

GOLD RESOURCE CORP  
Form 10-Q/A  
December 14, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

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

For the quarterly period ended March 31, 2012

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE 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)

Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)  
**2886 Carriage Manor Point, Colorado Springs, Colorado 80906**

**84-1473173**  
(I.R.S. Employer  
Identification No.)

(Address of Principal Executive Offices) (Zip Code)  
**(303) 320-7708**

(Registrant's telephone number including area code)

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

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

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

Larger accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 52,911,516 shares of common stock outstanding as of May 9, 2012.

**Table of Contents**

**EXPLANATORY NOTE**

Gold Resource Corporation ( we, us, or the Company ) is filing this Amendment No. 1 on Form 10-Q/A (the Amendment ) to its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 filed on May 10, 2012 (the Original Filing ) to restate its consolidated financial statements and related financial information. This Amendment reflects the restatement of the Company s consolidated financial statements and amendment of related disclosures as of March 31, 2012 and for the three months ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012, as discussed below and in Note 11 to the accompanying restated consolidated financial statements. Other than as set forth herein, this Amendment No. 1 to Form 10-Q does not reflect subsequent events occurring after the filing of the Original Filing.

Management, after consultation with the Board of Directors, Audit Committee and the Company s independent registered public accounting firm, determined that the Company s consolidated financial statements for the first and second quarters of 2012 contained errors relating to the recognition of sales of metal concentrates, and should be restated and, accordingly, that the Original Filing should no longer be relied upon. The Company concluded that there was an internal control deficiency in its concentrate sales process that did not prevent or detect on a timely basis material variances between preliminary assays taken from samples of concentrates at the mine site, with assays taken from samples of concentrates at the buyer s warehouse, prior to final settlement. An assay is a metallurgical process for testing concentrate samples to determine the amount and purity of metals contained within those concentrate samples. The error resulted in a \$4.0 million reduction to revenues (including pricing and other settlement adjustments with the buyer), a \$0.2 million reduction to production costs applicable to sales, and a \$1.2 million reduction to provision for income taxes for the quarter ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012; and a \$4.0 million reduction to accounts receivable, a \$1.2 million reduction in income taxes payable and a \$0.2 million reduction to accounts payable as of March 31, 2012. Management believes that the material assay variances resulted from concentrate tampering sometime after the concentrates left the mine site, and prior to the concentrates being sampled while at the buyer s warehouse. The Company has implemented new procedures in the third quarter of 2012 to monitor its concentrates from the time they leave the mine site until they are sampled at the buyer s warehouse.

In addition, management concluded that the internal control deficiency in its concentrate sales process constituted a material weakness in the design of its internal controls over financial reporting. Accordingly, this Amendment amends the Company s disclosures regarding the effectiveness of disclosure controls and procedures as of March 31, 2012 and changes in internal control over financial reporting. Management believes that as of September 30, 2012, the material weakness in its internal controls over the concentrate sales process that existed as of March 31, 2012 and June 30, 2012 has been remediated.

No attempt has been made in this Amendment to modify or update the disclosures in the Original Filing except as required to reflect the effect of the restatement discussed herein. Except as otherwise noted herein, this Amendment continues to describe conditions as of the date of the Original Filing and the disclosures contained herein have not been updated to reflect events, results or developments that occurred after the date of the Original Filing, or to modify or update those disclosures affected by subsequent events. Forward-looking statements relating to production forecasts have been deleted in this Amendment. Other forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that occurred or facts that became known to us after the date of the Original Filing, other than the restatement, and such forward-looking statements should be read in conjunction with our filings with the SEC subsequent to the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Company s other filings with the SEC.

Part I - Item 1 (Financial Statements), Part I - Item 2 (Management s Discussion and Analysis of Financial Condition and Results of Operations), Part I - Item 3 (Quantitative and Qualitative Disclosures about Market Risk) and Part I - Item 4 (Controls and Procedures) have been amended from the Original Filing as a result of the restatement. Part II - Item 6 (Exhibits) has been amended to, among other things, include currently dated certifications from the Company s principal executive officer and principal financial officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company s principal executive officer and principal financial officer are attached to this Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2. Those items that have been restated are denoted as (restated) throughout this report.

**Table of Contents**

**GOLD RESOURCE CORPORATION**

**FORM 10-Q/A**

**Index**

	<b>Page</b>
<b>Part I - FINANCIAL INFORMATION</b>	
Item 1 <u>Financial Statements</u>	4
<u>Consolidated Balance Sheets at March 31, 2012 (as restated) (unaudited) and December 31, 2011</u>	5
<u>Consolidated Statements of Operations for the three months ended March 31, 2012 (as restated) and 2011, and for the period from Inception to March 31, 2012 (as restated) (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2012 (as restated) and 2011, and for the period from Inception to March 31, 2012 (as restated) (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4 <u>Controls and Procedures</u>	26
<b>Part II - OTHER INFORMATION</b>	
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 6 <u>Exhibits</u>	28
<b><u>SIGNATURES</u></b>	29

References in this report to agreements to which Gold Resource Corporation is a party and the definition of certain terms from those agreements are not necessarily complete and are qualified by reference to the agreements. Readers should refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and the exhibits listed therein.

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

4

**Table of Contents****GOLD RESOURCE CORPORATION****(An Exploration Stage Company)****CONSOLIDATED BALANCE SHEETS***(U.S. dollars in thousands, except shares)*

	<i>( As Restated, see Note 11) March 31, 2012 (unaudited)</i>	<i>December 31, 2011</i>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 44,004	\$ 51,960
Gold and silver bullion	5,626	2,549
Accounts receivable	13,943	14,281
Inventories	7,453	4,243
IVA taxes receivable	6,099	4,425
Deferred tax assets	11,118	11,118
Prepaid expenses	864	951
Total current assets	89,107	89,527
Land and mineral rights	227	227
Property and equipment net	12,323	10,318
Deferred tax asset	19,517	19,517
Other assets	7	6
Total assets	\$ 121,181	\$ 119,595
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Current liabilities:		
Accounts payable	\$ 1,008	\$ 1,691
Accrued expenses	4,522	4,879
IVA taxes payable	8,142	4,984
Income taxes payable	6,133	15,987
Dividends payable	2,645	2,645
Total current liabilities	22,450	30,186
Asset retirement obligation	2,514	2,281
Total liabilities	24,964	32,467
Shareholders' equity:		
Preferred stock \$0.001 par value, 5,000,000 shares authorized: no shares issued and outstanding		
Common stock \$0.001 par value, 100,000,000 shares authorized: 53,006,871 and 52,998,303 shares issued and outstanding, respectively	53	53
Additional paid-in capital	126,650	132,529
(Deficit) accumulated during the exploration stage	(26,018)	(39,522)
Treasury stock at cost, 104,251 shares	(1,954)	(1,954)
Other comprehensive income currency translation adjustment	(2,514)	(3,978)
Total shareholders' equity	96,217	87,128

Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Total liabilities and shareholders equity	\$ 121,181	\$ 119,595
---	------------	------------

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

**Table of Contents****GOLD RESOURCE CORPORATION****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS***for the three months ended March 31, 2012 and 2011**and for the period from Inception (August 24, 1998) to March 31, 2012**(U.S. dollars in thousands, except shares and per share amounts)**(Unaudited)*

	<i>( As Restated, see Note 11) 2012</i>	<i>2011</i>	<i>( As Restated, see Note 11) Inception (August 24, 1998) to March 31, 2012</i>
Sales of metal concentrates, net	\$ 36,665	\$ 11,280	\$ 156,582
Mine cost of sales:			
Production costs applicable to sales	6,527	2,352	28,650
Depreciation and amortization	232	64	871
Accretion	20	21	170
Total mine cost of sales	6,779	2,437	29,691
Mine gross profit	29,886	8,843	126,891
Costs and expenses:			
General and administrative expenses	2,571	1,735	27,868
Stock-based compensation	2,056	1,377	16,460
Exploration expenses	1,353	512	35,458
Construction and development	2,358	3,066	77,274
Production start up expense, net			209
Management contract expense			752
Total costs and expenses	8,338	6,690	158,021
Operating income (loss)	21,548	2,153	(31,130)
Other income (expense)	(1,989)	(120)	886
Income (loss) before income taxes	19,559	2,033	(30,244)
Provision for income taxes	6,055		(5,982)
Net income (loss) before extraordinary item	13,504	2,033	(24,262)
Extraordinary items:			
Flood loss, net of income tax benefit of \$750			(1,756)
Net income (loss)	\$ 13,504	\$ 2,033	\$ (26,018)



Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Other comprehensive income (loss):			
Currency translation gain (loss)	1,464	464	(2,515)
Net comprehensive income (loss)	\$ 14,968	\$ 2,497	\$ (28,533)
Net income per common share:			
Basic	\$ 0.26	\$ 0.04	
Diluted	\$ 0.24	\$ 0.04	
Weighted average shares outstanding:			
Basic	52,898,984	52,998,303	
Diluted	56,362,916	57,840,414	

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

**Table of Contents****GOLD RESOURCE CORPORATION****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS***for the three months ended March 31, 2012 and 2011**and for the period from Inception (August 24, 1998) to March 31, 2012**(U.S. dollars in thousands)**(Unaudited)*

