

GOLD RESOURCE CORP
Form 10-K
February 26, 2019
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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)

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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)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.001 par value	NYSE American

Securities registered under Section 12(g) of the Exchange Act:

None

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

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

Indicate by check mark whether the registrant (1) 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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Larger accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

The aggregate market value of the common stock of Gold Resource Corporation held by non-affiliates as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was \$364,977,707 based on the closing price of the common stock of \$6.59 as reported on the NYSE American.

As of February 25, 2019, there were 61,402,365 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement to be filed pursuant to Regulation 14A for the registrant's 2019 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>ITEM 1: BUSINESS</u>	4
<u>ITEM 1A: RISK FACTORS</u>	7
<u>ITEM 1B: UNRESOLVED STAFF COMMENTS</u>	17
<u>ITEM 2: PROPERTIES</u>	17
<u>ITEM 3: LEGAL PROCEEDINGS</u>	31
<u>ITEM 4: MINE SAFETY DISCLOSURES</u>	31
<u>PART II</u>	
<u>ITEM 5: MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES</u>	32
<u>ITEM 6: SELECTED FINANCIAL DATA</u>	35
<u>ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	36
<u>ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	48
<u>ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	49
<u>ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	79
<u>ITEM 9A: CONTROLS AND PROCEDURES</u>	80
<u>ITEM 9B: OTHER INFORMATION</u>	80
<u>PART III</u>	
<u>ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE</u>	81
<u>ITEM 11: EXECUTIVE COMPENSATION</u>	81
<u>ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	81
<u>ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	81
<u>ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	81
<u>PART IV</u>	

<u>ITEM</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	
<u>15:</u>		82
	<u>10-K SUMMARY</u>	83
	<u>SIGNATURES</u>	84

2

Table of Contents

ADDITIONAL INFORMATION

Descriptions of agreements or other documents contained in this report are intended as summaries and are not necessarily complete. Please refer to the agreements or other documents filed or incorporated herein by reference as exhibits. Please see Item 15. Exhibits for a complete list of those exhibits.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words “plan,” “target,” “anticipate,” “believe,” “estimate,” “intend”, “expect” and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements include, without limitation, the statements regarding Gold Resource Corporation’s strategy, future plans for development and production, future expenses and costs, future liquidity and capital resources, future dividends and estimates of mineralized material. All forward-looking statements in this report are based upon information available to Gold Resource Corporation on the date of filing this report, and the company assumes no obligation to update any such forward-looking statements. Forward looking statements involve a number of risks and uncertainties and there can be no assurance that such statements will prove to be accurate. Gold Resource Corporation’s actual results could differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Item 1A. Risk Factors section of this report.

In addition to the specific factors identified under Item 1A. Risk Factors in this report, other uncertainties that could affect the accuracy of forward-looking statements include:

- Commodity price fluctuations;
- Mine protests and work stoppages;
- Rock formations, faults and fractures, water flow and possible CO₂ gas exhalation or other unanticipated geological situations;
- Decisions of foreign countries and banks within those countries;
- Unexpected changes in business and economic conditions, including the rate of inflation;
- Changes in interest rates and currency exchange rates;
- Timing and amount of production;
- Technological changes in the mining industry;
- Our operating costs and other costs of doing business;

- Access to and availability of materials, equipment, supplies, labor and supervision, power and water;
- Results of current and future feasibility studies;
- The level of demand for our products;
- Changes in our business strategy, plans and goals;
- Interpretation of drill hole results and the geology, grade and continuity of mineralization;
- Litigation by private parties or regulatory action by governmental entities;
- Acts of God such as floods, earthquakes and any other natural disasters; and
- The uncertainty of mineralized material estimates and timing of mine construction and commercial production.

This list, together with the factors identified under Item 1A. Risk Factors, is not exhaustive of the factors that may affect any of our forward-looking statements. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our beliefs, expectations and opinions only as of the date of filing this report. We do not intend to update these forward-looking statements except as required by law. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

PART I

ITEM 1. BUSINESS

History and Organization

Gold Resource Corporation was organized under the laws of the State of Colorado on August 24, 1998. We are a producer of metal concentrates that contain gold, silver, copper, lead and zinc, and doré containing gold and silver from the Aguila and Alta Gracia projects in the southern state of Oaxaca, Mexico (“Oaxaca Mining Unit”). The Aguila project includes the Arista underground mine and processing facility, which commenced operation in 2010. The Alta Gracia project includes the Mirador underground mine which began operations in 2017.

On August 12, 2016, we acquired all of the outstanding stock of Walker Lane Minerals Corporation. The assets included in that acquisition included the Isabella Pearl project, including significant permitting for an open-pit heap leach operation in the Walker-Lane mineral belt in Nevada. Since the acquisition, we have continued development on the project and in May 2018, we received the final regulatory approvals to construct and operate a mine. We commenced construction of the mine shortly thereafter and expect to commence production in mid-2019. We also continue exploration and evaluation work on our portfolio of other precious metal properties in Nevada, United States of America (“Nevada Mining Unit”) and continue to evaluate other properties for possible acquisition.

The Aguila processing facility produces metal concentrates and doré from ore mined from both the Arista and Mirador Mines. All of our production and revenue currently comes from our Oaxaca Mining Unit. The Aguila and Alta Gracia projects, include a total of approximately 30,439 hectares of mining concessions, access roads from a major highway, haul roads, a processing facility, and adjoining buildings, an assay lab, an open pit and underground mines, tailings facilities and other infrastructure. Please see Item 2. Properties for maps and additional information.

We commenced mining and milling operations from the Aguila project in July 2010, initially from the Aguila open pit mine, followed by development and mining the Arista underground mine. The Arista Mine was expanded in 2016 with the development of the Switchback vein system. The Arista underground mine is located approximately two kilometers from the processing facility. Most of the production from our Oaxaca Mining Unit from 2011 to present has been from the Arista Mine. In 2017, development of the Mirador Mine advanced to a point which allowed for consistent ore feed to the Aguila processing facility.

Our operations in Oaxaca are conducted through our Mexican subsidiary, Don David Gold Mexico S.A. de C.V. (“DDGM”). Our Nevada exploration, development and construction work is performed through two wholly-owned

subsidiaries, GRC Nevada Inc. and Walker Lane Minerals Corp. (“Walker Lane”).

In this report, “Company,” “our,” “us” and “we” refer to Gold Resource Corporation together with our subsidiaries, unless the context otherwise requires. See glossary on page 30 for additional definitions

Our principal executive offices are located at 2886 Carriage Manor Point, Colorado Springs, Colorado 80906, and our telephone number is (303) 320-7708. We maintain a website at www.goldresourcecorp.com and through a link on our website you can view the periodic filings that we make with the U.S. Securities and Exchange Commission (“SEC”), as well as certain of our corporate governance documents such as our code of ethics free of charge.

2018 Developments

For the year ended December 31, 2018, we reported revenue of \$115.3 million, mine gross profit of \$33.7 million and net income of \$9.3 million. Substantially all of our 2018 revenue was from the Arista Mine in Mexico. We achieved our annual production outlook of 27,000 gold ounces and 1,700,000 silver ounces plus or minus a range of 10%. Our annual 2018 mill production totaled 26,838 gold ounces, 1,672,034 silver ounces, 1,652 copper tonnes, 7,280 lead tonnes and 19,808 zinc tonnes.

Table of Contents

Oaxaca Mining Unit

During 2018, we continued to develop the Arista underground mine, including the Switchback vein system. In 2018, we began some bulk tonnage mining techniques at Switchback, while also processing a large amount of development ore. We began construction of three critical capital projects in 2018. These projects are the paste fill plant, the tailings lift, and the power grid project. The paste fill plant is targeted to improve the Arista Mine's safety, allow for more efficient extraction of stope pillars when possible, and provide for cemented tailings storage underground which will reduce the amount of surface tailings deposition. The third phase of the surface tailings impoundment lift was near completion at the end of 2018. The power grid project began construction in 2018 and will provide lower cost grid power to the Aguila project.

In addition to the Arista underground mine, we continued to develop the Mirador Mine in 2018 and consistently delivered development ore to the Aguila processing facility. While difficult ground conditions slowed development at times, we continued to target higher grade areas in the mine. We have built, commissioned and continued to develop and operate the Mirador Mine with internally generated cash flow.

Nevada Mining Unit

During 2018, we obtained all the necessary permits to commence development and construction on our Isabella Pearl project. We completed the construction of and liner placement on the heap leach pad as well as the pregnant and barren solution ponds. We installed and commissioned the crushing facility, the laboratory, and office buildings. We began mining, crushing, and placing ore on the pad during the fourth quarter of the year. Construction of the ADR plant is ongoing as is other infrastructure including water tanks and water and electrical service. We continue to target gold sales in mid-2019.

Dividends

Since July 2010, we have paid a monthly dividend. During 2018, we paid one-sixth cent per share per month, which totaled \$0.02 per share for the year. Please see Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities for additional information.

Condition of Physical Assets and Insurance

Our business is capital intensive and requires ongoing investment for the replacement, modernization or expansion of equipment and facilities. For more information, please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital Resources, below. We maintain insurance policies against property loss and business interruption and insure against risks that are typical in the operation of our business in amounts that we believe to be reasonable. Such insurance, however, contains exclusions and limitations on coverage, particularly with respect to property loss, environmental liability and political risk. There can be no assurance that claims would be paid under such insurance policies in connection with a particular event. Please see Item 1A. Risk Factors, below for additional information.

Environmental Matters

We conduct our operations so as to protect the environment and believe our operations are in compliance with applicable laws and regulations in all material respects. Our operating mines have reclamation plans in place that we believe meet all applicable legal and regulatory requirements. At December 31, 2018, \$3.3 million was accrued on our consolidated balance sheet for reclamation costs relating to operating and development properties.

Table of Contents

Competitive Business Conditions

The acquisition of gold and silver properties is subject to intense competition. Identifying and evaluating potential mining prospects is a costly and time-consuming endeavor. Due to our limited capital and personnel, we are at a competitive disadvantage compared to many other companies with regard to exploration and, if warranted, advancement of mining properties. We believe that competition for acquiring mineral prospects will continue to be intense in the future.

Government Regulations and Permits

In connection with mining, milling and exploration activities, we are subject to United States and Mexican federal, state and local laws and regulations governing the protection of the environment, including laws and regulations relating to protection of air and water quality, hazardous waste management and mine reclamation as well as the protection of endangered or threatened species. The department responsible for environmental protection in Mexico is Secretaria de Medio Ambiente y Recursos Naturales (“SEMARNAT”). The departments responsible for the environmental regulation in the United States of America include the United States Environmental Protection Agency (“EPA”), the Nevada Department of Environmental Protection (NDEP), Bureau of Land Management (“BLM”) and the Nevada Department of Wildlife (“NDOW”). Any of these regulators have broad authority to shut down and/or levy fines against facilities that do not comply with its environmental regulations or standards. Potential areas of environmental consideration for mining companies, including ours, include but are not limited to, acid rock drainage, cyanide containment and handling, contamination of water sources, dust, and noise.

For operations at our Oaxaca Mining Unit, we have secured and continue to secure various regulatory permits from federal, state and local agencies. These governmental and regulatory permits generally govern the processes being used to operate, the stipulations concerning air quality and water issues, and the plans and obligations for reclamation of the properties at the conclusion of operations. We have received the required local community support for the Aguila and Alta Gracia projects in the area where we are currently producing.

We have obtained the permits necessary to develop, construct, and operate our Isabella Pearl project. Please see Item 2. Properties – Nevada Mining Unit, for more information on the status of our development efforts. In connection with these permits and exploration activities in Nevada, we are subject to various federal, state and local laws and regulations governing protection of the environment, including, but not limited to, the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Endangered Species Act; the Federal Land Policy and Management Act; the National Environmental Policy Act; the Resource Conservation and Recovery Act; and related state laws. These laws and regulations are continually changing and are generally becoming more restrictive.

Customers

During the year ended December 31, 2018, one customer accounted for 94% of our revenue in our Oaxaca Mining Unit. In the event that our relationship with the customer is interrupted for any reason, we believe that we would be able to locate another entity to purchase our products. However, any interruption could temporarily disrupt the sale of our principal products and adversely affect our operating results. We periodically review our options for alternative sales outlets to mitigate the concentration of risk in case of any unforeseen disruptions.

Employees and Contractors

We have approximately forty-seven full-time employees, six of which serve as our executive officers. These individuals devote all of their business time to our affairs.

Table of Contents

We contract for the services of approximately 490 individuals employed by third parties in Mexico and Nevada and also use various independent contractors for environmental permitting, mining, surface exploration drilling and trucking.

ITEM 1A. RISK FACTORS

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that may be materially affected by several risk factors, including those summarized below:

Risks Relating to Our Company

Our results of operations, cash flows and the value of our properties are highly dependent on the market prices of gold and silver and certain base metals and these prices can be volatile. The profitability of our gold and silver mining operations and the value of our mining properties are directly related to the market price of gold and silver, copper, lead and zinc. The price of gold and silver may also have a significant influence on the market price of our common stock. The market price of gold and silver historically has fluctuated significantly and is affected by numerous factors beyond our control. These factors include supply and demand fundamentals, global or national political or economic conditions, expectations with respect to the rate of inflation, the relative strength of the U.S. dollar and other currencies, interest rates, gold and silver sales and loans by central banks, forward sales by metal producers, accumulation and divestiture by exchange traded funds, and a number of other factors.

We derive a significant portion of our revenue from the sale of gold and silver and our results of operations will fluctuate as the prices of these metals change. A period of significant and sustained lower gold and silver prices would materially and adversely affect our results of operations and cash flows. The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. In the event mineral prices decline or remain low for prolonged periods of time, we might be unable to develop our existing exploration properties, which may adversely affect our results of operations, financial performance, and cash flows. An asset impairment charge may result from the occurrence of unexpected adverse events that impact our estimates of expected cash flows generated from our producing properties or the market value of our non-producing properties, including a material diminution in the price of gold and/or silver.

During 2018, the price of gold, as measured by the London P.M. fix, fluctuated from a low of \$1,178 per ounce to a high of \$1,355 per ounce while the price of silver fluctuated from a low of \$13.97 per ounce to a high of \$17.52 per ounce. As of February 25, 2019, gold and silver prices were \$1,331 per ounce and \$15.96 per ounce, respectively. The

volatility in gold and silver prices is illustrated by the following table, which sets forth for each of the past five calendar years, the high, low, and average annual market prices in U.S. dollars per ounce of gold and silver based on the daily London P.M. fix:

	2014	2015	2016	2017	2018
Gold:					
High	\$ 1,385	\$ 1,297	\$ 1,366	\$ 1,346	\$ 1,355
Low	\$ 1,142	\$ 1,049	\$ 1,077	\$ 1,151	\$ 1,178
Average	\$ 1,266	\$ 1,160	\$ 1,251	\$ 1,257	\$ 1,268
Silver:					
High	\$ 22.05	\$ 18.23	\$ 20.71	\$ 18.56	\$ 17.52
Low	\$ 15.28	\$ 13.71	\$ 13.58	\$ 15.22	\$ 13.97
Average	\$ 19.08	\$ 15.68	\$ 17.14	\$ 17.04	\$ 15.71

Most of our production is currently limited to a single mine and any interruptions or stoppages in our mining activities would adversely affect our revenue. We are almost entirely dependent on revenues from a single mine to fund our operations. Any interruption in our ability to mine this location, such as a labor strike, natural disaster, or loss of permits would negatively impact our ability to generate revenue following such interruption. Additionally, if we are unable to economically develop additional mines, we will eventually deplete the body of mineralized material and will

7

Table of Contents

no longer generate revenue sufficient to fund our operations. A decrease in, or cessation of, our mining operations at this mine would adversely affect our financial performance and may eventually cause us to cease operations.

