

GOLD RESOURCE CORP

Form 10-K/A

February 12, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended December 31, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 333-129321

GOLD RESOURCE CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

84-1473173

(I.R.S. Employer
Identification No.)

222 Milwaukee Street, Suite 301, Denver, CO

(Address of principal executive offices)

80206

(Zip Code)

(303) 320-7708

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the Common Stock of Gold Resource Corporation held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter was \$71,275,830.

As of April 7, 2008, there were 34,206,952 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

TABLE OF CONTENTS

	<u>Page</u>	
PART I		
ITEM 1:	BUSINESS	1
ITEM 1A:	RISK FACTORS	3
ITEM 1B:	UNRESOLVED STAFF COMMENTS	10
ITEM 2:	PROPERTIES	11
ITEM 3:	LEGAL PROCEEDINGS	16
ITEM 4:	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	16
PART II		
ITEM 5:	MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES	17
ITEM 6:	SELECTED FINANCIAL DATA	18
ITEM 7:	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	18
ITEM 8:	FINANCIAL STATEMENTS	25
ITEM 9:	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	45
ITEM 9A(T):	CONTROLS AND PROCEDURES	45
ITEM 9B:	OTHER INFORMATION	45
PART III		
ITEM 10:	DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE	45
ITEM 11:	EXECUTIVE COMPENSATION	48
ITEM 12:	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	50
ITEM 13:	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	52
ITEM 14:	PRINCIPAL ACCOUNTING FEES AND SERVICES	53
PART IV		
ITEM 15:	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	53
SIGNATURES		55
EXHIBIT INDEX		56

ADDITIONAL INFORMATION

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words plan, target, anticipate, believe, estimate, intend and expect and expressions are intended to identify such forward-looking statements. Such forward-looking statements include, without limitation, the statements regarding Gold Resource Corporation's strategy, future plans for production, future expenses and costs, future liquidity and capital resources, and estimates of mineralized material. All forward-looking statements in this report are based upon information available to Gold Resource Corporation on the date of this report, and the company assumes no obligation to update any such forward-looking statements. Forward looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. The Company's actual results could differ materially from those discussed in this report. In particular, there can be no assurance that commercial production at the El Aguila Project will be achieved in the time frames estimated, at the rates and costs estimated, or even at all. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the Risk Factors section of this Form 10-K.

In addition to the specific factors identified under RISK FACTORS in this report, other uncertainties that could affect the accuracy of forward-looking statements include:

- decisions of foreign countries and banks within those countries;
- technological changes in the mining industry;
- our costs;
- the level of demand for our products;
- changes in our business strategy;
- interpretation of drill hole results and the geology, grade and continuity of mineralization;
- the uncertainty of reserve estimates and timing of development expenditures; and
- commodity price fluctuations.

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

EXPLANATORY NOTE

This amendment to Form 10-K is being filed to amend certain financial, management and executive compensation information contained in the original report. The following sections of our Form 10-K for the year ended December 31, 2007 have been amended: Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operation, Item 8: Financial Statements, Item 10: Directors, Executive Officers and Corporate Governance, and Item 11: Executive Compensation. Except to the extent relating to the notes to the financial statements and the additional management and executive compensation information, the disclosure in the Form 10-K does not reflect any events that have occurred after the Form 10-K was initially filed on April 14, 2008. The amendment contains the entire report, as amended and restated.

PART I

ITEM 1. BUSINESS

Overview

We are engaged in the exploration of gold and silver mining properties, primarily in Mexico, with a goal of production in the near future. We were organized under the laws of the State of Colorado in 1998. We pursue exploration of gold and silver projects that we believe feature low operating costs and have the potential to produce a high return on the capital invested. We hold a 100% interest in four properties in Mexico's southern State of Oaxaca. See **Item 2. Properties** for more information about our properties. We have undertaken efforts to construct a mill and a mine at our flagship property, the *El Aguila* Project, which would be our first mine upon successful start-up, which is targeted for 2008.

Mineral exploration requires significant capital, and our assets and resources are limited. We have never received revenue from operations and have relied on equity financing to fund our operations to date.

We completed our IPO in August 2006 at \$1.00 per share and received gross proceeds of \$4,600,000. We raised additional capital pursuant to two private placements of our common stock; one in December 2006 for gross proceeds of \$5,174,000 and one in December 2007 for gross proceeds of \$22,234,000. We used the initial IPO and the 2006 private placement funds to explore the *El Aguila* property. We decided to move forward with efforts to construct a mill and a mine at the *El Aguila* Project on April 11, 2007. We anticipate using the funding provided by our December 2007 private placement to fund these efforts. See **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation** for more information.

Our principal executive offices are located at 222 Milwaukee Street, Suite 301, Denver, Colorado 80206, and our telephone number is (303) 320-7708. Our operations in Mexico are conducted through our wholly-owned Mexican subsidiaries, Don David Gold, S.A. de C.V. and Golden Trump Resources S. A. de C.V. We maintain a website at www.goldresourcecorp.com and through a link on our website you can view the periodic filings that we make with the Securities and Exchange Commission (SEC).