	<i>( As Restated, see Note 11) 2012</i>	<i>2011</i>	<i>( As Restated, see Note 11) Inception (August 24, 1998) to March 31, 2012</i>
Cash flows from operating activities:			
Net income (loss)	\$ 13,504	\$ 2,033	\$ (26,018)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	296	144	1,840
Accretion	20	21	170
Asset retirement obligation			2,307
Stock-based compensation	2,056	1,377	18,107
Management fee paid in stock			392
Related party payable paid in stock			320
Foreign currency translation adjustment	1,464	464	(2,514)
Unrealized loss (gain) from gold and silver bullion held	(198)		230
Deferred tax assets			(30,635)
Other			29
Changes in operating assets and liabilities:			
Accounts receivable	338	(3,209)	(13,943)
Inventories	(3,210)	(4,688)	(7,453)
IVA taxes receivable	(1,674)	(424)	(6,099)
Prepaid expenses	88		(864)
Accounts payable	(683)	449	1,008
Accrued expenses	(358)	(230)	4,522
IVA taxes payable	3,158	501	8,142
Income taxes payable	(9,854)		6,133
Dividends payable			2,645
Other		(9)	(8)
Total adjustments	(8,557)	(5,604)	(15,671)
Net cash provided by (used in) operating activities	4,947	(3,571)	(41,689)
Cash flows from investing activities:			
Capital expenditures	(2,302)	(1,425)	(14,625)

Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Purchase of gold and silver bullion	(2,879)		(5,856)
Net cash (used in) investing activities	(5,181)	(1,425)	(20,481)
<b>Cash flows from financing activities:</b>			
Proceeds from sales of common stock			150,633
Proceeds from exercise of stock options			428
Proceeds from debentures founders			50
Dividends paid	(7,935)	(4,770)	(43,749)
Treasury stock purchases			(1,954)
Proceeds from exploration funding agreement			500
Net cash provided by (used in) financing activities	(7,935)	(4,770)	105,908
Effect of exchange rates on cash and equivalents	213	88	266
Net increase (decrease) in cash and equivalents	(7,956)	(9,678)	44,004
Cash and equivalents at beginning of period	51,960	47,582	
Cash and equivalents at end of period	\$ 44,004	\$ 37,904	\$ 44,004
<b>Supplemental Cash Flow Information</b>			
Interest paid	\$	\$	\$
Income taxes paid	\$ 17,305	\$	\$ 17,305
<b>Non-cash investing and financing activities:</b>			
Conversion of funding into common stock	\$	\$	\$ 500
Conversion of founders debentures into common stock	\$	\$	\$ 50

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

**Table of Contents**

**GOLD RESOURCE CORPORATION**

**(An Exploration Stage Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**(Unaudited)**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Gold Resource Corporation (the Company) was organized under the laws of the State of Colorado on August 24, 1998. The Company was initially engaged solely in the exploration for precious and base metals in Mexico. In July 2010, the Company emerged as a producer of gold and silver metals concentrates and base metal concentrates. The Company is now evaluating additional properties both inside and outside of Mexico.

**Significant Accounting Policies**

**Exploration Stage Company:** Despite the fact that the Company commenced production in 2010, it is still considered an exploration stage company under the criteria set forth by the Securities and Exchange Commission (SEC) since it has not yet demonstrated the existence of proven or probable reserves, as defined by the SEC, at its *El Aguila* Project in Oaxaca, Mexico or any of its properties. As a result, and in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for exploration stage companies, all expenditures for exploration and evaluation of the Company's properties are expensed as incurred and unless mineralized material is classified as proven or probable reserves, substantially all expenditures for mine and mill construction have been and will continue to be expensed as incurred. Certain expenditures, such as for rolling stock or other general-purpose equipment, may be capitalized, subject to evaluation of the possible impairment of the asset. The Company expects to remain as an exploration stage company for the foreseeable future, even though it has reached commercial production. The Company will not exit the exploration stage unless and until it demonstrates the existence of proven or probable reserves that meet the SEC guidelines.

**Proven and Probable Reserves:** The definition of proven and probable reserves is set forth in SEC *Industry Guide 7*. Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; (b) grade and/or quality are computed from the results of detailed sampling; and (c) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven 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 reserves, is high enough to assume continuity between points of observation. In addition, reserves cannot be considered proven and probable until they are supported by a feasibility study, indicating that the reserves have had the requisite geologic, technical and economic work performed and are economically and legally extractable at the time of the reserve determination.

As of March 31, 2012, none of the mineralized material at the Company's *El Aguila* Project or its properties met the SEC's definition of proven or probable reserves.

**Basis of Presentation :** The consolidated balance sheet as of December 31, 2011 was derived from audited financial statements at that date, but this report does not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete audited financial statements. The interim consolidated financial statements included herein have been prepared by the Company, without audit, in accordance with the rules and regulations of the SEC pursuant to Item 210 of Regulation S-X promulgated by the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such SEC rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management's opinion, the unaudited consolidated financial statements contained herein reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company's financial position, results of operations, and cash flows on a basis

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

consistent with that of its prior audited consolidated financial statements. However, the results of operations for interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto, including the summary of significant accounting policies, included in the Company's Form 10-K for the year ended December 31, 2011. Unless otherwise noted, there have been no material changes in the footnotes from those accompanying the audited financial statements contained in the Company's Form 10-K.

**Use of Estimates:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. Estimates that are critical to the accompanying unaudited consolidated financial statements include, but are not limited to, the identification and valuation of proven and probable reserves; valuation of gold and silver bullion; valuation of accounts receivable for metals concentrates; ore and concentrate inventories; recoverability of prepaid expenses; obligations

**Table of Contents**

for environmental, reclamation, and closure matters; estimates related to asset impairments of long lived assets and investments; classification of expenditures as either an asset or an expense; stock-based compensation expenses; valuation of deferred tax assets; and the likelihood of loss contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions are revised periodically and the effects of revisions are reflected in the financial statements in the period it is determined to be necessary. Actual results could differ from these estimates.

**Reclassifications:** Certain amounts previously presented for prior periods have been reclassified to conform to the current presentation. The reclassifications had no effect on the Company's consolidated financial position, results of operations or cash flows.

**Revenue Recognition :** Sales of all metals products sold directly to the Company's metals concentrate buyer, including by-product metals, are recorded as revenue when title and risk of loss transfer to the buyer (generally at the time shipment is delivered at buyer's port) at estimated forward prices for the anticipated month of settlement. Due to the time elapsed between shipment and the final settlement with the buyer, the Company must estimate the prices at which sales of metals will be settled. At the end of each financial reporting period, previously recorded provisional sales are adjusted to estimated settlement metals prices until final settlement with the buyer.

Sales to the Company's buyer are recorded net of charges for treatment, refining, smelting losses, and other charges negotiated by the Company with the buyer. Charges are estimated upon shipment of concentrates based on contractual terms, and actual charges do not vary materially from estimates. Costs charged by smelters include a metals payable fee, fixed treatment and refining costs per ton of concentrate.

Changes in metals prices on the London Bullion Market between shipment and final settlement will result in adjustments to revenues related to sales of concentrate previously recorded upon shipment. Concentrate sales, which are initially recorded based on estimated forward pricing, 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 the concentrates at the forward price at the time of the sale. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through earnings each period prior to final settlement.

Changes in the market price of metals can significantly affect the Company's revenues, results of operations and cash flow. Metals prices can and often do fluctuate widely and are affected by numerous factors beyond the Company's control, such as political and economic conditions, demand, forward selling by producers, expectations for inflation, custom smelter activities, the relative exchange rate of the U.S. dollar, investor sentiment, and global mine production levels. The aggregate effect of these factors is impossible to predict. Because the Company's revenue is derived from the sale of gold, silver, copper, lead and zinc, its results of operations are directly related to the prices of these metals.

**Concentration of Credit Risk:** During the three months ended March 31, 2012, 100% of the Company's revenues and accounts receivable were the result of sales to Consorcio Minero de Mexico Cormin Mex. S.A. de C.V. ( Consorcio ), a subsidiary of the Trafigura Group Company. For the three months ended March 31, 2011, 84.1% of the Company's revenues and accounts receivables were the result of sales to Consorcio Minero de Mexico Cormin Mex. S.A. de C.V. ( Consorcio ) and 15.9% of the Company's revenues and accounts receivables were the result of sales to Trafigura Beheer, B.V. ( Beheer ) of Lucerne Switzerland, also a subsidiary of the Trafigura Group Company.

Sales to Consorcio and Beheer are made under separate contracts with different contract terms. The Company has carefully considered and assessed the credit risk resulting from its concentrate sales arrangements with Consorcio and Beheer and believes it is not exposed to significant credit risk in relation to the counterparty meeting its contractual obligations as it pertains to its trade receivables during the ordinary course of business. In the event that the Company's relationship with Consorcio or Beheer is interrupted for any reason, it believes that it would be able to locate another entity to purchase the metals concentrate and by-product metals. However, any interruption could temporarily disrupt the Company's sale of its principal products and adversely affect operating results.

The Company's *El Aguilá* Project, which is located in the state of Oaxaca, Mexico, accounted for 100% of the Company's total sales of metals concentrate for the three months ended March 31, 2012 and 2011.

