)
Accounts payable	1,588	1,642
Accrued expenses	(1,359)	1,682
IVA taxes payable/receivable	204	(370)
Income taxes payable/receivable	11,588	(6,081)
Net cash provided by operating activities	27,755	10,980
Cash flows from investing activities:		
Capital expenditures	(7,438)	(5,113)
Purchases of gold and silver bullion	-	(806)
Proceeds from conversion of gold and silver bullion	16	1,048
Investments	(1,805)	(231)
Net cash used in investing activities	(9,227)	(5,102)
Cash flows from financing activities:		
Proceeds from exercise of stock options	100	150
Dividends paid	(3,243)	(15,876)
Proceeds from capital leases	-	4,501
Repayment of capital leases	(731)	-
Net cash used in financing activities	(3,874)	(11,225)
Effect of exchange rates on cash and equivalents	-	(19)
Net increase (decrease) in cash and cash equivalents	14,654	(5,366)
Cash and equivalents at beginning of period	14,973	35,780

Cash and equivalents at end of period \$ 29,627 \$ 30,414

Supplemental Cash Flow Information

Interest paid \$ 96 \$ -

Income taxes paid \$ - \$ 9,823

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

GOLD RESOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Gold Resource Corporation (the “Company”) was organized under the laws of the State of Colorado on August 24, 1998. The Company is a producer of metal concentrates that contain gold, silver, copper, lead and zinc at its El Aguila Project in the southern state of Oaxaca, Mexico. The El Aguila Project includes the El Aguila open pit mine, which ceased operations in February 2011, and the La Arista underground mine, which is currently in operation. The Company is also performing exploration and evaluation work on its portfolio of base and precious metal exploration properties in Mexico and is evaluating other properties for possible acquisition.

On April 30, 2014, the Company announced the completion of its reserve study and issued a report dated December 31, 2013 confirming the existence of proven and probable reserves as defined in Industry Guide 7 promulgated by the U.S. Securities and Exchange Commission (“Guide 7”). As a result of the completion of the reserve study, the Company has transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise in accordance with Guide 7. The Company no longer considers itself to be a Development Stage Entity as defined in Accounting Standards Codification 915 – Development Stage Entities (“ASC 915”). Accordingly, cumulative and other disclosures required by ASC 915 are no longer included in the Company’s financial statements.

Basis of Presentation

Basis of Presentation: The unaudited interim condensed consolidated financial statements included herein are expressed in United States dollars and were prepared in conformance with United States generally accepted accounting principles (“U.S. GAAP”) and applicable rules of the SEC regarding interim financial reporting. The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary GRC Nevada Inc. (“GRC Nevada”) and Mexican subsidiary Don David Gold Mexico S.A. de C.V. (“Don David Gold Mexico”). Significant intercompany accounts and transactions have been eliminated. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto contained in the Company’s Form 10-K for the year ended December 31, 2013. Except as noted below, there have been no material changes to the footnotes from those accompanying the audited financial statements contained in the Company’s Form 10-K.

In management’s opinion, the unaudited condensed consolidated financial statements contained herein reflect all material normal and recurring adjustments that are necessary for the fair presentation of the Company’s financial position, results of operations, and cash flows on a basis consistent with that of its audited consolidated financial statements for the year ended December 31, 2013. However, the results of operations for the interim period ended June 30, 2014 may not be indicative of results of operations to be expected for the full fiscal year.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent

assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain and bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Revenue Recognition: Sales of concentrates are recorded net of treatment and refining charges, plus final settlement and mark-to-market price adjustments. Treatment and refining charges represent payments or price adjustments that are fixed and applied on a per tonne, pound or ounce basis, and in some cases provide for an increase in charges based on increases in metal prices above a base price. Treatment and refining charges are estimated upon shipment of concentrates based on contractual terms, with adjustments made at final settlement. Adjustments at final settlement typically do not vary materially from estimates made upon shipment; however, mark-to-market price adjustments could vary materially based on the precious metals market. In addition, because a portion of the metals contained in concentrates are unrecoverable as a result of the smelting process, the Company's revenues from sales of concentrates are also recorded net of allowances based on the quantity and value of these estimated unrecoverable metals. These allowances are negotiated with the buyer of the Company's concentrates.

Production Costs: Production costs include labor and benefits, royalties, concentrate shipping costs, mining subcontractors, fuel and lubricants, legal and professional fees related to mine operations, stock-based compensation attributable to mine employees, materials and supplies, repairs and maintenance, explosives, housing and food, insurance, reagents, travel, medical services, security equipment, office rent, tools and other costs that support our mining operations.

Mine Development: The Company expenses general prospecting costs and the costs of acquiring and exploring unevaluated mineral properties. When a mineral property has determined to have 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. 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.

Reclassifications: Certain amounts presented in prior periods have been reclassified to conform to current period presentation.

Exploration Stage Company: As of January 31, 2014 the condensed consolidated financial statements are no longer presented in accordance with Accounting Standards Codification 915 and the provisions of SEC Industry Guide 7 relating to exploration stage entities. On April 30, 2014, the Company issued a report on the reserve estimate for the La Arista underground mine at the El Aguila Project with an effective date of December 31, 2013. The report confirms the existence of proven and probable reserves, allowing the Company to transition from an Exploration Stage Company as defined in ASC 915 and an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Industry Guide 7. Consistent with the Company's transition from an Exploration Stage Entity to a Production Stage Entity as defined in Guide 7, certain underground mine development costs associated with the Company's El Aguila Project were capitalized beginning January 1, 2014. These costs include the cost of building access ways, lateral development, drift development, ramps and infrastructure development. All such costs are amortized using the units-of-production method over the estimated life of the ore body based on estimated recoverable ounces to be produced from proven and probable reserves.

Investments: We make elections, on an investment-by-investment basis, as to whether we measure our investments at fair value. Such elections are generally irrevocable. We have elected the fair value method for most of our investments as we believe this method generally provides the most meaningful information to our investors. However, for investments over which we have significant influence, we consider the significance of transactions between our company and our equity affiliates and other factors in determining whether the fair value method should be applied. In general, we elect the fair value option for those equity method investments with which the Company or its

consolidated subsidiaries have significant related-party transactions.

Under the fair value method, investments are recorded at fair value and any changes in fair value are reported in realized and unrealized gains or losses due to changes in fair values of certain investments and debt, net, in our consolidated statement of operations. All costs directly associated with the acquisition of an investment to be accounted for using the fair value method are expensed as incurred. For additional information regarding our fair value method investments, see notes 2 and 4.

2. Fair Value Measurement

The Company's financial instruments consist of accounts receivable (which include provisionally priced sales) and investments in equity securities. The Company's Level 1 assets as of June 30, 2014 included investments in equity securities determined using a market approach based upon unadjusted quoted prices for identical assets in an active market. The Level 2 carrying values for accounts receivable approximated their fair values at June 30, 2014 and December 31, 2013 due to their short maturities.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The following tables summarize the Company's financial instruments required to be measured at fair value on a recurring basis as of June 30, 2014 and December 31, 2013:

	Fair Value as of June 30, 2014				Balance Sheet Classification
	Level 1	Level 2	Level 3	Total	
	(in thousands)				
Receivables related to unsettled invoices (1)	\$ -	\$ 6,083	\$ -	\$ 6,083	Accounts receivable
Investments in equity securities	\$ 2,710	\$ -	\$ -	\$ 2,710	Investments

	Fair Value as of December 31, 2013				Balance Sheet Classification
	Level 1	Level 2	Level 3	Total	
	(in thousands)				

Receivables related to unsettled invoices (1) \$ - \$ 2,307 \$ - \$ 2,307 Accounts receivable

(1) Certain concentrate sales contracts provide for provisional pricing as specified in such contracts. These sales contain an embedded derivative related to the provisional pricing mechanism which is bifurcated and accounted for as a derivative. At the end of each reporting period, the Company records an adjustment to sales to reflect the mark-to-market of outstanding provisional invoices. Because these provisionally priced sales have not yet settled, the mark-to-market adjustment related to these invoices is included in accounts receivable as of each reporting date. The receivable is the sales contract with no quoted market price, whereas the underlying metal values (inputs) are directly observable for the full amount of the receivable (Level 2).