If we are unable to achieve anticipated gold and silver production levels, our financial condition and results of operations will be adversely affected. We have proceeded with the processing of ore from the Arista and Mirador underground mines at the Aguila and Alta Gracia projects, respectively, based on estimates of mineralized material identified during exploration and in our Proven and Probable Reserve report. However, risks related to reserve estimates, metallurgy, and/or mining dilution are inherent when working with extractable minerals. Sales of gold and silver that we realize from future mining activity will be less than anticipated if the mined material does not contain the concentration of gold and silver predicted by our geological exploration, studies and reports. If sales of gold and silver are less than anticipated, we may not be able to recover our investment in our properties and our operations may be adversely affected. Our inability to realize production based on quarterly or annual projections may also adversely affect the price of our common stock and you may lose part or all of your investment.

Estimates of proven and probable reserves and mineralized material are uncertain and the volume and grade of ore actually recovered may vary from our estimates. The proven and probable reserves stated in this report represent the amount of gold, silver, copper, lead and zinc that we estimated, at December 31, 2018, could be economically and legally extracted or produced at the time of the reserve determination. Estimates of proven and probable reserves and mineralized material are subject to considerable uncertainty. Such estimates are, to a large extent, based on the prices of gold, silver, copper, lead and zinc as well as interpretations of geologic data obtained from drill holes and other exploration techniques. These prices and interpretations are subject to change. If we determine that certain of our estimated reserves or mineralized material have become uneconomic, we may be forced to reduce our estimates. Actual production may be significantly less than we expect.

Any material changes in mineral estimates and grades of mineralization may affect the economic viability of our current operations, our decision to place a new property into production and/or such property's return on capital. There can be no assurance that mineral recoveries in small scale laboratory tests will be duplicated in a large scale on-site operation in a production environment. Extended declines in market prices for gold and/or silver may render portions of our mineralization estimates uneconomic and result in reduced reported mineralization or adversely affect the commercial viability of one or more of our properties. Any material reductions in estimates of mineralization, or of our ability to extract this mineralization, could have a material adverse effect on our results of operations or financial condition.

Additionally, the term "mineralized material" as used in this report does not indicate proven and probable reserves as defined by Industry Guide 7 ("Guide 7") promulgated by the SEC or our standards. Estimates of mineralized material are subject to further exploration and development and are therefore subject to considerable uncertainty. We cannot be certain that any part or parts of the mineralized material deposit will ever be confirmed or converted into Guide 7 compliant reserves or that mineralized material can be economically or legally extracted.

Our current property portfolio is limited to two producing properties and our ability to remain profitable over the long-term will depend on our ability to expand the known deposits like Arista and Mirador, and /or identify, explore and develop additional properties in Mexico and Nevada. Gold and silver producers must continually replace reserves depleted by production to maintain production levels over the long term and provide a return on invested capital. Depleted reserves can be replaced in several ways, including expanding known ore bodies, locating new deposits, or acquiring interests in reserves from third parties. Exploration is highly speculative in nature, capital intensive, involves many risks and is frequently unproductive. Our current or future exploration programs may not result in new mineral producing operations. Even if significant mineralization is discovered, it will likely take many years from the initial phases of exploration until commencement of production, during which time the economic feasibility of production may change.

From time to time, we may acquire mineral interests from other parties. Such acquisitions are based on an analysis of a variety of factors including historical exploration results, estimates of and assumptions regarding the extent of

Table of Contents

mineralized material, and/or reserves, the timing of production from such reserves and cash and other operating costs. In addition, we may rely on data and reports prepared by third parties (including the ability to permit and compliance with existing regulations) which may contain information or data that we are unable to independently verify or confirm. All of these factors are uncertain and may have an impact on our ability to develop the properties.

As a result of these uncertainties, our exploration programs and any acquisitions which we may pursue may not result in the expansion or replacement of our current production with new ore reserves or operations, which could have a material adverse effect on our business, prospects, results of operations and financial position.

We may not continue to be profitable. During the fiscal years ended December 31, 2018, 2017 and 2016, we reported net income of \$9.3 million, \$4.2 million, and \$4.4 million, respectively. We have accumulated retained earnings of \$12.7 million as of December 31, 2018. Metal prices have a significant impact on our profit margin and there is no assurance that we will be profitable in the future. Unexpected interruptions in our mining business may cause us to incur losses, or the revenue that we generate from production may not be sufficient to fund continuing operations including exploration and mine construction costs. Our failure to generate future profits may adversely affect the price of our common stock and you may lose all or part of your investment.

We may require significant additional capital to fund our business plans. We may be required to expend significant funds to determine if mineralized material and proven and probable mineral reserves exist at any of our non-producing properties, to continue exploration, and if warranted, develop our existing properties and to identify and acquire additional properties to diversify our property portfolio. If we receive the necessary permits and make a positive development decision, we will require significant additional capital to bring the project into production. We have spent, and may be required to continue to expend, significant amounts of capital for drilling, geological and geochemical analysis, assaying, feasibility studies, mine development, and mining and process equipment in connection with our exploration, development, and production activities.

Our ability to obtain necessary funding for these purposes, in turn, depends upon a number of factors, including our historical and prospective results of operations, the status of the national and worldwide economy, the price of gold, silver and other valuable metals, the condition of the debt and equity markets, and the costs associated with extracting minerals. We may not be successful in generating or obtaining the required financing, or if we can obtain such financing, such financing may not be on terms that are favorable to us. Failure to obtain such additional financing could result in delay or indefinite postponement of further mining operations or exploration and construction and the possible partial or total loss of our interest in our properties.

If we do not hedge our exposure to fluctuations in gold and silver prices, we may be subject to significant reductions in price. We do not use hedging transactions with respect to any of our gold and silver production and we do not expect to do so in the future. Accordingly, we are fully exposed to price fluctuations if precious and base metal prices

decline. While the use of hedging transactions limits the downside risk of price declines, their use also may limit future revenues from price increases. Hedging transactions also involve the risk that the counterparty may be unable to satisfy its obligations.

Revenue from the sale of metal concentrate may be adversely affected by loss or damage during shipment and storage at our buyer's facilities. We rely on third-party transportation companies to transport our metal concentrate to the buyer's facilities for processing and further refining. The terms of our sales contracts with the buyers require us to rely on assay results from samples of our metal concentrate that are obtained at the buyer's warehouse to determine the final sales value for our metals. Once the metal concentrate leaves our processing facility, we no longer have direct custody and control of these products. Theft, loss, road accidents, improper storage, fire, natural disasters, tampering or other unexpected events while in transit or at the buyer's location may lead to the loss of all or a portion of our metal concentrate products. Such losses may not be covered by insurance and may lead to a delay or interruption in our revenue and as a result, our operating results may be adversely affected.

Table of Contents

Exploration and, if deemed feasible, development of mineral properties is inherently risky and could lead to unproductive properties and/or capital investments. Our long-term success depends on our ability to identify additional mineral deposits on our properties and any other properties that we may acquire and to develop one or more of those properties into commercially viable mining operations. Mineral exploration is highly speculative in nature, involves many risks and is frequently unproductive. These risks include unusual or unexpected geologic formations and the inability to obtain suitable or adequate machinery, equipment or labor. The success of gold exploration is determined in part by the following factors:

- The identification of potential gold mineralization based on surface and drill analysis;
- Availability of government-granted exploration and construction permits;
 - The quality of our management and our geological and technical expertise; and
- The capital available for exploration and development.

Substantial expenditures are required to establish proven and probable reserves through detailed drilling and analysis, to develop metallurgical processes to extract metal and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade, metallurgy, rock competency and proximity to infrastructure like power, water and roads; metal prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals, environmental protection and local and community support. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable mineral reserves. The decision to abandon a project may have an adverse effect on the market value of our common stock and our ability to raise future financing.

We may acquire additional exploration stage properties and our business may be negatively impacted if reserves are not located on acquired properties. We have in the past and may in the future acquire additional exploration stage properties. There can be no assurance that reserves will be identified on any properties that we acquire. We may experience negative reactions from the financial markets if we successfully complete acquisitions of additional properties and reserves are not located on acquired properties. These factors may adversely affect the trading price of our common stock or our financial condition or results of operations.

To the extent that we seek to expand our operations and increase our reserves through acquisitions, we may experience issues in executing acquisitions or integrating acquired operations. From time to time, we examine opportunities to make selective acquisitions in order to provide increased returns to our shareholders and to expand our operations and reported reserves and, potentially, generate synergies. The success of any acquisition would depend on a number of factors, including, but not limited to:

- Identifying suitable candidates for acquisition and negotiating acceptable terms;
- Obtaining approval from regulatory authorities and potentially our shareholders;
- Implementing our standards, controls, procedures and policies at the acquired business and addressing any pre-existing liabilities or claims involving the acquired business; and
- To the extent the acquired operations are in a country in which we have not operated historically, understanding the regulations and challenges of operating in that new jurisdiction.

There can be no assurance that we will be able to conclude any acquisitions successfully, or that any acquisition will achieve the anticipated synergies or other positive results. Any material problems that we encounter in connection with such an acquisition could have a material adverse effect on our business, results of operations and financial position.

Table of Contents

We rely on contractors to conduct a significant portion of our operations and construction projects. A significant portion of our operations and construction projects are currently conducted in whole or in part by contractors. As a result, our operations are subject to a number of risks, some of which are outside our control, including:

- The difficulty and inherent delay in replacing a contractor and its operating equipment in the event that either party terminates the agreement;
 - Reduced control and oversight over those aspects of operations which are the responsibility of the contractor;
- Failure of a contractor to perform under its agreement;
- Interruption of operations and construction or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events;
- Injuries or fatalities on the job as a result of the failure to implement or follow adequate safety measures;
- Failure of a contractor to comply with applicable legal and regulatory requirements, to the extent it is responsible for such compliance; and
- Problems of a contractor with managing its workforce, labor unrest or other related employment issues.

In addition, we may incur liability to third parties as a result of the actions of our contractors. The occurrence of one or more of these risks could adversely affect our results of operations and financial position.

Our profits are subject to two mining duties imposed by the Mexican government. The Mexican government requires mineral producers to pay a 'special' mining duty to the government of 7.5% on net profits and an additional 'extraordinary' mining duty of 0.5% on gross sales of precious metals of gold, silver and platinum. This legislation has and may in the future significantly and adversely affect our results of operations, including our cash flows, which may in turn affect the amount of capital we have available for typical uses of cash, including but not limited to, reinvestment into our business, funding new projects and paying dividends to our shareholders.

The facilities and development of our underground and open pit mines and operations are subject to all of the risks inherent in development, construction, and operations. These risks include potential delays, cost overruns, shortages of material or labor, construction defects, breakdowns and injuries to persons and property. We expect to engage subcontractors and material suppliers in connection with the continued mine activities at the Aguila, Alta Gracia, and Isabella Pearl projects. While we anticipate taking all measures which we deem reasonable and prudent in connection with our facilities, construction of the underground mine and the operation of the processing facility, there is no assurance that the risks described above will not cause delays or cost overruns in connection with such construction or operation. Any delays would postpone our anticipated generation of revenue and adversely affect our operations, which in turn may adversely affect the price of our stock.

Underground mining operations are subject to unique risks. The exploration for minerals, mine construction and mining operations in an underground mine involve a high level of risk and are often affected by hazards outside of our

control. Some of these risks include, but are not limited to, underground fires or floods, fall-of-ground accidents, seismic activity and unexpected geological formations or conditions including noxious fumes or gases. The occurrence of one or more of these events in connection with our exploration, mine construction, or production activities may result in the death of, or personal injury to, our employees, other personnel or third parties, the loss of mining equipment, damage to or destruction of mineral properties or production facilities, monetary losses, deferral or unanticipated fluctuations in production, environmental damage and potential legal liabilities, all of which may adversely affect our reputation, business, prospects, results of operations and financial condition.

Construction of mine and process facilities is subject to all of the risks inherent in construction and start-up, including delays and costs of construction in excess of our projections. Many factors could delay or prevent the start or completion of, or increase the costs of, ongoing construction of the mine and process facility, including:

- Design, engineering and construction difficulties or delays;
- Cost overruns;
- Our failure or delay in obtaining necessary legal, regulatory and other approvals;

Table of Contents

- Interruptions in the supply of the necessary equipment, or construction materials or labor or an increase in their price;
- Injuries to persons and property;
- Opposition of local and or Non-Governmental-Organization interests; and
- Natural disasters, accidents, political unrest or unforeseen events.

If any of the foregoing events were to occur, our financial condition could be adversely affected and we may be required to seek additional capital, which may not be available on commercially acceptable terms, or at all. If we are unable to complete such construction, we may not be able to recover any costs already incurred. Even if construction of the mine and the processing facilities is completed as scheduled, the costs could exceed our expectations and result in a materially adverse effect on our business, results of operations, financial condition, and cash flows.

Our operations are subject to permitting requirements which could result in the delay, suspension or termination of our operations. Our operations, including our ongoing exploration drilling programs and production, require permits from governmental authorities. If we cannot obtain or maintain the necessary permits or if there is a delay in receiving future permits, our timetable and business plan will be adversely affected. We have from time to time relied on third party environmental firms to assist in our efforts to obtain and remain current with required regulations and permits. While we attempt to manage and oversee third party firms, we are dependent on the firm to operate in a professional and knowledgeable manner.

Our ability to recognize the benefits of deferred tax assets is dependent on future cash flows and taxable income. We recognize deferred tax assets when the tax benefit is considered to be more likely than not of being realized; otherwise, a valuation allowance is applied against deferred tax assets. Assessing the recoverability of deferred tax assets requires management to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, our ability to realize the deferred tax assets could be impacted. Additionally, future changes in tax laws could limit our ability to obtain the future tax benefits represented by our deferred tax assets. At December 31, 2018, our net deferred tax assets were \$7.4 million.

Our continuing reclamation obligations at our operations could require significant additional expenditures. We are responsible for the reclamation obligations related to disturbances located on all of our properties. We have a liability on our balance sheet to cover the estimated reclamation obligation. However, there is a risk that any reserve could be inadequate to cover the actual costs of reclamation when carried out. Continuing reclamation obligations will require a significant amount of capital. There is a risk that we will be unable to fund these additional obligations and further, that the regulatory authorities may increase reclamation requirements to such a degree that it would not be commercially reasonable to continue mining and exploration activities, which may adversely affect our results of operations, financial performance and cash flows.

Our operating properties located in Mexico are subject to changes in political or economic conditions and regulations in that country. The risks with respect to Mexico or other developing countries include, but are not limited to: nationalization of properties, military repression, extreme fluctuations in currency exchange rates, criminal activity, lack of personal safety or ability to safeguard property, labor instability or militancy, mineral title irregularities and high rates of inflation. In addition, changes in mining or investment policies or shifts in political attitude in Mexico may adversely affect our business. We may be affected in varying degrees by government regulation with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, maintenance of claims, environmental legislation, land use, land claims of local people, opposition from non-governmental organizations, water use and mine safety. The effect of these factors cannot be accurately predicted and may adversely impact our operations.

Our ability to develop our Mexican properties is subject to the rights of the Ejido (agrarian cooperatives) who use or own the surface for agricultural purposes. Our ability to mine minerals is subject to maintaining satisfactory

Table of Contents

arrangements and relationships with the Ejido for access and surface disturbances. Ejidos are groups of local inhabitants who were granted rights to conduct agricultural activities on the property. We must negotiate and maintain a satisfactory arrangement with these residents in order to disturb or discontinue their rights to farm. While we have successfully negotiated and signed such agreements related to the Aguila and Alta Gracia projects, our inability to maintain these agreements or consummate similar agreements for new projects could impair or impede our ability to successfully explore, develop and mine the properties.

Competition in the mining industry is intense, and we have limited financial and personnel resources with which to compete. Competition in the mining industry for desirable properties, investment capital and personnel is intense. Numerous companies headquartered in the United States (“U.S.”), Canada, and elsewhere throughout the world compete for properties and personnel on a global basis. We are a small participant in the gold mining industry due to our limited financial and personnel resources. We presently operate with a limited number of personnel and we anticipate operating in the same manner going forward. We compete with other companies in our industry to hire qualified personnel when needed to successfully operate our mine and processing facility. We may be unable to attract the necessary investment capital or personnel to fully explore and if warranted, develop our properties and be unable to acquire other desirable properties. We believe that competition for acquiring mineral properties, as well as the competition to attract and retain qualified personnel, may continue to be intense in the future.