Some of the Company's operating cash balances are maintained in accounts that currently exceed federally insured limits. The Company believes that the financial strength of institutions mitigate the underlying risk of loss. To date, these concentrations of credit risk have not had a significant impact on the Company's financial position or results of operations.

**Foreign Translation Gain (Loss) and Foreign Currency Transaction Gain (Loss) :** The functional currency for the Company's subsidiaries is the Mexican peso. Translation adjustments are not included in the determination of net income for the period and are reported as a separate component of shareholders' equity. For the three months ended March 31, 2012 and 2011, the Company recognized a currency translation gain of \$1.5 million and \$464,000, respectively.

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Certain monetary assets and liabilities where transactions are transacted in the U.S. dollar are translated at current exchange rates and the resulting adjustments are included in other income (expense). For the three months ended March 31, 2012 and 2011, we recognized total net currency exchange loss of \$2.2 million and \$152,000, respectively.

**Net Income (Loss) Per Share:** Diluted income per share reflects the potential dilution that could occur if potentially dilutive securities, as determined using the treasury stock method, are converted into common stock. Potentially dilutive securities, such as stock options and warrants, are excluded from the calculation when their inclusion would be anti-dilutive, such as periods when a net loss is reported or when the exercise price of the instrument exceeds the fair market value. During the three months ended March 31, 2012 and 2011, the calculation included potential dilution of 3.5 million shares and 3.5 million shares, respectively, underlying exercisable stock options.

**Table of Contents**

**Fair Value of Financial Instruments:** The Company's financial instruments consist of cash and cash equivalents, investments in gold and silver bullion, accounts receivable and accounts payable as of March 31, 2012 and December 31, 2011. The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximated their fair values at March 31, 2012 and December 31, 2011 due to their short maturities. See also Note 2, Gold and Silver Bullion.

**Recently Adopted Accounting Standards:** The Company evaluates the pronouncements of various authoritative accounting organizations, primarily the Financial Accounting Standards Board ( FASB ), the SEC, and the Emerging Issues Task Force ( EITF ), to determine the impact of new pronouncements on U.S. GAAP on the Company. The following are recent accounting pronouncements adopted by the Company:

In May 2011, the FASB issued Accounting Standards Update ( ASU ) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. On January 1, 2012, the Company adopted ASU 2011-04 and does not anticipate that it will materially expand its consolidated financial statement footnote disclosures or have an impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income* ( ASU 2011-05 ), which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011, with early adoption permitted. On January 1, 2012 the Company adopted ASU 2011-05 and does not anticipate that it will have an impact on the Company's consolidated financial position, results of operations or cash flows as it only requires a change in the format of the current presentation.

**2. Gold and Silver Bullion**

The Company continues to invest a portion of its treasury in physical gold and silver bullion. The bullion was purchased to diversify the Company's treasury and may also be used in conjunction with a recently adopted program offering shareholders the ability to receive gold and silver bullion in lieu of cash payment of dividends. It is expected that the bullion will be minted into rounds. Since ASC Topic 815 does not consider gold and silver to be readily convertible to cash, the Company carries this asset at the lower of cost or market. The table below shows the balance of the Company's holdings as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Gold	Silver	Gold	Silver
	<i>(in thousands, except ounces and per ounce)</i>		<i>(in thousands, except ounces and per ounce)</i>	
Ounces	1,672	87,641	868	41,728
Average cost per ounce	\$ 1,709.76	\$ 34.21	\$ 1,720.93	\$ 35.55
Fair value per ounce	\$ 1,662.98	\$ 32.47	\$ 1,574.50	\$ 28.32
Total cost	\$ 2,858	\$ 2,998	\$ 1,494	\$ 1,484
Total fair value	\$ 2,780	\$ 2,846	\$ 1,367	\$ 1,182

ASC 820: Fair Value Measurement ( ASC 820 ) establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value measurement of each class of assets and liabilities is dependent upon its categorization within the fair value hierarchy, based upon the lowest level of input that is significant to the fair value measurement of each class of asset and liability. Pursuant to the GAAP fair value hierarchy established in ASC 820, the fair value of the Company's gold and silver bullion is established based on quoted prices in active markets for identical assets or liabilities (Level 1); specifically, the fair value is based on the daily London P.M. fix as of March 31, 2012. The unrealized gain of \$198,000 was included in the Company's other income (expense) for the three months ended March 31, 2012. There were no unrealized gains or losses recognized for the three months ended March 31, 2011 since the Company did not hold an investment in gold and silver bullion during that time.



**3. Inventory**

Inventories at March 31, 2012 and December 31, 2011 consisted of the following:

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
	<i>(in thousands)</i>	
Ore stockpiles	\$ 1,673	\$ 1,629
Concentrates	2,986	663
Materials and supplies	2,794	1,951
 Total inventories	 \$ 7,453	 \$ 4,243

**Table of Contents**

As of March 31, 2012 and December 31, 2011, the ore stockpiles inventories consisted of approximately 134,000 tonnes and 140,000 tonnes of ore, respectively, and were carried at cost. The stockpiled ore as of March 31, 2012 and December 31, 2011 consisted of ore from the underground mine and the open pit mine. Ore from underground is more costly to mine than ore from the open pit.

**4. Other income (expense)**

Other income (expense) for the three months ended March 31, 2012 and 2011 consisted of the following:

	<b>Three Months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(in thousands)</i>	
Currency exchange loss	\$ (2,225)	\$ (152)
Unrealized gain from gold and silver bullion held	198	
Interest income	35	26
Other Income	3	6
<b>Total other income (expense)</b>	<b>\$ (1,989)</b>	<b>\$ (120)</b>

**5. Property and Equipment**

At March 31, 2012 and December 31, 2011, property and equipment consisted of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	<i>(in thousands)</i>	
Trucks and autos	\$ 1,319	\$ 1,095
Building	1,737	1,737
Office furniture and equipment	1,962	1,768
Machinery and equipment	9,129	7,245
<b>Subtotal</b>	<b>14,147</b>	<b>11,845</b>
Accumulated depreciation	(1,824)	(1,527)
<b>Total property and equipment, net</b>	<b>\$ 12,323</b>	<b>\$ 10,318</b>

Depreciation expense for the three months ended March 31, 2012 and 2011 was \$296,000 and \$144,000 respectively. The Company evaluates the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired.

**6. Income Taxes (restated)**

The Company recorded an income tax expense of \$6.1 million (restated), a 31% (restated) effective tax rate, for the period ending March 31, 2012, compared to an income tax expense of \$0 million, a 0% effective tax rate, for the period ending March 31, 2011. The income tax expense recognized for the period ending March 31, 2012 was primarily the result of increased production of metal products resulting in income tax expense recognized in Mexico.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income and tax-planning strategies in making this assessment. As of March 31, 2012, the Company believes it has sufficient positive evidence to conclude that realization of its federal, state and the foreign deferred tax assets of Gold Resource Corporation and Golden Trump Resources, S.A. de C.V. are more likely than not to be realized.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2012, the Company made no provision for interest or penalties related to uncertain tax positions. The Company files income tax returns in U.S. and Mexico federal jurisdiction and various states. There are currently no Mexican or U.S. federal or state income tax examinations underway for these jurisdictions. Furthermore, the Company is no longer subject to U.S. federal income tax examinations by the Internal Revenue Service, state or local tax authorities for tax years ended on or before December 31, 2009 or Mexican tax examinations for tax years ended on or before December 31, 2007. Although certain tax years are closed under the statute of limitations, tax authorities can still adjust tax losses being carried forward to open tax years.

**Table of Contents****7. Asset Retirement Obligation**

The Company's asset retirement obligation ( ARO ) relates to the reclamation, remediation, and closure costs for its *El Aguila* Project. Changes in the Company's asset retirement obligation for the three months ended March 31, 2012 and year ended December 31, 2011 are as follows:

	Three months ended March 31, 2012	Year ended December 31, 2011
	<i>(in thousands)</i>	
Asset retirement obligation opening balance	\$ 2,281	\$ 2,495
Foreign currency translation	213	(296)
Accretion	20	82
Asset retirement obligation ending balance	\$ 2,514	\$ 2,281

**8. Shareholders Equity**

The Company declared dividends of \$7.9 million and paid dividends of \$7.9 million during the three months ended March 31, 2012. During the three months ended March 31, 2011, the Company declared dividends of \$4.8 million and paid dividends of \$4.8 million. The dividends were considered ordinary dividends during the three months ended March 31, 2012 since the Company had current earnings and profits and dividends paid were charged against the Company's additional paid in capital. During the three months ended March 31, 2011, the dividends were considered return of capital dividend since Gold Resource Corporation, as a stand-alone US corporation, had no current or accumulated tax-basis earnings or profits and dividends paid were charged against the Company's additional paid in capital.

Subsequent to March 31, 2012, the Company declared regular monthly cash dividends of \$0.06 per common share as described in Note 12.

On September 23, 2011, the Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to \$20.0 million of its common stock from time to time in market transactions. There is no pre-determined end date associated with the share repurchase program. As of March 31, 2012, the Company had repurchased 104,251 shares of common stock for \$1,954,000.