Gains and losses related to changes in the fair value of these financial instruments were included in the Company's condensed consolidated statement of income for the three and six months ended June 30, 2014.

3. Gold and Silver Bullion

The Company periodically purchases gold and silver bullion on the open market for investment purposes and to use in its dividend exchange program whereby shareholders may exchange their cash dividend for gold and silver bullion. The Company's investment in gold and silver bullion is carried at cost and evaluated for impairment at relevant financial reporting dates.

During the six months ended June 30, 2014, the Company made no purchases of gold or silver. During the six months ended June 30, 2013, the Company purchased approximately 507 ounces of gold and 1,005 ounces of silver at market prices for a total cost of \$0.8 million. During the six months ended June 30, 2014, approximately five ounces of gold and 507 ounces of silver were converted into gold and silver bullion and distributed under the Company's gold and silver bullion dividend exchange program, resulting in a realized gain of \$2,500 in that period. During the six months ended June 30, 2013, approximately 562 ounces of gold and 2,242 ounces of silver were converted into gold and silver bullion and distributed under this dividend program, resulting in a realized loss of \$0.1 million in that period.

The table below shows the balance of the Company's holdings of bullion as of June 30, 2014 and December 31, 2013:

	June 30, 2014		December 31, 2013	
	Gold (in thousands, except ounces and per ounce)	Silver	Gold (in thousands, except ounces and per ounce)	Silver
Ounces	1,688	92,718	1,693	93,225
Carrying value per ounce	\$ 1,206.27	\$ 18.86	\$ 1,206.23	\$ 18.86

Total carrying value	\$ 2,036	\$ 1,749	\$ 2,042	\$ 1,759
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The Company recorded no impairment on its gold and silver bullion for the three and six months ended June 30, 2014.

4. Investments

Investments in equity securities at June 30, 2014 and December 31, 2013 consisted of the following:

	Fair Value as of June 30, 2014		Fair Value
	Cost	Accumulated unrealized gain	
Investments in equity securities			
Canamex Resources Corporation - common shares (1)	\$ 1,805	\$ 905	\$ 2,710
Laguna Gold Pty Ltd - common shares	231	-	231
Total Investments	\$ 2,036	\$ 905	\$ 2,941

(1) On February 26, 2014, the Company announced the purchase of 22,222,222 shares in Canamex Resource Corp., a publically traded company in Canada. The Company's shares represented approximately 18.4% of the outstanding shares of Canamex. Pursuant to the terms of the subscription agreement, the Company appointed Jason Reid as its representative to the Board of Directors of Canamex on April 14, 2014.

	Fair Value as of December 31, 2013		Fair Value
	Cost	Accumulated unrealized gain	
Investments in equity securities			
Laguna Gold Pty Ltd - common shares	\$ 231	\$ -	\$ 231
Total Investments	\$ 231	\$ -	\$ 231

5. Inventories

Inventories at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
	(in thousands)	
Ore stockpiles - underground mine	\$ 263	\$ 1,586
Concentrates	920	480
Materials and supplies	5,175	5,402
Inventories - current	6,358	7,468
Ore stockpiles - open pit mine	903	903
Inventories - non-current	903	903
Total inventories	\$ 7,261	\$ 8,371

6. Property, equipment and mine development - net

Property, equipment and mine development at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
	(in thousands)	
Mine development	\$ 5,446	\$ -
Trucks and autos	1,853	1,875
Building	1,741	1,737
Office furniture and equipment	2,672	2,698
Construction in progress	2,456	-
Mill Facilities	40	-
Machinery and equipment	17,888	17,510

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Subtotal	32,096	23,820
Accumulated depreciation and amortization	(7,588)	(5,693)
Total property, equipment and mine development - net	\$ 24,508	\$ 18,127

In May and June 2013, the Company entered into financing transactions with certain equipment financing companies whereby the Company sold to them mining equipment that was purchased by the Company from February 2013 through June 2013. The equipment was subsequently leased back to the Company for a three-year period with a bargain purchase option at the end of the lease term, which the Company intends to exercise. The Company will retain full use and all benefits attributable to the leased equipment.

The equipment leases qualify as capital leases and have been recorded at the present value of the future minimum lease payments, including the bargain purchase option and transaction fees, which approximates the net carrying value of the equipment. The equipment leases bear interest of 4.5% to 5.5% per annum, with monthly principal and interest payments of approximately \$0.1 million over the three-year lease term. The Company has an option to purchase the equipment at the end of the lease term for less than \$0.1 million. The present value of the future minimum lease payments, including the bargain purchase options and up-front transaction fees, totaled \$4.8 million. Depreciation on the leased assets is recorded over their estimated useful lives.

As of June 30, 2014, the Company's obligations under capital leases are as follows:

	June 30, 2014 (in thousands)
2014	\$ 805
2015	1,578
2016	901
Total payments due	3,284
Less amounts representing interest	(159)
Subtotal	3,125
Less current portion	(1,484)
Non-current portion	\$ 1,641

7. Reclamation and Remediation

The Company's reclamation and remediation obligations relate to its El Aguila Project. The following table presents the changes in reclamation and remediation obligations for the six months ended June 30, 2014 and the year ended December 31, 2013:

	June 30, 2014	December 31, 2013
	(in thousands)	
Reclamation and remediation liabilities – opening balance	\$ 2,887	\$ 2,790
Additions and changes in estimates	-	112
Foreign currency exchange loss	7	(15)
Reclamation and remediation liabilities – ending balance	\$ 2,894	\$ 2,887

8. Shareholders' Equity

The Company declared dividends of \$1.6 million and \$4.8 million and paid gross cash dividends of \$1.6 million and \$6.4 million during the three months ended June 30, 2014 and 2013, respectively. The Company declared dividends of \$3.2 million and \$14.3 million and paid gross cash dividends of \$3.2 million and \$15.9 million during the six months ended June 30, 2014 and 2013, respectively. Under our dividend exchange program, shareholders who participated during the three months ended June 30, 2014 exchanged gross cash dividends of \$9,000 for approximately two ounces of gold and 278 ounces of silver and during the three months ended June 30, 2013 exchanged gross cash dividends of \$0.3 million for approximately 213 ounces of gold and 562 ounces of silver, respectively. Under our same program, shareholders who participated during the six months ended June 30, 2014 exchanged gross cash dividends of \$18,000 for approximately five ounces of gold and 507 ounces of silver and during the six months ended June 30, 2013 exchanged gross cash dividends of \$1.0 million for approximately 562 ounces of gold and 2,242 ounces of silver, respectively.

The Board of Directors has authorized the Company's dividends to be charged to paid-in capital until such time as the Company has retained earnings, at which time dividends will be charged to retained earnings to the extent that the Company has retained earnings. For the six months ended June 30, 2014 and 2013, \$3.2 million and \$0.2 million of declared dividends were charged to retained earnings, and nil and \$14.1 million was charged to paid-in capital, respectively.

9. Concentrate Sale Settlements

The Company records adjustments to sales of metals concentrate that result from final settlement of provisional invoices in the period that the final invoice settlement occurs. The Company also reviews assays taken at the mine site on its concentrate shipments, upon which the Company's provisional invoices are based, with assays obtained from samples taken at the buyer's warehouse prior to final settlement, upon which the final invoices are in part based, to assess whether an adjustment to sales is required prior to final invoice settlement. These adjustments resulted in a decrease of \$1.8 million and \$2.5 million to sales during the three and six months ended June 30, 2014, respectively, and a decrease to sales of \$0.7 million and \$0.3 million for the three and six months ended June 30, 2013, respectively.

In addition to the final settlement adjustments on provisional invoices, the Company records a sales adjustment to mark-to-market outstanding provisional invoices at the end of each reporting period. These adjustments resulted in a decrease to sales of \$0.9 million and \$2.1 million for the three and six months ended June 30, 2014, respectively, and a decrease to sales of \$2.1 million and \$4.4 million for the three and six months ended June 30, 2013, respectively.