Since a significant amount of our expenses in Mexico are paid in Mexican pesos, we are subject to changes in currency values that may adversely affect our results of operations. Our operations have in the past and will in the future be affected by changes in the value of the Mexican peso against the U.S. dollar. 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, 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, and other monetary assets and liabilities denominated in foreign currencies also fluctuate with changes in currency exchange rates.

Our activities are subject to significant environmental regulations, which could raise the cost of doing business or adversely affect our ability to develop our properties. Our mining operations in Mexico are subject to environmental regulation by SEMARNAT. Regulations governing advancement of new projects or significant changes to existing projects require an environmental impact statement, known in Mexico as a MIA. We may also be required to submit proof of local community support for a project to obtain final approval. If an environmental impact statement is adverse or if we cannot obtain community support, our ability to explore and develop our properties could be adversely affected. Significant environmental legislation exists in Mexico, including fines and penalties for spills, release of emissions into the air, and other environmental damage, which fines or penalties could adversely affect our financial condition or results of operations.

In addition, significant state and federal environmental laws and regulations in the U.S. may hinder our ability to explore, develop, and operate at our Nevada Mining Unit. Federal laws that govern mining claim location and

maintenance and mining operations on federal lands are generally administered by the BLM. Additional federal laws, governing mine safety and health, also apply. State laws also require various permits and approvals before exploration, development or production operations can begin. Among other things, a reclamation plan must typically be prepared and approved, with bonding in the amount of projected reclamation costs. The bond is used to ensure that proper reclamation takes place, and the bond will not be released until that time. Local jurisdictions may also impose permitting requirements (such as conditional use permits or zoning approvals).

Our business is subject to the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws, a breach or violation of which could lead to civil and criminal fines and penalties, loss of licenses or permits and reputational harm. We operate in certain jurisdictions that have experienced some degree of governmental and private sector corruption, and in certain circumstances, strict compliance with anti-bribery laws may conflict with certain local customs and practices. The U.S. Foreign Corrupt Practices Act and anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining

Table of Contents

business or other commercial advantage. Our Code of Ethics and other corporate policies mandate compliance with these anti-bribery laws, which often carry substantial penalties. There can be no assurance that our internal control policies and procedures will always protect us from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by our affiliates, employees, contractors, or agents. As such, our corporate policies and processes may not prevent all potential breaches of law or other governance practices. Violations of these laws, or allegations of such violations, could lead to civil and criminal fines and penalties, litigation, and loss of operating licenses or permits, and may damage our reputation, which could have a material adverse effect on our business, financial position and results of operations or cause the market value of our common stock to decline.

We are dependent upon information technology systems, which are subject to disruption, damage, failure and risks associated with implementation and integration. We are dependent upon information technology systems in the conduct of our operations. Our information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, computer viruses, security breaches, cyber-attacks, natural disasters and defects in design. Cybersecurity incidents, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and the corruption of data. Various measures have been implemented to manage our risks related to information technology systems and network disruptions. However, given the unpredictability of the timing, nature and scope of information technology disruptions, we could potentially be subject to production downtimes, operational delays, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks or financial losses from remedial actions, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

We may also be adversely affected by system or network disruptions if new or upgraded information technology systems are defective, not installed properly or not properly integrated into our operations. If we are not able to successfully implement system upgrades or modifications, we may have to rely on manual reporting processes and controls over financial reporting that have not been planned, designed or tested. Various measures have been implemented to manage our risks related to the system upgrades and modifications, but system upgrades and modification failures could have a material adverse effect on our business, financial condition and results of operations and could, if not successfully implemented, adversely impact the effectiveness of our internal controls over financial reporting.

The nature of mineral exploration and production activities involves a high degree of risk and the possibility of uninsured losses. Exploration for and the production of minerals is highly speculative and involves greater risk than many other businesses. Many exploration programs do not result in the discovery of mineralization, and any mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Our operations are, and any future mining operations or construction we may conduct will be, subject to all of the operating hazards and risks normally incident to exploring for and mining of mineral properties, such as, but not limited to:

- Economically insufficient mineralized material;
- Fluctuation in production costs that make mining uneconomic;
- Labor disputes;
- Unanticipated variations in grade and other geologic problems;
- Environmental hazards;
- Water conditions;
- Difficult surface or underground conditions;
- Industrial accidents;
- Metallurgic and other processing problems;
- Mechanical and equipment performance problems;
- Failure of pit walls, dams, declines, drifts and shafts;
- Unusual or unexpected rock formations;
- Personal injury, fire, flooding, cave-ins and landslides; and

14

Table of Contents

- Decrease in the value of mineralized material due to lower gold, silver prices, and other metal prices.

Any of these risks can materially and adversely affect, among other things, the development of properties, production quantities and rates, costs and expenditures, potential revenues and targeted production dates. We currently have limited insurance to guard against some of these risks. If we determine that capitalized costs associated with any of our mineral interests are not likely to be recovered, we would incur a write down of our investment in these interests. All of these factors may result in losses in relation to amounts spent which are not recoverable or result in additional expenses.

We do not insure against all of the risks to which we may be subject in our operations and development. While we currently maintain insurance for general commercial liability claims and the physical assets at our Aguila, Alta Gracia, and Isabella Pearl projects, we do not maintain insurance to cover all of the potential risks associated with our operations. We might be subject to liability for environmental, pollution or other hazards associated with mineral exploration and mine construction, for which insurance may not be available, which may exceed the limits of our insurance coverage, or which we may elect not to insure against because of premium costs or other reasons. We may also not be insured against interruptions to our operations. Losses from these or other events may cause us to incur significant costs which could materially adversely affect our financial condition and our ability to fund activities on our properties. A significant loss could force us to reduce or suspend our operations and development.

We depend upon a limited number of personnel and the loss of any of these individuals could adversely affect our business. Due to the relatively limited number of personnel that we employ, we are dependent on certain individuals to run our business. These individuals include our executive officers and other key employees. If any of these individuals were to die, become disabled or leave our company, we would be forced to identify and retain individuals to replace them. There is no assurance that we can find suitable individuals to replace them or to add to our employee base if that becomes necessary. We have no life insurance on any individual, and we may be unable to hire a suitable replacement on favorable terms should that become necessary.

Title to mineral properties can be uncertain. Our ability to explore and operate our properties depends on the validity of our title to that property. Our U.S. mineral properties include patented and unpatented mining claims. Unpatented mining claims provide only possessory title and their validity is often subject to contest by third parties or the federal government, which makes the validity of unpatented mining claims uncertain and generally riskier. Our concessions in Mexico are subject to continuing government regulation and failure to adhere to such regulations will result in termination of the concession. Uncertainties inherent in mineral properties relate to such things as the sufficiency of mineral discovery, proper posting and marking of boundaries, assessment work and possible conflicts with other claims not determinable from public record. There may be valid challenges to the title to our properties which, if successful, could impair development and/or operations.

In the event of a dispute regarding title to our Mexican properties, it will likely be necessary for us to resolve the dispute in Mexico, where we would be faced with unfamiliar laws and procedures. The resolution of disputes in foreign countries can be costly and time consuming. In a foreign country we face the additional burden of understanding unfamiliar laws and procedures. We may not be entitled to a jury trial, as we might be in the United States. Further, to litigate in any foreign country, we would be faced with the necessity of hiring lawyers and other professionals who are familiar with the foreign laws. For these reasons, we may incur unforeseen costs if we are forced to resolve a dispute in Mexico or any other foreign country.

Our directors and officers may be protected from certain types of lawsuits. The laws of the State of Colorado provide that our directors will not be liable to us or our shareholders for monetary damages for all but certain types of conduct as directors of the company. Our Articles of Incorporation permit us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. Additionally, we entered into individual indemnification agreements with our current directors and officers and we intend to execute substantially similar agreements with future directors and officers. The exculpation provisions of any of these items may have the effect of preventing shareholders from recovering damages against our directors caused by

Table of Contents

their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment or other circumstances. Pursuant to the terms of the indemnification agreements, we are required to advance funds to our directors and officers prior to the final disposition of any threatened or actual legal proceeding, and including in the event it is ultimately determined that such officer or director is not entitled to indemnification pursuant to the terms of the indemnification agreement, in which case we will depend on reimbursement of advanced expenses from such individual.

Risks Related to Our Common Stock

Our stock price may be volatile and as a result you could lose part or all of your investment. In addition to other risk factors identified and due to volatility associated with equity securities in general, the value of your investment could decline due to the impact of numerous factors upon the market price of our common stock, including:

- Changes in the worldwide price for gold and/or silver;
- Adverse results from our exploration, development, or production efforts;
 - Producing at rates lower than those targeted;
- Political and regulatory risks;
- Weather conditions, including unusually heavy rains;
- Failure to meet our revenue or profit goals or operating budget;
- Decline in demand for our common stock;
- Downward revisions in securities analysts' estimates or changes in general market conditions;
- Technological innovations by competitors or in competing technologies;
- Investor perception of our industry or our prospects;
- Lawsuits;
- Actions by government or central banks; and
- General economic trends.

Stock markets in general have experienced extreme price and volume fluctuations and the market prices of individual securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, you may be unable to sell your shares at a desired price.

Past payments of dividends on our common stock are not a guaranty of future payments of dividends. In 2010, we began paying cash dividends to the holders of our common stock. However, our ability to continue to pay dividends in the future will depend on a number of factors, including, cash flow, mine construction requirements and strategies, other acquisition and/or construction projects, spot gold and silver prices, taxation, government-imposed royalties and

general market conditions. Further, a portion of our cash flow is expected to be retained to finance our operations and development of mineral properties. Any material change in our operations may affect future dividends which may be modified or canceled at the discretion of our Board of Directors. Any decrease in our monthly dividend would likely have an adverse impact on the price of our common stock.

We are subject to the Continued Listing Criteria of the New York Stock Exchange (“NYSE American”), and our failure to satisfy these criteria may result in delisting of our common stock. Our common stock is currently listed on the NYSE American. In order to maintain that listing, we must maintain certain share price and other criteria, including maintaining a minimum amount of shareholders’ equity and a minimum number of public shareholders. In addition to objective standards, the NYSE American may delist the securities of any issuer if, in its opinion, the issuer’s financial condition and/or operating results appear unsatisfactory; if it appears that the extent of public distribution or the aggregate market value of the security has become so reduced as to make continued listing on the NYSE American inadvisable; if the issuer sells or disposes of principal operating assets or ceases to be an operating company; if an issuer fails to comply with the NYSE American’s listing requirements; if an issuer’s common stock sells at what the NYSE American considers a “low selling price” and the issuer fails to correct this via a reverse split of shares after notification

Table of Contents

by the NYSE American; or if any other event occurs or any condition exists which makes continued listing on the NYSE American, in its opinion, inadvisable.

If the NYSE American delists our common stock, investors may face material adverse consequences, including, but not limited to, a lack of trading market for our securities, reduced liquidity, decreased analyst coverage of our securities, and an inability for us to obtain additional financing to fund our operations.

Issuances of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock. We have the authority to issue up to 100,000,000 shares of common stock, 5,000,000 shares of preferred stock, and to issue options and warrants to purchase shares of our common stock without stockholder approval. As of February 25, 2019, there were 61,402,365 shares of common stock outstanding. Future issuances of our securities could be at prices substantially below the price paid for our common stock by our current shareholders. In addition, we can issue blocks of our common stock in amounts up to 20% of the then-outstanding shares without further shareholder approval. Because we have issued less of our common stock than many of our larger peers, the issuance of a significant amount of our common stock may have a disproportionately large impact on our share price compared to larger companies.

Our awards of our shares and stock options to employees may not have their intended effect. A portion of our total compensation program for our executive officers and key personnel has historically included the award of shares and options to buy shares of our common stock. If the price of our common stock performs poorly, such performance may adversely affect our ability to retain or attract critical personnel. In addition, any changes made to our stock option policies or to any other of our compensation practices which are made necessary by governmental regulations or competitive pressures could affect our ability to retain and motivate existing personnel and recruit new personnel.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We classify our mineral properties into three categories: “Operating Properties”, “Development Properties”, and “Exploration Properties”. Operating Properties are properties on which we operate a producing mine and are what we consider a “material” property in accordance with SEC Industry Guide 7. Other properties may also be material to our

business.

We currently have 100% interest in ten properties in the Americas. Six of our properties, including two Operating Properties and four Exploration Properties, are within our Oaxaca Mining Unit located in Oaxaca, Mexico, along the San Jose structural corridor. In addition, we have one Development and three Exploration Properties within our Nevada Mining Unit located in south central Nevada, U.S.A in the Walker Lane Mineral Belt.

Proven and Probable Reserves

The term “proven (measured) reserves” means reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade, and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurements are spaced so closely and the geologic character is sufficiently defined that the size, shape, depth and mineral content of reserves is well established. The term “probable (indicated) reserves” means reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

17

Table of Contents

As of December 31, 2018, our estimate of Proven and Probable (“P&P”) reserves was:

Description	Tonnes	Gold g/t	Silver g/t	Precious Metal Gold Equivalent g/t	Gold Ounces	Silver Ounces	Precious Metal Gold Equivalent Ounces	Copper %	Lead %	Zinc %
Oaxaca Mining Unit										
Arista Mine										
Proven	2,669,000	1.87	112	3.35	160,500	9,574,900	287,000	0.4	1.5	4.6
Probable	279,900	1.88	115	3.40	17,000	1,032,400	30,600	0.3	1.3	3.7
Arista Mine Total	2,948,900	1.87	112	3.35	177,500	10,607,300	317,600	0.4	1.5	4.5
Mirador Mine										
Proven	107,000	0.69	495	7.23	2,400	1,704,000	24,900			
Probable	21,300	0.62	409	6.03	400	280,000	4,100			
Mirador Mine Total	128,300	0.68	481	7.03	2,800	1,984,000	29,000			
Oaxaca Mining Unit Total										
	3,077,200	1.82	127	3.50	180,300	12,591,300	346,600			
Nevada Mining Unit										
Isabella Pearl Project										
Proven	719,800	5.65	35	6.10	130,700	801,600	141,300			
Probable	2,214,600	1.18	5	1.25	84,100	375,100	89,000			
Isabella Pearl Project Total	2,934,400	2.28	12	2.44	214,800	1,176,700	230,300			
Nevada Mining Unit Total										
	2,934,400	2.28	23	2.44	214,800	1,176,700	230,300			
Total	6,011,600	2.04	71	2.99	395,100	13,768,000	576,900			

Notes to the 2018 P&P reserves:

1. Metal prices used for P&P reserves were \$1,258 per ounce of gold, \$16.62 per ounce of silver, \$2.65 per pound of copper, \$0.97 per pound of lead and \$1.20 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
 2. Precious metal gold equivalent is 75.69:1 using gold and silver only to calculate gold equivalencies.
 3. A breakeven Net Smelter Return (“NSR”) cutoff grade of \$80 per tonne was used for estimations of P&P reserves at the Arista Mine. The term “cutoff grade” means the lowest NSR value considered economic to process.
 4. No appreciable amounts of base metals are present in the veins identified to-date at the Mirador Mine at the Alta Gracia project. A breakeven cutoff grade of 1.98 g/t gold-equivalent (AuEq) was used for proven and probable reserves at the Mirador Mine using gold and silver only to calculate gold equivalencies.
 5. Mining, processing, energy, administrative and smelting/refining costs were based on 2018 actual costs for the Oaxaca Mining Unit.
 6. Arista Mine metallurgical recovery assumptions used were 80% for gold, 92% for silver, 80% for copper, 78% for lead and 83% for zinc. Mirador Mine metallurgical recovery assumptions used were 79% for gold and 78% for silver. These recoveries reflect 2018 actual average recoveries for the Aguila and Alta Gracia projects.
 7. P&P reserves are diluted and factored for expected mining recovery.
 8. Minimum mining width for P&P reserves is 1.5 meters for the Arista and Mirador underground mines.
 9. For the Isabella Pearl project, the quantities of material within the designed pits were calculated using a cutoff grade of 0.61 Au g/t for crushed ore and 0.38 Au g/t for Run-of-Mine (“ROM”) ore.
 10. Mining, processing, energy, administrative and smelting/refining costs were based on 2018 cost estimates used for the Isabella Pearl project feasibility study.
 11. Metallurgical gold recovery assumptions used for the Isabella Pearl project were 81% for crushed ore and 60% for ROM ore. These recoveries reflect predicted average recoveries from metallurgical test programs.
 12. Silver is an economic mineral of interest but only a minor amount will be recovered. Silver recoveries were not considered in the Isabella Pearl project feasibility study.
 13. Isabella Pearl P&P reserves are diluted and factored for expected mining recovery.
 14. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.
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Table of Contents