Please refer to page 15 of this report for a glossary of certain terms used herein.

Developments During 2007

Exploration. Our flagship property, the *El Aguila* Project, was the primary focus of our exploration program during 2007. Using funds obtained from our IPO and subsequent private placement in 2006, we focused exploration drilling on two limited areas, the *El Aguila* near-surface mineralization area and the *El Aire* vein area, which are located two kilometers apart along the same structural zone. We also discovered a new mineralized area near *El Aire* which we call the *La Arista* area. All these areas have gold and silver mineralized material and, except for the *El Aguila* near-surface mineralization, have base metal mineralization of copper, lead and zinc. As a result of encouraging exploration results and our belief that the mineralized material can be extracted and processed economically, we made a decision to begin preparing *El Aguila* for production targeting to begin production later in 2008. Additional, albeit limited, exploration was conducted at our *El Rey* property during 2007. We completed a total of 27,000 meters (89,100 feet) in exploration drilling and spent approximately \$5,700,000 in 2007 at our properties in Mexico. However, we have not established proven or probable reserves as defined by regulation of the SEC on our *El Aguila* Project or any of our other properties.

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

Construction at El Aguila Project. The engineering firm of Lyntek, Inc. of Denver, Colorado has designed the mill and infrastructure requirements at the *El Aguila* Project on our behalf with an estimated capital cost of \$20,000,000. We anticipate building a mill that is designed to process 850 tonnes of ore per day through a flotation section and 150 tonnes of ore per day through an agitated leach section, subject to the granting of the final permits. We received from the Mexican federal agency a permit for building a four kilometer access road to the mill site and as of March 31, 2008, construction on this road is underway. We are awaiting the mill permit and the open pit mine permit from the same agency. We have purchased or ordered most, but not all, of the equipment needed for the mill. Construction of the mill and the mine are anticipated to begin upon receipt of the necessary permits.

We expect that mining in the first year will be undertaken at the *El Aguila* near-surface mineralization area. We anticipate constructing an open pit mine at this site to extract the mineralized material. Mining the second year is anticipated to come from the *La Arista* mineralized material and would require development of an underground mine.

In October 2007, we acquired an additional parcel of land which comprises approximately five hectares and is located adjacent to the community of *San Jose de Gracia*. We plan to develop this parcel for employee housing at the *El Aguila* Project, as well as a health clinic which will be available to employees and local residents.

Acquisitions. In February 2007, we leased a 100% interest in the *Solaga* property, which includes a dormant silver mine. We have conducted no exploration at *Solaga* to date.

Competition

The exploration for, and the acquisition of gold and silver properties, are subject to intense competition. Due to our recent organization, limited capital and personnel, we are at a competitive disadvantage compared to other companies with regard to exploration and, if warranted, development. Our present limited funding means that our ability to compete for properties to be explored and developed is limited. We believe that competition for acquiring mineral prospects will continue to be intense in the future.

The availability of funds for exploration is sometimes limited, and we may find it difficult to compete with larger and more well-known companies for capital. Our inability to develop our mining properties due to lack of funding, even if warranted, could have a material adverse effect on our operation and financial position.

Government Regulations and Permits

In connection with mining, milling and exploration activities, we are subject to extensive Mexican federal, state and local laws and regulations governing the protection of the environment, including laws and regulations relating to protection of air and water quality, hazardous waste management and mine reclamation as well as the protection of endangered or threatened species. The department responsible for environmental protection in Mexico is SEMARNAT, which is similar to the United States Environmental Protection Agency. SEMARNAT has broad authority to shut down and/or levy fines against facilities that do not comply with its environmental regulations or standards. Potential areas of environmental consideration for mining companies, including ours if we are successful in commencing mining operations, include, but are not limited to, acid rock drainage, cyanide containment and handling, contamination of water courses, dust and noise.

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

Prior to the commencement of any mining operations at the *El Aguila* Project, if any, we will have to secure various regulatory permits from federal, state and local agencies. These governmental and regulatory permits generally govern the processes being used to operate, the stipulations concerning air quality and water issues, and the plans and obligations for reclamation of the properties at the conclusion of operations. Regulations require that an environmental impact statement, known in Mexico as a *Manifiestacion de Impacto Ambiental* (MIA), be prepared by a third-party contractor for submission to SEMARNAT. We have submitted our MIA to SEMARNAT for their review. Studies required to support the MIA include a detailed analysis of these areas, among others: soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. Although the regulatory process in Mexico has a public review component, proof of local community support for a project is required to gain final MIA approval. We have received local community support.

We received a federal permit granting permission to construct a road at the *El Aguila* Project, which will be integral to any mining operations. We have hired a contractor to construct the road on the property. Additionally, we have applied for and are waiting to receive two more permits from SEMARNAT which will allow us to begin construction of the mine and the mill at the *El Aguila* Project.