Sales of metals concentrate are recorded net of smelter refining fees, treatment charges and penalties. Total charges for these items totaled \$3.2 million and \$6.1 million for the three and six months ended June 30, 2014, respectively, and \$3.3 million and \$7.5 million for the three and six months ended June 30, 2013, respectively.

10. Stock Options

The Company has a non-qualified stock option and stock grant plan under which equity awards may be granted to key employees, directors and others (the "Plan"). A summary of activity under the Plan for the six months ended June 30, 2014 is presented below:

	Stock Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2014	5,615,000	\$ 9.66	6.7	\$ 3,364
Granted	10,000	5.81		
Forfeited	(240,000)	17.64		
Exercised	(400,000)	0.25		
Outstanding as of June 30, 2014	4,985,000	\$ 10.02	6.6	\$ 2,659
Vested and exercisable as of June 30, 2014	3,438,335	\$ 7.97	5.7	\$ 2,659

The fair value of options granted during the three and six months ended June 30, 2014 was nil and \$23,000, respectively. The options vest over a three year period and have an exercise term of 10 years. The total fair value of stock options vested during the three and six months ended June 30, 2014 was nil and \$0.7 million, respectively.

The following table summarizes information about stock options outstanding at June 30, 2014:

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Options	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price (per share)	Number of Options	Weighted Average Exercise Price (per share)
\$3.40 - \$3.95	1,900,000	4.2	\$ 3.66	1,900,000	\$ 3.66
\$5.81 - \$14.36	1,765,000	7.9	10.68	1,098,334	11.28
\$17.10 - \$20.51	1,320,000	8.2	18.31	440,001	18.31
	4,985,000	6.6	\$ 10.02	3,438,335	\$ 7.97

The fair value of stock option grants is amortized over the respective vesting period. Total stock-based compensation expense related to stock options for the three and six months ended June 30, 2014 was \$1.2 million and \$2.0 million, respectively, and for the three and six months ended June 30, 2013 was \$2.2 million and \$3.7 million, respectively.

Stock-based compensation expense has been allocated between production costs and general and administrative expense for the three and six months ended June 30, 2014 and 2013 as follows:

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Production costs	\$ 498	\$ 769	\$ 964	\$ 1,191
General and administrative expenses	674	1,409	992	2,499
Total stock-based compensation	\$ 1,172	\$ 2,178	\$ 1,956	\$ 3,690

The estimated unrecognized stock-based compensation expense from unvested options as of June 30, 2014 was approximately \$5.7 million, and is expected to be recognized over the remaining vesting periods of up to 3.0 years.

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The assumptions used to determine the value of stock-based awards under the Black-Scholes method are summarized below:

	Six months ended June 30,	
	2014	2013
Risk-free interest rate	1.53%	0.68% - 0.88%
Dividend yield	1.63%	3.25% - 3.40%
Expected volatility	55.35%	63.00% - 63.21%
Expected life in years	5	5

11. Other Income (Expense)

Other income (expense) for the three and six months ended June 30, 2014 and 2013 consisted of the following:

	Three months ended June 30, 2014 2013		Six months ended June 30, 2014 2013	
	(in thousands)		(in thousands)	
Unrealized foreign currency exchange (loss) gain	\$ 127	\$ (337)	\$ (10)	\$ (217)
Realized foreign currency exchange (loss) gain	(49)	129	(96)	154
Impairment loss on gold and silver bullion	-	(1,565)	-	(1,743)
Realized gain (loss) from gold and silver bullion converted	1	(50)	2	(89)
Unrealized gain due to changes in fair value of investments (1)	100	-	802	-
Interest income	13	26	82	65
Interest expense	(11)	-	(96)	-
Other income (expense)	33	(65)	(1)	(68)
Total other income (expense)	\$ 214	\$ (1,862)	\$ 683	\$ (1,898)

(1) Our unrealized gain due to changes in fair values of certain investments include gains associated with changes in fair values that are non-cash in nature until such time that these gains are realized through cash transactions. For

additional information regarding our investments and fair value measurements, see notes 2 and 4 to our condensed consolidated financial statements.

12. Income Taxes

The Company recorded income tax expense of \$6.4 million and \$11.6 million for the three and six months ending June 30, 2014, respectively. During the three and six months ending June 30, 2013, the Company recorded income tax (benefit) expense of \$(1.3) million and \$3.7 million, respectively.

During the three and six months ending June 30, 2014, the Company received advances of \$12.0 million and \$12.0 million, respectively, from its Mexican operations. The Company has asserted permanent reinvestment of all Mexico undistributed earnings as of December 31, 2013. The impact of the planned annual dividends for 2014, net of foreign tax credits, is reflected in the estimated annual effective tax rate.

During the six months ended June 30, 2014, the Company experienced an increase in its annualized effective tax rate principally due to the newly enacted Mexico mining tax.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income and tax-planning strategies in making this assessment. As of June 30, 2014, the Company believes it has sufficient positive evidence to conclude that realization of its federal and foreign deferred tax assets of Gold Resource Corporation are more likely than not to be realized. However, the Company has determined that the realization of its state deferred tax assets is not more likely than not to be realized and has a valuation allowance offsetting the state deferred tax assets.

As of June 30, 2014, the Company believes that it has no liability for uncertain tax positions. If the Company were to determine there was an uncertain tax position, the Company would recognize the liability and related interest and penalties within income tax expense.

The Company files income tax returns in U.S. federal and state jurisdictions, Mexico and Turkey. The Company is currently not undergoing any income tax examinations in any jurisdiction, however to the extent that net operating losses have been utilized in either the current or preceding years, such losses may be subject to future income tax examination.

13. Net Income (Loss) per Share

Basic earnings (loss) per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated based on the assumption that stock options outstanding, which have an exercise price less than the average market price of the Company's common shares during the period, have been exercised on the later of the beginning of the period or the date granted and that the funds obtained from the exercise were used to purchase common shares at the average market price during the period.

The effect of potentially dilutive stock options on the weighted average number of shares outstanding for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three months ended June 30, 2014		Six months ended June 30, 2013	
	2014	2013	2014	2013
	(in thousands, except share data)		(in thousands, except share data)	
Net income (loss)	\$ 7,808	\$ (1,373)	\$ 14,934	\$ 6,013
Basic weighted average common shares outstanding	54,179,369	53,272,776	54,057,822	52,977,712
Dilutive effect of stock options	376,848	-	571,690	2,456,762
Diluted weighted average common shares outstanding	54,556,217	53,272,776	54,629,512	55,434,474
Net income (loss) per basic share	\$ 0.14	\$ (0.03)	\$ 0.28	\$ 0.11
Net income (loss) per diluted share	\$ 0.14	\$ (0.03)	\$ 0.27	\$ 0.11

Stock options totaling 3.1 million for the three and six months ending June 30, 2014 were excluded from the computation of diluted weighted average shares outstanding, since the exercise price of those stock options exceeded the average market price of the Company's common shares of \$4.57 and \$4.82 during the three and six months ended June 30, 2014. Stock options totaling 2.9 million and 2.8 million for the three and six months ending June 30, 2013 were excluded from the computation of diluted weighted average shares outstanding, since the exercise price of those stock options exceeded the average market price of the Company's common shares of \$9.87 and \$11.68 during the three and six months ended June 30, 2013.

14. Legal Proceedings

A securities class action lawsuit subsequently captioned *In re Gold Resource Corp. Securities Litigation*, No.1:12-cv-02832 was filed on October 25, 2012 in the U.S. District Court for the District of Colorado naming the Company and certain of its current and former officers and directors as defendants. The complaint alleged violations of federal securities laws by the Company and certain of its officers and directors. On July 15, 2013, the federal district court granted the Company's motion to dismiss the lawsuit with prejudice. The plaintiff has appealed the District Court's decision to the United States Court of Appeals for the Tenth Circuit.