For comparison, at December 31, 2017, our estimate of P&P reserves was:

Description	Tonnes	Gold g/t	Silver g/t	Precious Metal Gold Equivalent g/t	Precious Metal Gold		Copper %	Lead %	Zinc %	
					Gold Ounces	Silver Ounces				
Arista Mine										
Proven	1,987,600	1.87	130	3.64	119,800	8,299,800	232,600	0.3	1.3	3.6
Probable	433,400	1.50	124	3.19	20,800	1,730,600	44,400	0.3	1.1	3.0
Arista Mine Total										
	2,421,000	1.81	129	3.56	140,600	10,030,400	277,000	0.3	1.3	3.6
Mirador Mine										
Proven	59,400	0.71	352	5.49	1,400	672,600	10,500			
Probable	20,700	0.65	337	5.23	400	224,900	3,500			
Mirador Mine Total										
	80,100	0.69	348	5.43	1,800	897,500	14,000			
Oaxaca Mining Unit										
Total	2,501,100	1.77	136	3.62	142,400	10,927,900	291,000			

Notes to the 2017 P&P reserves:

1. Metal prices used for P&P reserves were \$1,222 per ounce of gold, \$16.62 per ounce of silver, \$2.50 per pound of copper, \$0.90 per pound of lead and \$1.05 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
2. Precious metal gold equivalent is 73.53:1 using gold and silver only to calculate gold equivalents.
3. A breakeven Net Smelter Return ("NSR") cutoff grade of \$80 per tonne was used for estimations of P&P reserves. The term "cutoff grade" means the lowest NSR value considered economic to process.
4. No appreciable amounts of base metals are present in the veins identified to-date at the Mirador Mine at the Alta Gracia project. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for proven and probable reserves at the Mirador Mine using gold and silver only to calculate gold equivalencies.
5. Mining, processing, energy, administrative and smelting/refining costs were based on 2017 actual costs for the Oaxaca Mining Unit.
6. Arista Mine metallurgical recovery assumptions used were 81% for gold, 92% for silver, 73% for copper, 74% for lead and 84% for zinc. Mirador Mine metallurgical recovery assumptions used were 79% for gold and 78% for silver. These recoveries reflect 2017 actual average recoveries for the Aguila and Alta Gracia projects.
7. P&P reserves are diluted and factored for expected mining recovery.
8. Minimum mining width for P&P reserves is 1.5 meters.
9. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

Mineralized Material

We use the term “mineralized material” to describe mineralization in our mineral deposits that do not constitute “reserves” under U.S. reporting requirements set forth in Guide 7.

In addition to our P&P reserves, we estimate mineralized material within the definition of Guide 7. Mineralized material does not have demonstrated economic viability. The SEC only permits issuers to report “mineralized material” in tonnage and average grade without reference to contained ounces or quantities of other metals. All of our mineralized material is located at our Oaxaca Mining Unit.

As of December 31, 2018, our estimate of mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Arista Mine	1,843,900	1.59	110	0.3	1.2	3.7
Alta Gracia Project	66,600	0.63	363			
Margaritas Project	26,000	0.51	260			
Oaxaca Mining Unit Total	1,936,500					

Notes to the 2018 mineralized material:

1. Mineralized Material is exclusive of P&P Reserves.

Table of Contents

2. Metal prices used for mineralized material were \$1,258 per ounce of gold, \$16.62 per ounce of silver, \$2.65 per pound of copper, \$0.97 per pound of lead and \$1.20 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
 3. A breakeven Net Smelter Return (“NSR”) cutoff grade of \$80 per tonne was used for estimations of mineralized material. The term “cutoff grade” means the lowest NSR value considered economic to process.
 4. No appreciable amounts of base metals are present in the veins identified to-date at the Alta Gracia project including the Mirador Mine, and the Margaritas project. A breakeven cutoff grade of 1.98 g/t gold-equivalent (AuEq) was used for mineralized material at the Alta Gracia and Margaritas projects using gold and silver only to calculate gold equivalencies at a ratio of 75.69 to 1.
 5. Arista Mine metallurgical recovery assumptions used were 80% for gold, 92% for silver, 80% for copper, 78% for lead and 83% for zinc. Alta Gracia and Margaritas projects metallurgical recovery assumptions used were 79% for gold and 78% for silver. These recoveries reflect 2018 actual average recoveries for the Aguila and Alta Gracia projects.
 6. Mineralized material is diluted and factored for expected mining recovery.
 7. Minimum mining width for mineralized material is 1.5 meters for the Arista Mine and the Alta Gracia and Margaritas projects.
 8. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.
 9. 100% of the Isabella Pearl project pit contained mineralized material was converted to reserves.
- For comparison, at December 31, 2017, our estimate of mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Arista Mine	1,685,800	1.51	104	0.3	1.7	3.7
Alta Gracia Project	47,200	0.66	258			
Margaritas Project	57,900	0.72	276			
Oaxaca Mining Unit Total	1,790,900					

Notes to the 2017 mineralized material:

1. Metal prices used for mineralized material were \$1,222 per ounce of gold, \$16.62 per ounce of silver, \$2.50 per pound of copper, \$0.90 per pound of lead and \$1.05 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
2. A breakeven Net Smelter Return (“NSR”) cutoff grade of \$80 per tonne was used for estimations of mineralized material. The term “cutoff grade” means the lowest NSR value considered economic to process.
3. No appreciable amounts of base metals are present in the veins identified to-date at the Alta Gracia project including the Alta Gracia and Margaritas projects. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for mineralized material at the Alta Gracia and Margaritas projects using gold and silver only to calculate gold equivalencies.
4. Arista Mine metallurgical recovery assumptions used were 81% for gold, 92% for silver, 73% for copper, 74% for lead and 84% for zinc. Alta Gracia and Margaritas projects metallurgical recovery assumptions used were 74% for

gold and 81% for silver. These recoveries reflect 2017 actual average recoveries for the Aguila and Alta Gracia projects.

5. Mineralized material is diluted and factored for expected mining recovery.
6. Minimum mining width for mineralized material is 1.5 meters.
7. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

Our P&P Reserve and Mineralized Material estimates were prepared by our technical staff under the direction of Fred H. Brown, Senior Resource Geologist, and Barry Devlin, Vice President of Exploration. Mr. Brown graduated with a Bachelor of Science degree in Geology from New Mexico State University in 1987, obtained a Graduate Diploma in Engineering (Mining) in 1997 from the University of the Witwatersrand and a Master of Science in Engineering (Civil) from the University of the Witwatersrand in 2005. He is registered with the Association of Professional Engineers and Geoscientists of British Columbia and as a Professional Geoscientist and the Society for Mining, Metallurgy and Exploration as a Registered Member. Mr. Devlin holds a Bachelor of Science degree with honors in Geology, 1981, and a Masters in Geology, 1987, from the University of British Columbia, Vancouver, Canada. He is also a Professional Geologist registered with the Association of Professional Engineers and Geoscientists of British Columbia.

For a description of the key assumptions, parameters and methods used to estimate Proven and Probable Reserves and Mineralized Material included in this report, as well as data verification procedures and a general discussion of the extent to which the estimates may be affected by any known environmental, permitting, legal, title, taxation, socio-political, marketing or other factors, investors may review the annual reserve report posted on our website (<http://www.goldresourcecorp.com>.)

Table of Contents

Oaxaca Mining Unit

All of the properties that make up our Oaxaca Mining Unit are located in Oaxaca, Mexico in what is known as the San Jose structural corridor, which runs north 70 degrees west. Our properties comprise 55 continuous kilometers of this structural corridor which spans three historic mining districts in Oaxaca; the map below shows the general location of our properties:

We are granted concessions from the Mexican federal government to explore and mine our properties in Mexico. We hold certain properties directly as the concession holder and lease other properties from a third party. As of December 31, 2018, our Oaxaca Mining Unit encompassed approximately 69,889 hectares (172,700 acres) covered by 25 mining concessions and 5 lease concessions. The annual concession fees are \$589,966 and we have made all necessary payments for 2018. Please see Mining Concessions and Regulations in Mexico, below.

Operating Properties

Aguila Project

Background: The Aguila project currently comprises 18 mining concessions aggregating 25,264 hectares.

In 2002, we leased the Aguila, El Aire, and La Tehuana concessions from a third party. The Aguila and El Aire concessions are part of the Aguila project and the La Tehuana concession comprises the Margaritas property. The lease agreement is subject to a 4% net smelter return royalty where production is sold in the form of gold/silver doré and 5%

Table of Contents

for production sold in concentrate form. Subject to meeting minimum exploration requirements, there is no expiration term for the lease. We may terminate it at any time upon written notice to the lessor and the lessor may terminate it if we fail to fulfill any of our obligations, which primarily consist of paying the appropriate royalty to the lessor.

In August 2003, we commenced an initial drilling and exploration program at the Aguila project. Through 2018, we have drilled a total of 935 core holes (both surface and underground) equaling 286,424 meters and 166 reverse circulation holes equaling 14,367 meters for a total of 1,101 holes totaling 300,791 meters.

In 2010, we acquired from a third party, at no additional cost, the El Chacal and El Pilon concessions, which are subject to a 2% royalty, but are not subject to the Aguila lease agreement. We filed for and received additional concessions from the Mexican government which are also not part of the concessions leased or acquired from the third party. The mineral concessions making up the Aguila project are located within the San Pedro Totolapam and San Pedro Quiatoni Ejidos.

Location and Access: The Aguila project is located in the Sierra Madre del Sur Mountains of southern Mexico in the central part of the State of Oaxaca. The property is located along a major paved highway approximately 120 kilometers southeast of Oaxaca City, the state's capital city. The property is approximately four kilometers due northwest from the village of San Jose de Gracia. We have constructed gravel and paved roads from the village to the mine and processing facility which provides adequate access to the property.

The climate of the Aguila project area is dry and warm to very warm with most rainfall occurring in June through September and annual precipitation averaging 423.7 mm. The average yearly temperature is 26.6 degrees centigrade. The area is very rocky with arid vegetation. Subsistence farming occurs and the main agricultural crop is agave cactus that is cultivated for the production of mescal.

Geology and Mineralization: The Aguila project is located in the San Jose de Gracia Mining District in Oaxaca. Multiple volcanic domes of various scales, and probably non-vented intrusive domes, dominate the district geology. These volcanogenic features are imposed on a pre-volcanic basement of sedimentary rocks. Gold and silver mineralization in this district is related to the manifestations of this classic volcanogenic system and is considered epithermal in character.

Historically, we have produced ore from two locations on the Aguila property, the Aguila open pit mine and the Arista underground mine. The Aguila open pit mineralization is considered low sulfidation, epithermal mineralization primarily of gold with some silver and no base metals. The Arista underground mine is considered intermediate epithermal mineralization of gold, silver, copper, lead, and zinc. The host rock in the Arista vein system is primarily

andesite.

Facilities: We constructed a processing facility and other infrastructure at the Aguila project for approximately \$35 million in 2009, and expanded the processing facility in 2012 and 2013, spending an additional \$23 million. The flotation mill expansion, completed at the end of 2013, increased the number of flotation cells, added a second ball mill to allow for additional processing capacity and a Knelson gravity concentrator. In 2014 we completed a doré processing facility. The Aguila processing facility is flexible in its ability to process several types of mineralization. It has a differential flotation section capable of processing polymetallic ore and producing up to three separate concentrate products for sale. The facility also has an agitated leach circuit capable of producing gold and silver doré for sale. Depending on the specific type and characteristics of the ore, the facility has processed sulfide material in its flotation circuit at well above its nominal capacity of 1,500 tonnes of ore per day. The agitated leach circuit can process a nominal 300 tonnes per day.

We obtained water rights from the Mexican government for an amount of water that we believe is sufficient to meet our operating requirements and pump it approximately five kilometers to the site from a permitted well located near the Totolapam River. Power is provided by diesel generators at the site.

Table of Contents

Additional improvements at the site include installation of a second diesel generation power plant and switch gear, paving a three-kilometer section of the road from the mine to the processing facility, construction of a new surface maintenance garage and fuel station, construction of haul roads from the mine site to the processing facility, office space at the processing facility, an assay lab, an exploration office, a tailings impoundment facility and other infrastructure.

In addition to the paste fill plant, the tailings lift, and the power grid project, major construction projects in 2018 consisted of new underground explosive magazines on the second level of the mine, a ventilation upgrade for the Switchback mining zone, and the upgrade of the diesel power generation plant.

Exploration Activities:

Our exploration activities during 2018 mainly focused on underground exploration drilling at the Arista and Switchback vein systems in the Arista Mine. The Switchback drilling program continued to target further expansion and delineation of the multiple high-grade parallel veins for reserve definition, expansion and mine plan optimization. The Switchback strike length has expanded to over 1-kilometer, a more than 375-meter expansion from the beginning of 2018, with results adding to reserve definition, expansion and Arista Mine plan optimization. The Switchback vein system remains open on strike and vertical extent.

Underground drilling during 2018 also continued to expand the new high-grade ore zone in the Arista vein system. Twenty-eight underground diamond drill holes totaling 12,287 meters were completed at the Aguila project during 2018.

Alta Gracia

Background: In August 2009, we acquired claims adjacent to the Margaritas property in the Alta Gracia Mining District by filing concessions known as the David 1, the David 2 and La Herradura, totaling 5,175 hectares.

As of December 31, 2016, proven and probable reserves had been established for the Mirador Underground Mine on our Alta Gracia property. In July 2017, mine development reached the economic ore zone of the Mirador vein and mining began.

Location and Access: The Alta Gracia project is approximately 20 kilometers northeast from the village of San Pedro Totalapam, in the Municipality of San Pedro Totolapam. Access to the project is by a gravel road that departs the paved highway approximately 13 kilometers east of the village of San Pedro Totalapam. The haulage distance by road from Alta Gracia to the Aguila processing facility is approximately 32 kilometers.

Geology and Mineralization: The sedimentary and volcanic units mapped at Alta Gracia are similar to those observed at the Aguila project. The district is dominated by Tertiary-age rhyolite flows and tuffs which are underlain by andesite flows and tuff. Granodiorite and felsic intrusives are observed to outcrop to north and east of the Mirador mine. Known vein occurrences at Alta Gracia are mainly hosted in andesite and rhyolite. The veins currently being mined at Alta Gracia are considered low sulfidation epithermal mineralization with economic values only for gold and silver.

Facilities: During 2016, we received our operating permit for the Mirador Mine. Explosive magazines, located inside the Mirador Mine at the Alicia portal, were also constructed and permitted.

In 2017, two mine portals were developed to provide access to the Mirador vein. Mine site offices and a mobile equipment maintenance shop were established adjacent to the Aguacate portal. Additionally, a diesel power generation plant, compressed air and a mine water pumping station were developed and put into service.

High grade ore from the Mirador Mine, primarily silver, is transported by contracted haul trucks to and processed at our agitated leach plant at the Aguila processing facility, with final product being doré.

Table of Contents

Exploration Activities: The 2018 Alta Gracia surface drill campaign tested several target areas focusing primarily on the Independencia and Victoria veins, located southwest of the Mirador Mine, both considered as potential expansion areas. A new, wide, high-grade silver ore shoot was discovered within the Independencia vein with significant potential to expand production at Alta Gracia. In 2018, we completed 20 surface exploration diamond drill holes totaling 4,279 meters at Alta Gracia. To-date, a total of 161 surface diamond drill holes totaling 35,900 meters have been completed at Alta Gracia. Surface and underground geological mapping and sampling along with detailed topographic surveying also continued in the historic mining areas at Alta Gracia. The new information was used for estimation of additional reserves and mineralized material and to guide follow-up drilling planned in 2019.