We purchased a permitted water well for the proposed mill site at the *El Aguila* Project. We believe the water provided by this well will be adequate to meet the needs for any mining activity for the foreseeable future.

We have obtained, and will obtain at the appropriate time, environmental permits, licenses or approvals required for potential operations, if any. We are not aware of any material violations of environmental permits, licenses or approvals issued with respect to our operations.

Employees

We currently have three full-time employees, each of whom serve as our executive officers. These individuals devote all of their business time to our affairs. We also engage two consultants, one to oversee our property and activities in Mexico and one to assist with our administrative and financial affairs. Our consultant in Mexico serves on a full-time basis and the other as his services are necessary. Through an outsourcing firm, we also engage approximately 20 individuals in Mexico in connection with the exploration of our mining properties at this time and we expect this number to increase if we are successful in placing our *El Aguila* property into production.

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Company

Since we are a new business with no operating history, investors have no basis to evaluate our ability to operate profitably. We were organized in 1998 but have had no revenue from operations since our inception. Our activities to date have been limited to organizational efforts, raising financing, acquiring mining properties, conducting limited exploration and preparation for beginning production at the *El Aguila* Project. We have never produced gold or other metals and have received no revenue from operations to date. We face all of the risks commonly encountered by other new businesses, including the lack of an established operating history, need for additional capital and personnel, and intense competition. There is no assurance that our business plan will be successful. In particular, there can be no assurance that commercial production at our *El Aguila* Project will be achieved in the time frames estimated, at the rates and costs estimated, if at all.

We have no proven or probable reserves, and the probability of an individual prospect having reserves is extremely remote. Therefore, in all likelihood, our properties do not contain any reserves, and any funds spent by us on exploration or development could be lost. We have not established the presence of any proven or probable mineral reserves, as defined by the SEC, at any of our properties. The SEC has defined a reserve as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Any mineralized material discovered by us should not be considered proven or probable reserves.

In order to demonstrate the existence of proven or probable reserves, it will first be necessary for us to continue exploration to demonstrate the existence of sufficient mineralized material with satisfactory continuity and then obtain a positive feasibility study. Exploration is inherently risky, with few properties ultimately proving economically successful. We do not intend to pursue additional exploration for the purpose of establishing proven or probable reserves.

Establishing reserves requires a feasibility study demonstrating with reasonable certainty that the deposit can be economically extracted and produced. We have not completed a feasibility study with regard to all or a portion of any of our properties, nor do we intend to perform such feasibility study at this time.

Since we have no proven or probable reserves, our investment in mineral properties is not reported as an asset in our financial statements which may have a negative impact on the price of our stock. We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America and intend to report substantially all exploration and construction expenditures as expenses until we are able to establish proven or probable reserves. If we are able to establish proven or probable reserves, we would report development expenditures as an asset subject to future amortization using the units-of-production method. Since it is uncertain when, if ever, we will establish proven or probable reserves, it is uncertain whether we will ever report these expenditures as an asset. Accordingly, our financial statements report fewer assets and greater expenses than would be the case if we had proven or probable reserves, which could have a negative impact on our stock price.

We may be dependent upon receipt of additional working capital to fund our business plan. We may require additional capital for exploration of one or more of our existing properties, or acquisition of additional properties. Subject to obtaining all required permits and regulatory approvals, we may require additional capital in addition to the funds recently raised in our private placement to fund the construction of the *El Aguila* Project. This work is anticipated to entail construction of a mill as well as other improvements to the property and we will be required to hire additional staff. In addition, we will require additional working capital to continue to fund operations pending sale of any gold or other metals.

If we are unable to achieve gold and silver production levels anticipated from our El Aguila Project, our financial condition and results of operation will be adversely affected. We anticipate proceeding with the construction of the *El Aguila* Project based on estimates of mineralized material identified in our drilling program and estimates of gold and silver recovery based on testwork developed during our scoping study. However, sales of gold and silver, if any, that we realize from future mining activity will be less than anticipated if the mined material does not contain the concentration of gold and silver predicted by our geological exploration and if the recoveries are less than predicted in our testwork. This risk may be increased since we have not sought or obtained a feasibility study or reserve report with regard to any of our properties. If sales of gold and silver are less than anticipated, we may not be able to recover our investment in our property and our operations may be adversely affected. There is no assurance that mineral recoveries in small scale laboratory tests will be duplicated in actual mining conditions.

Should we successfully commence mining operations at our El Aguila Project, our ability to remain profitable long-term will depend on our ability to identify, explore, and develop additional properties. Gold and silver properties are wasting assets. They eventually become depleted or uneconomical to continue mining. The acquisition of gold and silver properties and their exploration and development are subject to intense competition. Companies with greater financial resources, larger staff, more experience and more equipment for exploration and development may be in a better position than us to compete for such mineral properties. If we are unable to find, develop, and economically mine new properties, we most likely will not be able to be profitable on a long-term basis.