On February 8, 2013, a shareholder's derivative lawsuit entitled *City of Bristol Pension Fund v. Reid et al.*, No. 1:13-CV-00348 was filed in the U.S. District Court for the District of Colorado naming the Company as a nominal defendant, and naming seven of its current and former officers and directors as defendants. The lawsuit alleges breach of fiduciary duty, gross mismanagement and unjust enrichment and seeks to recover, for the Company's benefit, unspecified damages purportedly sustained by the Company in connection with the alleged misconduct identified in the class action lawsuit discussed above and an award of attorney's fees and costs. The action was stayed pending resolution of the motion to dismiss in the securities class action lawsuit and the stay has been extended pending the appeal. There has been no discovery as the case is in its initial stages and accordingly, the Company is not in a position to assess the likelihood or estimate the potential range of loss associated with this matter; however, pursuant to the Company's articles of incorporation and contractual agreements with the individuals, it is obligated to indemnify its officers and directors with respect to this litigation and the Company will bear the cost associated with defense of these claims.

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

The following discussion summarizes the results of operations of Gold Resource Corporation and its subsidiaries ("we", "our", or "us") for the three and six months ended June 30, 2014 and compares those results to the three and six months ended June 30, 2013. It also analyzes our financial condition at June 30, 2014 and compares it to our financial condition at December 31, 2013. This discussion should be read in conjunction with the Management's Discussion and Analysis and the audited financial statements contained in our Form 10-K for the year ended December 31, 2013.

The discussion also presents certain Non-GAAP financial measures that are important to management in its evaluation of our operating results and which are used by management to compare our performance with what we perceive to be peer group mining companies, and are relied on as part of management's decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the Non-GAAP financial measures and the limitations inherent in such measures, please see the discussion below under "Non-GAAP Measures".

Overview

Business

We are a mining company which pursues gold and silver projects that are expected to have low operating costs and high returns on capital. We are presently focused on mineral production from ore at the El Aguila Project in Oaxaca, Mexico. Ore from the El Aguila open pit mine was processed into a metal concentrate containing the primary product of gold, with silver as a by-product. Operations at the El Aguila open pit mine ceased in February 2011 with the start-up of mine operations at the La Arista underground mine in March 2011. Our La Arista underground mine produces metal concentrates from ore containing our primary metal products of gold and silver, and by-products of copper, lead and zinc.

The mill located at our El Aguila Project produced a total of 24,172 precious metal gold equivalent ounces for the three months ended June 30, 2014. During this period, we sold 20,647 precious metal gold equivalent ounces at a total cash cost net of by-product credits (including royalties and as otherwise defined below) of \$438 per precious metal gold equivalent ounce sold. The mill at our El Aguila Project produced a total of 47,896 precious metal gold equivalent ounces for the six months ended June 30, 2014. During this period, we sold 41,241 precious metal gold equivalent ounces at a total cash cost of \$430 per precious metal gold equivalent ounce sold. Precious metal gold equivalent is determined by taking gold ounces produced or sold, plus silver ounces produced or sold converted to precious metal gold equivalent ounces using the gold to silver average price ratio for the period. The gold and silver average prices used to determine the gold to silver average price ratio are the actual metal prices realized from sales of our gold and silver. (Please see the section titled "Non-GAAP Measures" below for additional information concerning the cash cost per ounce measures.)

For the three months ended June 30, 2014, we reported revenue of \$33.7 million, mine gross profit of \$17.8 million and net income of \$7.8 million. For the six months ended June 30, 2014, we reported revenue of \$64.8 million, mine gross profit of \$34.0 million and net income of \$14.9 million.

Reserve Report

Beginning January 1, 2014, we transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise as defined by SEC Industry Guide 7. On April 30, 2014, we issued a report on the reserve estimate for the La Arista underground mine at the El Aguila Project with an effective date of December 31, 2013. The report confirms proven and probable reserves and we therefore transitioned from an Exploration Stage Company as defined in Accounting Standards Codification 915 – Development Stage Entities (“ASC 915”) and an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Industry Guide 7. We no longer consider ourselves to be an exploration stage company as defined in ASC 915 and accordingly cumulative and other disclosures required by ASC 915 are no longer included in the Company’s financial statements.

Prior to January 1, 2014, we were considered an exploration stage company under SEC criteria since we had not demonstrated proven or probable reserves at our El Aguila Project in Oaxaca, Mexico or any of our other properties. Accordingly, as required under SEC guidelines, substantially all of our investment in mining properties up to that date, including construction of the mill, mine facilities and mine construction expenditures, were expensed as incurred and therefore do not appear as assets on our balance sheet.

Our characterization as an exploration stage company resulted in the classification of our facilities and mine construction expenditures as operating expenses rather than capital expenditures, and may have caused us to report lower net income than if we had capitalized the expenditures. In addition, prior to January 1, 2014, our financial statements did not reflect a corresponding depreciation or amortization expense for our facilities and mine construction costs since they were expensed as incurred rather than capitalized. The change in our accounting presentation as a result of our transition to a production stage enterprise may make certain period-over-period comparisons in this quarterly report less meaningful than otherwise since we capitalized mine development related expenditures that would have been expensed under our prior accounting presentation.

Exploration Activities

El Aguila Project: Our mine exploration activities during the second quarter of 2014 at El Aguila continued to focus on the La Arista vein system. In addition to our Arista deposit expansion focus, exploration drilling during the quarter also included targeting the feeder vein of the Aguila open pit and the Chacal Red Zone, both on the El Aguila Project. Twenty-two diamond drill holes totaling 10,444 meters were completed during the second quarter of 2014. Drilling consisted of both infill and step-out holes testing the mineralized vein extensions at our producing La Arista underground mine. During the quarter, drilling principally targeted the northwest and southeast extensions of the Arista, Baja, Candelaria, Luz, and Splay 66 veins, and the recently discovered Santa Lucia vein, which are all currently in production in the La Arista underground mine. The Santa Lucia vein is a parallel vein structure located approximately 60 meters northeast of the Arista vein on level 14. Underground drilling also expanded the Socorro

and Splay 5 veins located at the southwest of the system.

Surface drilling southwest of the Arista deposit focused on the Aire and on the northern extension of the Splay 6 vein. Drilling at the Chacal Red Zone, located 4 km due west of the La Arista mine, is targeting many of the same geological features as those seen at La Arista underground mine and in the El Aguila open pit area.

Las Margaritas property: Results of previous exploration drilling at the Las Margaritas property continue to be evaluated along with structural geology, alteration, geochemical studies and geophysical surveys completed on the property. Additional detailed geological mapping, sampling and a review of existing geological and geophysical data is planned for Las Margaritas in the third quarter with diamond drilled planned for the fourth quarter.

Alta Gracia property: A review of existing geological, geophysical, diamond drilling and underground sampling data for Alta Gracia was completed in the second quarter and diamond drilling is being planned for Alta Gracia in the third quarter.

El Fuego property: A follow-up field investigation was conducted on the El Fuego property during the second quarter. Additional geologic mapping and surface sampling is planned on El Fuego during the third quarter which we believe will allow us to meet the acceptable minimum amount of work required to maintain the claims.

Results of Operations

The following table summarizes our results of operations for the three and six months ended June 30, 2014 as compared to the three and six months ended June 30, 2013:

	Three months ended June 30, 2014		Six months ended June 30, 2013	
	(in thousands)		(in thousands)	
Sales of metals concentrate, net	\$ 33,669	\$ 26,660	\$ 64,821	\$ 68,971
Mine cost of sales	15,845	15,516	30,810	31,792
Mine gross profit	17,824	11,144	34,011	37,179
Costs and expenses:				
General and administrative expenses	2,249	3,457	5,262	7,842

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Exploration expenses	1,597	2,806	2,885	6,105
Facilities and mine construction	-	5,649	-	11,654
Total costs and expenses	3,846	11,912	8,147	25,601
Operating income	13,978	(768)	25,864	11,578
Other income (expense)	214	(1,862)	683	(1,898)
Income (loss) before income taxes	14,192	(2,630)	26,547	9,680
Provision (benefit) for income taxes	6,384	(1,257)	11,613	3,667
Net income (loss)	\$ 7,808	\$ (1,373)	\$ 14,934	\$ 6,013

Sales of metals concentrate, net

Metal concentrate sales for the three months ended June 30, 2014 increased by \$7.0 million, or 26.3%, primarily as a result of increased mill tonnage throughput, as mill head grades and realized metal prices decreased compared with the corresponding period in 2013. Revenue generated from the sale of base metals contained in our concentrates is considered a by-product of our gold and silver production. (See “Production and Sales Statistics - La Arista Underground Mine” table below for additional information regarding our mineral production statistics for the three and six months ended June 30, 2014 and 2013).