**9. Concentrate Sales Settlements (restated)**

The Company records adjustments to sales of metal concentrates that result from final settlement of provisional invoices in the period that the final invoice settlement occurs. The Company also reviews assays taken at the mine site on its concentrate shipments, upon which its provisional invoices are based, to assays obtained from samples taken at the buyer's warehouse prior to final settlement, upon which final invoices are in part based, to assess whether an adjustment to sales is required prior to final invoice settlement. These adjustments resulted in a decrease to sales of \$2.9 million (restated) for the three months ended March 31, 2012, and an increase to sales of \$0.1 million for the three months ended March 31, 2011.

In addition to the final settlement adjustments on provisional invoices, the Company records a sales adjustment to mark-to-market outstanding provisional invoices at the end of each reporting period. These adjustments resulted in an increase to sales of \$0.0 million (restated) for the three months ended March 31, 2012, and an increase to sales of \$0.7 million for the three months ended March 31, 2011.

Smelter refining fees, treatment charges and penalties are netted against sales of metal concentrates in the consolidated statement of operations. Total charges for these items totaled \$4.6 million (restated) for the three months ended March 31, 2012, and \$0.7 million for the three months ended March 31, 2011.

**10. Stock Options**

The Company has a non-qualified stock option and stock grant plan under which equity awards may be granted to key employees, directors and others (the Plan). Refer to Note 10, Stock Options, in Item 8. Financial Statements and Supplementary Data appearing in our Annual Report on

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Form 10-K for the year ended December 31, 2011 for further information on our share-based compensation arrangements.

The fair value of stock option grants is amortized over the respective vesting period. Total non-cash compensation expense related to stock options included in general and administrative expense for the three months ended March 31, 2012 and 2011 was \$2.1 million and \$1.4 million, respectively. The estimated unrecognized compensation cost from unvested options as of March 31, 2012 was approximately \$21.4 million, which is expected to be recognized over the remaining vesting periods, up to 3.0 years. The estimated unrecognized compensation expense from unvested options as of March 31, 2011 was approximately \$14.5 million, which was expected to be recognized over the remaining vesting periods, up to 3.25 years.

### **11. Restatement of Consolidated Financial Statements (restated)**

Management, after consultation with the Board of Directors, Audit Committee and the Company's independent registered public accounting firm, determined that the Company's financial statements for the first and second quarters of 2012 contained errors relating to the recognition of sales of metal concentrates, and should be restated and accordingly, that the Original Filing should no longer be relied upon. Management made this determination following an assessment of material differences between preliminary assays taken from samples of concentrates at the mine site, with assays taken from samples of concentrates at the buyer's warehouse, prior to final settlement. An assay is a metallurgical process for testing concentrate samples to determine the amount and purity of metals contained within those concentrate samples. Management believes that the material assay variances resulted from concentrate tampering sometime after the concentrates left the mine site, and prior to the concentrates being sampled while at the buyer's warehouse. Management concluded that sales of metal concentrates should have been adjusted at the time the material assay differences were known.

**Table of Contents**

Financial statement effect of the restatement:

The error resulted in a \$4.0 million reduction to revenues (including pricing and other settlement adjustments with the buyer), a \$0.2 million reduction to production costs applicable to sales and a \$1.2 million reduction to provision for income taxes for the three months ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012, and a \$4.0 million reduction to accounts receivable, a \$0.2 million reduction to accounts payable and a \$1.2 million reduction to income taxes payable as of March 31, 2012.

The tables below shows the effects of the restatement on the consolidated balance sheet as of March 31, 2012, and the consolidated statements of operations for the three months ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012, and the consolidated statements of cash flows for the three months ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012.

**Table of Contents**

The following tables summarizes the effects of the restatement:

	<i>As Previously Reported March 31, 2012</i>	<i>As Restated March 31, 2012</i>	<i>Restatement Adjustments March 31, 2012</i>
	<i>(U.S. dollars in thousands, except shares)</i>		
<i>(unaudited)</i>			
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 44,004	\$ 44,004	\$
Gold and silver bullion	5,626	5,626	
Accounts receivable	17,900	13,943	(3,957)
Inventories	7,453	7,453	
IVA taxes receivable	6,099	6,099	
Deferred tax assets	11,118	11,118	
Prepaid expenses	864	864	
<b>Total current assets</b>	<b>93,064</b>	<b>89,107</b>	<b>(3,957)</b>
Land and mineral rights	227	227	
Property and equipment net	12,323	12,323	
Deferred tax asset	19,517	19,517	
Other assets	7	7	
<b>Total assets</b>	<b>\$ 125,138</b>	<b>\$ 121,181</b>	<b>\$ (3,957)</b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
Current liabilities:			
Accounts payable	\$ 1,160	\$ 1,008	\$ (152)
Accrued expenses	4,522	4,522	
IVA taxes payable	8,142	8,142	
Income taxes payable	7,320	6,133	(1,187)
Dividends payable	2,645	2,645	
<b>Total current liabilities</b>	<b>23,789</b>	<b>22,450</b>	<b>(1,339)</b>
Asset retirement obligation	2,514	2,514	
<b>Total liabilities</b>	<b>26,303</b>	<b>24,964</b>	<b>(1,339)</b>
Shareholders' equity:			
Preferred stock \$0.001 par value, 5,000,000 shares authorized: no shares issued and outstanding			
Common stock \$0.001 par value, 100,000,000 shares authorized: 53,006,871 and 52,998,303 shares issued and outstanding, respectively	53	53	
Additional paid-in capital	126,650	126,650	
(Deficit) accumulated during the exploration stage	(23,400)	(26,018)	(2,618)
Treasury stock at cost, 104,251 shares	(1,954)	(1,954)	
Other comprehensive income currency translation adjustment	(2,514)	(2,514)	
<b>Total shareholders' equity</b>	<b>98,835</b>	<b>96,217</b>	<b>(2,618)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 125,138</b>	<b>\$ 121,181</b>	<b>\$ (3,957)</b>





**Table of Contents**

	<i>As Previously Reported , Three months ended March 31, 2012</i>	<i>As Restated Three months ended March 31, 2012</i>	<i>Restatement Adjustments Three months ended March 31, 2012</i>
Sales of metals concentrate, net	\$ 40,622	\$ 36,665	\$ (3,957)
Mine cost of sales:			
Production costs applicable to sales	6,679	6,527	(152)
Depreciation and amortization	232	232	
Accretion	20	20	
Total mine cost of sales	6,931	6,779	(152)
Mine gross profit	33,691	29,886	(3,805)
Costs and expenses:			
General and administrative expenses	2,571	2,571	
Stock-based compensation	2,056	2,056	
Exploration expenses	1,353	1,353	
Construction and development	2,358	2,358	
Total costs and expenses	8,338	8,338	
Operating income	25,353	21,548	(3,805)
Other (expense)	(1,989)	(1,989)	
Income before income taxes	23,364	19,559	(3,805)
Provision for income taxes	7,242	6,055	(1,187)
Net income	\$ 16,122	\$ 13,504	\$ (2,618)
Other comprehensive (loss) income:			
Currency translation gain	1,464	1,464	
Net comprehensive income	\$ 17,586	\$ 14,968	\$ (2,618)
Net income per common share:			
Basic	\$ 0.30	\$ 0.26	\$ 0.04
Diluted	\$ 0.29	\$ 0.24	\$ 0.05
Weighted average shares outstanding:			
Basic	52,898,984	52,898,984	
Diluted	56,362,916	56,362,916	

**Table of Contents**

	<i>As Previously Reported Inception (August 24, 1998) to March 31, 2012</i>	<i>As Restated Inception (August 24, 1998) to March 31, 2012</i>	<i>Restatement Adjustments Inception (August 24, 1998) to March 31, 2012</i>
Sales of metals concentrate, net	\$ 160,539	\$ 156,582	\$ (3,957)
Mine cost of sales:			
Production costs applicable to sales	28,802	28,650	(152)
Depreciation and amortization	871	871	
Accretion	170	170	
Total mine cost of sales	29,843	29,691	(152)
Mine gross profit	130,696	126,891	(3,805)
Costs and expenses:			
General and administrative expenses	27,868	27,868	
Stock-based compensation	16,460	16,460	
Exploration expenses	35,458	35,458	
Construction and development	77,274	77,274	
Production start up expense, net	209	209	
Management contract expense	752	752	
Total costs and expenses	158,021	158,021	
Operating income	(27,325)	(31,130)	(3,805)
Other (expense)	886	886	
Income before income taxes	(26,439)	(30,244)	(3,805)
Provision for income taxes	(4,795)	(5,982)	(1,187)
	(21,644)	(24,262)	(2,618)
Extraordinary items:			
Flood loss, net of income tax benefit of \$750	(1,756)	(1,756)	
Net income	\$ (23,400)	\$ (26,018)	\$ (2,618)
Other comprehensive (loss) income:			
Currency translation gain	(2,515)	(2,515)	
Net comprehensive income	\$ (25,915)	\$ (28,533)	\$ (2,618)