The construction of our proposed mine and mill will be subject to all of the risks inherent in construction. These risks include potential delays, cost overruns, shortages of material or labor, construction defects, and injuries to persons and property. We have retained Lyntek, Inc. of Denver, Colorado as a consultant to act as our general contractor for construction of the mill. We expect that Lyntek will engage a combination of American and Mexican subcontractors and material suppliers in connection with the project. While we anticipate taking all measures which we deem reasonable and prudent in connection with construction of the mill, there is no assurance that the risks described above will not cause delays or cost overruns in connection with such construction. Any delay would postpone our anticipated receipt of revenue and adversely affect our operations. Cost overruns would likely require that we obtain additional capital in order to commence production. Any of these occurrences may adversely affect our ability to generate revenues and the price of our stock.

Our operations are subject to permitting requirements which could require us to delay, suspend or terminate our operations. Our operations, including our ongoing exploration drilling program and proposed production plan at the *El Aguila* Project, require permits from the government. We may be unable to obtain these permits in a timely manner, on reasonable terms, or at all. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving these permits, our timetable and business plan for exploration of our property or commercial production will be adversely affected.

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

Our business operations may be adversely affected by social and political unrest in Oaxaca. The property which we are currently exploring for mineralization is located in the State of Oaxaca, Mexico. Oaxaca City, the capital of the State of Oaxaca, experienced a period of social and political unrest in 2006. Certain civilian groups seeking political reform staged protests and demonstrations in various locations in Oaxaca City, including schools, government offices and major roadways. Although our property is roughly a 90 minute drive from Oaxaca City and the civil disturbances appear to have dissipated, these events may still negatively impact our business operations if Oaxaca experiences another such event. Our exploration program may be interrupted if we are unable to hire qualified personnel or if we are denied access to the site where our property is located. We may also be required to make additional expenditures to provide increased security in order to protect property or personnel located at our exploration site. Significant delays in exploration or increases in expenditures will likely have a material adverse affect on our financial condition and results of operations.

Our ability to continue exploration and extract any minerals that we discover is subject to payment of concession fees and if we fail to make these payments, we may lose our interest in the properties. Mining concessions in Mexico are subject to payment of concession fees to the federal government or lease payments to the owner of the concessions. The payments are based on the size of the property we are exploring. Our failure or inability to pay the concession fees to the government may cause us to lose our interest in one or more of our properties.

Our primary exploration target is subject to a lease in favor of a third party which provides for royalties on production. We lease our *El Aguila* property from a third party. Our lease for the *El Aguila* property is subject to a net smelter return royalty of 4% where production is sold in the form of gold/silver dorè and 5% where production is sold in concentrate form. The requirement to pay royalties to the owner of the concessions at our *El Aguila* property will reduce our profitability, if any, if we commence commercial production of gold or other precious metals.

Our ability to develop our property is subject to the rights of the Ejido (local inhabitants) to surface use for agricultural purposes. Our ability to mine minerals is subject to making satisfactory arrangements with the *Ejido* for access and surface disturbances. *Ejidors* are groups of local inhabitants who were granted rights to conduct agricultural activities on the property. We must negotiate and maintain a satisfactory arrangement with these inhabitants in order to disturb or discontinue their rights to farm. While we have successfully negotiated and signed such agreements to enable us to begin construction at the *El Aguila* Project, our inability to maintain these agreements could impair or impede our ability to successfully mine the properties.

The volatility of the price of gold could adversely affect our future operations and, if warranted, our ability to develop our properties.

The commercial feasibility of our properties and our ability to raise funding to conduct continued exploration and development if warranted, is dependent on the price of gold and other precious metals. The price of gold may also have a significant influence on the market price of our common stock and the value of our properties. Our decision to put a mine into production and to commit the funds necessary for that purpose must be made long before the first revenue from production would be received. A decrease in the price of gold may prevent our property from being economically mined or result in the writeoff of assets whose value is impaired as a result of lower gold prices. The price of gold is affected by numerous factors beyond our control, including inflation, fluctuation of the United States Dollar and foreign currencies, global and regional demand, the sale of gold by central banks, and the political and economic conditions of major gold producing countries throughout the world. During the last five years, the average annual market price of gold has fluctuated between \$364 per ounce and \$696 per ounce, as shown in the table below. Although it is possible for us to protect some price fluctuations by hedging in certain circumstances, the volatility of mineral prices represents a substantial risk, which no amount of planning or technical expertise can eliminate.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$364	\$406	\$445	\$604	\$696

Competition in the mining industry is intense, and we have limited financial and personnel resources with which to compete.

Competition in the mining industry for desirable properties, investment capital and personnel is intense. Numerous companies headquartered in the United States, Canada and elsewhere throughout the world compete for properties on a global basis. We are an insignificant participant in the gold mining industry due to our limited financial and personnel resources. We may be unable to attract the necessary investment capital or personnel to fully explore and if warranted, develop our properties and be unable to acquire other desirable properties.

