

GOLD RESOURCE CORP
Form 10-K
March 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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

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

Indicate by 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

(Do not check if a smaller reporting company) 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, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was \$223,772,333 based on the closing price of the common stock of \$4.08 as reported on the NYSE American.

As of March 7, 2018, there were 57,107,884 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of the Definitive Proxy Statement to be filed pursuant to Regulation 14A for the registrant's 2018 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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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 the exhibit index at the end of this report 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 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 costs;

- 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 expenditures.

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.

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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 are currently in operation. The Alta Gracia Project includes the Mirador underground mine which began operations in 2017. We also perform exploration and evaluation work on our portfolio of precious and base metal exploration properties in Nevada, United States of America (“Nevada Mining Unit”) and continue to evaluate other properties for possible acquisition.

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.

The majority of our assets are located at our Oaxaca Mining Unit, including our Aguila processing facility, and Arista and Mirador underground mines. 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, which comprise our only operating properties, include a total of approximately 35,390 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.

We first reported Proven and Probable (“P&P”) reserves for our Arista Mine in 2014. In 2016, we expanded Arista Mine’s P&P reserves with the addition of the Switchback vein system. In February 2017, we announced our first proven and probable reserves for our Mirador Mine. In 2017, development of the Mirador Mine advanced to a point which allowed for consistent ore feed to the Aguila processing facility. Please see Item 2. Properties, Proven and Probable Reserves for more information.

Our operations in Oaxaca are conducted through our Mexican subsidiary, Don David Gold Mexico S.A. de C.V. (“DDGM”). Our Nevada exploration and evaluation work is performed through two wholly-owned subsidiaries, GRC Nevada Inc. and Walker Lane Minerals Corp. (“Walker Lane”).

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.

Segment Information

Our segments are broken into two geographic regions. The geographic regions include Oaxaca, Mexico (“Mexico”) and Nevada, U.S.A. (“Nevada”) and represent the Company’s operating segments. Please see Note 21 in Item 8. Financial Statements and Supplementary Data for additional information.

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Developments in 2017

For the year ended December 31, 2017, we reported revenue of \$110.2 million, mine gross profit of \$42.1 million and net income of \$4.2 million. Substantially all of our 2017 revenue was from the Arista Mine in Mexico. Our annual 2017 mill production totaled 28,117 gold ounces, 1,773,263 silver ounces, 1,141 copper tonnes, 5,365 lead tonnes and 16,301 zinc tonnes. In 2017, dividends distributed to shareholders totaled \$0.02 per share or \$1.1 million.

Oaxaca Mining Unit

During 2017, we continued to develop the Arista underground mine, including the Switchback vein system. Development of the Switchback vein system in 2017 reached the point that allows for bulk tonnage mining techniques planned in 2018.

In addition to the Arista underground mine, we advanced development of the Mirador Mine in 2017 and began delivering a limited amount of development ore to the Aguila processing facility in the second quarter.

Nevada Mining Unit

During 2017, we acquired the highly prospective East Camp Douglas exploration property, and added a significant number of additional claims to the Isabella Pearl Project. In addition, we continued to advance the permitting process for our Isabella Pearl Project.

Dividends

Since July 2010, we have paid a monthly dividend. During 2017, we paid one-sixth cent per share per month, which totaled \$0.02 per share per 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, 2017, \$2.9 million was accrued on our consolidated balance sheet for reclamation costs relating to operating properties.

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Competitive Business Conditions

The exploration for, and the acquisition of, gold and silver properties are 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. Our present limited capital means that our ability to compete for properties to be explored and developed is limited. 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”), which is similar to the United States Environmental Protection Agency. SEMARNAT has 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. The agencies responsible for environmental protections and permitting in our Nevada Mining Unit include the Bureau of Land Management (“BLM”) and the Nevada Division of Environmental Protection (“NDEP”).

