GOLD RESOURCE CORP
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

¨ **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)

Colorado	**84-1473173**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2886 Carriage Manor Point, Colorado Springs, Colorado 80906

(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number including area code: (303) 320-7708

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

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

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

None

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 x	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 x

The aggregate market value of the common stock of Gold Resource Corporation held by non-affiliates as of June 30, 2011, the last business day of the registrant s most recently completed second fiscal quarter, was $797,943,136 based on the closing price of the common stock of $24.93 as reported on the NYSE Amex, LLC.

As of February 28, 2012 there were 52,902,620 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Definitive Proxy Statement to be filed pursuant to Regulation 14A for the registrant s annual meeting of shareholders for 2012 are incorporated by reference into Part III of this Form 10-K.

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ADDITIONAL INFORMATION

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

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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 similar ex 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. Gold Resource Corporation s actual results could differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the **Item 1A. Risk Factors** section of this Form 10-K.

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

- Decisions of foreign countries and banks within those countries;
- Unexpected changes in business and economic conditions, including the rate of inflation;
- Changes in interest rates and currency exchange rates;
- Timing and amount of production, 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; and
- Commodity price fluctuations.

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

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PART I

ITEM 1. BUSINESS

History and Organization

We are currently engaged in the exploration for and production of gold and silver in Mexico. We were organized under the laws of the State of Colorado in 1998. We pursue exploration of gold and silver projects, both in and outside of Mexico, 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 six properties in Mexico s southern State of Oaxaca which we refer to as our Oaxaca Mining Unit. *See* **Item 2. Properties** for more information about our properties.

We completed our initial public offering (IPO) in August 2006. Since that time, we have raised additional capital pursuant to several private placements of our common stock. We used the proceeds of our IPO and additional private placements to conduct exploration activities at the *El Aguila* property. Based on our successful exploration efforts, we decided on April 11, 2007 to move forward to construct a mill and a mine at the *El Aguila* Project. We used the funds from subsequent private placements to build the Project. We declared commercial production at the *El Aguila* Project on July 1, 2010. *See* **Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation** for more information. The *El Aguila* Project includes approximately 20,055 hectares of mining concessions, an access road from a major highway, haul roads, a mill facility and adjoining buildings, including an assay lab, an open pit and underground mine, tailings pond and other infrastructure. *See* **Item 2. Properties** for additional information.

Our principal executive offices are located 2886 Carriage Manor Point, Colorado Springs, Colorado 80906, 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 in this report.

Developments During 2011

We completed our first full year of commercial production of gold and silver in 2011. Two mines are located at our *El Aguila* Project; the *El Aguila* open pit mine and the *La Arista* underground mine. Mining at the *El Aguila* open pit mine was essentially completed in 2010. In the first two months of 2011, we continued to process *El Aguila* open pit ore that was stockpiled through the *El Aguila* mill. We produced metal concentrates with gold as our primary metal product and silver as a by-product.

During late 2010, we commenced development of the *La Arista* mine, located approximately 2 kilometers from the *El Aguila* mill, and began mining the *La Arista* vein system. Beginning in March 2011 and for the remainder of the year, we processed ore primarily from the *La Arista* mine, where gold and silver were our primary metal products and copper, lead and zinc were considered by-products. Our focus during 2011 was the development of the *La Arista* underground mine and we constructed a primary spiral decline ramp that reached Level 8 by the end of 2011. We began mining and processing ore from mine development activity and from a few stopes during 2011.

Additionally, in 2011 we completed construction of the second phase of our tailings impoundment facility using waste material from the open pit mine. We also made improvements to the mill facility by expanding the capacity of our cleaner flotation cells in the flotation circuit.

Commercial Production

During 2011, we produced a total of 66,159 ounces of gold equivalent from the *El Aguila* Project at an approximate average cash operating cost of $136 per ounce, net of by-product credits**.** *(See,* **Non GAAP Measures Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation** for more information**.**) We processed an aggregate of 214,215 tonnes of ore with an average grade of 3.43 grams per tonne gold and 357 grams per tonne silver. *See* the table titled **Production and Sales Statistics *El Aguila* Project in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation** for detailed information regarding our production statistics. An anomalous storm in April 2011 flooded the lowest levels of the *La Arista* underground mine which negatively impacted our mining operations for approximately two months.

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Exploration

Exploration during 2011 was focused primarily on the *El Aguila* Project with infill and step out drilling at the *La Arista* vein system. We also performed exploration at several of our properties, including commencing a surface exploration program on portions of the *Las Margaritas* property and a limited drilling campaign at *Alta Gracia* and *El Chamizo*. Please see the map of our properties on page 10 for more information regarding our exploration properties. At *Alta Gracia* and *El Chamizo*, we are drilling from the surface at these properties focusing on previously identified drill targets. We are also conducting some underground exploration and testing at the *Alta Gracia* property by driving drifts and crosscuts into exposed veins. At the *El Rey* property, we began to drain and refurbish an existing shaft to facilitate additional exploration and gain access underground to test a vein system identified from earlier drilling. We also carried out a geophysical survey, called Titan 24, over a large part of the *El Aguila* Project area which resulted in several very distinct geologic anomalies. However, we have not established proven or probable reserves as defined in the SEC s Industry Guide 7 (Guide 7) at our *El Aguila* Project or any of our other properties. *See* **Item 2. Properties** for additional information regarding our exploration activities.

Dividends

Commencing in July 2010, we declared special dividends for each month until August 2011 when we instituted a regular monthly dividend of $0.05 per share. We declared an aggregate of $0.50 per share in dividends in 2011. The dividends have been charged against our additional paid in capital and are considered a return of capital dividend. *See,* **Item 5. Market For Common Equity, Related Stockholder Matters and Purchase of Equity Securities,** for additional information**.**

No Proven or Probable Reserves

We have not yet demonstrated the existence of proven or probable reserves at our *El Aguila* Project in Oaxaca, Mexico or any of our other properties. In Guide 7, the SEC defines 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. Proven or probable reserves are those reserves for which (a) quantity is computed and (b) the sites for inspection, sampling, and measurement are spaced so closely that the geologic character is defined and size, shape and depth of mineral content can be established (proven) or the sites are farther apart or are otherwise less adequately spaced but high enough to assume continuity between observation points (probable). Reserves cannot be considered proven and probable unless and 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.