An adequate supply of water may not be available to undertake mining and production at our property. Water rights are owned by the Mexican nation and are administered by a Mexican government agency. This agency has granted water concessions to private parties throughout the area defined as the Oaxaca Hydrologic Basin, however there is no assurance that we will be granted such concessions. We have purchased water rights which we believe will be sufficient for our anticipated production needs. However, we have no assurance these water rights will continue to produce enough water for our activities. Accordingly, we may not have access to the amount of water needed to operate a mine at the property.

Since most of our expenses are paid in Mexican pesos, and we anticipate selling any production from our properties in United States dollars, we are subject to adverse changes in currency values that will be difficult to prevent. Our operations in the future could be affected by changes in the value of the Mexican peso against the United States dollar. At the present time, since we have no production, we have no plans or policies to utilize forward sales contracts or currency options to minimize this exposure. If and when these measures are implemented, there is no assurance they will be cost effective or be able to fully offset the effect of any currency fluctuations.

Our activities in Mexico are subject to significant environmental regulations, which could raise the cost of doing business. Mining operations are subject to environmental regulation by SEMARNAT, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a *Manifestacion de Impacto Ambiental*, be prepared by a third party contractor for submission to SEMARNAT. Studies required to support this impact statement include a detailed analysis of many subject areas, including soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. We may also be required to submit proof of local community support for a project to obtain final approval. Significant environmental legislation exists in Mexico, including fines and penalties for spills, release of emissions into the air, seepage and other environmental damage.

The nature of mineral exploration and production activities involves a high degree of risk and the possibility of uninsured losses. Exploration for and the production of minerals is highly speculative and involves greater risk than many other businesses. Our operations are subject to all of the operating hazards and risks normally incident to exploring for and development of mineral properties, such as, but not limited to:

- encountering unusual or unexpected formations;
- environmental pollution;
- personal injury, flooding and landslides;
- variations in grades of ore;
- labor disputes; and
- decrease in the value of mineralized material due to lower gold and silver prices.

We currently have no insurance to guard against any of these risks. All of these factors may result in losses in relation to amounts spent which are not recoverable.

We depend upon a limited number of personnel and the loss of any of these individuals could adversely affect our business. If any of our current employees, our principal consultant in Mexico or our principal financial consultant were to die, become disabled or leave the company, we would be forced to identify and retain individuals to replace them. Messrs. William, David and Jason Reid are our only full-time employees at this time. Jose Perez Reynoso is our consultant in Mexico who oversees our properties and operations. Frank L. Jennings is a financial consultant who provides services to us as chief financial officer. There is no assurance that we can find suitable individuals to replace them or to add to our employee base if that becomes necessary. We are entirely dependent on these individuals as our only personnel at this time. We have no life insurance on any individual at this time, and we may be unable to hire a suitable replacement for them on favorable terms, should that become necessary.

In addition to our full-time employees and our manager in Mexico, we also engage approximately 20 people in Mexico through an outsourcing agency. We believe these individuals make important contributions to our company and there is no assurance we could replace them with equally as competent personnel.

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

While we presently believe that we have adequate internal controls over financial reporting, we will be required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 annually and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have a material adverse effect on the price of our common stock. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by our management on internal controls for the fiscal year ended December 31, 2007. Such a report contains, among other matters, our assessment of the effectiveness of our internal controls over financial reporting, including a statement as to whether or not our internal controls are effective. This assessment must include disclosure of any material weaknesses in our internal controls over financial reporting identified by our management. While we believe our internal controls over financial reporting are effective as of the date of this report, there is no assurance that we can retain that control in the future, as our business expands. In addition, our evaluation of the effectiveness of our internal controls will be subject to audit by our independent registered accountants in the future and there is no assurance that they will agree with our assessment. If we are unable to maintain the effectiveness of our controls, or if our accountants do not agree with our assessment in the future, investors could lose confidence in our financial reports and our stock price may decline.

The laws of the State of Colorado and our Articles of Incorporation may protect our directors from certain types of lawsuits. The laws of the State of Colorado provide that our directors will not be liable to us or our shareholders for monetary damages for all but certain types of conduct as directors of the company. Our Articles of Incorporation permit us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing shareholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

Risks Related to Our Common Stock

The sale of a substantial number of shares of our common stock may cause the price of our common stock to decline. Virtually all of our presently issued and outstanding common stock is registered with the SEC for resale by our shareholders. It is likely that market sales of large amounts of common stock (or the potential for those sales even if they do not actually occur) may cause the market price of our common stock to decline, which may make it difficult to sell our common stock in the future at a time and price which we deem reasonable or appropriate and may also cause you to lose all or a part of your investment.