Metal concentrate sales for the six months ended June 30, 2014 decreased by \$4.2 million, or 6.0%, was primarily due to lower average grades, lower realized gold and silver prices, and lower beginning concentrate inventory levels when compared to the corresponding period in 2013. Gold and silver prices realized for the six months ended June 30, 2014 decreased by 15.9% to \$1,286 per ounce and 25.9% to \$20 per ounce, respectively, when compared to the same period in 2013.

Production

Mill production for the three months ended June 30, 2014, totaled 24,172 precious metal gold equivalent ounces compared to 20,574 precious metal gold equivalent ounces for the three months ended June 30, 2013. The increase in precious metal gold equivalent production for the three months ended June 30, 2014 was primarily due to the mill expansion that was completed in 2013, increasing total tonnes milled by 36% when compared to the corresponding period ended June 30, 2013. The increase in precious metal gold equivalent production for the three months ending June 30, 2014 was partially offset by lower average gold and silver grades when compared to the three months ending June 30, 2013. See “Production and Sales Statistics-La Arista Underground Mine” table below for additional information regarding our mineral production statistics.

We continue to focus on mining and development activities at the La Arista underground mine. Our production rate at La Arista is directly a result of mine development and the establishment of sufficient stopes and working faces. We are currently mining the wider veins using the long-hole open stoping method, and the narrower veins using the cut

and fill method. La Arista mine development on average during the first half of 2014 has enabled us to increase mill throughputs over the prior year's average. Even though we have not yet reached our mill capacity of 1,500 tonnes per day we will continue to strive for that target in the future.

The El Aguila mill expansion increased the mill's nominal flotation circuit processing capacity to 1,500 tonnes per day. Commissioning of the expanded mill took place at the end of 2013. Achieving this processing rate is dependent upon our ability to develop the La Arista underground mine to a point where ore extraction can consistently achieve an average rate of 1,500 tonnes per day. Although we are targeting a processing rate of 1,500 tonnes per day in the future, we expect a ramp up towards that capacity and there is no assurance that this mining rate can be achieved or sustained over the long-term. During the three and six months ended June 30, 2014 we processed 1,098 and 1,128 ore tonnes per day as compared to 808 and 823 ore tonnes per day for the same period in 2013, representing an increase of 36% and 37%, respectively.

The mineral concessions that comprise our La Arista underground mine are subject to a 4% net smelter returns royalty on sales of any gold and silver doré, and a 5% net smelter returns royalty on sales of any concentrate. We produce gold and silver in our copper, lead and zinc concentrates, but no gold and silver doré, at our La Arista underground mine. Royalties are considered mine operating costs and are funded from the sale of concentrates. Royalty expense is recorded based on provisional invoices and adjusted based on the final invoice. An initial royalty payment of 50% of the provisional invoice amount is made when the provisional invoice is collected. The remaining royalties owed are paid when we receive full payment for the final invoice. We made royalty payments for the three and six months ended June 30, 2014 of \$1.6 million and \$3.1 million, respectively, and \$1.4 million \$3.5 million for the three and six months ended June 30, 2013. We estimate that between \$6 million and \$7 million of royalty will be paid in 2014, subject to market prices for the metals in our concentrates, mine production and timing of final invoice settlements.

The following table summarizes certain information about our mining operations for the three and six months ended June 30, 2014 and 2013:

Production and Sales Statistics - La Arista Underground Mine

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Production Summary				
Milled:				
Tonnes Milled	99,876	72,740	204,225	148,924
Tonnes Milled per Day	1,098	808	1,128	823

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Grade:				
Average Gold Grade (g/t)	3.41	3.83	3.33	3.75
Average Silver Grade (g/t)	315	349	300	347
Average Copper Grade (%)	0.40	0.38	0.37	0.39
Average Lead Grade (%)	1.34	1.12	1.28	1.11
Average Zinc Grade (%)	3.18	2.61	3.31	2.70
Recoveries:				
Average Gold Recovery (%)	93	90	92	89
Average Silver Recovery (%)	93	92	92	92
Average Copper Recovery (%)	79	72	79	78
Average Lead Recovery (%)	75	70	73	70
Average Zinc Recovery (%)	82	74	82	77
Mill production (before payable metal deductions)(1)				
Gold (ozs.)	10,205	8,015	20,163	15,913
Silver (ozs.)	940,268	747,646	1,819,226	1,525,317
Copper (tonnes)	314	202	606	450
Lead (tonnes)	994	573	1,923	1,159
Zinc (tonnes)	2,603	1,405	5,523	3,081
Payable metal sold				
Gold (ozs.)	8,328	7,297	16,914	16,250
Silver (ozs.)	829,351	755,746	1,595,886	1,618,898
Copper (tonnes)	264	194	523	499
Lead (tonnes)	922	496	1,734	1,139
Zinc (tonnes)	2,249	1,180	4,407	2,915
Average metal prices realized (2)				
Gold (oz.)	\$ 1,276	\$ 1,386	\$ 1,286	\$ 1,530
Silver (oz.)	\$ 19	\$ 23	\$ 20	\$ 27
Copper (tonne)	\$ 6,742	\$ 7,114	\$ 6,840	\$ 7,652
Lead (tonne)	\$ 2,109	\$ 2,127	\$ 2,101	\$ 2,308
Zinc (tonne)	\$ 2,116	\$ 1,848	\$ 2,083	\$ 2,030
Precious metal gold equivalent ounces produced (mill production)(1)(4)(5)				
Gold Ounces	10,205	8,015	20,163	15,913
Gold Equivalent Ounces from Silver	13,967	12,559	27,733	27,086
Total Precious Metal Gold Equivalent Ounces	24,172	20,574	47,896	42,999
Precious metal gold equivalent ounces sold(3)(4)(5)				
Gold Ounces	8,328	7,297	16,914	16,250
Gold Equivalent Ounces from Silver	12,319	12,695	24,327	28,748
Total Precious Metal Gold Equivalent Ounces	20,647	19,992	41,241	44,998
Total cash cost (before by-product credits) per precious metal gold equivalent ounce sold (including royalties) (3)				
	\$ 849	\$ 876	\$ 828	\$ 822
Total cash costs, after by-product credits, per precious metal gold equivalent ounce sold (including royalties) (3)				
	\$ 438	\$ 645	\$ 430	\$ 547

(1) Mill production represents metal contained in concentrates produced at the mill, which is before payable metal deductions are levied by the buyer of our concentrates. Payable metal deduction quantities are defined in our contracts with the buyer of our concentrates and represent an estimate of metal contained in the concentrates produced at our mill, for which the buyer cannot recover through the smelting process. There are inherent limitations and differences in the sampling method and assaying of estimated metal contained in concentrates that are shipped, and those contained metal estimates derived from sampling methods and assaying throughout the mill

production process. The Company monitors these differences to ensure that precious metal mill production quantities are materially correct.

- (2) Average metal prices realized vary from the market metal prices due to out of period settlement adjustments from our provisional invoices when they are settled. Our average metal prices realized will therefore differ from the market average metal prices in most cases.
- (3) A reconciliation of this Non-GAAP measure to total mine cost of sales, the most comparable U.S. GAAP measure, can be found below in “Non-GAAP Measures”.
- (4) Precious metal gold equivalent mill production for the three months ended June 30, 2014 of 24,172 ounces differs from gold equivalent ounces sold for the same period of 20,647 due principally to buyer (smelter) concentrate processing deductions of approximately 3,341 gold equivalent ounces and an increase in gold equivalent ounces contained in ending inventory of approximately 184 ounces.
- (5) Precious metal gold equivalent mill production for the six months ended June 30, 2014 of 47,896 ounces differs from gold equivalent ounces sold for the same period of 41,241 principally due to buyer (smelter) concentrate processing deductions of approximately 5,459 gold equivalent ounces and an increase in gold equivalent ounces contained in ending inventory of approximately 1,196 ounces.