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 are actively seeking the permits necessary to place our Nevada Mining Unit’s Isabella Pearl Project into production. Please see Item 2. Properties – Nevada Mining Unit, for more information on the status of our permitting 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, 2017, one customer accounted for 95% 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 currently have sixteen full-time employees, six of which serve as our executive officers. These individuals devote all of their business time to our affairs.

We contract for the services of approximately 490 individuals employed by a third party and also use various independent contractors for underground mining, surface exploration drilling and trucking.

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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, and to a lesser extent, 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 2017, the price of gold and silver, as measured by the London P.M. fix, fluctuated from a low of \$1,151 per ounce to a high of \$1,346 per ounce while the price of silver fluctuated from a low of \$15.22 per ounce to a high of \$18.56 per ounce. As of March 7, 2018, gold and silver prices were \$1,329 per ounce and \$16.65 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:

	2013	2014	2015	2016	2017
Gold:					
High	\$ 1,694	\$ 1,385	\$ 1,297	\$ 1,366	\$ 1,346

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Low	\$ 1,192	\$ 1,142	\$ 1,049	\$ 1,077	\$ 1,151
Average	\$ 1,411	\$ 1,266	\$ 1,160	\$ 1,251	\$ 1,257
Silver:					
High	\$ 32.23	\$ 22.05	\$ 18.23	\$ 20.71	\$ 18.56
Low	\$ 18.61	\$ 15.28	\$ 13.71	\$ 13.58	\$ 15.22
Average	\$ 23.79	\$ 19.08	\$ 15.68	\$ 17.14	\$ 17.04

Most of our production is limited to a single mine and any interruptions or stoppages in our mining activities would adversely affect our revenue. We are presently relying 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 collect 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 no longer generate revenue sufficient to fund our operations. A decrease in, or cessation of, our mining operations would adversely affect our financial performance and may eventually cause us to cease operations.

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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 the mineralized material 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 metallurgy 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 property 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, 2017 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 and 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 placing a property into production and such property's return on capital. There can be no assurance that minerals recovered in small scale tests will be recovered in large scale tests under on site conditions or in production scale. 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 ore 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) and which may contain information or data that we are unable to independently verify or confirm. All of these factors are

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uncertain and may have an impact on our ability to develop the properties, as well as contributing to the uncertainties related to the process used to estimate ore reserves.

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, 2017, 2016 and 2015, we reported net income of \$4.2 million, \$4.4 million and \$3.1 million, respectively. We have accumulated retained earnings of \$4.5 million as of December 31, 2017. The metal prices in recent years have had 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 process equipment in connection with our exploration, development, and production activities. We may not benefit from these investments if we are unable to identify commercially exploitable mineralized material.

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 reductions 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 may be fully exposed to price fluctuations if gold and/or silver 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, automobile 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 our operating results may be adversely affected.

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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 securities 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 also 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.

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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 or increased costs in the event that a contractor ceases its business due to insolvency or other unforeseen events;
- 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 mine and operations are subject to all of the risks inherent in development 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 and Alta Gracia 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 receipt 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, anticipated future 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;

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- 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.

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, 2017, our net deferred tax assets were \$6.9 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 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

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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, 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 in the future could be affected by changes in the value of the Mexican peso against the United States 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 protection laws in the U.S. may hinder our ability to explore at our Nevada Mining Unit and may also delay or prohibit us from developing properties where economic mineralization is found. 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 governmental and private sector corruption to some degree, 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 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

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procedures will always protect us from recklessness, fraudulent behavior, dishonesty or other inappropriate acts committed by our affiliates, employees 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. We are modifying our enterprise software to support various operational functions, financial reporting and controls management. The modification of this system carries risks such as cost overruns, delays and interruptions. If we are not able to successfully implement these system 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 implementation and modification, but system 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

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- 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 construction 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. While we currently maintain insurance for general commercial liability claims and the physical assets at our Aguila and Alta Gracia 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 property. A significant loss could force us to reduce or suspend our operations.