We have not completed a feasibility study with regard to all or a portion of any of our properties to date. Any mineralized material discovered or produced by us should not be considered proven or probable reserves. As of December 31, 2011, none of our mineralized material met the definition of proven or probable reserves.

Competitive Business Conditions

The exploration for, and the acquisition of gold and silver properties, are subject to intense competition. Due to our limited capital and personnel, we are at a competitive disadvantage compared to many other companies with regard to exploration and, if warranted, development of mining properties. 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.

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, include but are not limited to, acid rock drainage, cyanide containment and handling, contamination of water courses, dust and noise.

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In connection with our mill and mining operations at the *El Aguila* Project, we have and will continue to secure various regulatory permits from federal, state and local agencies. These governmental and regulatory permits generally govern the processes being used to operate, the stipulations concerning air quality and water issues, and the plans and obligations for reclamation of the properties at the conclusion of operations. 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 and it has been approved. 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 the required local community support.

We received a federal permit granting permission to begin open pit mining at the *El Aguila* Project from SEMARNAT in August 2009 and commenced mining operations. In December 2009, we also received a permit allowing us to begin developing our underground mine. We purchased a permitted water well for the mill site at the *El Aguila* Project. We believe the water provided by this well will normally be adequate to meet the needs for any mining activity for the foreseeable future, but any extreme seasonal changes may result in limited water.

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

Customers

During the year ended December 31, 2011, 96% of our total sales of metals concentrate were made to Consorcio Minero de Mexico Cormin Mex. S.A. de C.V. (Consorcio) and 4% of our sales were to Beheer, B.V. of Lucerne, Switzerland (Beheer), each a Trafigura Group Company. In the event that our relationship with Consorcio or Beheer is interrupted for any reason, we believe that we would be able to locate another entity to purchase our metals concentrate and by-product metals. However, any interruption could temporarily disrupt the sale of our principal products and adversely affect our operating results.

Employees

We currently have seven full-time employees in the United States, three of which serve as our executive officers. These individuals devote all of their business time to our affairs. We also engage several financial consultants, including our Chief Financial Officer, who provide us their services as necessary to assist with our administrative and financial affairs.

In Mexico, through our wholly-owned Mexican subsidiaries, we employ approximately 305 Mexican nationals, including our *El Aguila* Project Manager, Exploration Manager and Country Manager. We also use various independent contractors for developing our underground mine, surface exploration drilling and trucking.

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

We have incurred substantial losses in the past and may not continue to be profitable. We achieved our first year of profitability in 2011 since our inception in 1998. During the fiscal years ended December 31, 2010 and 2009, we reported net losses of approximately $23.1 million and $34.1 million, respectively and we had an accumulated deficit of approximately $39.5 million as of December 31, 2011. While we were profitable in 2011, there is no assurance that we will continue to be profitable in the future. Unexpected interruptions in our mining business may cause us to incur losses or the revenue we generate from production may not be sufficient to fund continuing operations including exploration and development costs. Our failure to report future profits may adversely affect the price of our common stock and you may lose all or part of your investment.

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Our existing production is limited to a single mine and any interruptions or stoppages in our mining activities would adversely affect our revenue. We are presently relying on a single mine to provide ore for processing at our mill facility which contains the mineralized material we sell to fund our operations. Any interruption in our ability to mine this location, such as a labor strike, natural disaster, or loss of permits would negatively impact our ability to collect revenue in the foreseeable future. Additionally, if we are unable to economically develop additional mines, we will eventually deplete the ore body and will no longer generate revenue sufficient to fund our operations. A decrease in or cessation of our mining operations would adversely affect our financial performance and may eventually cause us to cease operations.

We have no proven or probable reserves and our decision to commence commercial production is not based on a study demonstrating economical recovery of any mineral reserves and is therefore inherently risky. 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. Under Guide 7, 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 or produced by us should not be considered proven or probable reserves.

In order to demonstrate the existence of proven or probable reserves, it would be necessary for us to perform additional exploration to demonstrate the existence of sufficient mineralized material with satisfactory continuity and obtain a positive feasibility study which demonstrates with reasonable certainty that the deposit can be economically and legally extracted and produced. We have not completed a feasibility study with regard to all or a portion of any of our properties to date. Since we commenced commercial production of mineralized material at the *El Aguila* Project without a feasibility study, there is inherent uncertainty as to whether the mineralized material can be economically produced or if so, for what period of time. The absence of proven or probable reserves makes it more likely that our properties may cease to be profitable and that the money we spend on exploration and development may never be recovered.

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 have reported substantially all exploration and construction expenditures as expenses until such time, if ever, we are able to establish proven or probable reserves, and expect to continue that practice in the future. 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 types of future capital expenditures as an asset. Accordingly, our historical 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.

Estimates of mineralized material are based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated. When making determinations about whether to advance any of our projects to development, such as the *El Aguila* Project, we rely upon estimated calculations as to the mineralized material on our properties. Since we have not conducted a feasibility study demonstrating proven or probable reserves, estimates of mineralized material presented in our press releases and regulatory filings contain less certainty than would be the case if the estimates were made in accordance with the SEC-recognized definition of proven and probable reserves. Until mineralized material is actually mined and processed, it must be considered an estimate only. These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that these mineralized material estimates will be accurate or that this mineralized material can be mined or processed profitably and any decision to move forward with development is inherently risky. Any material changes in estimates of mineralized material will affect the economic viability of placing a property into production and such property s return on capital. This risk is increased since we have not received a feasibility study on any of our properties. There can be no assurance that minerals recovered in small scale metallurgical tests will be recovered at production scale. These in-place mineralized material estimates will be diluted in the mining process.