Mine gross profit. For the three months ended June 30, 2014, mine gross profit totaled \$17.8 million compared to \$11.1 million for the three months ended June 30, 2013. The increase in gross profit principally resulted from reduced spending and the increase in sales from precious metal gold equivalent ounces sold and copper, lead and zinc tonnes sold. The increase sales and reduced spending contributed to the increase in our gross profit percentage to 52.9% for the three months ended June 30, 2014 compared to 41.6% for the three months ended June 30, 2013. For the six months ended June 30, 2014, mine gross profit totaled \$34.0 million compared to \$37.2 million for the six months ended June 30, 2013. Gross profit percentages for the six months ended June 30, 2014 decreased to 52.5% from 53.9% for the six months ended June 30, 2013. The decrease in mine gross profit from the prior period was primarily due to lower average grade in our gold and silver precious metals mined and lower realized metal prices for the six months ended June 30, 2014 as compared to 2013.

Net income. For the three months ended June 30, 2014, we recognized net income of \$87.8 million, or \$0.14 per basic share, as compared to net loss of \$1.4 million, or \$0.03 per basic share, for the comparable period of 2013. The improvement in operations for the three months ended June 30, 2014 principally resulted from an increase of sales from our metals concentrate and a decrease in general and administrative, exploration and facilities and mine construction expenses due from an accounting change as a result of transitioning from an Exploration Stage Enterprise to a Production Stage Enterprise beginning January 1, 2014 as defined by SEC Industry Guide 7 and partially offset by lower realized metal prices in the 2014 period. For the six months ended June 30, 2014, net income was \$14.9 million, or \$0.28 per basic share, as compared to \$6.0 million, or \$0.11 per basic share, for the comparable period of 2013. The increase in net income results for the six months ended June 30, 2014 of \$8.9 million as compared to 2013 was also principally attributable to a decrease in production costs, general and administrative, exploration and construction and development expenses due from an accounting change as a result of transitioning from an Exploration Stage Enterprise to a Production Stage Enterprise as noted above.

Costs and expenses. Total costs and expenses during the three months ended June 30, 2014 were \$3.9 million compared to \$11.9 million during the comparable period of 2013, a decrease of \$8.1 million, or 67.7%, and principally resulted from a decrease in general and administrative, exploration, and facilities and mine construction expenses as discussed in more detail below. Total costs and expenses during the six months ended June 30, 2014

were \$8.2 million compared to \$25.6 million during the comparable period of 2013, a decrease of \$17.5 million, or 68.2%. The decrease in cost and expenses for the six months ended June 30, 2014, as discussed in more detail below, resulted from decrease in general and administrative, exploration and facilities and mine construction expenses.

General and administrative expenses. General and administrative expenses for the three months ended June 30, 2014 were \$2.3 million, compared to \$3.5 million for the same period of 2013. General and administrative expenses for the six months ended June 30, 2014 were \$5.3 million, compared to \$7.8 million for the same period of 2013. The decrease in general and administrative expenses for the three and six months ended June 30, 2014 was due to a reduction in compensation, insurance, computer IT support, investor relations and legal expenses.

Exploration expenses. Exploration expenses totaled \$1.6 million for the three months ended June 30, 2014 as compared to \$2.8 million for the corresponding period in 2013. Exploration expenses totaled \$2.9 million for the six months ended June 30, 2014, compared to \$6.1 million for the same period of 2013. The \$3.2 million decrease for the six month period principally resulted from a temporary decrease in drilling activity at the El Aguila project. In April of 2014 the Board of Directors approved an increase to the 2014 exploration budget by \$2.2 million bringing the entire 2014 exploration budget to a total of \$6.9 million.

Facilities and mine construction expenses. Facilities and mine construction expenses during the three months ended June 30, 2014 were nil, resulting in a decrease of \$5.7 million when compared to \$5.7 million during the comparable period in 2013. Facilities and mine construction expenses during the six months ended June 30, 2014 were nil, resulting in a decrease of \$11.7 million when compared to \$11.7 million during the comparable period in 2013. The decrease is the result of the Company's transition from an Exploration Stage Enterprise to a Production Stage Enterprise as defined in SEC Guide 7 due to our new Reserve Report. Prior to the transition, all development of mill, mine facilities, and mine construction expenditures were expensed as incurred to facilities and mine development expenses. The Company now capitalizes such expenditures as a result of our transition to a Production Stage Enterprise.

Provision (benefit) for income taxes. During the three and six months ended June 30, 2014, the Company recorded an income tax expense of \$6.4 million and \$11.6 million, respectively. During the three and six months ended June 30, 2013, the Company recorded income tax (benefit) expense of \$(1.3) million and \$3.7 million, respectively.

Non-GAAP Measures

Reconciliation of Non-GAAP Measures to Total Mine Cost of Sale

Throughout this report, we have provided information prepared or calculated according to U.S. GAAP, as well as referenced some non-U.S. GAAP ("non-GAAP") performance measures. Because the non-GAAP performance measures do not have any standardized meaning prescribed by U.S. GAAP, they may not be comparable to similar measures presented by other companies. Accordingly, these measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP.

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We have reconciled total cash cost, before by-product credits and total cash cost, after by-product credits to total mine cost of sales, which is a reported U.S. GAAP measure. Total cash cost, before by-product credits, includes all direct and indirect operating cash costs related directly to our production of precious metals which includes mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and general and administrative costs.

We use total cash cost, after by-product credits per precious metal gold equivalent ounce sold (including royalties) as one indicator for comparative monitoring of our mining operations from period to period and believe that investors also find this information helpful when evaluating our performance. By-product credits include revenues earned from all base metals other than the primary precious metals sold. Management also uses this measurement for the comparative monitoring of performance of our mining operations period-to-period from a cash flow perspective.

Total cash cost, after by-product credits, per precious gold equivalent ounce sold is a measure developed by the Gold Institute Standard in an effort to provide a uniform standard for comparison purposes. However, there can be no assurance that our reporting of this Non-GAAP measure is similar to that reported by other mining companies.

The following tables present a reconciliation between the non-GAAP measures of total cash cost, before by-product credits and total cash cost, after by-product credits to the GAAP measure of total mine cost of sales and depreciation, accretion, reclamation and stock-based compensation for our operations at the El Aguila project for the three and six months ended June 30, 2014.

Total Cash Costs after By-Product Credits (Non-GAAP)

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	2013	2013	2013	2013
	(In thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)		(In thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)	
Total cash cost (before by-product credits) (1)	\$ 17,522	\$ 17,508	\$ 34,132	\$ 36,957
By-product credits (2)	(8,477)	(4,620)	(16,396)	(12,364)
Total cash cost (after by-product credits)	9,045	12,888	17,736	24,593
Precious metal gold equivalent ounces sold (3)	20,647	19,992	41,241	44,998
Total cash cost (before by-product credits) per precious metal gold equivalent ounce sold (including royalties)	849	876	828	822
By-product credits per precious metal gold equivalent ounces sold (2)	(411)	(231)	(398)	(275)
Total cash costs, after by-product credits, per precious metal gold equivalent ounce sold (including royalties)	\$ 438	\$ 645	\$ 430	\$ 547

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- (1) Includes all direct and indirect operating cash costs related directly to our production of metals including mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and general and administrative costs.
- (2) See table below for a summary of our by-product revenue and by-product credit precious metal equivalent ounces sold.
- (3) Gold ounces sold, plus gold equivalent ounces of silver ounces sold converted to gold ounces using our realized gold price per ounce to silver price per ounce ratio, at the La Arista underground mine.