**Table of Contents**

	<i>As Previously Reported Three months ended March 31, 2012</i>	<i>As Restated Three months ended March 31, 2012</i>	<i>Restatement Adjustments Three months ended March 31, 2012</i>
<b>Cash flows from operating activities:</b>			
Net income	\$ 16,122	\$ 13,504	\$ (2,618)
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	296	296	
Accretion	20	20	
Stock-based compensation	2,056	2,056	
Foreign currency translation adjustment	1,464	1,464	
Unrealized (gain) from gold and silver bullion held	(198)	(198)	
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	(3,619)	338	3,957
Inventories	(3,210)	(3,210)	
IVA taxes receivable	(1,674)	(1,674)	
Prepaid expenses	88	88	
Accounts payable	(531)	(683)	(152)
Accrued expenses	(358)	(358)	
IVA taxes payable	3,158	3,158	
Income taxes payable	(8,667)	(9,854)	(1,187)
Total adjustments	(11,175)	(8,557)	(2,618)
Net cash provided by operating activities	4,947	4,947	
<b>Cash flows from investing activities:</b>			
Capital expenditures	(2,302)	(2,302)	
Purchase of gold and silver bullion	(2,879)	(2,879)	
Net cash (used in) investing activities	(5,181)	(5,181)	
<b>Cash flows from financing activities:</b>			
Dividends paid	(7,935)	(7,935)	
Net cash (used in) financing activities	(7,935)	(7,935)	
Effect of exchange rates on cash and equivalents	213	213	
Net (decrease) in cash and equivalents	(7,956)	(7,956)	
Cash and equivalents at beginning of period	51,960	51,960	
Cash and equivalents at end of period	\$ 44,004	\$ 44,004	\$
<b>Supplemental Cash Flow Information</b>			
Interest paid	\$	\$	\$
Income taxes paid	\$ 17,305	\$ 17,305	\$

**Table of Contents**

	<i>As Previously Reported Inception (August 24, 1998) to March 31, 2012</i>	<i>As Restated Inception (August 24, 1998) to March 31, 2012</i>	<i>Restatement Adjustments Inception (August 24, 1998) to March 31, 2012</i>
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ (23,400)	\$ (26,018)	\$ (2,618)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>			
Depreciation and amortization	1,840	1,840	
Accretion	170	170	
Asset retirement obligation	2,307	2,307	
Stock-based compensation	18,107	18,107	
Management fee paid in stock	392	392	
Related party payable paid in stock	320	320	
Foreign currency translation adjustment	(2,514)	(2,514)	
Unrealized loss (gain) from gold and silver bullion held	230	230	
Deferred tax assets	(30,635)	(30,635)	
Other	29	29	
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	(17,900)	(13,943)	3,957
Inventories	(7,453)	(7,453)	
IVA taxes receivable	(6,099)	(6,099)	
Prepaid expenses	(864)	(864)	
Accounts payable	1,160	1,008	(152)
Accrued expenses	4,522	4,522	
IVA taxes payable	8,142	8,142	
Income taxes payable	7,320	6,133	(1,187)
Dividends payable	2,645	2,645	
Other	(8)	(8)	
<b>Total adjustments</b>	<b>(18,289)</b>	<b>(15,671)</b>	<b>(2,618)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(41,689)</b>	<b>(41,689)</b>	
<b>Cash flows from investing activities:</b>			
Capital expenditures	(14,625)	(14,625)	
Purchase of gold and silver bullion	(5,856)	(5,856)	
<b>Net cash (used in) investing activities</b>	<b>(20,481)</b>	<b>(20,481)</b>	
<b>Cash flows from financing activities:</b>			
Proceeds from sales of common stock	150,633	150,633	
Proceeds from exercise of stock options	428	428	
Proceeds from debentures founders	50	50	
Dividends paid	(43,749)	(43,749)	
Treasury stock purchases	(1,954)	(1,954)	
Proceeds from exploration funding agreement	500	500	
<b>Net cash provided by (used in) financing activities</b>	<b>105,908</b>	<b>105,908</b>	
<b>Effect of exchange rates on cash and equivalents</b>	<b>266</b>	<b>266</b>	
<b>Net increase (decrease) in cash and equivalents</b>	<b>44,004</b>	<b>44,004</b>	

Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Cash and equivalents at beginning of period			
Cash and equivalents at end of period	\$	44,004	\$ 44,004 \$
Supplemental Cash Flow Information			
Interest paid	\$		\$ \$
Income taxes paid	\$	17,305	\$ 17,305 \$
Non-cash investing and financing activities:			
Conversion of funding into common stock	\$	500	\$ 500 \$
Conversion of founders debentures into common stock	\$	50	\$ 50 \$

---

## **Table of Contents**

### **12. Subsequent Events**

On April 30, 2012, the Company declared a regular monthly dividend of \$0.06 per common share to shareholders of record on May 10, 2012, and payable on May 23, 2012.

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

The following discussion summarizes the results of operations of Gold Resource Corporation and its subsidiaries (we, our, or us) for the three months ended March 31, 2012 and compares those results to the three months ended March 31, 2011. It also analyzes our financial condition at March 31, 2012 and compares it to our financial condition at December 31, 2011. This discussion should be read in conjunction with the Management's Discussion and Analysis and the audited financial statements for the years ended December 31, 2011 and 2010 and footnotes contained in our Form 10-K for the year ended December 31, 2011.

The discussion also presents certain metrics 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 relied on as part of management's decision-making process. Management believes these metrics may also be important to investors in evaluating our performance.

### **Restatement**

With this Amendment 1 we have restated the following previously filed consolidated financial statements, data and related disclosures: the consolidated balance sheet as of March 31, 2012, the consolidated statements of operations for the three months ended March 31, 2012 and for the period from Inception (August 24, 1998) to March 31, 2012, and the consolidated statements of cash flows for the three months ended March 31, 2012, and for the period from Inception (August 24, 1998) to March 31, 2012. See Note 11 to the consolidated financial statements, restated. The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the audited consolidated financial statements and notes thereto and the MD&A included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as well as the Company's other filings with the SEC.

The restatement results from management's determination that the Company's consolidated financial statements for the first and second quarters of 2012 contained errors relating to the recognition of sales of metal concentrates. Management made this determination in the fourth quarter of 2012 following an assessment of material differences between preliminary assays taken from samples of concentrates at the mine site, with assays taken from samples of concentrates at the buyer's warehouse, prior to final settlement. An assay is a metallurgical process for testing concentrate samples to determine the amount and purity of metals contained within those concentrate samples. Management believes that the material assay variances resulted from concentrate tampering sometime after the concentrates left the mine site, and prior to the concentrates being sampled while at the buyer's warehouse. Management concluded that sales of metal concentrates should have been adjusted at the time the material assay differences were known.

In addition, management concluded that the internal control deficiency in its concentrate sales process constituted a material weakness in the design of its internal controls over financial reporting. Accordingly, this Amendment amends the Company's disclosures regarding the effectiveness of its disclosure controls and procedures as of March 31, 2012 and changes in internal control over financial reporting. Management believes that as of September 30, 2012, the material weakness in its internal controls over the concentrate sales process that existed as of March 31, 2012 and June 30, 2012 has been remediated.

The following MD&A reflects the restatements. For this reason, the data set forth in this section may differ from that presented in discussions and data in our previously filed Quarterly Report on Form 10-Q for the period ended March 31, 2012.

### *Non-GAAP Measure - Total Cash Cost per Gold Equivalent Ounce Sold*

In this Amendment, we have changed our presentation of total cash costs to reflect total cash cost (including royalties) per gold equivalent ounce sold, calculated in accordance with the Gold Institute's Standard, to be consistent with our reporting of this Non-GAAP measure in the second and third quarters of 2012.

### **Overview (restated)**

#### *Business*

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Gold Resource Corporation is a mining company that pursues gold and silver projects that are expected to feature low operating costs and high returns on capital and is presently focused on mineral production at the *El Aguila* Project in Oaxaca, Mexico. We began commercial production of metal concentrates in July 2010. Our concentrates contain our primary metal products of gold and silver and also contain copper, lead and zinc, which we consider by-products. For the three months ended March 31, 2012, the sale of our metal concentrates generated revenues of \$36.7 million (restated), our highest quarterly revenue since inception, mine gross profit of \$29.9 million (restated) and net income of \$13.5 million (restated).

For the first quarter of 2012, we sold a record 20,985 (restated) ounces precious metal gold equivalent (AuEq) at a total cash cost (including royalties expense) of \$269 (restated) per AuEq ounce. Precious metal gold equivalent is determined by taking the silver payable metal ounces sold and converting them to the dollar equivalent of gold by using the gold to silver average price ratio. The gold and silver average prices used in the calculation are the actual metal prices realized from the sales of our metals concentrate. (Please see the section titled **Non-GAAP Measure** below for additional information concerning the cash cost per ounce measure.)

### *Exploration Stage Company*

We are considered an exploration stage company under the SEC criteria since we have not demonstrated the existence of proven or probable reserves at our *El Aguila* Project or any of our other properties in Oaxaca, Mexico. Accordingly, as required by the SEC guidelines ( *see* Note 1 to the Unaudited Consolidated Financial Statements) and U.S. GAAP for companies in the exploratory stage, substantially all of our investment in mining properties to date, including construction of the mill and mines, have been expensed and therefore do not appear as assets on our balance sheet. We expect to expense additional construction and development expenditures in 2012 related to the *La Arista* underground mine. All expenditures for exploration and evaluation of our properties are expensed as incurred. Certain expenditures, such as expenses for rolling stock or other general purpose equipment may be capitalized, subject to our evaluation of the possible impairment of the asset.