The volatility of the price of gold and silver could adversely affect our future operations and, if warranted, our ability to develop our properties. The profitability of our operations, the value of our properties and our ability to raise funding to conduct continued exploration and development, if warranted, are directly related to the market price of gold, silver and other precious metals. The price of gold may also have a significant influence on the market price of our common stock. 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 and silver may prevent our property from being economically mined or result in the write-off of assets whose value is impaired as a result of lower gold or silver prices. The price of gold and silver 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 and silver by central banks, and the political and economic conditions of major gold and silver producing countries throughout the world.

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

Mineral	2007	2008	2009	2010	2011
Gold	$ 696.00	$ 872.00	$ 972.00	$ 1,225.00	$ 1,572.00
Silver	$ 13.38	$ 14.99	$ 14.67	$ 20.19	$ 35.12

The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. In the event gold prices decline or remain low for prolonged periods of time, we might be unable to develop our properties, which may adversely affect our results of operations, financial performance and cash flows.

We currently do not enter into forward sales, commodity, derivatives or hedging arrangements with respect to our gold and silver production and as a result we are exposed to the impact of any significant decrease in the price of gold or silver. We sell the gold and silver we are producing at the prevailing market price. Currently, we do not enter into forward sales, commodity, derivative or hedging arrangements to establish a price in advance for the sale of future gold or silver production, although we may do so in the future. As a result, we may realize the benefit of any short-term increase in the gold or silver price, but we are not protected against decreases in the gold or silver price, and if the gold or silver price decreases significantly, our revenues may be materially adversely affected.

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 have proceeded with the processing of the *El Aguila* open-pit area ore and the development of the *La Arista* mine at the *El Aguila* Project based on estimates of mineralized material identified in our drilling program and estimates of gold and silver recovery based on test work developed during our scoping study. However, risks related to metallurgy are inherent when working with extractable minerals. Sales of gold and silver that we realize from future mining activity will be less than anticipated if the mined material does not contain the concentration of gold and silver predicted by our geological exploration. 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. Our inability to realize production based on quarterly or annual projections may also adversely affect the price of our common stock and you may lose all or part of your investment.

Our current property portfolio is limited to a single producing property and our ability to remain profitable over the 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 profitable on a long term basis and the price of our common stock may suffer.

Our producing property 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 provides for 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. All of our production to date has been processed and sold as concentrate. The requirement to pay royalties to the owner of the concessions at our *El Aguila* property, which includes the open pit mine and underground mine, will reduce our profitability from production of gold or other precious metals.

Since we have a very limited operating history, investors have little basis to evaluate our ability to operate. We were organized in 1998 and declared commercial production of our first mine less than two years ago. Our activities to date have been focused on raising financing, exploring our properties and preparing for production at the *El Aguila* Project. Our mill at the *El Aguila* Project is still optimizing production and we are presently processing ore using only the flotation circuit of the mill. We face all of the risks commonly encountered by other businesses that lack an established operating history, including the need for additional capital and personnel, and intense competition. There is no assurance that our business plan will be successful.

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The construction of our underground mine and optimization and continued operation of our mill are subject to all of the risks inherent in construction, start-up and operations. These risks include potential delays, cost overruns, shortages of material or labor, construction defects, breakdowns and injuries to persons and property. We expect to engage a combination of American and Mexican subcontractors and material suppliers in connection with the continued development of the *El Aguila* Project. While we anticipate taking all measures which we deem reasonable and prudent in connection with construction of the underground mine and the operation of the mill, there is no assurance that the risks described above will not cause delays or cost overruns in connection with such construction or operation. Any delays would postpone our anticipated receipt of revenue and adversely affect our operations, which in turn may adversely affect the price of our stock.

Our underground mining operations are subject to unique risks. The exploration for minerals and the development and production of mining operations from an underground mine involve a high level of risk and are often affected by hazards outside of our control. Some of these risks include, but are not limited to, underground fires or floods, fall-of-ground accidents, seismic activity and unexpected geological formations or conditions including noxious fumes or gases. The occurrence of one or more of these events in connection with our exploration, development, or production activities may result in the death of, or personal injury to, our employees, other personnel or third parties, the loss of mining equipment, damage to or destruction of mineral properties or production facilities, monetary losses, deferral or unanticipated fluctuations in production, environmental damage and potential legal liabilities, all of which may adversely affect our reputation, business, prospects, results of operations and financial position.

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 production at the *El Aguila* Project, require permits from the Mexican government. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving future permits, our timetable and business plan will be adversely affected.

Our properties are located in Mexico and are subject to changes in political conditions and regulations in that country. All of 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. 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 projects.

Our business operations may be adversely affected by social and political unrest in Oaxaca or by violence and crime in Mexico. Our existing properties are all 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. Our business operations could be negatively impacted if Oaxaca or other areas of Mexico experiences another similar event. Additionally, various areas in Mexico are impacted by increasing violence and crime which may lead local residents to resist cooperating with the federal government and outside organizations and also to an increased military presence in those areas. Our operating activities may be interrupted if we are unable to hire qualified personnel or if we are denied access to the site where our properties are located due to social unrest or increased violence and crime. We may also be required to make additional expenditures to provide increased security in order to protect property or personnel located at our properties. Significant delays in exploration or increases in expenditures will likely have a material adverse effect on our financial condition and results of operations.

Changes in legislation affecting the mining industry could significantly affect our operations. As in other countries, legislation has been introduced in Mexico which would impose a royalty on production from mineral properties. In the event any such legislation was successfully passed and signed into law, it could significantly and adversely affect our results of operations.

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

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

Competition in the mining industry is intense, and we have limited financial and personnel resources with which to compete. Competition in the mining industry for desirable properties, investment capital and personnel is intense. Numerous companies headquartered in the United States, Canada and elsewhere throughout the world compete for properties on a global basis. We are an insignificant participant in the gold mining industry due to our limited financial and personnel resources. We presently operate with a limited number of personnel and we anticipate that we will compete with other companies in our industry to hire additional qualified personnel which will be required to successfully operate our mine and mill site. We may be unable to attract the necessary investment capital or personnel to fully explore and if warranted, develop our properties and be unable to acquire other desirable properties.