Please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information concerning our mining operations at the Aguila project.

Exploration Properties

Margaritas Property

The Margaritas property is made up of the La Tehuana concession. It is comprised of approximately 925 hectares located along our 55-kilometer mineralized trend and adjacent to the Aguila project

In 2018, we continued to review results from previous surface drilling, surveying, detailed geological mapping and rock chip channel sampling for the Margaritas property. Additional rock chip channel sampling of historic workings and expansion of the soil and rock geochemical program was also carried out in the Trenes mineralized zone. This program expanded upon the geochemical program conducted at Trenes during 2014 and 2015. A follow-up surface diamond drilling program is planned for Trenes in 2019. Trenes is located approximately 10-kilometers northwest of the Arista Mine along our 55-kilometer mineralized trend.

Chamizo Property

In June 2011, we staked mineral claims between the Rey property and Alta Gracia property along a trend and acquired an exploration concession from the Mexican government of approximately 26,386 hectares referred to as Chamizo. In March 2013, we acquired a property known as Cerro Colorado from Almaden Minerals, Ltd. consisting of approximately 1,860 hectares. The Cerro Colorado property is surrounded by our Chamizo concession and we include it as part of the Chamizo property. Any future production from the Cerro Colorado concession is subject to a 2% net

smelter return royalty in favor of Almaden.

Because of the close proximity of Chamizo to Alta Gracia, exploration activity began on this property during late 2011 and to date has included geochemical sampling and drilling of eight shallow core holes for a total of 1,327 meters. We completed the acceptable minimum amount of work required to maintain the claims during 2018 and target the same amount of work in 2019.

Fuego Property

In March 2013, we acquired the Fuego property from Almaden Minerals Ltd. subject to a 2% net smelter return royalty. The Fuego property consists of approximately 2,554 hectares and is located south of our Alta Gracia and Chamizo properties. In 2013, Fuego was included in the property-wide airborne geophysical survey. Geologic mapping and surface sampling were conducted on the Fuego property from 2013 through 2018 to allow us to meet the acceptable minimum amount of work required to maintain the claims. We do not anticipate any significant exploration activities at El Fuego in 2019. However, we plan to conduct the acceptable minimum amount of work required to maintain the claims.

Table of Contents

Rey Property

The Rey property consists of concessions on the far northwest end of our 55-kilometer mineralized corridor in the State of Oaxaca known as Rey, El Virrey, La Reyna and El Marquez. The Rey property consists of 2,774 hectares. We acquired the Rey concession from a third party and it is subject to a 2% net smelter return royalty payable to them on a portion of the claims. We obtained the remaining concessions by staking claims and filing for concessions with the Mexican government.

The Rey property is located approximately 64.4 kilometers by road from the Aguila project. There is no plant or equipment on the Rey property. If exploration is successful, any mining would probably require an underground mine where mineralized material could be trucked to the Aguila processing facility for processing. To date, we have drilled 48 core holes for a total of 5,273 meters at the Rey property. Early in 2012, we completed a small amount of work to finish refurbishing and extending an existing shaft on the property to permit underground exploratory drilling. We ceased work at the Rey property during 2012, following a request to obtain additional approvals from local community agencies. In 2019, we plan to continue working with the local agencies and anticipate resolving the matter, but we have no assurance that we will be able to resume our exploration activities in the near term. If the matter is resolved, we plan to conduct follow-up drilling and exploration based on the drilling done in 2007 and 2008. We do not anticipate any significant exploration activities at Rey in 2019. However, we plan to conduct the acceptable minimum amount of work required to maintain the claims.

Mining Concessions and Regulations in Mexico

Mineral rights in Mexico belong to the Mexican federal government and are administered pursuant to Article 27 of the Mexican Constitution. All of our mining concessions are exploitation concessions, which may be granted or transferred to Mexican citizens and corporations. Our leases or concessions are held by our Mexican subsidiary. Exploitation concessions have a term of 50 years and can be renewed for another 50 years. Concessions grant us the right to explore and exploit all minerals found in the ground. Maintenance of concessions requires the semi-annual payment of mining duties (due in January and July) and the performance of assessment work, on a calendar year basis, with assessment work reports required to be filed in the month of May for the preceding calendar year. The amount of mining duties and annual assessment are set by regulation, may increase over the life of the concession and include periodic adjustments for inflation.

Mexican mining law does not require payment of finder's fees to the government, except for a discovery premium in connection with national mineral reserves, concessions and claims or allotments contracted directly from the Mexican Geological Survey. None of the claims held by DDGM are under such a discovery premium regime.

Ejido Lands and Surface Right Acquisitions in Mexico

Surface lands within our Oaxaca Mining Unit are Ejido lands (agrarian cooperative lands granted by the federal government to groups of Campesinos pursuant to Article 27 of the Mexican Constitution of 1917). Prior to January 1, 1994, Ejidos could not transfer Ejido lands into private ownership. Amendments to Article 27 of the Mexican Constitution in 1994 now allow individual property ownership within Ejidos and allow Ejidos to enter into commercial ventures with individuals or entities, including foreign corporations. We have an agreement with the local San Pedro Totolapam Ejido allowing exploration and exploitation of mineralization at the Aguila project and some of our surrounding properties.

Mexican law recognizes mining as a land use generally superior to agriculture. However, the law also recognizes the rights of the Ejidos to compensation in the event mining activity interrupts or discontinues their use of the agricultural lands. Compensation is typically made in the form of a cash payment to the holder of the agricultural rights. The amount of such compensation is generally related to the perceived value of the agricultural rights as negotiated in the first instance between the Ejidos and the owner of the mineral rights. If the parties are unable to reach agreement on the amount of the compensation, the decision can be referred to the government.

Table of Contents

We have established surface rights agreements with the San Pedro Totolapam Ejido and the individuals impacted by our proposed operations which allow disturbance of the surface where necessary for our exploration activities and mining operations.

Nevada Mining Unit

In Nevada, we are the owner of four properties totaling 930 unpatented mining claims covering approximately 18,320 acres, subject to the paramount title of the United States of America, under the administration of the Bureau of Land Management (“BLM”). Under the Mining Law of 1872, which governs the location of unpatented mining claims on federal lands, the owner (locator) has the right to explore, develop, and mine minerals on unpatented mining claims without payments of production royalties to the U.S. government, subject to the surface management regulation of the BLM. Currently, annual claim maintenance fees are the only federal payments related to unpatented mining claims. Annual maintenance fees of \$155,720 were paid during 2018.

In addition to the unpatented claims, we also own 17 patented mining claims covering approximately 274 acres and an additional 200 acres of fee lands in Mineral County, Nevada. The patented claims and fee lands are subject to payment of annual property taxes made to the county where they are located. Annual property taxes on our patented claims and fee lands have been paid through June 30, 2019.

Our properties in Nevada are located in the Walker Lane Mineral Belt which is known for its significant and high-grade gold and silver production. Activities at our properties in Nevada range from exploration at East Camp Douglas and County Line to mineral delineation phase at Mina Gold to development at Isabella Pearl. We believe that our Nevada properties have excellent potential for additional discoveries of both bulk tonnage replacement-type and bonanza-grade vein-type gold deposits, similar to other gold deposits historically mined in the Paradise Peak, Borealis, Bodie, Tonopah, and Goldfield districts.

Our primary focus is to discover, delineate and advance potential open pit heap leach gold operations at our Nevada Mining Unit and commence production as soon as possible. We believe that our Nevada properties are highly prospective based on their geology, surface samples, drill results, and close proximity to past and current high-grade gold and silver producing mines. We also target equipment sharing synergies whereby we may move equipment from one

Table of Contents

project to the next due to their close proximity (approximately 20 miles or less) to each other. The map below shows the general location of our properties within Nevada:

27

Table of Contents

Exploration Properties

Mina Gold

In August of 2016, we purchased 100% interest in the Mina Gold property located in Nevada's Walker Lane Mineral Belt. The property has the potential to be a future open pit heap leach gold operation. Mina Gold reported a historic third-party estimate of mineralized material totaling 1,606,000 tonnes grading 1.88 g/t gold. The property covers an area of approximately 825 acres consisting of 43 unpatented claims and 5 patented claims. During 2018, we completed an 11-hole reverse circulation drilling program totaling 885 meters on the Mina Gold property. This drilling targeted expansion along strike and to depth known surface high-grade gold mineralization on our patented claims. In 2019, we will review results from previous surface drilling to guide follow-up drilling planned and other exploration activities for Mina Gold.

East Camp Douglas

In January 2017, we purchased 100% interest in the East Camp Douglas gold property located in Nevada's Walker Lane Mineral Belt. The property covers an area of approximately 5,300 acres consisting of 277 unpatented claims, 12 patented claims and additional fee lands in Mineral County, Nevada. Precious metal epithermal mineralization at East Camp Douglas occurs as both widespread high sulfidation alteration areas and low sulfidation veins. Modern exploration by several mining and exploration companies has established modest gold resource potential in five separate areas on the property, with over 3,000 meters of drill core and a large exploration database. We believe this large property has numerous untested gold targets with open pit heap leach potential warranting an extensive exploration program. During 2018, we continued to review historical geological, exploration and mining data on the East Camp Douglas property. Additional exploration activities included examinations and surveying of the historic mine workings and drill collars in the historic Cerro Duro mining area together with surface geological and alteration mapping. In 2019, we plan to evaluate the resource potential of the historic Cerro Duro mining area using extensive historical drilling and sample data available as well as identifying targets for our first drilling program on the gold-bearing silicified volcanic rocks further to the south in the area we call the "lithocap".

County Line

In March 2018, we purchased 100% interest in the County Line property. The property is located close to our other Nevada properties in central Nevada's Walker Lane Mineral Belt in Mineral and Nye counties. In addition, we staked

additional unpatented claims around the property to strengthen the land position and exploration potential. The total land package is 2,320 acres consisting of 116 unpatented lode mining claims and 6 unpatented placer mining claims. During 2018, we reviewed historical geological, exploration and mining data along with conducting surface mapping and rock chip sampling at County Line in preparation for a future initial surface drilling program.

Development Property

Isabella Pearl

Background: In August 2016, we purchased 100% interest in the Isabella Pearl project which covers an area of approximately 9,000 acres consisting of 494 unpatented claims. After acquiring Isabella Pearl, we drilled several holes in the deposit for further mineral delineation and additional metallurgical testing. This included 4 holes totaling 735 meters of core drilling and 82 meters in 6 holes of reverse circulation drilling. We also drilled a 400-meter deep water well to supply the project's future water needs for gold production. In April 2018, we released our maiden Proven and Probable mineral reserve for the Isabella Pearl project totaling 192,600 gold ounces at an average grade of 2.22 g/t. We are targeting the production of gold doré from an open pit heap leach operation and we expect gold recoveries of approximately 81% for crushed ore and 60% for the run-of-mine ("ROM") ore. Our goal is to advance the project into production in mid-2019, subject to construction timing.

28

Table of Contents

Location and Access: The Isabella Pearl project is located in the Gabbs Valley Range in Mineral County, approximately 240 kilometers (150 miles) southeast of Reno, Nevada. Access to the project is by a paved road approximately 10-kilometer (6 miles) north of the town of Luning, Nevada. The project has good connections to the infrastructure of west-central Nevada, with access roads to the project site linking to Nevada state route 361 and U.S. Route 95, the main highway between Reno and Las Vegas.

Geology and Mineralization: The Isabella Pearl project is located in the central portion of the Walker Lane Mineral Belt, a major northwest-trending zone on the western border of Nevada characterized by a series of closely spaced dextral strike-slip faults that were active throughout much of the middle to late Cenozoic. Volcanic rocks of middle Tertiary age cover much of the property and include intermediate lava flows and ignimbrite ash-flow sheets. The volcanic rocks unconformably overlie Mesozoic strata including Triassic and Jurassic sedimentary units and Cretaceous and Jurassic igneous units. Within the regional Walker Lane tectonic setting, several major fault zones trend through the property and are dominated by various splays and offset branches that host the gold mineralization in the area.

The gold-silver mineralized zones mainly include the Isabella, Pearl, and Civit Cat deposits, collectively referred to as the Isabella Pearl deposit. Alteration and mineral assemblages at Isabella Pearl, including widespread argillic alteration and generally abundant alunite, indicate the deposits belong to the high-sulfidation class of epithermal mineral deposits. Potassium-Argon age determinations indicate the mineralization is about 19 Ma, some 7 to 10 million years younger than the age of the host rocks. This early Miocene age conforms to the age of other high-sulfidation epithermal precious-metal deposits in the Walker Lane (e.g., Goldfield and Paradise Peak).

Facilities: We were granted a positive Record of Decision (“ROD”) from the BLM on the Environmental Assessment (“EA”) for the Isabella Pearl project in May 2018. This final permit, along with approval from the Company’s Board of Directors, allowed us to move the project forward into development and construction. Construction progress in 2018 included the completion of haul roads, office and laboratory buildings, construction of and liner placement on the heap leach pad, the pregnant and barren solution ponds, and connection of the water well. We began installation of the ADR processing facility during the fourth quarter of 2018 with completion expected in 2019. Additionally, during the fourth quarter of 2018, we installed our crushing facility and commenced mining and waste removal of the first several benches of the open pit mine.

Exploration Activities: In 2018, we completed a 36-hole, 3,005-meter reverse circulation drilling program targeted to explore and expand mineral reserves at the Isabella Pearl project. Surface geological and alteration mapping and rock chip surface sampling continued on the new high-grade gold area located on the northeast side of the Isabella Pearl deposit as well as a target to the northwest. These areas are targeted for surface drilling in the future.

2019 Exploration

In 2019, we anticipate spending approximately \$5 million for exploration activities for both the Oaxaca and Nevada Mining Units. Exploration expenditures may be modified depending on exploration results, metal market conditions and available capital.

Office Facilities

We constructed an administrative office building adjacent to the Aguila processing facility and a mine office adjacent to the Arista Mine portal as part of the Aguila project. We also lease office space in Oaxaca City, Oaxaca consisting of approximately 3,000 square feet. The lease commenced in 2012 and continues for ten years. In 2014, we sold the building that serves as our executive and administrative headquarters in Colorado Springs, Colorado and have leased back a portion under a renewable one-year lease. We also lease an office in Denver, Colorado consisting of approximately 2,500 square feet, which we renewed through February 2022.

Table of Contents

Glossary

The following terms used in this report shall have the following meanings:

ADR	An absorption, desorption and refining (“ADR”) facility which recovers gold from the leached pregnant solution.
Andesite:	An extrusive igneous, volcanic rock, of intermediate composition, with aphanitic to porphyritic texture characteristic of subduction zones, such as the western margin of South America.
Concentrate:	A product from a mineral processing facility such as gravity separation or flotation in which the valuable constituents have been upgraded and unwanted gangue materials rejected as waste.
Doré:	Composite gold and silver bullion usually consisting of approximately 90% precious metals that will be further refined to separate pure metals.
Drift:	A horizontal tunnel generally driven within or alongside an orebody and aligned parallel to the long dimension of the ore.
Epithermal:	Used to describe gold deposits found on or just below the surface close to vents or volcanoes, formed at low temperature and pressure.
Exploration:	Prospecting, sampling, mapping, diamond-drilling and other work involved in locating the presence of economic deposits and establishing their nature, shape and grade.
Grade:	The concentration of an element of interest expressed as relative mass units (percentage, ounces per ton, grams per tonne (“g/t”), etc.).
Hectare:	Another metric unit of measurement, for surface area. One hectare equals 1/200th of a square kilometer, 10,000 square meters, or 2.47 acres. A hectare is approximately the size of a soccer field.
Long-hole Stoping:	Mining method which uses holes drilled by a production drill to a predetermined pattern by a mining engineer. Long-hole stoping is a highly selective and productive method of mining and can cater for varying ore thicknesses and dips (0 - 90 degree). Blasted rock is designed to fall into a supported drawpoint or removed with remote control LHD (load, haul, dump machine).
Heap Leaching:	Consists of stacking crushed or run-of-mine ore on impermeable pads, where a weak cyanide solution is applied to the surface of the heap to dissolve the gold. The gold-bearing solution is then collected

and pumped to process facilities to remove the gold by collection on carbon.