Our characterization as an exploration stage company and the required classification of construction and development expenditures as an operating expense rather than as a capital expenditure has caused us to report lower net income in 2012 and 2011 than if we had capitalized the expenditures. Additionally, we will not have a corresponding depreciation or amortization expense for these costs in the future since they are expensed as incurred rather than capitalized. Although the majority of the capital expenditures for the *El Aguila* Project were completed between

**Table of Contents**

2007 and 2010, we expect underground mine construction to continue in future years. In comparison to other mining companies that capitalize development expenditures because they have exited the exploration stage, we may report lesser profits as a result of this ongoing construction, which will be expensed instead of capitalized for accounting purposes.

We expect to remain as an exploration stage company for the foreseeable future, even though we have reached commercial production. We will not exit the exploration stage until such time, if ever, that we demonstrate the existence of proven or probable reserves that meet the SEC guidelines. Likewise, unless mineralized material is classified as proven or probable reserves, substantially all expenditures for mine and mill construction have been or will be expensed as incurred.

*Exploration Activities*

We continue to drill and conduct additional exploration at the *La Arista* underground mine, located at the *El Aguila* Project, to further delineate the vein system. Other *El Aguila* exploration activities consist of drilling on the balance of the property to test new targets. Our primary focus for 2012 is to expand the *La Arista* vein system. Secondly, we will continue to test targets elsewhere on our properties.

*Other Events*

We continue to purchase gold and silver bullion to diversify the Company's treasury and for use in conjunction with our dividend program which allows our shareholders to convert their cash dividends into physical gold and silver rounds minted from the bullion we purchased. During the three months ended March 31, 2012, we purchased approximately 804 ounces gold and 45,913 ounces silver at market prices for a total cost of \$2.9 million.

**Results of Operations (restated)** The following table summarizes our results of operations for the three months ended March 31, 2012 compared to the three months ended March 31, 2011:

	Three Months Ended March 31, (As Restated)	
	2012	2011
Sales of metals concentrate, net	\$ 36,665	\$ 11,280
Mine cost of sales	6,527	2,437
<b>Mine gross profit</b>	<b>29,886</b>	<b>8,843</b>
Costs and expenses:		
General and administrative expenses	2,571	1,735
Stock-based compensation	2,056	1,377
Exploration expenses	1,353	512
Construction and development	2,358	3,066
<b>Total costs and expenses</b>	<b>8,338</b>	<b>6,690</b>
Operating income	21,548	2,153
Other income (expense)	(1,989)	(120)
Income before income taxes	19,557	2,033
Provision for income taxes	6,055	
<b>Net income</b>	<b>\$ 13,504</b>	<b>\$ 2,033</b>

*Sales of metals concentrate, net*

During the three months ended March 31, 2012, we generated revenue of \$36.7 million (restated), net of treatment charges, compared to revenues of \$11.3 million during the same period of 2011, an increase of 225% (restated). Metal concentrate sales during 2012 were generated



## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

from the *La Arista* underground mine to which we transitioned in March 2011. Prior to that time, metal concentrate sales were derived from the *El Aguila* open pit mine.

The significant increase in revenue for the three months ended March 31, 2012 as compared to the three months ended March 31, 2011 reflects increased payable metals sold as a result of increased tonnes of higher grade ore milled and improved metal recoveries, in addition to an increase in the average metal prices realized. We also generated revenue in 2012 from sales of base metal concentrates (copper, lead and zinc) which are derived from the *La Arista* underground mine and are considered by-products of our gold and silver production. (See table titled *El Aguila* Production Statistics below for additional information regarding the three months ended March 31, 2012 and 2011).

In the third quarter of 2012, Management determined that the Company's financial statements for the first and second quarters contained errors relating to the recognition of sales of metal concentrates and should be restated. The Company concluded that there was an internal control deficiency in its concentrate sales process that did not prevent or detect on a timely basis material variances between preliminary assays taken from samples of concentrates at the mine site, with those assays taken from samples of concentrates at the buyer's warehouse, prior to final settlement. An assay is a metallurgical process for testing concentrate samples to determine the amount and purity of metals contained within those concentrate samples.

Management believes that the material assay variances resulted from concentrate tampering sometime after the concentrates left the mine site, and prior to the concentrates being sampled while at the buyer's warehouse. Management concluded that sales of metal concentrates should have been adjusted at the time the material assay differences were known. The error resulted in a \$4.0 million reduction in revenues (including pricing and other settlement adjustments with the buyer), a \$0.2 million reduction to production costs applicable to sales and a \$1.2 million reduction to provision for income taxes and for the three months ended March 31, 2012.

### *Production*

Our production for the three months ended March 31, 2012 consisted of ore from our *La Arista* underground mine stockpiles, where the precious metals gold and silver are our main products and the base metals copper, lead and zinc are considered by-products for purposes of mineral production. Our production for the three months ended March 31, 2011 consisted of a combination of ore types from the *La Arista* underground mine and from the *El Aguila* open pit mine (which contains only gold and silver) since we transitioned to processing ore from *La Arista* in March 2011. We continue to focus production activities at the *La Arista* underground mine and our production rate is directly a result of mine development and the establishment of sufficient stopes and working faces. We anticipate the number of stopes and working phases will increase over time and as we go deeper at the mine.

**Table of Contents**

Below is a table of certain key production statistics for our *El Aguila* Project during the three months ended March 31, 2012 and 2011 as restated:

	Production and Sales Statistics		
	La Arista Underground Mine (As Restated,)	La Arista Underground Mine	El Aguila Open Pit Mine
	Three months ended March 31, 2012	One month ended March 31, 2011	Two months ended March 31, 2011
<b>Production Summary</b>			
<b>Milled:</b>			
Tonnes Milled	75,078	15,203	46,409
Tonnes Milled per Day	825	501	829
<b>Grade:</b>			
Average Gold Grade (g/t)	4.27	1.94	3.35
Average Silver Grade (g/t)	483	405	39
Average Copper Grade (%)	0.49		
Average Lead Grade (%)	1.73	0.92	
Average Zinc Grade (%)	3.59	1.92	
<b>Recoveries:</b>			
Average Gold Recovery (%)	89	86	81
Average Silver Recovery (%)	94	89	75
Average Copper Recovery (%)	76		
Average Lead Recovery (%)	74	90	
Average Zinc Recovery (%)	74	74	
<b>Gross Payable metal produced <sup>(2)</sup></b>			
Gold (ozs.)	9,222	305	5,559
Silver (ozs.)	1,091,304	61,350	58,747
Copper (tonnes)	350		
Lead (tonnes)	1,206	57	
Zinc (tonnes)	2,252	31	
<b>Payable metal sold <sup>(2)</sup></b>			
Gold (ozs.)	5,924	279	4,951
Silver (ozs.)	781,422	60,893	55,116
Copper (tonnes)	196		
Lead (tonnes)	711	51	
Zinc (tonnes)	1,081	26	
<b>Average metal prices realized</b>			
Gold ( per oz.)	\$ 1,705	\$ 1,426	\$ 1,381
Silver ( per oz.)	\$ 33	\$ 38	\$ 31
Copper (per tonne)	\$ 8,612		
Lead (per tonne)	\$ 2,142	\$ 2,700	
Zinc (per tonne)	\$ 2,136	\$ 2,319	
<b>Gold equivalent ounces produced (mill production) <sup>(2)</sup></b>			
Gold Ounces	9,222	305	5,559
Equivalent Gold Ounces from Silver	21,033	1,615	
Total Gold Equivalent Ounces	30,255	1,920	5,559
<b>Gold equivalent ounces sold <sup>(2)</sup></b>			
Gold Ounces	5,924	279	4,951
Gold Equivalent Ounces from Silver	15,061	1,603	
Total Gold Equivalent Ounces	20,985	1,882	4,951

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Total Cash Cost per Gold Equivalent Ounce <sup>(1)</sup>	\$	269	\$	163	\$	163
--	----	-----	----	-----	----	-----

- (1) A reconciliation of this non-GAAP measure to cost of sales and other direct production costs and depreciation, depletion and amortization, the most comparable GAAP measure, can be found below in *Non-GAAP Measures*.
- (2) Gross payable metal produced ( mill production ) represents metal contained in concentrates produced at the mill based on assays and other measurements taken at the mill. Mill production is before payable metal deductions are levied by the buyer of the Company's concentrates. In addition, mill production quantities for the three months ended March 31, 2012 do not reflect any deduction for approximately 1,800 gold equivalent ounces resulting from a settlement agreement with the buyer of our concentrate and giving rise to the restatement as discussed in Restatement above. Gold equivalent ounces sold for the three months ended March 31, 2012 have been reduced by approximately 1,650 gold equivalent ounces as a result of this settlement.