We may require significant additional capital to fund our business plan. We will be required to expend significant funds to determine if proven and probable mineral reserves exist at any of our properties, to continue exploration and if warranted, develop our existing properties and to identify and acquire additional properties to diversify our property portfolio. We have spent and will be required to continue to expend significant amounts of capital for drilling, geological and geochemical analysis, assaying and feasibility studies with regard to the results of our exploration. We may not benefit from these investments if we are unable to identify commercially exploitable mineralized material. If we do locate commercially mineable material or decide to put additional properties into production, we may be required to upgrade our milling facility at the *El Aguila* Project or construct new facilities.

Our ability to obtain necessary funding for these purposes, in turn, depends upon a number of factors, including the status of the national and worldwide economy and the price of gold and other precious metals. Capital markets worldwide have been adversely affected by substantial losses by financial institutions, in turn caused by investments in asset-backed securities. We may not be successful in obtaining the required financing, or if we can obtain such financing, such financing may not be on terms that are favorable to us. Failure to obtain such additional financing could result in delay or indefinite postponement of further mining operations or exploration and development and the possible partial or total loss of our potential interest in our properties.

Since most of our expenses are paid in Mexican pesos, and we sell our production in United States dollars, we are subject to adverse changes in currency values that may adversely affect our results of operation. Our operations in the future could be affected by changes in the value of the Mexican peso against the United States dollar. The appreciation of non-U.S. dollar currencies such as the peso against the U.S. dollar increases expenses and the cost of purchasing capital assets in U.S. dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, depreciation of non-U.S. dollar currencies usually decreases operating costs and capital asset purchases in U.S. dollar terms. The value of cash and cash equivalents denominated in foreign currencies also fluctuates with changes in currency exchange rates.

Our activities are subject to significant environmental regulations, which could raise the cost of doing business or adversely affect our ability to develop our properties. Our mining operations are subject to environmental regulation by SEMARNAT, the environmental protection agency of Mexico. Regulations governing development of new projects or significant changes to existing projects require that an environmental impact statement, known in Mexico as a *Manifiestacion 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. If an environmental impact statement is adverse or if we cannot obtain community support, our ability to develop our properties could be adversely affected. Significant environmental legislation exists in Mexico, including fines and penalties for spills, release of emissions into the air, seepage and other environmental damage, which fines or penalties could adversely affect our financial condition or results of operation.

The nature of mineral exploration and production activities involves a high degree of risk and the possibility of uninsured losses. Exploration for and the production of minerals is highly speculative and involves greater risk than many other businesses. Many exploration programs do not result in the discovery of mineralization, and any mineralization

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discovered may not be of sufficient quantity or quality to be profitably mined. Our operations are, and any future development or mining operations we may conduct will be, 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:

- Economically insufficient mineralized material;
- Fluctuation in production costs that make mining uneconomical;
- Labor disputes;
- Unanticipated variations in grade and other geologic problems;
- Environmental hazards;
- Water conditions;
- Difficult surface or underground conditions;
- Industrial accidents;
- Metallurgic and other processing problems;
- Mechanical and equipment performance problems;
- Failure of pit walls or dams;
- Unusual or unexpected rock formations;
- Personal injury, fire, flooding, cave-ins and landslides; and
- Decrease in the value of mineralized material due to lower gold and silver prices.

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

We 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 executive employees or our principal financial consultant were to die, become disabled or leave our company, we would be forced to identify and retain individuals to replace them. Messrs. William, David and Jason Reid, and Mr. Juan Manuel Flores are our critical employees at this time. Paul E. Oberman 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 critical personnel at this time. We have no life insurance on any individual, and we may be unable to hire a suitable replacement for them on favorable terms, should that become necessary.

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.

We are required to annually evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 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. Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management on internal control over financial reporting. Such a report must contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by our management. In addition, our evaluation of the effectiveness of our internal controls will be subject to an annual audit by our independent registered public accounting firm and there is no assurance that they will agree with our assessment. If we are unable to maintain and to assert that our internal control over financial reporting is effective, or if we disclose material weaknesses in our internal control over financial reporting, or if our independent registered public accounting firm does not agree with our assessment, you could lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on our stock price.

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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

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 equity 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 or production efforts;
- Producing at rates lower than those targeted;
- Weather conditions, including unusually heavy rains;
- Failure to meet our revenue or profit goals or operating budget;
- Decline in demand for our common stock;
- Downward revisions in securities analysts estimates or changes in general market conditions;
- Technological innovations by competitors or in competing technologies;
- Investor perception of our industry or our prospects; and
- General economic trends.

In the last 12 months, the price of our stock has ranged from a low of $15.06 to a high of $31.38. In addition, stock markets in general have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, you may be unable to resell your shares at a desired price.

The sale of common stock by certain of our shareholders may depress the price of our common stock due to the limited trading market which exists. Due to a number of factors, including our stage of development and the past history of our common stock trading in the over the counter securities market prior to becoming listed on a national securities exchange, the trading volume in our common stock has been limited. Trading over the last 90 days has averaged approximately 200,000 shares per day. The sale of a significant amount of common stock by our principal shareholders, including Hochschild Mining Holdings Limited, may depress the price of our common stock. As a result, you may lose all or a part 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 18% of our common stock and our largest shareholder owns approximately 28% of our common stock as of February 28, 2012. 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, this group 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, you should be aware that you may have limited ability to influence the outcome of any vote in the future.

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

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

Issuances of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock. We have the authority to issue up to 100,000,000 shares of common stock, 5,000,000 shares of preferred stock, and also to issue options and warrants to purchase shares of our common stock without stockholder approval. As of February 28, 2012, there were 52,902,620 shares of common stock outstanding. Future issuances of our securities could be at prices substantially below the price paid for our common stock by our current shareholders. In addition, we can issue blocks of our common stock in amounts up to 20% of the then outstanding shares without further shareholder approval. Because we experience lower trading volume in our common stock than many of our larger peers, the issuance of a significant amount of our common stock may have a disproportionately large impact on our share price compared to larger companies.