Mineralized Material: Minerals or any mass of host rock in which minerals of potential commercial value occur.

30

Table of Contents

Net Smelter Return The net revenue that the owner of a mining property receives from the sale of the mine's metal products less transportation and refining costs. As a royalty it refers to the fraction of net smelter return that a mine operator is obligated to pay the owner of the royalty agreement.

("NSR"):

Mineral Deposit: Rocks that contain economic amounts of minerals in them and that are expected to be profitably mined.

Patented Claim: A mining claim for which the U.S. Federal Government has passed its title to the claimant, making it private land. A person may mine and remove minerals from a mining claim without a mineral patent. However, a mineral patent gives the owner exclusive title to the locatable minerals and in most cases, grants title to the surface.

Tonne: A metric ton. One tonne equals 1000 kg. It is equal to approximately 2,204.62 pounds.

Unpatented Claim: A particular parcel of U.S. Federal land, valuable or believed to be valuable for a specific mineral deposit or deposits. It is a parcel for which an individual has asserted a right of possession. The right is restricted to the extraction and development of a mineral deposit.

Volcanogenic: Of volcanic origin.

Volcanic domes: These are mounds that form when viscous lava is erupted slowly and piles up over the vent, rather than moving away as lava flow. The sides of most domes are very steep and typically are mantled with unstable rock debris formed during or shortly after dome emplacement. Most domes are composed of silica-rich lava which may contain enough pressurized gas to cause explosions during dome extrusion.

ITEM 3. LEGAL PROCEEDINGS

Not applicable. There were no legal proceedings at December 31, 2018.

ITEM 4. MINE SAFETY DISCLOSURES

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

31

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

Our common stock trades on the New York Stock Exchange American (“NYSE American”) under the symbol “GORO”.

On February 25, 2019, the high and low market prices of our common stock on the NYSE American were \$5.08 and \$4.84 respectively, and we had approximately 200 holders of record.

Securities Authorized for Issuance Under Equity Compensation Plans

On April 14, 2016, our Board of Directors approved the Gold Resource Corporation 2016 Equity Incentive Plan (the “Plan”). The Plan was approved to, among other things, (i) supersede the Gold Resource Corporation Amended and Restated Non-Qualified Stock Option and Stock Grant Plan and (ii) provide for the grant of options, stock appreciation rights, restricted stock, restricted stock units, stock grants, stock units, performance shares, performance share units, and performance cash. These actions were approved by the shareholders of the Company on June 15, 2016.

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2018:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
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Equity compensation plans approved by security holders:	5,482,589	\$ 7.87	3,716,165
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Purchases of Equity Securities by the Company

In September 2011, our Board of Directors authorized a share repurchase of up to \$20.0 million with no pre-established end date. During 2018 and 2017, we did not repurchase any shares of Gold Resource Corporation common stock on the open market, and approximately \$14.0 million remains available in the share repurchase program as of December 31, 2018.

Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference in such filing.

Table of Contents

The following graph compares the performance of our common stock with the performance of the NYSE American Composite Index and the S&P TSX Global Gold Fund, assuming reinvestment of dividends on December 31 of each year indicated. The graph assumes \$100 invested at the per share closing price in Gold Resource Corporation and each of the indices on December 31, 2013.

Transfer Agent

Computershare Investor Services, Inc. is the transfer agent for our common stock. The principal office of Computershare is located at 8742 Lucent Boulevard, Suite 225, Highlands Ranch, Colorado 80129 and its telephone number is (303) 262-0600.

Dividend Policy

Since our inception, one of management's primary goals has been to make cash dividend distributions to shareholders. Since commercial production began at the Aguila project in July 2010, we have returned over \$111 million to our shareholders in consecutive monthly dividends. Regular dividends should not be considered a prediction or guarantee of future dividends.

Our monthly dividend is one-sixth cent per share per month or \$0.02 per share per year. The instituted dividend may be modified or discontinued at any time and the declaration of any special dividend is determined at the discretion of our Board of Directors, depending on variables such as, but not limited to, operating cash flow, mine construction requirements and strategies, other construction projects, spot gold and silver prices, taxation, government royalties and

Table of Contents

general market conditions. At the present time, we are not a party to any agreement that would limit our ability to pay dividends.

Physical Dividend Program

In 2012, we launched a physical dividend program pursuant to which our shareholders have the option to convert the cash dividends that we pay into physical gold and silver bullion. As part of our overall strategy to diversify our treasury and to facilitate this program, we may periodically purchase gold and silver bullion. In order for a shareholder to convert their cash dividend into physical gold and/or silver, the shareholder must opt-in to the physical dividend program and request the conversion of their cash dividend, or portion thereof, into physical gold and/or silver. For those shareholders who elect to convert their cash dividend into gold and/or silver bullion, the gold and silver will be delivered in the form of gold or silver Gold Resource Corporation one-ounce bullion rounds. No action is required by any shareholder who elects not to participate in the physical metals program. For those shareholders who wish to convert any portion of their cash dividend into gold and/or silver bullion, the process is summarized as follows:

- Shareholders must register and hold their Gold Resource Corporation common shares in their name directly with our transfer agent, Computershare Investor Services, and not through a brokerage house or other intermediary held in a “street name”. This is a requirement so that we can locate and validate the shareholder’s position in our common stock.
- Shareholders must set up an individual account with Gold Bullion International (“GBI”), 1325 Avenue of the Americas, 7th Floor, Suite 0703-2, New York, NY 10019. GBI facilitates the cash to gold and silver conversion.
- Shareholders then direct their cash dividend check issued by Computershare to be electronically deposited to the shareholder’s GBI account for the option to have it, or any portion thereof that denominates into a one-ounce gold or silver bullion round. The election to convert all or any portion of the shareholder’s cash dividend into bullion is governed by an agreement between the shareholder and GBI.
- Shareholders with accounts at GBI who wish to change their current gold, silver or cash allocations for their cash dividend must do so by midnight Eastern Time on the date preceding the monthly dividend record date. We issue a press release with details of each dividend declaration, and the dividend record and payment dates.
- On the dividend record date, the number of bullion ounces to be converted and distributed to the shareholder’s individual account on the dividend payment date is calculated as the dollar value of that portion of the cash dividend the shareholder elected to convert to bullion, divided by the London Bullion Market PM gold fix plus gold bullion minting cost factors on the record date or the London Bullion Market silver fix plus silver bullion minting cost factors on the record date.

Only whole ounces of gold and silver bullion are credited to a shareholder’s individual account on the dividend payment date. The cash value attributable to fractional ounces will remain in the shareholder’s individual account as cash until such time as future dividends provide the shareholder with sufficient cash to convert to whole ounces of gold or silver based on the London PM gold fix and silver fix on a future dividend record date, and based on the shareholder’s self-directed gold, silver or cash allocations in effect at that time. The shareholder may also choose to move their cash out of their GBI account. Shareholders cannot move cash into their GBI account for conversion into gold and silver. Only the shareholder’s cash dividend sent from Computershare is eligible for conversion.

We encourage shareholders who have questions concerning the physical dividend program to contact our investor relations department at (303) 320-7708.

34

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data sets forth our summary historical financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014. This information was derived from our audited consolidated financial statements for each year. Our selected historical financial data is qualified in its entirety by, and should be read in conjunction with, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the notes thereto included elsewhere in this report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
Sales, net	\$ 115,308	\$ 110,156	\$ 83,227	\$ 92,701	\$ 115,405
Mine gross profit	33,690	42,115	22,433	30,323	50,871
Net income	9,288	4,150	4,387	3,062	15,036
Net income per common share:					
Basic and diluted	0.16	0.07	0.08	0.06	0.28
Cash dividends declared	0.02	0.02	0.03	0.11	0.12
	As of December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Total Assets	\$ 150,331	\$ 132,923	\$ 118,443	\$ 106,499	\$ 105,983
Long-term obligations	5,507	5,809	2,425	2,815	3,827

Please see the consolidated financial statements included in this Form 10-K under Item 8 for additional information.

Table of Contents

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

Except for the historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. Our actual future results or actions may differ materially from these forward-looking statements for many reasons, including but not limited to the risks described in "Risk Factors" and elsewhere in this annual report and other reports filed by us with the SEC. Our discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and related notes included in this report and with the understanding that our actual future results may be materially different from what we currently expect.

Introduction

The following discussion summarizes our results of operations for three fiscal years ended December 31, 2018, 2017 and 2016 and our financial condition at December 31, 2018 and 2017, with a particular emphasis on the year ended December 31, 2018.

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, please see the discussion under Non-GAAP Measures.

In our financial statements, we report the sale of precious and base metals as revenue and we periodically review our revenue streams to ensure that this treatment remains appropriate. We consider precious metals to be the long-term primary driver of our economic decisions and believe that base metals are secondary products.

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 realized price ratio for the period.

Highlights for the year ended December 31, 2018 are summarized below and discussed further in our Management's Discussion and Analysis.

Highlights

- Achieved eighth consecutive year of profitability;
- Achieved 2018 gold production guidance range with 26,838 ounces;
- Achieved 2018 silver production guidance range with 1.67 million ounces;
- \$115.3 million net sales, an increase of 5%;
- \$9.3 million net income or \$0.16 per share;
- \$84 total cash costs (after by-product credits) per precious metal gold equivalent ounce sold;
- \$655 total all-in sustaining cost per precious metal gold equivalent ounce sold;
- Obtained necessary permits to construct and operate Isabella Pearl project;
- \$15.4 million of internally generated cash flow deployed to build the Isabella Pearl project;
- \$15 million recent equity raise to fund Isabella Pearl project completion, of which \$4.3 million was in 2018;
- Working capital of \$13.5 million;
- Commenced Isabella Pearl construction and completed heap leach pad;
- Commenced Isabella Pearl mining, crushing, and ore placement on the heap leach pad;
- \$1.1 million distributed in shareholder dividends, totaling over \$111 million since 2010.

Table of Contents

Overview

We are a mining company which pursues gold and silver projects that are expected to achieve both low operating costs and high returns on capital. We have two mining units, the Oaxaca Mining Unit located in Oaxaca, Mexico and the Nevada Mining Unit located in Nevada, USA. Our Oaxaca Mining Unit consists of six properties and includes mineral production primarily from the Arista underground mine and to a lesser extent the Aguila Open Pit mine, both of which are located at the Aguila project. We also produce from the Mirador underground mine at the Alta Gracia project. All three mines supply ore to our processing facilities located at the Aguila project. We produce doré, and metal concentrates which contain precious metals of gold and silver and base metals of copper, lead and zinc. Our Nevada Mining Unit consists of four properties and includes the Isabella Pearl project which is currently in construction and targeting production in mid-2019. The Isabella Pearl project mineralization is predominantly gold with some silver. We plan to produce doré from this project.

Results of Operations—Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Oaxaca Mining Unit

Sales, net

Metal sales of \$115.3 million for the year ended December 31, 2018 increased by \$5.1 million, or 5% when compared to the same period in 2017. The increase in our 2018 sales is primarily attributable to an increase in base metal sales volumes. Base metal sales volume in 2018 increased over 2017 volumes as follows: copper by 43%, lead by 37%, and zinc by 23%. The increase in base metal sales volumes was partially offset by the declining silver, lead, and zinc prices and lower gold and silver volumes in 2018. For the year ended December 31, 2018, average realized prices for silver, lead, and zinc decreased from the same period in 2017 as follows: silver by 8%, lead by 11%, and zinc by 7%.

During 2018, we sold 22,886 gold ounces and 1,529,951 silver ounces at a total cash cost per precious metal gold equivalent ounce after by-product credits, of \$84. During the three months ended December 31, 2018, we sold 6,142 gold ounces and 285,859 silver ounces at a total cash cost per gold equivalent ounce after by-product credits, of \$42. Please see Non-GAAP Measures below for additional information concerning the cash cost per ounce measures.

Production

Our 2018 full year production of 26,838 gold ounces and 1,672,034 silver ounces achieved our targeted ranges for the year. Our 2018 production outlook was 27,000 gold ounces and 1,700,000 silver ounces plus or minus 10%.

On a precious metal gold equivalent basis, our mill production totaled 11,705 ounces and 47,622 ounces for the fourth quarter and year ended December 31, 2018, respectively. Please see the Production and Sales Statistics tables below for additional information regarding our mineral production statistics.

For the year ended December 31, 2018, gold and silver production of 26,838 ounces and 1,672,034 ounces decreased 5% and 6%, respectively, from the same period in 2017. The decrease in production of gold and silver was the result of lower grades from our Arista Mine as a function of the particular areas being mined during the year.

During 2018, the Arista Mine accounted for 92% of the production tonnage followed by the Aguila open pit and Mirador Mine with 6% and 2%, respectively. Looking forward into 2019, we plan to increase production stoping of the Switchback vein system, continue mining at a lesser rate in the Arista vein system, increase production at the Mirador Mine, and to a lesser extent the Aguila open pit.

For the three months ended December 31, 2018, production totaled 7,974 ounces of gold and 330,605 ounces of silver, a decrease of 13% and 40%, respectively, from the same period in 2017 as a result of expected lower grades at the

Table of Contents

lower levels of our Switchback vein system. The grades of gold and silver in the fourth quarter of 2018 as compared to 2017 decreased 36% and 59%, respectively, due to a high-grade mining area in 2017 which accounted for 70% of the gold and silver production in the fourth quarter of 2017. The lower precious metal production was partially offset by the historically high average milled tonnage of 1,885 tonnes per day or 36% increase when compared to the same period in 2017. The additional mill throughput resulted from mining efficiencies gained by producing from multiple work faces of the Arista and Switchback vein systems.

Gold and silver ore grades vary depending on the areas of the Arista Mine being worked at any given time. We have seen an expected decrease of precious metal grades and an increase in base metal grades as we mined deeper in the deposit over the last 8 years. The fluctuation in grades with depth is a function of the metal gradation in the epithermal vein system. Higher precious metal and lower base metal grades are present in the upper part of an epithermal system and the reverse, higher base metal and lower precious metal grades, in the lower part of an epithermal system. During 2018, we drifted 500 meters from deep in the Arista vein system over to the lowest known mineralized area of the Switchback vein system. As we increase mining operations in this particular area of the Switchback vein system, we are currently in an area and at a depth with high base metal grades and lower precious metal grades. We intend to mine on strike, and more importantly, upward at Switchback and expect an increase in precious metal grades and decrease in base metal grades over the coming years. This is not only evidenced by our drill results in the upper levels of the Switchback vein system but our experience with the gradation at the Arista vein system having mined down on it for over 8 years now. We expect lower precious metal and higher base metal grades in 2019 as a function of where we are currently mining. Over the coming years, as we focus more on the Switchback vein system as our primary source of ore in the Arista mine, we expect the trend in metal grades to reverse as we mine upward at Switchback into higher precious metal areas and lower base metal areas. During 2018, both the Arista and Switchback high-grade veins were expanded with our exploration drilling.

During the three and twelve months ended December 31, 2018, we processed ore through the flotation circuit at a rate of 1,885 and 1,764 ore tonnes per day, respectively, compared to 1,385 and 1,306 ore tonnes per day for the same periods in 2017. The agitated leach plant was commissioned in the fourth quarter of 2017 reaching the initial stated goal of 150 dry metric tonnes throughput per day. We had targeted 100 tonnes per day from the Mirador Mine in 2018 but operational challenges, including bad ground and additional development, limited average monthly mill production to just over 1,250 tonnes per month from the Mirador Mine. We are targeting approximately 100 tonnes per day from the Mirador Mine in 2019, including developing into and mining from new areas where drilling has indicated higher silver grades. Achieving this processing rate in the future is dependent upon our ability to develop the mine to a point where ore extraction can consistently achieve target capacity while meeting grade and dilution parameters.

