GOLD RESOURCE CORP
Form 10-K
March 18, 2013

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, 2012

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-34857

GOLD RESOURCE CORPORATION

(Exact Name of Registrant as Specified in its charter)

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)

(303) 320-7708

(Registrant's telephone number including area code)

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes ¨ No x

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 29, 2012, the last business day of the registrant’s most recently completed second fiscal quarter, was $851,551,524 based on the closing price of the common stock of $25.99 as reported on the NYSE MKT, LLC.

As of March 15, 2013 there were 52,679,369 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 2013 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "plan," "target," "anticipate," "believe," "estimate," "intend" and "expect" and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements include, without limitation, the statements regarding Gold Resource Corporation's strategy, future plans for production, future expenses and costs, future liquidity and capital resources, future dividends and estimates of mineralized material. All forward-looking statements in this report are based upon information available to Gold Resource Corporation on the date of filing this report, and the company assumes no obligation to update any such forward-looking statements. Forward looking statements involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Gold Resource Corporation's actual results could differ materially from those discussed in this report. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the "Item 1A. Risk Factors" section of this 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;
- Rock formations, faults and fractures, water flow and possible CO2 gas exhalation or other unanticipated geological situations,
- Acts of God such as floods, earthquakes and any other natural disasters.
- 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 filing this report. We do not intend to update these forward looking statements except as required by law. We qualify all of our forward-looking statements by these cautionary statements.

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 (part of the Oaxaca Mining Unit). 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 Mexico S.A.de C.V. and Golden Trump Mexico S.A. de C.V. We established a wholly-owned Turkish subsidiary corporation named Gold Resource Madencilik Sanayi Ve Ticaret Limited Sirketi in 2012. 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 21 of this report for a glossary of certain terms used in this report.

Developments During 2012

We completed our second full year of commercial production of gold and silver in 2012. 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 and we transitioned to processing ore from the La Arista underground mine in March 2011. We produced metal concentrates from the La Arista underground mine with gold and silver as our primary metal products and copper, lead and zinc as by-products.

During 2012, we continued to develop the decline ramp for the underground mine and reached Level 14 by the end of the year. We have developed stopes and faces for mining from level 6.5 to level 11. Underground infrastructure and mine development completed in 2012 included additional ventilation fans, ground water pumping stations and electrical infrastructure expansion. Various ore stopes were developed and mining methods of long-hole stoping and cut-and-fill were utilized. The management team was strengthened with the addition of our Chief Operating Officer and on-site managerial changes included our new project manager, mine superintendent, mill superintendent and maintenance manager.

We established a new wholly-owned Turkish subsidiary corporation named Gold Resource Madencilik Sanayi Ve Ticaret Limited Sirketi in the event we decide to expand our exploration property portfolio outside of Mexico. We are in the early stages of identifying potential properties for acquisition in Turkey and do not have significant operations at this time.

Production Summary

During 2012, we produced from the mill a total of 90,432 ounces of gold equivalent from the El Aguila Project, which was a 36.5% increase in mill production over 2011. We processed an aggregate of 282,120 tonnes of ore with an average grade of 4.3 grams per tonne gold and 355 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.

Exploration

Exploration during 2012 continued to focus 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 other properties, including commencing a surface drill program on portions of the Las Margaritas property and completing a limited drilling campaign at Alta Gracia and El Chamizo focusing on previously identified drill targets. Please see the map of our properties on page 15 for more information regarding our exploration properties. We conducted limited underground exploration and testing at the Alta Gracia property by driving drifts and crosscuts into surface exposed veins. To date, 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

We declared an aggregate of $0.69 per share in dividends in 2012. In April 2012, we commenced a physical dividend program pursuant to which our shareholders have the option to convert the cash dividends we pay into physical gold and silver bullion and take delivery of their metal. See, "Item 5. Market For Common Equity, Related Stockholder Matters and Purchase of Equity Securities," and "Item 7. Management's Discussion and Analysis" 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 or 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, 2012, 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. Identifying and evaluating potential mining prospects is a costly and time–consuming endeavor. Due to our limited capital and personnel, we are at a competitive disadvantage compared to many other companies with regard to exploration and, if warranted, development of mining properties. Our present limited capital means that our ability to compete for properties to be explored and developed is limited. We believe that competition for acquiring mineral prospects will continue to be intense in the future.

Government Regulations and Permits

In connection with mining, milling and exploration activities, we are subject to 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.

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 for the El Aguila area where we are currently producing from.