Past payments of dividends on our common stock are not indictors of future payments of dividends. As of February 28, 2012, we have declared an instituted cash dividend on our common stock of $0.05 per share per month. However, our ability to pay dividends in the future will depend on a number of factors, including cash flow, development requirements and strategies, spot gold and silver prices and taxation and general market conditions. Further, a portion of our cash flow will likely be retained to finance our operations. Any material change in our operations may affect future dividends which may be modified at the discretion of our Board of Directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We classify our mineral properties into two categories: Operating Properties and Exploration Properties . Operating Properties are properties on which we operate a producing mine and are what we consider a material property in accordance with Guide 7. We currently have an interest in six properties, one Operating Property and five Exploration Properties, in the southern state of Oaxaca, Mexico. All of the properties except the *Solaga* property are located in what is known as the San Jose structural corridor, which runs north 70 west. Our properties comprise 48 continuous kilometers of this structural corridor, which spans three historic mining districts in Oaxaca.

The map below shows the general location of our six properties:

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Operating Properties

The *El Aguila* Project

Background

Effective October 14, 2002, we leased three mining concessions from a former consultant to our company known as *El Aguila*, *El Aire* and *La Tehuana,* which totaled 1,896 hectares. The *El Aguila* and *El Aire* concessions are part of the *El Aguila* Project and the *La Tehuana* concession comprises the *Las Margaritas* property.

The *El Aguila* lease agreement with our former consultant 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. Subject to meeting minimum exploration requirements, there is no expiration term for the lease. We may terminate it at any time upon written notice to the lessor and the lessor may terminate it if we fail to fulfill any of our obligations, which primarily consists of paying the appropriate royalty to the lessor.

In 2010, we subsequently acquired, at no additional cost, two additional concessions from our former consultant, which we refer to as *El Chacal* and *El Pilon*, totaling 1,445 hectares, each of which are subject to a 2% royalty to him, but are not subject to the lease. We have filed for and received additional concessions for the *El Aguila* Project that total an additional 17,639 hectares which we refer to as *El Pitayo*, *El Talaje*, *El Coyote*, *El Zarrito*, *San Luis* and *La Curva*. These additional concessions are also not part of the concessions leased or acquired from our former consultant, and bring our interest in the *El Aguila* Project to an aggregate of 20,055 hectares. The mineral concessions making up the *El Aguila* Project are located within the *San Pedro Totolapam Ejido*. As described in more detail in **Mining Concessions and Regulations** below, we are required to pay concession fees to the Mexican government to maintain our interest in these concessions, including the concessions which are subject to the lease agreement with our former consultant. We paid approximately $33,000 during 2011 in maintenance fees to the Mexican government for the concessions comprising *El Aguila* Project.

Location and Access

The *El Aguila* Project is located in the *Sierra Madre del Sur* mountains of southern Mexico, in the central part of the State of Oaxaca. The property is located along a major paved highway approximately 120 kilometers (75 miles) southeast of Oaxaca City, the state s capital city. At the village of *San Jose de Gracia*, the property is approximately four kilometers due northwest from the village. We have constructed a gravel road from the village to the mine and mill sites which supports adequate access to the property by small and large vehicles.

The climate of the *El Aguila* Project 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.

Geology and Mineralization

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

There are no known reserves at *El Aguila* and we have proceeded to commercially mine the property absent a feasibility study that would indicate any proven or probable reserves. As discussed in more detail below, we have produced metal concentrates from two locations on the *El Aguila* property, the open pit mine (*El Aguila* open pit) and the underground mine at the *La Arista* vein system. The *El Aguila* open pit mineralization is considered low sulfidation, epithermal mineralization of gold and silver with no base metals. The *La Arista* vein system is considered intermediate epithermal mineralization of gold, silver, copper, lead, and zinc. The host rock at the *La Arista* vein system is primarily andesite.

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Facilities

We constructed a mill facility and infrastructure at the *El Aguila* Project for approximately $35 million, which was completed in 2010. The mill is flexible in its ability to process several types of mineralization. It has a differential flotation section capable of processing polymetallic ores and producing up to three separate concentrate products for sale, and an agitated leach circuit capable of producing gold and silver dore for sale. Depending on the specific ore type and characteristics, the mill, as it is presently configured, can process a nominal 440,000 tonnes of ore per year. Power is provided by diesel generators at the site. We obtained water rights from the Mexican government for an amount of water we believe is sufficient to meet our operating requirements and pump it approximately five kilometers to the site from a permitted well located near the Totolapam River .

Additional improvements we have made at the site include constructing an access road from a major highway, installing a water line and pumping station, creating haul roads from the mine site, constructing buildings adjacent to the mill facility for office space and an assay lab and construction of a tailings impoundment and other infrastructure.

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*. The land cost us $153,000. We have completed construction of an employee housing facility on this parcel for approximately $1.9 million that includes 10 buildings and houses approximately 50 people.

Exploration Activities

The early history of activity at the *El Aguila* Project 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, the concessions were leased 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 our former consultant in October 2002.

In August 2003, we commenced an initial drilling and exploration program. Through 2011, we have drilled a total of 307 core holes equaling 83,173 meters and 177 reverse circulation holes equaling 15,609 meters for a total of 484 holes totaling 98,782 meters (324,086 feet).

Exploration at the *El Aguila* Project has involved drilling the *El Aguila* open pit mineralization and drilling the *El Aire* vein system mineralization and the discovery and subsequent detailed drilling of the *La Arista* vein system. The *La Arista* vein system is made up of two primary veins, the *Baja* vein and the *Arista* vein which are approximately 30 meters apart but also include multiple near parallel veins of varying length. The drilling of the *La Arista* vein system has shown mineralized material over 500 meters of strike length and 500 meters of depth. Both veins are open along strike and depth.