Since there is presently a limited trading market for our common stock, purchasers of our common stock may have difficulty selling their shares, should they desire to do so. Due to a number of factors, including the lack of listing of our common stock on a national securities exchange, the trading volume in our common stock is limited. Our trading volume on the OTC Bulletin Board over the past three months has averaged approximately 140,000 shares per day. As a result, the sale of a significant amount of common stock by the selling shareholders may depress the price of our common stock and you may lose all or a portion of your investment.

A small number of existing shareholders own a significant amount of our common stock, which could limit your ability to influence the outcome of any shareholder vote. Our executive officers and directors beneficially own approximately 28% of our common stock as of the date of this report. Under our Articles of Incorporation and Colorado law, the vote of a majority of the shares outstanding is generally required to approve most shareholder action. As a result, these individuals may be able to influence the outcome of shareholder votes for the foreseeable future, including votes concerning the election of directors, amendments to our Articles of Incorporation or proposed mergers or other significant corporate transactions. We have no existing agreements or plans for mergers or other corporate transactions that would require a shareholder vote at this time. However, shareholders should be aware that they may have limited ability to influence the outcome of any vote in the future. See **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters** for additional information.

Since our common stock is not presently listed on a national securities exchange, trading in our shares will likely be subject to rules governing penny stocks, which will impair trading activity in our shares. Our common stock may be subject to rules adopted by the SEC regulating broker-dealer practices in connection with transactions in penny stocks. Those disclosure rules applicable to penny stocks require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized disclosure document required by the SEC. These rules also require a cooling off period before the transaction can be finalized. These requirements may have the effect of reducing the level of trading activity in any secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

A contract right allowing one of our largest shareholders the first opportunity to purchase any common stock offered by us in the future may result in a change in control. Under the terms of an agreement entered into with one of our largest shareholders, we are obligated to offer this entity the first right to purchase our common stock in any future offering until August 2008. The holder of this right is Heemskirk Consolidated Limited. If Heemskirk exercises this right in connection with any future offering of our common stock, the percentage interest in our company owned by it could increase. This may result in a change in control and could allow Heemskirk the ability to influence the management or policies of our company. For example, if Heemskirk acquires enough stock to become the holder of a majority of our outstanding voting stock, it could elect the entire Board of Directors. Even if it does not acquire an absolute majority of our stock but increases its voting interest in the company, it could wage a proxy battle and influence who our Board of Directors nominates as directors in the future. These and other events could have the effect of changing the way that our company is operated.

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

- Changes in the worldwide price for gold;
- Disappointing results from our exploration efforts;
- Failure to reach commercial production or producing at rates lower than those targeted;
- Failure to meet our revenue or profit goals or operating budget;
- Decline in demand for our common stock;
- Downward revisions in securities analysts' estimates or changes in general market conditions;
- Technological innovations by competitors or in competing technologies;
- Investor perception of our industry or our prospects; and
- General economic trends

In addition, stock markets have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to resell their shares at a fair price.

Issuances of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock. We have the authority to issue up to 60,000,000 shares of common stock, 5,000,000 shares of preferred stock, and to issue options and warrants to purchase shares of our common stock without stockholder approval. Because our common stock is not currently listed on an exchange, we are not required to solicit shareholder approval prior to issuing large blocks of our stock. These future issuances could be at values substantially below the price paid for our common stock by our current shareholders. In addition, we could issue large blocks of our common stock to fend off unwanted tender offers or hostile takeovers without further stockholder approval. Because we believe that trading in our common stock will initially be limited, the issuance of our stock may have a disproportionately large impact on its price compared to larger companies.

We have never paid dividends on our common stock and we do not anticipate paying any in the foreseeable future. We have not paid dividends on our common stock to date, and we may not be in a position to pay dividends for the foreseeable future. Our ability to pay dividends will depend on our ability to successfully develop one or more properties and generate earnings from operations. Further, our initial earnings, if any, will likely be retained to finance our operations. Any future dividends will depend upon our earnings, our then-existing financial requirements and other factors, and will be at the discretion of our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently have an interest in four properties, the *El Aguila* property, the *Las Margaritas* property, the *El Rey* property and the *Solaga* property. We lease claims comprising the *El Aguila* property and the *Las Margaritas* property from an individual who serves as our consultant in Mexico and the *Solaga* property from an entity partially owned by our consultant in Mexico. We own mining concessions for the *El Rey* property. All of these properties are in the exploration stage and have no proven or probable reserves. The map below shows the general location of our four properties in Oaxaca, Mexico:

The *El Aguila* Project

Background. Effective October 14, 2002, we leased three mining concessions, *El Aguila*, *El Aire* and *La Tehuana*, totaling 1,896 hectares, from Jose Perez Reynoso, a consultant to our company. The lease agreement is subject to a 4% net smelter return royalty where production is sold in the form of gold/silver dore and 5% for production sold in concentrate form. We have made periodic advance royalty payments under the lease totaling \$260,000 and no further advance royalty payments are due. Subject to minimum exploration requirements, there is no expiration term for the lease. We may terminate it at any time upon written notice to the lessor and the lessor may terminate it if we fail to fulfill any of our obligations. The *El Aguila* and *El Aire* concessions make up the *El Aguila* Project and the *La Tehuana* concession makes up the *Las Margaritas* property.