Table of Contents

Production and Sales Statistics

The following Production Statistics table summarizes certain information about our Oaxaca Mining Unit operations for the periods indicated:

	Three months ended		Year ended December 31,	
	December 31, 2018	2017	2018	2017
Arista Mine				
Milled				
Tonnes Milled	149,494	117,490	560,191	400,748
Grade				
Average Gold Grade (g/t)	1.82	2.86	1.69	2.40
Average Silver Grade (g/t)	65	157	95	145
Average Copper Grade (%)	0.35	0.39	0.37	0.38
Average Lead Grade (%)	1.72	2.03	1.66	1.75
Average Zinc Grade (%)	4.45	4.95	4.29	4.85
Aguila Open Pit Mine				
Milled				
Tonnes Milled	10,705	-	36,435	42,079
Grade				
Average Gold Grade (g/t)	2.02	-	2.08	1.52
Average Silver Grade (g/t)	38	-	41	34
Mirador Mine				
Milled				
Tonnes Milled	3,800	3,019	15,044	6,350
Grade				
Average Gold Grade (g/t)	1.52	1.36	1.43	1.22
Average Silver Grade (g/t)	222	126	174	113
Combined				
Tonnes milled	163,999	120,509	611,670	449,177
Tonnes Milled per Day (1)	1,885	1,385	1,764	1,306
Metal production (before payable metal deductions) (2)				
Gold (ozs.)	7,974	9,209	26,838	28,117
Silver (ozs.)	330,605	555,550	1,672,034	1,773,263
Copper (tonnes)	446	337	1,652	1,141
Lead (tonnes)	2,006	1,782	7,280	5,365
Zinc (tonnes)	5,572	4,854	19,808	16,301
Precious metal gold equivalent ounces produced (mill production) (2)				
Gold Ounces	7,974	9,209	26,838	28,117
Gold Equivalent Ounces from Silver	3,731	7,210	20,784	23,933

Total Precious Metal Gold Equivalent Ounces	11,705	16,419	47,622	52,050
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- (1) Based on actual days the mill operated during the period.
- (2) The difference between what we report as "ounces/tonnes produced" and "payable ounces/tonnes sold" is attributable to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually paid for by our customers according to the terms of our sales contracts. Differences can also arise from inventory changes incidental to shipping schedules, or variances in ore grades which impact the amount of metals contained in concentrates produced and sold.

Table of Contents

The following Sales Statistics table summarizes certain information about our combined Oaxaca Mining Unit operations for the periods indicated:

	Three months ended		Year ended December 31,	
	December 31, 2018	2017	2018	2017
Metal sold				
Gold (ozs.)	6,142	7,700	22,886	25,221
Silver (ozs.)	285,859	508,133	1,529,951	1,630,003
Copper (tonnes)	420	297	1,521	1,066
Lead (tonnes)	1,892	1,633	6,754	4,932
Zinc (tonnes)	4,596	3,607	16,123	13,059
Average metal prices realized (1)				
Gold (\$ per oz.)	1,214	1,279	1,259	1,267
Silver (\$ per oz.)	13.70	16.60	15.65	17.10
Copper (\$ per tonne)	5,871	7,164	6,345	6,354
Lead (\$ per tonne)	1,741	2,531	2,119	2,371
Zinc (\$ per tonne)	2,448	3,524	2,770	2,993
Precious metal gold equivalent ounces sold				
Gold Ounces	6,142	7,700	22,886	25,221
Gold Equivalent Ounces from Silver	3,226	6,594	19,018	22,003
Total Precious Metal Gold Equivalent Ounces	9,368	14,294	41,904	47,224
Total cash cost before by-product credits per precious metal gold equivalent ounce sold (2)	\$ 1,858	\$ 1,157	\$ 1,722	\$ 1,294
Total cash cost after by-product credits per precious metal gold equivalent ounce sold (2) (3)	\$ 42	\$ (170)	\$ 84	\$ 75
Total all-in sustaining cost per precious metal gold equivalent ounce sold (2)	\$ 426	\$ 253	\$ 655	\$ 590

- (1) Average metal prices realized vary from the market metal prices due to final 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.
- (2) For a reconciliation of this non-GAAP measure to total mine cost of sales, which is the most comparable U.S. GAAP measure, please see Non-GAAP Measures.
- (3) Total cash cost after by-product credits are significantly affected by base metals sales during the periods presented.

Nevada Mining Unit

Isabella Pearl Project

During the fourth quarter of 2018, we began mining, crushing, and placing overliner ore as well as ROM material on the leach pad.

2019 Production Targets

Precious metal production targets for 2019 at our Oaxaca Mining Unit include 27,000 gold ounces, and 1,700,000 silver ounces, with a plus or minus range of 10% of each metal. In addition, significant base metal production of copper, lead, and zinc is expected.

While we target gold production from our Nevada Mining Unit mid-2019, we have not yet provided a 2019 production outlook due to uncertainty in mine commissioning, optimization and ramp up. Our first 12 months of Isabella Pearl production is targeted to be approximately 29,000 gold ounces, with a plus or minus range of 10%.

Consolidated Results of Operations

Mine gross profit. For the year ended December 31, 2018, mine gross profit and mine gross profit percent totaled \$33.7 million and 29% compared to \$42.1 million and 38% for the same period in 2017. The decrease in mine gross profit and mine gross profit percent during 2018 primarily resulted from lower precious metal sales volumes, lower metal prices, and an increase in production costs due to higher throughput in 2018 as compared to 2017.

Table of Contents

General and administrative expenses. For the year ended December 31, 2018, general and administrative expenses totaled \$9.3 million, compared to \$8.1 million for the same period of 2017. The \$1.2 million increase in 2018, compared to 2017 is primarily due to increased legal fees and stock based compensation.

Exploration expenses. For the year ended December 31, 2018, property exploration expenses totaled \$4.7 million as compared to \$4.3 million for the same period of 2017. The increase of \$0.4 million was the result of increased drilling at our Aguila project in Mexico and Gold Mesa property in Nevada.

Other expense (income), net. For the year ended December 31, 2018, we recorded other expense of \$3.1 million compared to other expense of \$1.2 million during the same period of 2017. The \$1.9 million increase in 2018 compared to the same period in 2017 was due to the allowance for doubtful accounts receivable resulting from the bankruptcy filing of one of our customers, our mark-to-market losses on our gold and silver bullion/rounds due to the declining prices in 2018, and exchange rate fluctuation between the U.S. Dollar and Mexican Peso. Please see Note 17 to the Consolidated Financial Statements for additional information.

Provision for income taxes. For the year ended December 31, 2018, income tax expense decreased to \$7.3 million from \$24.3 million from the same period in 2017. The decrease in tax expense is mostly due to the U.S. Tax Act which resulted in higher non-cash tax expenses, tax rate reduction from 35% to 21%, and a one-time tax on foreign unremitted earning in 2017. Additionally, significantly lower changes in deferred tax assets and a decrease in pre-tax income in 2018 contributed to the decrease in tax expense from 2017. Please see Note 5 in Item 8. Financial Statements and Supplementary Data for additional information.

Results of Operations – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Mine gross profit. For the year ended December 31, 2017, mine gross profit and mine gross profit percent totaled \$42.1 million and 38% compared to \$22.4 million and 27% for the same period in 2016. The increase in mine gross profit and mine gross profit percent during 2017 was primarily driven by higher sales volumes, lower treatment and refining costs, and higher base metal prices during 2017 as compared to 2016.

General and administrative expenses. For the year ended December 31, 2017, general and administrative expenses totaled \$8.1 million, compared to \$9.5 million for the same period of 2016. The \$1.4 million decrease in 2017, compared to 2016 is primarily due to decreased IT support fees and employee compensation expenses.

Exploration expenses. For the year ended December 31, 2017, property exploration expenses totaled \$4.3 million which is consistent with exploration expense of \$4.3 million for the same period of 2016.

Other expense (income), net. For the year ended December 31, 2017, we recorded other expense of \$1.2 million compared to other income of \$0.6 million during the same period of 2016. The \$1.8 million change in 2017 compared to the same period in 2016 was due to foreign currency losses in 2017 as a result of the Mexican Peso strengthening against the US dollar during the year. Also contributing to the change was one-time income from insurance reimbursements and from the sale of investments in 2016. No such items occurred in 2017.

Provision for income taxes. For the year ended December 31, 2017, income tax expense increased to \$24.3 million from \$4.8 million for the same period in 2016. The increase in taxes is mostly due to significant changes to U.S. tax legislation which did not result in any cash payments and the Company does not expect any future cash implication. Additionally, increases in pre-tax income, utilization of foreign tax credits, and Mexico fixed assets indexation also contributed to the increase in tax expense. Please see Note 5 in Item 8. Financial Statements and Supplementary Data for additional information.

Table of Contents

Non-GAAP Measures

Throughout this report, we have provided information prepared or calculated according to U.S. GAAP and have referenced some non-GAAP performance measures which we believe will assist with understanding the performance of our business. These measures are based on precious metal gold equivalent ounces sold and include cash cost before by-product credits per ounce, total cash cost/credit after by-product credits per ounce, and total all-in sustaining cost per ounce (“AISC”). 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 should not be considered in isolation, or as a substitute for, measures of performance prepared in accordance with U.S. GAAP. These non-GAAP measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP.

For financial reporting purposes, we report the sale of base metals as part of our revenue. Revenue generated from the sale of base metals in our concentrates is considered a by-product of our gold and silver production for the purpose of our total cash cost/credit after by-product credits. We periodically review our revenues to ensure that our reporting of primary products and by-products is appropriate. Because we consider copper, lead and zinc to be by-products of our precious metal production, the value of these metals continues to be applied as a reduction to total cash costs in our calculation of total cash cost/credit after by-product credits per precious metal gold equivalent ounce sold. Likewise, we believe the identification of copper, lead and zinc as by-product credits is appropriate because of their lower individual economic value compared to gold and silver and due to the fact that gold and silver are the primary products we intend to produce. In addition, we do not receive sufficient revenue from any single by-product base metal to warrant classification of such as a co-product.

Total cash cost/credit, after by-product credits, is a measure developed by the Gold Institute in an effort to provide a uniform standard for comparison purposes. The guidance was first issued in 1996 and revised in November 1999. AISC is calculated based on guidance from the World Gold Council issued in June 2013.

Total cash cost before by-product credits includes all direct and indirect production costs related to our production of metals (including mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and site general and administrative costs) less stock-based compensation allocated to production costs plus treatment and refining costs.

Total cash cost/credit after by-product credits includes total cash cost before by-product credits less by-product credits, or revenues earned from base metals.

AISC includes total cash cost/credit after by-product credits plus other costs related to sustaining production, including sustaining allocated general and administrative expenses and sustaining capital expenditures. We determined sustaining capital expenditures as those capital expenditures that are necessary to maintain current production and execute the current mine plan.

Cash cost before by-product credits per ounce, total cash cost/credit after by-product credits per ounce and AISC are calculated by dividing the relevant costs, as determined using the cost elements noted above, by precious metal gold equivalent ounces sold for the periods presented.

Table of Contents

Reconciliations to U.S. GAAP

The following table provides a reconciliation of total cash cost/credit after by-product credits to total mine cost of sales (a U.S. GAAP measure) as presented in the Consolidated Statements of Operations:

	Three months ended		Year ended	
	December 31, 2018	2017	December 31, 2018	2017
	(in thousands)			
Total cash cost (credit) after by-product credits	\$ 400	\$ (2,440)	\$ 3,540	\$ 3,545
Treatment and refining charges	(1,243)	(2,763)	(5,565)	(7,760)
By-product credits	17,009	18,972	68,625	57,552
Depreciation and amortization	4,029	4,283	14,616	14,554
Reclamation and remediation	(49)	(50)	330	51
Share-based compensation allocated to production costs	29	33	72	99
Total mine cost of sales	\$ 20,175	\$ 18,035	\$ 81,618	\$ 68,041

The following table presents a reconciliation of the non-GAAP measures of total cash cost before by-product credits, total cash cost after by-product credits and AISC:

	Three months ended		Year ended	
	December 31, 2018	2017	December 31, 2018	2017
	(in thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)			
Total cash cost before by-product credits (1)	\$ 17,409	\$ 16,532	\$ 72,165	\$ 61,097
By-product credits (2)	(17,009)	(18,972)	(68,625)	(57,552)
Total cash cost (credit) after by-product credits	400	(2,440)	3,540	3,545
Sustaining capital expenditures	2,530	5,247	20,640	21,155
Sustaining general and administrative expenses	1,070	793	3,302	3,160
Total all-in sustaining cost	4,000	3,600	27,482	27,860
Precious metal gold equivalent ounces sold (3)	9,368	14,294	41,904	47,224
Total cash cost before by-product credits per precious metal gold equivalent ounce sold	\$ 1,858	\$ 1,157	\$ 1,722	\$ 1,294
By-product credits per precious metal gold equivalent ounce sold	(1,816)	(1,327)	(1,638)	(1,219)

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Total cash cost (credit) after by-product credits per precious metal gold equivalent ounce sold	42	(170)	84	75
Other sustaining expenditures per precious metal gold equivalent ounce sold	384	423	571	515
Total all-in sustaining cost per precious metal gold equivalent ounce sold	\$ 426	\$ 253	\$ 655	\$ 590

- (1) Production cost less stock-based compensation allocated to production cost plus treatment and refining charges.
- (2) Please see the tables below for a summary of our by-product revenue and by-product credit per 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.

43

Table of Contents

The following tables summarizes our by-product revenue and by-product credit per precious metal gold equivalent ounce sold:

	Three months ended		Year ended	
	December 31, 2018	2017	December 31, 2018	2017
	(in thousands)			
By-product credits by dollar value:				
Copper sales	\$ 2,465	\$ 2,128	\$ 9,651	\$ 6,774
Lead sales	3,294	4,134	14,312	11,699
Zinc sales	11,250	12,710	44,662	39,079
Total sales from by-products	\$ 17,009	\$ 18,972	\$ 68,625	\$ 57,552

	Three months ended		Year ended	
	December 31, 2018	2017	December 31, 2018	2017
By-product credits per precious metal gold equivalent ounce sold:				
Copper sales	\$ 263	\$ 149	\$ 230	\$ 143
Lead sales	352	289	342	248
Zinc sales	1,201	889	1,066	828
Total by-product credits per precious metal gold ounces sold	\$ 1,816	\$ 1,327	\$ 1,638	\$ 1,219

Liquidity and Capital Resources

As of December 31, 2018, we had working capital of \$13.5 million, consisting of current assets of \$31.1 million and current liabilities of \$17.6 million. This represents a decrease of \$14.0 million from the working capital balance of \$27.5 million at December 31, 2017. Our working capital balance fluctuates as we use cash to fund our operations, exploration, mine development, income taxes and our dividends.

Cash and cash equivalents as of December 31, 2018 decreased to \$7.8 million from \$22.4 million as of December 31, 2017, a net decrease in cash of \$14.6 million. The decrease is primarily due to cash spent on the construction and development of our Isabella Pearl project and capital projects at our Oaxaca Mining Unit.

Net cash provided by operating activities for the year ended December 31, 2018 was \$22.3 million compared to \$35.6 million during the same period in 2017, a decrease of \$13.3 million. The decrease is primarily due to lower pretax

income and higher tax payments in 2018.

Net cash used in investing activities for the year ended December 31, 2018 was \$40.1 million compared to \$25.7 million during the same period in 2017. The increase in investing activities is primarily attributable to increased mine development, critical capital projects at our Aguila project including approximately \$9.6 million for the tailings dam, power grid, and paste fill plant projects and \$15.4 million for the development of our Isabella Pearl project.

On April 3, 2018, we entered into an At-The-Market Offering Agreement (the “ATM Agreement”) with an investment banking firm (“Agent”) pursuant to which the Agent agreed to act as our sales agent with respect to the offer and sale from time to time of our common stock having an aggregate gross sales price of up to \$75.0 million. The ATM Agreement will remain in full force and effect until the earlier of April 3, 2021, or the date that the ATM Agreement is terminated in accordance with the terms therein

Net cash provided by financing activities for the year ended December 31, 2018 was \$3.5 million compared to a use of cash of \$1.4 million in 2017. The change in cash provided by financing activities was primarily the result of the sale of 1,131,755 shares of our common stock under the ATM Agreement for net proceeds of \$4.3 million, and \$1.3 million of proceeds from the exercise of stock options.