Our exploration program at *El Aguila* during 2011 and 2012 is primarily focused on development work at the *La Arista* vein system and although there is no specific timetable for exploration, development of the vein system remains our highest exploration priority. We anticipate spending approximately $4.8 million in 2012 for exploration at *El Aguila*, consisting of approximately $3.8 million for drilling, $250,000 for geochemical surveys and $700,000 for geophysical exploration, including an airborne magnetic survey of all of our properties. We anticipate that all exploration activities will be funded from working capital.

Operating Activities

We declared commercial production at the *El Aguila* Project July 1, 2010. Mineral production during 2010 consisted of processing ore from the *El Aguila* open pit located approximately 0.5 kilometers from the mill. Mining of the open pit ore was essentially completed in 2010 and there remained a stockpile of open pit ore approximating 131,000 tonnes at the end of 2010. In 2010, we processed 166,237 tonnes of open pit ore with an average grade of 3.7 grams per tonne gold and 43.2 grams per tonne silver from this ore through the mill s flotation circuit.

During 2010, we began developing an underground mine to access two veins we named the *La Arista* and *Baja* veins, which we refer to as the *La Arista* vein system . The underground mine is approximately 2 kilometers from the mill. We have constructed a primary decline ramp and that reached Level 8, approximately170 meters below the portal, at December 31, 2011. We have also constructed a safety/ventilation decline ramp in conjunction with the primary decline ramp.

In November 2010, we commenced underground mining and stockpiling of the *La Arista* ore at our *El Aguila* Project and continue to develop multiple working faces on the veins. We began the first stope between Level 4 and Level 5 during 2011 and we are mining ore from the stopes between Levels 4 and 5 and Levels 5 and 6 at December 31, 2011.

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We began transitioning from processing the open pit ore to the underground ore at our mill facilities in March 2011. Since that time, and especially following an anomalous storm in April 2011 which flooded the lower levels of the underground mine, we have periodically processed ore from the open pit stockpile in addition to underground ore to supplement mill throughput. For approximately six weeks during the cleanup phase following the storm, we were unable to remove ore from the underground mine and supplemented approximately 20% of the mill throughput with stockpiled open pit ore. In June 2011, we began processing ore from one of the first stopes we encountered and have combined this ore with development ore from *La Arista*. In 2011, the combined open pit and underground ore that we processed through the mill averaged 619 tonnes of ore per day and totaled 214,215 tonnes for the year, with an average grade of 3.43 grams per tonne gold and 357 grams per tonne silver. All of our processing is taking place using the mill s flotation circuit, as we have not yet utilized the mill s agitated leach circuit. We anticipate we would use the agitated leach circuit if ever we are able to mine sufficient ore from the *El Rey* property.

Please see the table titled **Production and Sales Statistics *El Aguila* Project in Item 7. Management s Discussion and Analysis** for additional details concerning our mineral production statistics for 2011 and 2010.

Exploration Properties

We currently hold an interest in five additional properties in Oaxaca, which we classify as exploration properties. We do not currently consider any of these properties to be a material property for purposes of Guide 7 and none of these properties has any known reserves. We anticipate all exploration activities at these properties will be funded through our working capital.

The *El Rey* Property

The *El Rey* property consists of concessions in another area in the state of Oaxaca known as *El Rey*, *El Virrey*, *La Reyna* and *El Marquez*. We acquired the *El Rey* concession from our former consultant and it is subject to a 2% net smelter return royalty payable to him. We obtained the remaining concessions by staking claims and filing for concessions with the Mexican government. These concessions total 2,773 hectares and we are required to pay concession maintenance fees semi-annually to the Mexican government to maintain the claims. We paid $9,500 in maintenance fees for the concessions comprising *El Rey* property in 2011.

The *El Rey* property 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 trucked to the *El Aguila* Project mill for processing.

Limited drilling at *El Rey* has encountered gold and silver mineralization up to 1 meter of 132.5 grams per tonne gold (4.25 ounces per tonne) and 1.5 meters of 958 grams per tonne silver. The mineralized material has been located within 100 meters from the surface. To date, we have drilled 48 core holes for a total of 5,278 meters (17,316 feet) at the *El Rey* property. During 2011, we began to refurbish and extend an existing shaft on the property to permit underground exploratory drilling. We purchased a hoist and began designing a headframe to use at the shaft to facilitate underground access.

We intend to continue exploration at *El Rey* during 2012 and have budgeted $1.2 million for that purpose, including $500,000 for continued work on the existing shaft and $500,000 for additional drilling from the surface and underground. However, we have temporarily ceased work at *El Rey* following a recent request to obtain additional approvals from local community agencies. We are working with the local agencies and anticipate resolving the matter, but we have no assurance we will be able to resume our exploration activities in the near term.

The *Las Margaritas* Property

The *Las Margaritas* property is made up of the *La Tehuana* concession. We leased this concession in October 2002 from our former consultant along with two of the concessions comprising the *El Aguila* property and the terms of this agreement are discussed under **The *El Aguila* Project** above. It is comprised of approximately 925 hectares located adjacent to the *El Aguila* Project. We are also required to pay concession maintenance fees semi-annually to the Mexican government to maintain this claim and we paid $17,000 in maintenance fees during 2011.

To date, we have conducted limited surface sampling that has identified mineralization containing up to 4,150 grams per tonne silver and 6.29 grams per tonne gold. Based on these results, we intend to continue exploration activity at *Las Margaritas.* We have budgeted approximately $200,000 for additional geophysical and geochemical testing during 2012 to

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continue identifying potential drill targets. We have obtained permits and completed design work to commence construction of a new access road bypassing the community of Las Margaritas to allow year-round access to the drill targets without being impaced by fluctuating water levels from the nearby river. We have not established a formal timetable for exploration, however, if we initiate an exploratory drilling program at the property, we would anticipate spending approximately $500,000 during the first twelve months on surface drilling.