The following table reconciles our non-GAAP measure of cash costs to Total Mine Cost of Sales, the most comparable GAAP measure from our condense consolidated financial statements, for the three and six months ended June 30, 2014 and 2013:

Reconciliation to GAAP:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Total cash costs (after by-product credits)	\$ 9,045	\$ 12,888	\$ 17,736	\$ 24,593
Treatment and refining charges	(3,219)	(3,346)	(6,075)	(7,506)
By-product credits	8,477	4,620	16,396	12,364
Depreciation and amortization	1,044	557	1,789	1,093
Reclamation and remediation	-	28	-	57
Stock-based compensation	498	769	964	1,191
Total mine cost of sales	\$ 15,845	\$ 15,516	\$ 30,810	\$ 31,792

The following table summarizes our by-product revenue and by-product credits per precious metal gold equivalent ounce sold for the three and six months ended June 30, 2014 and 2013:

Summary of By-Product Revenue and By-Product Credit Precious Metal Gold Equivalent Ounces Sold

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
By-product credits by dollar value:				

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Copper sales	\$ 1,776	\$ 1,380	\$ 3,572	\$ 3,837
Lead sales	1,943	1,059	3,640	2,653
Zinc sales	4,758	2,181	9,184	5,874
Total sales from by-products	\$ 8,477	\$ 4,620	\$ 16,396	\$ 12,364

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
By-product credits per precious metal gold equivalent ounce sold:				
Copper ounces	\$ 86	\$ 69	\$ 87	\$ 85
Lead ounces	94	53	88	59
Zinc ounces	231	108	223	130
Total by-product precious metal gold ounces sold	\$ 411	\$ 231	\$ 398	\$ 275

Cash Flow from Mine Site Operations

Cash flow from mine site operations (“Cash Flow From Mine Site Operations”) is furnished to provide additional information and is a Non-GAAP measure. This measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. We believe that certain investors use this measure as a basis to assess mine performance and we use it as a measure of our targeted distributions to shareholders.

The following table provides a reconciliation of Cash Flow From Mine Site Operations to mine gross profit as presented in the consolidated statements of income:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Mine gross profit	\$ 17,824	\$ 11,144	\$ 34,011	\$ 37,179
Stock-based compensation	498	769	964	1,191
Depreciation and amortization	1,044	557	1,789	1,093
Reclamation and remediation	-	28	-	57
Cash flow from mine site operations	\$ 19,366	\$ 12,498	\$ 36,764	\$ 39,520

Liquidity and Capital Resources

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As of June 30, 2014, we had working capital of \$37.3 million, consisting of current assets of \$55.2 million and current liabilities of \$17.9 million. This represents an increase of \$3.9 million from the working capital balance of \$33.4 million as of December 31, 2013 reflecting significantly improved cash flow from operations, in turn reflecting improved operating results in the second quarter. Our working capital balance fluctuates as we use cash to fund our operations, including exploration, mine development, and our dividends.

Since achieving profitability in 2011, we have relied on cash flow generated from mining operations to fund our operations, income tax obligations, dividends and other expenditures. Due to the decrease in Cash Flow from Mine Site Operations in 2013 from lower gold and silver prices and the new Mexican tax reform legislation imposed on precious and non-precious metal producers, the Board of Directors elected to reduce the company's monthly dividend of \$0.03 per share to \$0.01 per share effective December 2013. There is no assurance as to what any future dividend may be regardless of Company goals. However, we believe our successful mill expansion will position us to achieve higher mineral processing capacity in 2014 and subsequent years.

Our dividend philosophy remains consistent in returning as much in dividends to the shareholders when possible (See "Non-GAAP Measures" above). These cash distributions are subject to the laws of the State of Colorado that govern distributions to shareholders. For the six months ended June 30, 2014, we declared dividends of \$3.2 million, representing 8.8% of Cash Flow From Mine Site Operations.

For the six months ended June 30, 2014, we spent \$2.9 million for development drilling and other related activities at our El Aguila project. Our planned development drilling expenditures are discretionary and could be significantly more or less depending on variables including the ongoing results from the drilling programs and market conditions. Development drilling activities to further delineate and define our La Arista deposit are considered mine development.

Cash and cash equivalents as of June 30, 2014 increased to \$29.6 million from \$15.0 million as of December 31, 2013, a net increase in cash of \$14.6 million. The \$14.6 million increase in cash principally resulted from net cash generated from operating activities of \$27.8 million, less capital expenditure of \$7.4 million, investments of \$1.8 million and dividends paid of \$3.2 million.

Net cash provided by operating activities for the six months ended June 30, 2014 was \$27.8 million compared to \$11.0 million during the comparable period in 2013. The increase in cash provided by operating activities was, in part, the result of \$7.9 million of cash outflows which would have historically been considered to be operating cash flows that are now considered investing activities as they qualify for capitalization as mine development.

Net cash used in investing activities for the six months ended June 30, 2014 was \$9.2 million compared to \$5.1 million during the comparable period in 2013. Cash used in investing activities during the six months ended June 30, 2014 was the result of mine equipment purchases, investments and mine development.

Net cash used in financing activities for the six months ended June 30, 2014 was \$3.9 million compared to \$11.2 million during the same period in 2013, consisting of dividends paid of \$3.2 million and \$15.9 million, respectively.

Critical Accounting Estimates

There have been certain changes in our critical accounting estimates since December 31, 2013 as noted below:

Proven or Probable Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages. Our assessment of reserves occurs at least annually, and will periodically utilize external audits. Reserves are a key component in the valuation of our property, equipment and mine development.

Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values to ensure that carrying values are reported appropriately. Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals or that we will do so at a profitable level.

Depreciation and Amortization

Depreciation and amortization on our property, equipment and mine development is calculated on a straight line basis over the estimated useful life for rolling stock assets and units-of-production basis over remaining estimated reserves for mining related assets. Significant judgment is involved in the determination of the estimated life of the assets.

Impairment of Assets

Assessing the fair value of our long-lived assets requires us to make several estimates and assumptions that are subject to risk and uncertainty. Changes in these estimates and assumptions could result in the impairment of our long-lived asset carrying values. Events that could result in impairment of our long-lived assets include, but are not limited to, obsolescence, damage, underperformance and assets held for disposal.

Forward-Looking Statements

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

- statements about our future exploration drilling and plans for development of our properties;
- statements concerning the benefits that we expect will result from our business activities and certain transactions that we contemplate or have completed, such as receipt of proceeds, decreased expenses and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, our targets, exploration activities, anticipated developments and other matters that are not historical facts.

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

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied in those statements. Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied. We caution you not to put undue reliance on these statements, which speak only as of the date of this report. Further, the information contained in this document or incorporated herein by reference is a statement of our present intention and is based on present facts and assumptions, which may change at any time and without notice, based on changes in such facts or assumptions.

Risk Factors Impacting Forward-Looking Statements

The important factors that could prevent us from achieving our stated goals and objectives include, but are not limited to, those set forth in other reports we have filed with the SEC and the following:

- commodity price fluctuations;
- the level of demand for our products;
- our costs;
- ability and timing of sufficient mine construction.
- unexpected changes in business and economic conditions, including the rate of inflation;
- changes in interest rates and currency exchange rates;
- decisions of foreign countries and banks within those countries;
- violence and crime associated with drug cartel activity in Mexico;
- natural disasters such as earthquakes or weather-related events;

- changes in our business strategy, plans and goals;
- technological changes in the mining industry;
- changes in exploration and overhead costs;
- access and availability of materials, equipment, supplies, labor and supervision, power and water;
- results of current and future feasibility studies;
- interpretation of drill hole results and the geology, grade and continuity of mineralization;
- the uncertainty of ore estimates and timing of construction expenditures;
- lack of governmental and/or local support for mining operations; and
- changes in labor, income tax, royalties and other laws and regulations.

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

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risks includes, but is not limited to, the following risks: changes in commodity prices, foreign currency exchange rates, changes in interest rates and equity price risks. We do not use derivative financial instruments as part of an overall strategy to manage market risk; however, we may consider such arrangements in the future as we evaluate our business and financial strategy.

Commodity Price Risk

The results of our operations will depend in large part upon the market prices of gold and silver. Gold and silver prices fluctuate widely and are affected by numerous factors beyond our control. The level of interest rates, the rate of inflation, the world supply of gold and silver and the stability of exchange rates, among other factors, can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of gold and silver has fluctuated widely in recent years, and future price declines could cause a mineral project to become uneconomic, thereby having a material adverse effect on our business and financial condition. We have not entered into derivative contracts to protect the selling price for gold or silver. We may in the future more actively manage our exposure through derivative contracts or other commodity price risk management programs, although we have no intention of doing so in the near-term.

In addition to adversely affecting our ore estimates and our financial condition, declining gold and silver prices could require a reassessment of the feasibility of a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause delays in the implementation of a project. This risk is increased since we have not sought or obtained a formal feasibility study with regard to any of our projects.