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 soon thereafter. 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 limit our water supply, which could adversely affect our mining operations.

We have obtained, and plan to 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, 2012, 100% of our total sales of metals concentrate were made to Consorcio Minero de Mexico Cormin Mex. S.A. de C.V., a Trafigura Group Company. In the event that our relationship with Trafigura 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. We are reviewing our options of alternative sales outlets to mitigate the concentration of risk with one concentrate buyer in case of any unforeseen disruptions.

Employees

We currently have nine full-time employees, five of which serve as our executive officers. These individuals devote all of their business time to our affairs.

In Mexico, through our wholly-owned Mexican subsidiaries, we employ approximately 350 Mexican nationals, including our El Aguila Project Manager. We also use various independent contractors for developing our underground mine, surface exploration drilling and trucking.

In Turkey, we employ four Turkish nationals through our wholly-owned Turkish subsidiary.

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. During the fiscal years ended December 31, 2012 and 2011, we reported net income of $33.7 million and $60.1 million, respectively, and for the fiscal year ended December 31, 2010, we reported net loss of approximately $23.1 million. We had an accumulated deficit of approximately $5.9 million as of December 31, 2012. While we were profitable in 2012, 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.

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.

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.

We have no proven or probable reserves and our decision to commence commercial production is not based on a study demonstrating economic 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 cause volatility in our net earnings and 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 report substantially all exploration and construction expenditures as expenses until such time, if ever, we are able to establish proven or probable reserves. 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 financial statements report fewer assets and greater expenses than would be the case if we had proven or probable reserves, which could produce volatility in our earnings and 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 or 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.

Revenue from the sale of our metals concentrates may be adversely affected by loss or damage to the concentrate during shipment and storage at our buyer's facilities. We rely on third party transportation companies to transport the concentrate to our buyer's facilities for processing and further refining. The terms of our sales contract with the buyer require us to rely on assay results from samples of our concentrate that are obtained at the buyer's warehouse to determine the final sales value for our concentrates. Once the concentrate leaves our mill facility, we no longer have direct custody and control of these products. Theft or loss in transit or improper storage, fire, natural disasters, tampering or other unexpected events while at the buyer's location may lead to the loss of all or a portion of our concentrate products. Such losses may not be covered by insurance and may lead to a delay or interruption in our revenue and our operating results may be adversely affected. Tampering, theft or environmental factors may impact the metal content of our concentrates between the time they are sampled at our mill site for provisional price purposes and the time they are sampled at the buyer's warehouse for final price purposes and significant variances in these measurements may negatively impact our revenue.

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 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 properties 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 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	2008	2009	2010	2011	2012
Gold	$ 872.00	$ 972.00	$ 1,225.00	$ 1,572.00	$ 1,689.00
Silver	$ 14.99	$ 14.67	$ 20.19	$ 35.12	$ 31.96

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 and accordingly no amount of planning or technical expertise can fully eliminate these risks. 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. If the gold or silver price decreases significantly, our revenues may be materially adversely affected.

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 expand the known deposits like Arista and / or 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 a portion of our El Aguila property from a third party. The leased portion of the 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 from the leased property and 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.

The construction and development of our underground mine and optimization and continued expansion and operation of our mill are subject to all of the risks inherent in construction development, and operations. These risks include potential delays, cost overruns, shortages of material or labor, construction defects, breakdowns and injuries to persons and property. We expect to engage 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 and development 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.

We have been named as a defendant in securities class action and shareholder lawsuits which could result in substantial damages and may divert management's time and attention from our business. We and certain of our officers and directors are named as defendants in a purported securities class action lawsuit, and in a shareholder derivative lawsuit, each filed in the U.S. District Court for the District of Colorado and described in more detail in "Item 3. Legal Proceedings." These lawsuits and any other related lawsuits are subject to inherent uncertainties, and the actual costs to be incurred relating to these lawsuits will depend upon many unknown factors. The outcome of the litigation is necessarily uncertain, and we could be forced to expend significant resources in the defense of these suits, and we may not prevail. Monitoring and defending against legal actions is time-consuming for our management and detracts from our ability to fully focus our internal resources on our business activities. In addition, we may incur substantial legal fees and costs in connection with the litigation. We are not currently able to estimate the possible cost to us from these matters, and we cannot be certain how long it may take to resolve the litigation or the possible amount of any damages that we may be required to pay. We have not established any reserves for any potential liability relating to these lawsuits. It is possible that we could, in the future, incur judgments or enter into settlements of claims for monetary damages. A decision adverse to our interests on these actions could result in the payment of substantial damages and could have a material adverse effect on our cash flow, results of operations, financial position and stock price.