The *Solaga* Property

In February 2007, we leased a 100% interest in a property we refer to as the *Solaga* property, which is comprised of two mining concessions totaling 618 hectares known as *Solaga I* and *Solaga II*. The property is located approximately 120 kilometers (75 miles) northeast of the *El Aguila* Project. The primary term of the lease is for eight years and can be held after that by production. The lease is subject to a 4% net smelter return royalty on any production. The lease also requires an annual minimum advance royalty payment of $10,000 if production has not commenced by 2010. We paid the minimum advance royalty in 2010 and 2011 to the lessor in accordance with the lease. We are also required to pay concession maintenance fees semi-annually to the Mexican government to maintain the claims and we paid $2,600 in maintenance fees for *Solaga* during 2011.

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. We have not conducted any exploration activities at the property and have not established a timetable for exploration. To the extent we have the personnel and equipment available during 2012, we will commence exploration activities and have budgeted approximately $600,000 for that purpose. We intend to conduct surface sampling and geological mapping at the *Solaga* property, as well as to evaluate whether to rehabilitate the historic workings located at the property.

The *Alta Gracia* Property

In August 2009, we acquired claims adjacent to the *Las Margaritas* property in the *Alta Gracia* Mining District by filing concessions known as the *David 1*, the *David 2* and *La Hurradura,* totaling 5,175 hectares. We refer to this property as the *Alta Gracia* property. We are required to pay concession maintenance fees to the Mexican government semi-annually in order to maintain these claims and we paid $6,500 in annual fees during 2011.

During 2010, we conducted surface sampling and geologic mapping at *Alta Gracia*. Our rock chip samples and other geologic field work have identified several structural targets containing gold and silver mineralization, including three high-grade polymetallic veins that outcrop on the surface near some historic workings. We believe these results justified further exploration using an exploratory drill program. During 2010 and 2011, we identified multiple drill targets and in 2011 drilled 21 shallow exploratory core holes for a total of 5,030 meters (16,502 feet). We also conducted a small amount of underground exploration by driving drifts and crosscuts into exposed veins. Initial drill results are encouraging and warrant continued drilling in 2012 to test other targets generated from surface sampling and the deeper zones of veins encountered to date. In 2011, we had 33 intercepts grading over 200 grams silver per tonne from intervals averaging over one meter down hole length. Assays identified mineralization up to 1020 grams per tonne silver with 3.73 grams per tonne gold and only trace amounts of other base metals.

We have no established timetable for our exploration activities at *Alta Gracia*; however, we have budgeted approximately $1 million for additional exploration activities in 2012, including $500,000 to continue exploratory drilling. In addition to surface drilling, we intend to develop underground drill stations for deeper exploratory drilling and to test for mineral continuity. In late 2011 and continuing in 2012, we began rehabilitating historic adits located at the site to permit underground access and intend to spend approximately $250,000 to complete this work. The remaining $250,000 is budgeted for geophysical and geochemical testing.

The *El Chamizo* Property

In June 2011, we staked mineral claims between the *El Rey* property and *Alta Gracia* property and acquired an exploration concession from the Mexican government of approximately 26,386 hectares (101 square miles) referred to as *El Chamizo*. We are required to pay maintenance fees to the Mexican government semi-annually to maintain these claims and during the second half of 2011 we paid approximately $3,000 in maintenance fees. Because of the close proximity of *El Chamizo* to *Alta Gracia*, exploration activity began on this property during late 2011 and to date has been limited to geochemical sampling and drilling of eight shallow core holes for a total of 1,327 meters (4,353 feet). Additional work in 2012 will include the property-wide airborne geophysical survey and additional geochemical sampling and drilling, which is included in the exploration budget for *Alta Gracia*.

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Mining Concessions and Regulations

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

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

***Ejido* Lands and Surface Right Acquisitions**

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

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

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

Office Facilities

We constructed an administrative office building adjacent to the mill site as part of the facilities at the *El Aguila* Project. In 2010, we purchased a building in Colorado Springs, Colorado, containing approximately 4,500 square feet which serves as our executive and administrative headquarters.

Glossary

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

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:	An extrusive igneous, volcanic rock, of intermediate composition, with aphanitic to porphyritic texture characteristic of subduction zones, such as the western margin of South America. Along with basalts they are a major component of the martian crust.

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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.
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.
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.
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.
Portal:	The entrance to the mine at the surface.
Silicified:	Is combined or impregnated with silicon or silica.
Tonne:	A metric ton. One tonne equals 1000 kg. It is approximately equal to 2,204.62 pounds.
Volcanogenic:	Of volcanic origin.
Volcanic domes:	These are mounds that form when viscous lava is erupted slowly and piles up over the vent, rather than moving away as lava flow. The sides of most domes are very steep and typically are mantled with unstable rock debris formed during or shortly after dome emplacement. Most domes are composed of silica-rich lava which may contain enough pressurized gas to cause explosions during dome extrusion.

Conversion Table

Metric System	Imperial System
1 metre (m)	3.2808 feet (ft)
1 kilometer (km)	0.6214 mile (mi)
1 square kilometer (km2)	0.3861 square mile (mi2)
1 square kilometer (km2)	100 hectares (has)
1 hectare (ha)	2.471 acres (ac)
1 gram (g)	0.0322 troy ounce (oz)
1 kilogram (kg)	2.2046 pounds (lbs)
1 tonne (t)	1.1023 tons (t)
1 gram/tonne (g/t)	0.0292 ounce/ton (oz/t)

ITEM 3. LEGAL PROCEEDINGS

We are not currently subject to any legal proceedings, and to the best of our knowledge, no such proceeding is threatened, the results of which would have a material impact on our properties, results of operation, or financial condition. Nor, to the best of our knowledge, are any of our officers or directors involved in any legal proceedings in which we are an adverse party.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock trades on the NYSE Amex LLC stock exchange, which we refer to as the NYSE Amex, under the symbol GORO . Prior to August 30, 2010, our common stock traded over-the-counter and was quoted on the OTC Bulletin Board under the same symbol GORO. The table below sets forth the high and low bid prices for our common stock on the OTC Bulletin Board until August 29, 2010 and the high and low sales price of the common stock thereafter on the NYSE Amex for the last two fiscal years. Quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and do not necessarily represent prices at which actual transactions were effected.