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

We have filed for and received additional concessions for the *El Aguila* Project that total an additional 8,492 hectares. These additional concessions are not part of the concessions leased from our consultant, and bring our interest in the *El Aguila* Project to an aggregate of 9,463 hectares. The mineral concessions making up the *El Aguila* Project are located within the *San Pedro Totolapam Ejido*.

Location and Access. The *El Aguila* Project is located in the *Sierra Madre del Sur* of southern Mexico, in the central part of the State of Oaxaca. Access to the property is by way of the Pan American Highway (Highway # 190), approximately 120 kilometers (75 miles) southeast of Oaxaca City, the state's capital city. At the village of *San Jose de Gracia*, a gravel road goes approximately four kilometers northwest to the property. We received a federal permit in February 2008 to upgrade this road and construction is presently underway by an independent contractor.

The climate of the *El Aguila* area is dry and warm to very warm with most rainfall occurring in the summer and annual precipitation averaging only 423.7 mm (17 inches). The average yearly temperature is 26.6 degrees centigrade (80° F). The area is very rocky with scarce vegetation. Subsistence farming occurs and the main agricultural crop is agave cactus that is cultivated for the production of mescal.

Exploration Activities. The early history of activity at the *El Aguila* property, as known by us, is prospecting and limited mining for gold and silver from the early 1900's to the mid 1960's. In 1998, Mr. Perez Reynoso acquired the concessions and leased them to Apex Silver Corporation of Denver, Colorado. Apex carried out an exploration program involving geologic mapping, surface sampling and an 11-hole drilling program (1,242 meters, or 4,074 feet). The results did not meet Apex's expectations so it cancelled its lease on the property in 2002. We leased the property from Mr. Perez Reynoso in October 2002.

In August 2003, we entered into an exploration agreement with Canyon Resources Corporation pertaining to our interest in the *El Aguila* property whereby Canyon loaned us \$500,000 for exploration costs, and subsequently converted its note into 1,200,000 shares of our common stock in 2004. The drilling program was completed in 2004 and included approximately 3,900 meters (12,795 feet) of drilling in 69 holes focused on one target area of the property.

We have carried out more recent exploration on the *El Aguila* Project that has included geologic mapping, surface sampling, geochemical sampling, a geomagnetic survey and exploratory drilling. We have drilled 4,271 holes for a total of 35,389 meters (116,784 feet), including 196 holes for 25,701 meters (84,813 feet) during 2007. Through the year ended December 31, 2007, we have spent or incurred approximately \$7,412,000 in acquisition, exploration and related costs for the *El Aguila* Project.

Construction Activities. We made a decision in April 2007 to undertake efforts to place the *El Aguila* Project into commercial production. At our request, Lyntek Inc., an engineering firm in Denver, Colorado, has designed the mill and infrastructure requirements with an estimated capital cost of \$20,000,000. We anticipate building a mill that is designed to process 850 tonnes of ore per day through a flotation section and 150 tonnes of ore per day through an agitated leach section. We have purchased or ordered most, but not all, of the equipment needed for the mill. Construction of the mill will begin upon receipt of the necessary permits from the appropriate Mexican federal agencies.

During our first year of anticipated production, we expect that mining will be undertaken at the *El Aguila* near-surface mineralization area. We are targeting the *La Arista* area for mining during our second year of production, which would require construction of an underground mine.

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

We plan to generate our own electrical power for the mill through diesel generators, although the federal power grid, located along the Pan American Highway, may be utilized in certain aspects of operations. We purchased a permitted water well to supply water for our mining activities, however the water will require pumping to the site.

In October 2007, we acquired an additional parcel of land which is approximately five hectares in size and adjacent to the community of *San Jose de Gracia*, together with a permitted water well. The land and well cost us \$152,522. Construction is underway at this parcel of land for employee housing as well as a health clinic which will be available to employees and local residents. We intend to use water from the well for drinking, sanitation and production purposes.

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

Certain deposits on the *El Aguila* property are primarily hosted in a quartz rich, stratiform zone (manto). The main manto drilled to date that forms our initial *El Aguila* shallow mineralization, which we hope to mine by an open pit, is conformable with the rhyolitic volcanic rock above and below the manto. It varies in thickness from less than two meters (6.6 feet) to more than 30 meters (98.4 feet). The gold and silver mineralization is considered low sulfidation, epithermal in character. There appear to be several other prospective manto units on the property.

Surface sampling yielded anomalous gold and silver values from early district-wide exploration where silicified zones were encountered. In addition, a small, shallow adit and winze provided limited sampling underground, yielding indications of gold values in a silicified, sub-horizontal manto. Based on these early anomalous exploration samples, a drilling program was carried out by us that in fact resulted in defining a central zone of continuous, shallow, sub-horizontal mineralized material. The fact that the mineralization is relatively shallow will make mining less difficult and less expensive from an open pit mine compared to an underground mine. This mineralized material at the *El Aguila* is near surface and lends itself to open pit mining.