**Table of Contents**

Below is a table of certain key production statistics for our *El Aguila* Project during the three months ended March 31, 2012 as previously reported and as restated:

	Production and Sales Statistics		
	(As Restated)	La Arista Underground Mine (As Previously Reported)	(Restatement Adjustments)
	Three months ended March 31, 2012	Three months ended March 31, 2012	Three months ended March 31, 2012
<b>Production Summary</b>			
<b>Milled:</b>			
Tonnes Milled	75,078	75,078	
Tonnes Milled per Day	825	825	
<b>Grade:</b>			
Average Gold Grade (g/t)	4.27	4.27	
Average Silver Grade (g/t)	483	483	
Average Copper Grade (%)	0.49	0.49	
Average Lead Grade (%)	1.73	1.73	
Average Zinc Grade (%)	3.59	3.59	
<b>Recoveries:</b>			
Average Gold Recovery (%)	89	89	
Average Silver Recovery (%)	94	94	
Average Copper Recovery (%)	76	76	
Average Lead Recovery (%)	74	74	
Average Zinc Recovery (%)	74	74	
<b>Gross Payable metal produced</b>			
Gold (ozs.)	9,222	9,222	
Silver (ozs.)	1,091,304	1,091,304	
Copper (tonnes)	350	350	
Lead (tonnes)	1,206	1,206	
Zinc (tonnes)	2,252	2,252	
<b>Payable metal sold</b>			
Gold (ozs.)	5,924	6,668	(744)
Silver (ozs.)	781,422	828,376	(46,954)
Copper (tonnes)	196	210	(14)
Lead (tonnes)	711	706	5
Zinc (tonnes)	1,081	1,082	(1)
<b>Average metal prices realized</b>			
Gold ( per oz.)	\$ 1,705	\$ 1,740	\$ (35)
Silver ( per oz.)	\$ 33	\$ 34	\$ (1)
Copper (per tonne)	\$ 8,612	\$ 8,599	\$ 13
Lead (per tonne)	\$ 2,142	\$ 2,144	\$ (2)
Zinc (per tonne)	\$ 2,136	\$ 2,133	\$ 3
<b>Gold equivalent ounces produced (mill production)</b>			
Gold Ounces	9,222	9,222	
Equivalent Gold Ounces from Silver	21,033	21,306	(273)
Total Gold and Gold Equivalent Ounces	30,255	30,528	(273)
Cash Operating Cost per Ounce Gold Equivalent		131	(131)
Total Cash Cost per Ounce Gold Equivalent	\$	\$ 191	\$ (191)
<b>Gold equivalent ounces sold</b>			
Gold Ounces	5,924		5,924
Gold Equivalent Ounces from Silver	15,061		15,061

Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

Total Gold Equivalent Ounces	20,985		20,985
Total Cash Cost per Gold Equivalent Ounce	\$ 269	\$	\$ 269
<b>Unit Costs</b>			
Cost per tonne-ore mined	26	\$	\$ 26
Cost per tonne-ore milled	63		63
Total Cost per tonne	\$ 89	\$	\$ 89

**Table of Contents**

*Mine gross profit.* For the three months ended March 31, 2012, mine gross profit totaled \$29.9 million (restated), compared to \$8.8 million for the three months ended March 31, 2011. The significant increase in mine gross profit from the prior periods was primarily due to the increase in sales of metal concentrate, at higher metal prices realized. Gross profit percentages for the three months ended March 31, 2012 increased to 81.5% (restated), from 78.4%, during the same periods in 2011. Our realized metal prices increased while our production costs remained generally constant.

*Net income.* For the three months ended March 31, 2012, net income was \$13.5 million (restated), or \$0.26 per share (restated), as compared to \$2.0 million or \$0.04 per share, for the comparable period of 2011. Net income for the three months ended March 31, 2012 was driven by the fact that we generated significantly more revenue from the sale of precious metals and base metals in the period as well as maintaining our operating costs to the expected levels.

*Costs and expenses.* Total costs and expenses during the three months ended March 31, 2012 were \$8.3 million compared to \$6.7 million during the comparable period of 2011, an increase of \$1.6 million, or 23.9%. This increase in costs and expenses, which are discussed by category below, was primarily the result of increased exploration activities, increased salaries, community relations, professional consulting fees, and stock-based compensation.

*General and administrative expenses.* General and administrative expenses for the three months ended March 31, 2012 was \$2.6 million, compared to \$1.7 million, for the same periods of 2011. General and administrative expenses include salaries and benefits, stock-based compensation, professional consulting fees, investor relations, community relations and travel. The general and administrative expense for the three months ended March 31, 2012 increased by \$0.8 million from the prior period, due to an increase in salaries and benefits, professional consulting fees and community relations.

For the three months ended March 31, 2012, stock based compensation (a non-cash expense) increased \$679,000 from the prior period. This increase resulted from the issuance of stock options during the periods. We record the estimated fair value as an expense on a pro-rata basis over the vesting period of the options.

*Exploration expenses.* Property exploration expenses totaled \$1.4 million for the three months ended March 31, 2012 compared to \$0.5 million for the same period of 2011. The increase resulted from additional drilling activity on our exploration projects in the 2012 period. We expect to see further increased exploration activities at our properties for the remainder of 2012. Note that while the majority of our exploration program includes further drilling and other exploration of the *La Arista* vein system, such activities are classified and expensed as construction and development costs associated with the underground mine and therefore are not reflected in our exploration expenses.

*Construction and development expenses.* Construction and development expenses during the three months ended March 31, 2012 decreased to \$2.4 million from \$3.1 million during the comparable period in 2011. The decrease is a result from the completion of the tailings dam construction and an a decline in other construction activities during this period compared to 2011. We will continue to focus on further development of the *La Arista* underground mine for the foreseeable future.

*Other income (expense).* For the three months ended March 31, 2012, we recorded other expense of \$2.0 million, compared to other expense of \$120,000 during the same period of 2011. The change in other income (expense) resulted primarily from recognizing currency exchange losses of \$2.2 million during the three months ended March 31, 2012 compared to a currency exchange loss of \$152,000 in the comparable periods in 2011. The current year losses resulted from currency translation adjustments during a period when the dollar was decreasing compared to the Mexican peso.

*Income tax expense.* During the three months ended March 31, 2012, the Company recorded a current income tax expense of \$6.1 million (restated) and incurred a current income tax liability of \$6.1 million (restated). There was no corresponding income tax provision during the 2011 period. See Note 6 to the Unaudited Consolidated Financial Statements for additional information.

**Non-GAAP Measures (restated)**

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

*Total Cash Cost per Gold Equivalent Ounce Sold (Restated)*

## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

We use total cash cost (including royalties) per gold equivalent ounce sold, calculated in accordance with the Gold Institute's Standard, as one indicator for comparative monitoring of our mining operations from period to period and believe that investors also find this information helpful when evaluating our performance. Total cash costs are arrived at by taking mine cost of sales, plus treatment and refining charges (which are netted against revenues), less by-product credits earned from sales of metals we consider by-products (copper, lead and zinc at the *La Arista* underground mine and silver at the *El Aguila* open pit mine) less any noncash items such as depreciation, amortization and stock-based compensation and reclamation costs. Total cash costs are divided by gold equivalent ounces sold (gold sold, plus gold equivalent ounces of silver sold converted to gold using our realized gold price to silver price ratio, at the *La Arista* underground mine; and gold sold at the *El Aguila* open pit mine) to arrive at total cash cost per gold equivalent ounce sold. There can be no assurance that our reporting of this Non-GAAP measure is similar to that reported by other mining companies.

Previously, we reported cash operating cost per gold equivalent ounce produced (on-site mill production). The principal difference between cash operating costs and total cash costs is that cash operating costs exclude royalty payments, whereas total cash costs include royalty payments. Our concentrates are subject to a 5% net smelter returns royalty. The principal difference between gold equivalent ounces produced at the mill and gold equivalent ounces sold, is that gold equivalent ounces produced at the mill do not reflect payable metal deductions levied by smelters, whereas gold equivalent ounces sold are after payable metal deductions levied by smelters. Total cash cost per ounce figures for all periods presented in this Management's Discussion and Analysis are presented on an ounces sold basis, which in our opinion is the most common method used by companies that apply the Gold Institute Standard.

We have reconciled total cash cost per gold equivalent ounce sold to reported U.S. GAAP measures in the restated table below. The most comparable financial measures to our total cash cost is mine cost of sales calculated in accordance with U.S. GAAP. Mine cost of sales is obtained from the unaudited consolidated statements of operations.

**Table of Contents**

The following is the summary of our cash operating costs and total cash costs (including royalty) for the three months ended March 31, 2012 and 2011 as previously reported.

(As Previously Reported)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands, except gold equivalent ounces and per gold equivalent ounce)</i>	
Gold equivalent ounces produced	30,528	7,479
Cost of sales production costs	\$ 6,931	\$ 2,437
Treatment charges	4,771	658
By-product credits	(5,627)	(1,895)
Depreciation costs	(232)	(64)
Accretion costs	(20)	(21)
Royalties	(1,829)	(464)
Cash operating cost	\$ 3,994	\$ 651
Add back royalties	1,829	464
Total cash operating cost	\$ 5,823	\$ 1,115
Cash operating cost per gold equivalent ounce produced	\$ 131	\$ 87
Total cash operating cost per gold equivalent ounce produced	\$ 191	\$ 149

The following is the summary of our total cash cost per gold equivalent ounce sold (including royalty) for the three months ended March 31, 2012 and 2011 as restated.