Year Ending	High	Low
December 31, 2011		
First Quarter	$ 29.90	$ 21.16
Second Quarter	31.38	21.76
Third Quarter	28.74	16.65
Fourth Quarter	24.19	15.06
December 31, 2010		
First Quarter	$ 11.60	$ 9.50
Second Quarter	13.00	9.80
Third Quarter	19.97	12.01
Fourth Quarter	29.75	18.70

On February 28, 2012, the high and low sales price of our common stock on the NYSE Amex stock exchange were $26.01 and $25.60, respectively, and we had approximately 65 holders of record of our common stock. The approximate number of beneficial shareholders is 11,000.

Securities authorized for issuance under equity compensation plans

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2011.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average Exercise price of Outstanding options, warrants and rights (b)	Number of securities Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:	5,160,000	$ 8.51	3,140,000

Equity compensation plans not approved by security holders:		$		N/A
Total	5,160,000	$	8.51	3,140,000

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Purchases of Equity Securities by the Company and Affiliated Purchasers

In September 2011, our Board of Directors authorized a share repurchase program to purchase up to $20.0 million of our common stock with no pre-established end date.

Issuer Purchases of Equity Securities

Registered Pursuant to Section 12 of the Exchange Act

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (Thousands)
September 1-30, 2011	51,000	$ 19.01	51,000	$ 19,030
Total July 1-September 30, 2011	51,000	$ 19.01	51,000	$ 19,030
October 1-31, 2011		$		$ 19,030
November 1-30, 2011	53,251	18.39	53,251	18,046
December 1-31, 2011				18,046
Total October 1-December 31, 2011	53,251	$ 18.39	53,251	$ 18,046
TOTAL 2011	104,251	$ 18.69	104,251	$ 18,046

(1) The total number of shares purchased as part of publicly announced plans or programs includes shares purchased under the Board s authorizations described above.

Performance Graph

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

The following graph compares the performance of Gold Resource Corporation common stock with the performance of the NYSE Amex Composite Index and the NYSE Arca Gold Bugs, assuming reinvestment of dividends on December 31 of each year indicated. The graph assumes $100 invested at the per share closing price in Gold Resource Corporation and each of the indices on December 31, 2007.

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Company / Index	Base Period 12/31/07	Total Cumulative Return Years Ending 12/31/08	12/31/09	12/31/10	12/31/11
Gold Resource Corporation	**100**	78.65	253.71	660.67	479.64
NYSE Arca Gold Bugs Index	**100**	73.88	105.03	140.06	121.84
NYSE Amex Composite Index	**100**	60.00	75.74	91.65	94.55

Transfer Agent

Computershare Investor Services is the transfer agent for our common stock. The principal office of Computershare is located at 350 Indiana Street, Suite 750, Golden, CO 80401 and its telephone number is (303) 262-0600.

Dividend Policy

Since we have declared commercial production at our *El Aguila* Project, one of our primary goals is to make a cash or in-kind distribution to shareholders. In keeping with this policy, and beginning July 2010, we determined on a monthly basis to declare a special dividend every month until August 2011 ranging from $0.03 to $0.04 per share. In August 2011, we increased the dividend to $0.05 per share and instituted a regular monthly dividend policy at that time. Special and regular dividends should not be considered a prediction or guarantee of future dividends. Our instituted dividend may be discontinued at the discretion of our Board of Directors, depending on variables such as operating cash flow, development requirements and strategies, spot gold and silver prices, taxation and general market conditions. At the present time, we are not party to any agreement that would limit our ability to pay dividends. The dividends have been charged against our additional paid in capital and were considered return of capital dividend since Gold Resource Corporation, as a stand-alone U.S. corporation, had no current or accumulated tax-basis earnings or profits in 2011 and 2010.

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The table below sets forth the frequency and amounts of cash dividends declared on our common stock for the two most recent fiscal years:

Date Declared	Per Share Amount
July 30, 2010	$ 0.03
August 30, 2010	0.03
September 29, 2010	0.03
October 28, 2010	0.03
November 27, 2010	0.03
December 21, 2010	0.03
TOTAL 2010:	$ 0.18
January 26, 2011	$ 0.03
February 23, 2011	0.03
March 29, 2011	0.03
April 28, 2011	0.04
May 26, 2011	0.04
June 27, 2011	0.04
July 25, 2011	0.04
August 23, 2011	0.05
October 5, 2011	0.05
October 27, 2011	0.05
November 29, 2011	0.05
December 28, 2011	0.05
TOTAL 2011:	$ 0.50

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data sets forth our summary historical financial data as of and for the years ended December 31, 2011, 2010, 2009, 2008, and 2007. This information was derived from our audited consolidated financial statements for each period. Our selected historical financial data is qualified in its entirety by, and should be read in conjunction with, **Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations** and the financial statements and the notes thereto included elsewhere in this report. For additional information relating to our operations, see **Item 1. Business** and **Item 2. Properties**.

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Operating Data	**Year Ended December 31,**				
(in thousands, except share data)	**2011**	**2010**	**2009**	**2008**	**2007**
Sales of metals concentrate	$ 105,163	$ 14,754	$	$	$
Mine gross profit	87,206	9,799			
Operating Income (loss)	45,674	(22,839)	(34,184)	(26,349)	(8,319)
Other income (expense)	2,414	(235)	55	334	242
Income (loss) before income taxes	48,058	(23,074)	(34,129)	(26,015)	(8,076)
Income tax benefit (expense)	12,037				
Net income (loss) before extraordinary item	$ 60,125	$ (23,074)	$ (34,129)	$ (26,015)	$ (8,076)
Extraordinary item	(1,756)				