Foreign Currency Risk

We transact a significant amount of our business in Mexican pesos. As a result, currency exchange fluctuations may impact our operating costs. The appreciation of non-U.S. dollar currencies such as the peso against the U.S. dollar increases expenses and the cost of purchasing capital assets in U.S. dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, a depreciation of non-U.S. dollar currencies usually decreases operating costs and capital asset purchases in U.S. dollar terms.

The value of cash and cash equivalents denominated in foreign currencies also fluctuates with changes in currency exchange rates. Appreciation of non-U.S. dollar currencies results in a foreign currency gain on such investments and a decrease in non-U.S. dollar currencies results in a loss. We have not utilized market-risk sensitive instruments to manage our exposure to foreign currency exchange rates but may in the future actively manage our exposure to foreign currency exchange rate risk.

Provisional Sales Contract Risk

We enter into concentrate sales contracts with a third-party commodity trading company. The contracts, in general, provide for a provisional payment based upon provisional assays and quoted metal prices. The provisionally priced sales contracts contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates at the forward price at the time of sale. The embedded derivative, which is the final settlement based on a future price, does not qualify for hedge accounting and is marked-to-market through earnings each period prior to final settlement.

At June 30, 2014, we had outstanding provisionally priced sales of \$23.2 million consisting of 6,924 ounces of gold and 569,028 ounces of silver, 178 tonnes of copper, 628 tonnes of lead and 1,391 tonnes of zinc which in the aggregate had a fair value of approximately \$24.1 million, including the embedded derivative. If the price for each metal were to change by one percent, the change (plus or minus) in the total fair value of the concentrates sold would be approximately \$0.2 million.

Interest Rate Risk

We have no debt outstanding nor do we have any investment in debt instruments other than highly liquid short-term investments. Accordingly, we consider our interest rate risk exposure to be insignificant at this time.

Equity Price Risk

We have, in the past, sought and may, in the future, seek to acquire additional funding by sale of common stock and other equity. The price of our common stock has been volatile in the past and may also be volatile in the future. As a result, there is a risk that we may not be able to sell our common stock at an acceptable price should the need for new equity funding arise.

Country Risk

All of our mineral properties are located in Mexico. In the past, that country has been subject to political instability, increasing crime, changes and uncertainties which may cause changes to existing government regulations affecting mineral exploration and mining activities. Civil or political unrest could disrupt our operations at any time. Our exploration and mining activities may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that could increase the costs related to our activities or maintaining our properties. Finally, Mexico's status as a developing country may make it more difficult for us to obtain required financing for our properties.

ITEM 4: Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act, the Company's management, with the participation of our Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the Company's "disclosure controls and procedures", as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on its evaluation, in light of the material weakness described below that resulted in the Company's audited consolidated financial statements for the year ended December 31, 2013, the Company's management, including our Chief Executive Officer and our Chief Financial Officer, have concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2014 to ensure that information the Company is required to disclose in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported with the time periods specified in the rules and forms of the SEC, and is accumulated and communicated to its management as appropriate to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The following control deficiencies were identified and were determined to be material weaknesses in internal control over financial reporting as of December 31, 2013:

1. Our internal controls over income taxes and cash disbursements were not complete and operating effectively. Specifically, our management review controls over the identification of temporary differences, measurement of the valuation allowance, and presentation of income taxes and approval of cash disbursements related to certain general and administrative expenses in our financial statements were not operating effectively.
2. We did not maintain effective monitoring and oversight of external service providers. Specifically:
 - We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the evaluation of the internal control environment and testing of process level controls.
 - We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the evaluation of the general information technology control environment, including controls intended to prevent unauthorized system access and inappropriate change management.
 - We did not maintain adequate monitoring and oversight of our external service provider engaged to assist management in the recognition, measurement and presentation of income taxes.

Because of these material weaknesses, management concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2013.

The material weaknesses resulted in material misstatements in the preliminary consolidated financial statements in the fourth quarter of 2013 related to the current and long-term portions of the deferred tax assets as well as the provision for income taxes which were identified and corrected by the Company prior to the issuance of the annual consolidated financial statements in our annual report on Form 10-K.

Management's Plans for Remediation of the Material Weakness

The Company has been and is continuing to implement changes in its internal control over financial reporting to remediate the control deficiencies that gave rise to material weaknesses. We are undertaking the following remediation plans and actions:

- In April 2014, we engaged an independent Sarbanes-Oxley compliance provider to assist management in the evaluation of the internal control environment, testing of process level controls and the general information technology control environment. For the quarter ending June 30, 2014 we designed and implemented additional controls around the approval of cash disbursement related to certain general and administrative expenses. We also started our design and implementation of additional controls, policies and procedures around the general information technology control environment to prevent unauthorized system access and inappropriate change management.
- In April 2014, we engaged an independent income tax compliance provider to assist in the recognition, measurement and presentation of income taxes. For the quarter ending June 30, 2014 we designed and implemented additional controls around the income tax provision process to strengthen our management review controls over the identification of temporary differences, measurement of the valuation allowance, and presentation of income taxes.
- We have implemented better communication procedures to effectively monitor and oversee the external service providers as it relates to the evaluation of the internal control environment, testing of process level controls and general information technology controls as well as controls around the recognition, measurement and presentation of income taxes.

We will continue to evaluate, monitor and test these controls to insure they are remediated in accordance with our remediation plan. As management implements these plans, management may determine that additional steps may be necessary to remediate the material weaknesses. We intend to have the remediation plan fully implemented in fiscal year 2014.

PART II – OTHER INFORMATION

ITEM 1: Legal Proceedings

A securities class action lawsuit subsequently captioned *In re Gold Resource Corp. Securities Litigation*, No.1:12-cv-02832 was filed in U.S. District Court for the District of Colorado naming us and certain of our current and former officers and directors as defendants on October 25, 2012. The complaint alleged violations of federal securities laws by us and certain of its officers and directors. On July 15, 2013, the federal district court granted our motion to dismiss the lawsuit with prejudice. The plaintiff has appealed the District Court's decision to the United States Court of Appeals for the Tenth Circuit.

On February 8, 2013, a shareholder's derivative lawsuit entitled *City of Bristol Pension Fund v. Reid et al.*, No. 1:13-CV-00348 was filed in the U.S. District Court for the District of Colorado naming us as a nominal defendant, and naming seven of our current and former officers and directors as defendants. The lawsuit alleges breach of fiduciary duty, gross mismanagement and unjust enrichment and seeks to recover, for Gold Resource Corporation's benefit, unspecified damages purportedly sustained by us in connection with the alleged misconduct identified in the class action lawsuit discussed above and an award of attorney's fees and costs. The action was stayed pending resolution of our motion to dismiss in the securities class action lawsuit and the stay has been extended pending the appeal. There has been no discovery as the case is in its initial stages and accordingly, we are not in a position to assess the likelihood or estimate the potential range of loss associated with this matter; however, pursuant to our articles of incorporation and contractual agreements with the individuals, we are obligated to indemnify our officers and directors with respect to this litigation and our company will bear the cost associated with defense of these claims.

ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

In September 2011, our Board of Directors authorized a share repurchase of up to \$20.0 million with no pre-established end date. During the three and six months ended June 30, 2014, we did not repurchase any shares of Gold Resource Corporation common stock on the open market.

ITEM 6: Exhibits

The following exhibits are filed or furnished herewith:

Exhibit Number	Descriptions
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Joe A. Rodriguez.
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid and Joe A. Rodriguez.*
101	Financial statements from the Quarterly Report on Form 10-Q of Gold Resource Corporation for the three and six months ended June 30, 2014, formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Income, (iii) the Unaudited Consolidated Statements of Cash Flows, and (iv) the Notes to the Unaudited Consolidated Financial Statements.*

* This document is not being “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLD RESOURCE CORPORATION

Dated: August 7, 2014

/s/ Jason D. Reid

By: Jason D. Reid,
Chief Executive Officer and
President

GOLD RESOURCE
CORPORATION

Dated: August 7, 2014

/s/ Joe A. Rodriguez

By: Joe A. Rodriguez,
Chief Financial Officer

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