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, and we are at risk of loss of ownership of one or more of our properties. 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. We have not obtained title opinions covering our entire property, with the attendant risk that title to some claims, particularly title to undeveloped property, may be defective. There may be valid challenges to the title to our property 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

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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 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 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;
- Volatility in the equities markets;
- 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 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 resell your shares at a desired price.

Past payments of dividends on our common stock are not an indicator of future payments of dividends. In 2011, we instituted a monthly cash dividend payable to 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 the listing, we must maintain certain share price and other targets, 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

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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 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 March 7, 2018, there were 57,107,884 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 two categories: “Operating 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.

We currently have an interest in ten properties. 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 four Exploration Properties within our Nevada Mining Unit located in south central Nevada, U.S.A in the Walker Lane Mineral Belt. We own three of the Nevada properties and have an option to purchase the fourth. Please see Item 1. Business for additional information about our business.

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.

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As of December 31, 2017, our estimate of Proven and Probable (“P&P”) reserves was:

Description	Tonnes	Gold g/t	Silver g/t	Precious	Gold Ounces	Silver Ounces	Precious	Copper %	Lead %	Zinc %
				Metal Gold Equivalent g/t			Metal Gold Equivalent 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 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 Underground 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 Underground Mine at the Alta Gracia property. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for proven and probable reserves at the Mirador Underground 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 74% for gold and 81% 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.

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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

For comparison, at December 31, 2016, our estimate of 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 %
Arista Mine										
Proven	1,495,300	2.72	163	5.03	131,000	7,860,500	241,900	0.3	1.3	3.6
Probable	352,400	3.07	147	5.15	34,800	1,667,400	58,300	0.3	1.1	3.0
Arista Mine Total										
	1,847,700	2.79	160	5.05	165,800	9,527,900	300,200	0.3	1.3	3.6
Mirador Mine										
Proven	32,600	1.12	358	6.18	1,200	374,800	6,500			
Probable	11,200	0.86	295	5.03	300	106,600	1,800			
Mirador Mine Total										
	43,800	1.06	342	5.88	1,500	481,400	8,300			
Oaxaca Mining Unit Total										
	1,891,500	2.75	165	5.07	167,300	10,009,300	308,500			

Notes to the 2016 P&P reserves:

1. Metal prices used for P&P reserves were \$1,225 per ounce of gold, \$17.29 per ounce of silver, \$2.60 per pound of copper, \$0.87 per pound of lead and \$0.94 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.

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2. Precious metal gold equivalent is 70.85:1 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. Mining, processing, energy, administrative and smelting/refining costs were based on 2016 actual costs for the Oaxaca Mining Unit.
5. Metallurgical recovery assumptions used were 89% for gold, 92% for silver, 78% for copper, 74% for lead and 84% for zinc. These recoveries reflect 2016 actual average recoveries for the Aguila project.
6. P&P reserves represents estimated in-place material, diluted and factored for expected mining recovery.
7. Minimum mining width for P&P reserves is 1.5 meters.
8. 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 measured and indicated (“M&I”) 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, 2017, our estimate of M&I mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Arista Mine						
Measured	677,100	1.55	112	0.3	1.2	3.9
Indicated	1,008,700	1.49	99	0.2	1.2	3.6
Arista Mine Total	1,685,800	1.51	104	0.3	1.7	3.7
Alta Gracia Project						
Measured	23,300	0.74	275			
Indicated	23,900	0.58	241			
Alta Gracia Project Total	47,200	0.66	258			
Margaritas Project						
Measured	19,800	0.70	280			
Indicated	38,100	0.73	274			

Margaritas Project Total	57,900	0.72	276
Oaxaca Mining Unit Total	1,790,900		

Notes to the 2017 M&I mineralized material:

1. Metal prices used for M&I 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 M&I 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 Mirador Underground Mine, and the Margaritas Project. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for M&I 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. M&I mineralized material is diluted and factored for expected mining recovery.
6. Minimum mining width for M&I 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

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For comparison, at December 31, 2016, our estimate of M&I mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %
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