Our 2007 drilling program identified a new area of mineralization at the *El Aguila* Project that we call the *La Arista* area. This mineralized material is different from the *El Aguila* near surface mineralization in that it is polymetallic in character. This polymetallic mineralization contains gold and silver plus the base metals copper, lead and zinc. The character of this mineralization is also epithermal but considered intermediate sulfidation. We anticipate that this mineralized material would be mined underground and mining activity in this area is targeted for year two and beyond of our production plan.

The *El Rey* Property

We have acquired claims in another area in the state of Oaxaca by filing concessions under the Mexican mining laws, referred to by us as the *El Rey* property. These concessions total 892 hectares. We have conducted minimal exploration and drilling on this property to date.

The *El Rey* property is an exploration stage property with no known reserves. It is approximately 64.4 kilometers (40 miles) from the *El Aguila* Project. There is no plant or equipment on the *El Rey* property. If exploration is successful, any mining would probably require an underground mine but any mineralized material could be processed at the proposed *El Aguila* Project mill.

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

Limited drilling at *El Rey* has encountered gold and silver mineralization up to 1 meter of 132.5 g/tonne gold (4.25 ounces/tonne) and 1.5 meters of 958 g/tonne silver. We have drilled 12 holes for a total of 1,302 meters (4,271 feet) at the *El Rey* property. Additional exploration drilling is underway.

The Las Margaritas Property

The *Las Margaritas* property is made up of the *La Tehuana* concession. We leased this in October 2002 from Mr. Reynoso. It is comprised of approximately 925 hectares located adjacent to the *El Aguila* property. To date, we have conducted limited surface sampling, but no other significant exploration activities at the property.

The Solaga Property

In February 2007, we leased a 100% interest in a property known as the *Solaga* property, which totals 618 hectares, and is located approximately 120 kilometers (75 miles) from the *El Aguila* project. A dormant silver mine is located on the *Solaga* property which was in production as recently as the 1980 s, however, we cannot estimate if or when we will reopen the mine. The lease requires us to perform \$25,000 in additional work and is subject to a 4% net smelter return royalty on any production. We have not conducted any exploration activities at the property.

Mineral Concessions

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

Ejido Lands and Surface Right Acquisitions

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

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

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

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

Office Facilities

Effective October 1, 2005, we leased approximately 1,000 square feet of office space under a three year agreement with an independent third party. Monthly rent equals \$1,428 the first year, \$1,469 the second year and \$1,490 the third year, plus our share of operating expense escalations. We believe this space is adequate for our needs for the foreseeable future.

Glossary

Adit:	A more or less horizontal drive (walk-in mine) into a hill that is usually driven for the purpose of intersecting or mining an ore body. An adit may also be driven into a hill to intersect or connect a shaft for the purpose of dewatering. Adits were commonly driven on a slight incline to enable loaded mine trucks to have the advantage of a downhill run out, while the empty (lighter) truck was pushed uphill back into the hill. The incline also allows water to drain out of the adit. An adit only becomes a tunnel if it comes out again on the hill somewhere, like a train tunnel.
Andesite:	A gray to black volcanic rock with between about 52 to 63 weight percent silica (SiO ₂). Andesite magma commonly erupts from stratovolcanoes as thick lava flows, some reaching several km in length.
Cretaceous period:	Flowering plants appeared and dinosaurs were at their height during the Cretaceous period. 146-65 million years ago. There was a mass extinction (the K-T extinction) at the end of the Cretaceous, marking the end of the dinosaurs and many other species.
Doré:	Unrefined gold and silver bars usually containing more than 90% precious metal.
Epithermal:	Used to describe gold deposits found on or just below the surface close to vents or volcanoes, formed at low temperature and pressure.
Felsic:	The minerals feldspar and quartz or an igneous rock or metamorphic rock made predominantly of feldspar and quartz; poor in iron and magnesium. Light-colored.
Gram:	A metric unit of weight and mass, equal to 1/1000th of a kilogram. One gram equals .035 ounces. One ounce equals 31.103 grams.
Hectare:	Another metric unit of measurement, for surface area. One hectare equals 1/200th of a square kilometer, 10,000 square meters, or 2.47 acres. A hectare is approximately the size of a soccer field.
Horst-graben:	Horst and graben are formed by widespread block faults giving rise to a mountain and valley topography that owes its origin in part at least to regional block faulting.
Kilometer:	Another metric unit of measurement, for distance. The prefix kilo means 1000, so one kilometer equals 1,000 meters, one kilometer equals 3,280.84 feet, which equals 1,093.6 yards, which equals 0.6214 miles.
Manto:	A mineralogy term meaning a layer or stratum.

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

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

Net Smelter Return Royalty: A share of the net revenue generated from the sale of metal produced by the mine.

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