(As Restated)

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands, except gold equivalent ounces and per gold equivalent ounce)</i>	
Gold equivalent ounces sold	20,985	6,833
Cost of sales production costs	\$ 6,779	\$ 2,437
Treatment and refining charges	4,622	658
By-product credits	(5,514)	(1,895)
Depreciation and amortization	(232)	(64)
Accretion	(20)	(21)
Total cash costs	\$ 5,635	\$ 1,115
Total cash cost per gold equivalent ounce sold (including royalties)	\$ 269	\$ 163

**Liquidity and Capital Resources (restated)**

As of March 31, 2012, we had working capital of \$66.7 million (restated), consisting of current assets of \$89.1 million (restated) and current liabilities of \$22.4 million (restated). This represents an increase of \$7.4 million (restated) from the working capital balance of \$59.3 million as of December 31, 2011. Consistent with our plans, our working capital balance fluctuates as we use cash to fund our operations, including



## Edgar Filing: GOLD RESOURCE CORP - Form 10-Q/A

exploration and mine development and construction.

Our most significant expenditures for the remainder of 2012 are expected to be costs associated with the optimization of commercial production at our mill facility, the continued construction of the underground mine and further exploration of our properties.

The general and administrative expenses have increased during 2012 as a result of increases in salaries and benefits, professional consulting fees and community relations.

The balance of cash and equivalents as of March 31, 2012 decreased to \$44.0 million from \$52.0 million as of December 31, 2011, a net decrease in cash of \$8.0 million. During this period, we moved approximately \$2.9 million of our treasury into physical gold and silver bullion.

Net cash provided by operating activities for the three months ended March 31, 2012 was \$4.9 million compared to net cash used in operating activities of \$3.6 million during the comparable period in 2011. Our operating cash increased significantly as a result of generating more revenue and higher net income during the 2012 period as compared to the first three months of 2011.

Net cash used in investing activities for the three months ended March 31, 2012 was \$5.2 million compared to net cash used in investing activities of \$1.4 million for the same period of 2011. Cash used in investing activities during the three months ended March 31, 2012 was the result of equipment purchases for our exploration, construction and development activities and purchases of gold and silver bullion. Although most of our exploration stage expenditures are recorded as an expense rather than an investment, we capitalize the acquisition cost of land and mineral rights and certain equipment that has alternative future uses or significant salvage value, including rolling stock, furniture, and electronics, and the cost of these capitalized assets is reflected in our investing activities.

Net cash used in financing activities for the three months ended March 31, 2012 was \$7.9 million, consisting of dividends paid. During the comparable period in 2011, cash used in financing activities was \$4.8 million, consisting of dividends paid. In August 2011, we instituted a regular monthly dividend consisting of \$0.05 per share and as of April 2012 the Board of Directors increased the instituted regular monthly dividend to \$0.06 per share. As a result and based on the number of shares of common stock outstanding as of the date of this report, we will now anticipate paying dividends aggregating approximately \$9.5 million each quarter; however, the Board of Directors may re-evaluate its decision on the basis of changes in our operations. The estimated aggregate amount of dividends we intend to pay may also be reduced in the future if there are significant purchases of common stock under our share repurchase program as the outstanding shares of common stock would be reduced.

### **Critical Accounting Policies**

There have been no material changes in our critical accounting policies since December 31, 2011.

## **Table of Contents**

### **Forward-Looking Statements**

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

statements about our future drilling results and plans for development of our properties;

statements concerning the benefits that we expect will result from our business activities and certain transactions that we contemplate or have completed, such as receipt of proceeds, decreased expenses and avoided expenses and expenditures; and

statements of our expectations, beliefs, future plans and strategies, exploration activities, anticipated developments and other matters that are not historical facts.

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

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

### **Risk Factors Impacting Forward-Looking Statements**

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

decisions of foreign countries and banks within those countries;

violence and crime associated with drug cartel activity in Mexico;

natural disasters such as earthquakes or weather-related events;

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, if any;

technological changes in the mining industry;

our costs;

changes in exploration and overhead costs;

access and availability of materials, equipment, supplies, labor and supervision, power and water;

results of current and future feasibility studies;

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;

the uncertainty of mineralized material estimates and timing of development expenditures;

lack of governmental and/or local support for mining operations;

commodity price fluctuations; and

ability and timing of sufficient mine development.

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

### **ITEM 3: Quantitative and Qualitative Disclosures about Market Risk**

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

#### **Commodity Price Risk**

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



## **Table of Contents**

Our provisional concentrate sales 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 the gold and silver concentrates at the prevailing indices prices at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is marked-to-market through earnings each period prior to final settlement.

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

### **Provisional Sales Contract Risk (Restated)**

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

At March 31, 2012, we had no outstanding provisionally priced sales.

At December 31, 2011, we had outstanding provisionally priced sales of \$34.2 million consisting of 6,264 ounces of gold and 716,438 ounces of silver, 197 tons of copper, 606 tons of lead and 1,497 tons of zinc which had a fair value of approximately \$33.8 million including the embedded derivative. If the price for each metal were to change by one percent, the change (plus or minus) in the total fair value of the concentrates sold would be approximately \$181,000.

### **Foreign Currency Risk**

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

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

### **Interest Rate Risk**

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

### **Equity Price Risk**

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

### **ITEM 4: Controls and Procedures**

During the fiscal period covered by this report we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or

submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

#### **Evaluation of Disclosure Controls and Procedures**

When our Quarterly Report on Form 10-Q for the three months ended March 31, 2012 was filed on May 10, 2012, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2012. Subsequent to that evaluation, our management identified errors related to the potential impact on sales of metal concentrates resulting from differences between assays from samples of our concentrates taken at the mine site, on which our provisional invoices are based, and assays from samples of our concentrates taken at the buyer's warehouse, which in part serve as a basis for our final invoices, and timely communicating those differences to our management, including the Chief Executive Officer and the Chief Financial Officer. These errors had a material effect on our previously issued consolidated financial statements for the interim periods ended March 31, 2012 and June 30, 2012. As a result of these errors, we determined that our consolidated financial statements for the interim periods ended March 31, 2012 and June 30, 2012 should not be relied upon and needed to be restated (see Note 11 in the accompanying restated consolidated financial statements for further discussion) and identified the material weaknesses described below.

## **Table of Contents**

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

In connection with the identification of the errors related to our financial statements described above and in Note 11 to our restated consolidated financial statements, management has identified the following deficiencies that constituted material weaknesses in our internal control over financial reporting for the periods described above:

We did not maintain an effective control environment, as evidenced by not assessing the potential impact on sale of metal concentrates resulting from differences between assays from samples of our concentrates taken at the mine site, on which our provisional invoices are based, and assays from samples of our concentrates taken at the buyer's warehouse, which in part serve as a basis for our final invoices.

We did not establish adequate communication criteria to assess the potential positive or negative effect on sale of metal concentrates due to differences between assays from samples of our concentrates taken at the mine site and assays from samples of our concentrates taken at the buyer's warehouse, prior to final settlement. A process for appropriate review of the inputs and conclusions from this assessment was not in place.

Accounting errors resulting from the material weaknesses described above resulted in the need to restate our March 31, 2012 and June 30, 2012 interim consolidated financial statements.

### **Remediation of Material Weakness**

To address these material weaknesses, we have undertaken the following remedial steps. We have updated our internal controls to include the mine site management's preparation and review of a monthly schedule that summarizes the potential impact on revenues resulting from differences between assays from samples of our concentrates taken at the mine site and assays from samples of our concentrates taken at the buyer's warehouse, prior to final settlement. Mine site management and corporate management will review the monthly schedule prior to end of the month following the month in which the provisional invoices were recorded, to assess whether an allowance/adjustment to the provisional invoices is required prior to final settlement. This will also provide reasonable assurance that errors from not assessing these differences do not occur in the future. Management has re-evaluated the effectiveness of our internal controls over financial reporting and believes that the material weakness which previously existed at March 31, 2012 and June 30, 2012 has been fully remediated as of September 30, 2012.

We will continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above and employ any additional tools and resources as appropriate to provide reasonable assurance that our financial statements are fairly stated in all material respects.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 2: Unregistered Sales of Equity Securities and Use of Proceeds**  
**(c) Issuer Purchases of Equity Securities**

In September 2011, our Board of Directors authorized a share repurchase of up to \$20.0 million with no pre-established end date. During the three months ended March 31, 2012, none of our shares were repurchased.

**ITEM 6: Exhibits**

The following exhibits are furnished herewith:

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for William W. Reid.\*
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Bradley J. Blacketer.\*
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William W. Reid and Bradley J. Blacketer.\*
- 101 Financial statements from the Quarterly Report on Form 10-Q/A of Gold Resource Corporation for the three months ended March 31, 2012, formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statements of Cash Flows, and (iv) the Notes to the Unaudited Consolidated Financial Statements.\*

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



**Table of Contents**

**SIGNATURES**

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

**GOLD RESOURCE CORPORATION**

Dated: December 14, 2012

/s/ William W. Reid  
By: William W. Reid,  
Chief Executive Officer

Dated: December 14, 2012

/s/ Bradley J. Blacketor  
By: Bradley J. Blacketor,  
Chief Financial Officer

**Table of Contents**

**EXHIBIT INDEX**

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for William W. Reid.\*
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Bradley J. Blacketor.\*
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for William W. Reid and Bradley J. Blacketor.\*
- 101 Financial statements from the Quarterly Report on Form 10-Q/A of Gold Resource Corporation for the three months ended March 31, 2012, formatted in XBRL: (i) the Unaudited Consolidated Balance Sheets, (ii) the Unaudited Consolidated Statements of Operations, (iii) the Unaudited Consolidated Statements of Cash Flows, and (iv) the Notes to the Unaudited Consolidated Financial Statements.\*

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