Table of Contents

We believe that our liquidity and capital resources are adequate to fund our operations and corporate activities for the foreseeable future. As of February 25, 2019, we have sold a total of 3,668,885 shares under the ATM Agreement for total net proceeds of \$15.1 million, after deducting commissions and fees. While we reserve the ability to further utilize the ATM Agreement if we choose, we believe the amount raised to date is adequate to finish construction of the Isabella Pearl project.

Off-Balance Sheet Arrangements

We have the following off-balance sheet arrangements: operating leases (as discussed in Note 12 to the Consolidated Financial Statements), equipment purchase obligations, and \$9.2 million of outstanding reclamation bonds.

Contractual Obligations

The following table represents a summary of our contractual obligations at December 31, 2018, except short-term purchase order commitments arising in the ordinary course of business:

	Payments due by Period					2023 and Thereafter
	Total	2019	2020	2021	2022	
	(in thousands)					
Loan payable	\$ 2,143	\$ 765	\$ 797	\$ 581	\$ -	\$ -
Capital lease obligation	1,243	412	436	395	-	-
Interest on loan payable	125	74	42	9	-	-
Interest on capital lease obligation	103	58	35	10	-	-
Operating lease obligations	259	113	74	72	-	-
Contract Mining Agreement(1)	30,911	16,146	14,765	-	-	-
Equipment purchase obligations	2,491	2,491	-	-	-	-
	\$ 37,275	\$ 20,059	\$ 16,149	\$ 1,067	\$ -	\$ -

- (1) We signed a 24-month Contract Mining Agreement with a contract miner on November 14, 2018 relating to mining activities at our Isabella Pearl project. We will be paying the contract miner operational costs in the normal course of business. These costs represent the remaining future minimum payments for the Contract Mining Agreement over the initial 24 months of the agreement. The future minimum payments are determined by rates within the Contract Mining Agreement, estimated tonnes moved and bank cubic yards for drilling and blasting.

Accounting Developments

For a discussion of Recently Adopted Accounting Pronouncements and Recently Issued Accounting Pronouncements, please see Note 1 in Item 8. Financial Statements and Supplementary Data.

Critical Accounting 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, liabilities and contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. As a result, management is required to routinely make judgments and estimates about the effects of matters that are inherently uncertain. Actual results may differ from these estimates under different conditions or assumptions. The following discussion pertains to accounting estimates management believes are most critical to the presentation of our financial position and results of operations that require management's most difficult, subjective or complex judgments.

Future Metals Prices

Metals prices are key components in estimates that determine the valuation of some of our significant assets and liabilities, including properties, plant and equipment, deferred tax assets, and certain accounts receivable. Metals prices

45

Table of Contents

are also an important component in the estimation of reserves. As shown above in Item 1. – Business, metals prices have historically been volatile. Silver demand arises from investment demand, particularly in exchange-traded funds, industrial demand, and consumer demand. Gold demand arises primarily from investment and consumer demand. Investment demand for silver and gold can be influenced by several factors, including: the value of the U.S. dollar and other currencies, changing U.S. budget deficits, widening availability of exchange-traded funds, interest rate levels, the health of credit markets, and inflationary expectations.

Proven and 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 three-year trailing averages. Our assessment of reserves occurs at least annually, and we may utilize external audits in the future. Reserves are a key component in the valuation of our property, equipment and mine development and related depreciation rates.

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 estimated future cash flows to current asset values in an effort 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.

Revenue

Concentrate sales are initially recorded based on 100% of the provisional sales prices, net of treatment and refining charges, at the time of delivery to the customer at which point the performance obligations are satisfied and control of the product is transferred to the customer. Adjustments to the provisional sales prices are made to take into account the mark-to-market changes based on the forward prices of metals until final settlement occurs. The changes in price between the provisional sales price and final sales price are considered 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 the concentrates at the quoted metal prices at the time of delivery. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through revenue each period prior to final settlement. Market changes in the prices of metals between the delivery and final settlement dates will result in adjustments to revenues related to previously recorded sales of concentrate. Sales are recorded net of charges for treatment, refining, smelting losses and other charges negotiated with the buyer. These charges are estimated upon delivery of concentrates based on contractual terms and adjusted to reflect actual charges at final settlement. Historically, actual charges have not varied materially from the Company's initial estimates.

Doré sales are recognized upon the satisfaction of performance obligations, which occurs when control of the doré transfers to the customer. Transfer of control occurs once the customer takes possession of the doré. Doré sales are recorded using quoted metal prices, net of refining charges.

Depreciation and Amortization

Capitalized costs are depreciated or amortized using the straight-line method or unit-of-production (“UOP”) method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets or the useful life of the individual assets. Significant judgment is involved in the determination of the estimated life of the assets. Our estimates for reserves are a key component in determining our UOP rates. Our estimates of proven and probable ore reserves may change, possibly in the near term, resulting in changes to depreciation, depletion and amortization rates in future reporting periods. Productive lives range from 1 to 10 years, but do not exceed the useful life of the individual asset.

Table of Contents

Please see Note 1 in Item 8. Financial Statements and Supplementary Data for depreciation rates of major asset categories.

Impairment of Long-Lived Assets

We evaluate the carrying value of long-lived assets to be held and used, using a fair-value based approach when events and circumstances indicate that the related carrying amount of our assets may not be recoverable. The economic environment and commodity prices may be considered as impairment indicators for the purposes of these impairment assessments. In accordance with U.S. GAAP, the carrying value of a long-lived asset or asset group is considered impaired when the anticipated undiscounted cash flows from such asset or asset group is less than its carrying value. In that event, a loss will be recorded in our consolidated statements of operations based on the difference between book value and the estimated fair value of the asset or asset group computed using discounted estimated future cash flows, or the application of an expected fair value technique in the absence of an observable market price. Future cash flows include estimates of recoverable quantities to be produced from estimated proven and probable mineral reserves, commodity prices (considering current and historical prices, price trends and related factors), production quantities, production costs, and capital expenditures, all based on life-of-mine plans and projections. In estimating future cash flows, assets are grouped at the lowest level for which identifiable cash flows exist that are largely independent of cash flows from other asset groups. It is possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold and other commodity prices, production levels and costs and capital are each subject to significant risks and uncertainties.

Asset Retirement Obligation/Reclamation and Remediation Costs

Our mining and exploration activities are subject to various laws and regulations, including legal and contractual obligations to reclaim, remediate, or otherwise restore properties at the time the property is removed from service. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs that we will incur to complete the work required to comply with existing laws and regulations. Actual costs may differ from the amounts estimated. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and remediation costs. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required.

Stock-based Compensation

We account for stock-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all stock-based payments to employees, including grants of stock options and restricted stock units (“RSUs”), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award.

Stock-based compensation expense is recorded net of estimated forfeitures in our consolidated statements of operations and as such is recorded for only those stock-based awards that we expect to vest. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates.

Income Taxes

In preparing our consolidated financial statements, we estimate the actual amount of taxes currently payable or receivable as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Changes in deferred tax assets and liabilities generally

Table of Contents

have a direct impact on earnings in the period of the changes. Mining taxes represent federal and state taxes levied on mining operations. As the mining taxes are calculated as a percentage of mining profits, we classify them as income taxes. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements.

Each period, we evaluate the likelihood of whether or not some portion or all of each deferred tax asset will be realized and provide a valuation allowance for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. When evaluating our valuation allowance, we consider historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold and silver prices, production costs, quantities of proven and probable reserves, interest rates, federal and local legislation, and foreign currency exchange rates. If we determine that all or a portion of the deferred tax assets will not be realized, a valuation allowance will be recorded with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or a portion of the related valuation allowance will be reduced with a credit to income tax expense.

In addition, the calculation of income tax expense involves significant management estimation and judgment involving a number of assumptions. In determining these amounts, management interprets tax legislation in each of the jurisdictions in which we operate and makes estimates of the expected timing of the reversal of future tax assets and liabilities. We also make assumptions about future earnings, tax planning strategies and the extent to which potential future tax benefits will be used. We are also subject to assessments by various taxation authorities which may interpret tax legislation differently, which could affect the final amount or the timing of tax payments.

ITEM 7A. 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, provisional sales contract risks, 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 depend in large part upon the market prices of gold, silver, and base metal prices of copper, lead and zinc. 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 stability of exchange rates, the world supply of and demand for gold, silver and other metals, 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 reserve estimates, results of operations and/or our financial condition, declining gold and silver prices could require a reassessment of the feasibility of a 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.

Table of Contents

Foreign Currency Risk

Foreign currency exchange rate fluctuations can increase or decrease our costs to the extent we pay costs in currencies other than the U.S. dollar. We are primarily impacted by Mexican peso rate changes relative to the U.S. Dollar, as we incur some costs in the Mexican peso. When the value of the peso rises in relation to the U.S. Dollar, some of our costs in Mexico may increase, thus affecting our operating results. Alternatively, when the value of the peso drops in relation to the U.S. Dollar, peso-denominated costs in Mexico will decrease in U.S. Dollar terms. These fluctuations do not impact our revenues since we sell our metals in U.S. dollars. Future fluctuations may give rise to foreign currency exposure, which may affect our financial results.

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 which, in general, provide for a provisional payment to us based upon provisional assays and 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 determined at the quoted metal prices at the time of shipment. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through revenue each period prior to settlement. Changes in the prices of metals between the shipment and final settlement date will result in adjustments to revenues related to the sales of concentrate previously recorded upon shipment. Please see Note 14 in Item 8. Financial Statements and Supplementary Data for additional information.

Interest Rate Risk

Our outstanding debt consists of equipment loans and leased equipment classified as capital leases. As the debt is at fixed rates, we consider our interest rate risk exposure to be insignificant at this time.

Equity Price Risk

We have in the past, 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

	Page
Index to Financial Statements:	
<u>Reports of Independent Registered Public Accounting Firms</u>	50
<u>Consolidated Balance Sheets at December 31, 2018 and 2017</u>	53
<u>Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016</u>	54
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016</u>	55
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016</u>	56
<u>Notes to Consolidated Financial Statements</u>	57

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Gold Resource Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet as of December 31, 2018 and the related consolidated statement of operations, shareholders' equity, and cash flows for the year ended December 31, 2018 and the related notes (collectively referred to as the "financial statements") of Gold Resource Corporation (the "Company"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations, and its cash flows of the Company for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the COSO framework.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded

Table of Contents

as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 2016.

/s/ Plante & Moran, PLLC

Denver, Colorado

February 26, 2019

Table of Contents

Report of Independent Public Accounting Firm

To the Shareholders and Board of Directors of

Gold Resource Corporation

Colorado Springs, Colorado

OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Gold Resource Corporation (the “Company”) as of December 31, 2017, and the related consolidated statements of operations, shareholders’ equity, and cash flows, for each year in the two year period ended December 31, 2017, and the related notes and schedules (collectively referred to as the “financial statements”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each year in the two year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

/s/ EKS&H LLLP

March 8, 2018

Denver, Colorado

52

Table of Contents

GOLD RESOURCE CORPORATION

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share and per share amounts)

	December 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,762	\$ 22,390
Gold and silver rounds/bullion	3,637	3,812
Accounts receivable, net	1,744	2,884
Inventories, net	14,342	11,636
Prepaid Taxes	1,126	-
Prepaid expenses and other current assets	2,450	1,767
Total current assets	31,061	42,489
Property, plant and mine development, net	111,242	82,599
Deferred tax assets, net	7,372	6,854
Other non-current assets	656	981
Total assets	\$ 150,331	\$ 132,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,429	\$ 6,904
Loans payable, current	765	568
Capital leases, current	412	382
Income taxes payable, net	-	1,944
Mining royalty taxes payable, net	1,926	2,359
Accrued expenses and other current liabilities	2,030	2,851
Total current liabilities	17,562	15,008
Reclamation and remediation liabilities	3,298	2,946
Loans payable, long-term	1,378	1,645
Capital leases, long-term	831	1,218
Total liabilities	23,069	20,817
Shareholders' equity:		
Common stock - \$0.001 par value, 100,000,000 shares authorized: 58,850,431 and 56,916,484 shares outstanding at December 31, 2018 and 2017, respectively		
	69	57
Additional paid-in capital	121,592	114,584
Retained earnings	12,656	4,520
Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive loss	(1,171)	(1,171)
Total shareholders' equity	127,262	112,106

Total liabilities and shareholders' equity	\$ 150,331	\$ 132,923
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The accompanying notes are an integral part of these consolidated financial statements.

53

Table of Contents

GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2018, 2017 and 2016

(U.S. dollars in thousands, except share and per share amounts)

	2018	2017	2016
Sales, net	\$ 115,308	\$ 110,156	\$ 83,227
Mine cost of sales:			
Production costs	66,672	53,436	48,460
Depreciation and amortization	14,616	14,554	12,169
Reclamation and remediation	330	51	165
Total mine cost of sales	81,618	68,041	60,794
Mine gross profit	33,690	42,115	22,433
Costs and expenses:			
General and administrative expenses	9,325	8,122	9,533
Exploration expenses	4,703	4,349	4,314
Other expense (income), net	3,111	1,166	(560)
Total costs and expenses	17,139	13,637	13,287
Income before income taxes	16,551	28,478	9,146
Provision for income taxes	7,263	24,328	4,759
Net income	\$ 9,288	\$ 4,150	\$ 4,387
Net income per common share:			
Basic and diluted	\$ 0.16	0.07	0.08
Weighted average shares outstanding:			
Basic	57,534,830	56,854,670	55,140,237
Diluted	58,369,666	57,594,993	55,725,206

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

Table of Contents

GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2018, 2017 and 2016

(U.S. dollars in thousands, except share amounts)

	Number of Common Shares	Par Value of Common Shares	Additional Paid in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2015	54,603,104	\$ 55	\$ 96,766	\$ (948)	\$ (5,884)	\$ (1,171)	\$ 88,818
Stock options exercised	169,999	-	391	-	-	-	391
Share-based compensation	-	-	1,240	-	-	-	1,240
Dividends declared	-	-	(271)	(1,399)	-	-	(1,670)
Acquisitions	2,130,169	2	13,908	-	-	-	13,910
Net income	-	-	-	4,387	-	-	4,387
Balance, December 31, 2016	56,903,272	\$ 57	\$ 112,034	\$ 2,040	\$ (5,884)	\$ (1,171)	\$ 107,076
Adjustment to beginning retained earnings as a result of adoption of ASU 2016-16	-	-	-	(533)	-	-	(533)
Stock-based compensation	-	-	1,192	-	-	-	1,192
Stock options exercised	25,000	-	58	-	-	-	58
Common stock issued for vested restricted stock units	78,400	-	-	-	-	-	-
Common stock issued for the acquisition of mineral rights	246,210	-	1,300	-	-	-	1,300
Dividends declared	-	-	-	(1,137)	-	-	(1,137)
Net income	-	-	-	4,150	-	-	4,150
Balance, December 31, 2017	57,252,882	\$ 57	\$ 114,584	\$ 4,520	\$ (5,884)	\$ (1,171)	\$ 112,106
Share-based compensation	-	-	1,497	-	-	-	1,497
Net stock options exercised	712,271	1	1,203	-	-	-	1,204

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Common stock issued for vested restricted stock units	89,921	-	-	-	-	-	-
Dividends declared	-	-	-	(1,152)	-	-	(1,152)
Issuance of stock, net of issuance costs	1,131,755	11	4,308	-	-	-	4,319
Net income	-	-	-	9,288	-	-	9,288
Balance, December 31, 2018	59,186,829	\$ 69	\$ 121,592	\$ 12,656	\$ (5,884)	\$ (1,171)	\$ 127,262

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

Table of Contents

GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2018, 2017 and 2016

(U.S. dollars in thousands)

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income			\$