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

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. Legislation relating to employee profit sharing in Mexico was recently passed that could effectively increase mandated profit sharing distributions to our mine employees. This legislation may have a material adverse effect on our cash flows, results of operations and financial condition.

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.

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 or 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, and other monetary assets and liabilities, denominated in foreign currencies also fluctuate with changes in currency exchange rates.

Our activities are subject to significant environmental regulations, which could raise the cost of doing business or adversely affect our ability to develop our properties. Our mining operations 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.

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

The nature of mineral exploration and production activities involves a high degree of risk and the possibility of uninsured losses. Exploration for and the production of minerals is highly speculative and involves greater risk than many other businesses. Many exploration programs do not result in the discovery of mineralization, and any mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Our operations are, and any future 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 write down of our investment in these interests. All of these factors may result in losses in relation to amounts spent which are not recoverable, or result in additional expenses.

We depend upon a limited number of personnel and the loss of any of these individuals could adversely affect our business. Due to the relatively limited number of personnel that we employ and our status as an exploration stage company, we are dependent on a limited number of individuals to run our business. These individuals include our executive officers, including William and Jason Reid and Brad Blacketor, and to a lesser extent, our employees Rick Irvine and Barry Devlin. If any of these individuals were to die, become disabled or leave our company, we would be forced to identify and retain individuals to replace them. There is no assurance that we can find suitable individuals to replace them or to add to our employee base if that becomes necessary. We have no life insurance on any individual, and we may be unable to hire a suitable replacement 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 have identified a material weakness in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, investors could lose confidence in our financial statements and our company, which could have a material adverse effect on our business and stock price. In order to provide reliable financial reports and operate successfully as a publicly traded company, we must maintain effective control over our financial reporting. In connection with the restatement of certain interim financial statements during 2012, we determined and reported to our external auditors there was an internal control deficiency in our concentrate sales process at March 31, 2012 and June 30, 2012 that did not prevent or detect on a timely basis the potential impact to concentrate sales that results from material variances between assays from concentrate samples taken at the mine site, and assays from samples taken at the buyer's warehouse, prior to final settlement with the buyer.

Management concluded that concentrate sales should have been adjusted at the time the material assay differences were known, even though final settlement had not yet occurred.

We believe that this material weakness does not exist as of December 31, 2012. However, we can make no assurances that additional material weaknesses or significant deficiencies may not subsequently arise. If we fail to achieve and maintain effective internal control over financial reporting and disclosure controls and procedures, it could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations, result in material misstatements in our financial statements, restatement of financial statements, sanctions or investigations by regulatory authorities, or loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock.

Compliance with changing regulation of corporate governance, public disclosure and financial accounting standards may result in additional expenses and affect our reported results of operations. Keeping informed of, and in compliance with, changing laws, regulations and standards relating to corporate governance, public disclosure and accounting standards, including the Sarbanes-Oxley Act of 2002 and Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as new and proposed SEC regulations and accounting standards, has required an increased amount of management attention and external resources. Compliance with such requirements may result in increased general and administrative expenses and an increased allocation of management time and attention to compliance activities.

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 $12.31 to a high of $28.37. 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.

Past payments of dividends on our common stock are not indictors of future payments of dividends. As of March 15, 2013, we have declared an instituted cash dividend on our common stock of $0.06 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, construction projects, 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. Any decrease in our monthly dividend would likely have an adverse impact on the price of our common stock.

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 400,000 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 10% of our common stock and our largest shareholder owns approximately 28% of our common stock as of March 15, 2013. 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 MKT and our failure to satisfy these criteria may result in delisting of our common stock. Our common stock is currently listed on the NYSE MKT. 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 MKT 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 MKT 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 MKT's listing requirements; if an issuer's common stock sells at what the NYSE MKT considers a "low selling price" and the issuer fails to correct this via a reverse split of shares after notification by the NYSE MKT; or if any other event occurs or any condition exists which makes continued listing on the NYSE MKT, in its opinion, inadvisable.

If the NYSE MKT 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 March 15, 2013, there were 52,679,369 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.

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

ITEM 1B.UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We classify our mineral properties into two categories: “Operating Properties” and “Exploration Properties”. Operating Properties are properties on which we operate a producing mine and are what we consider a “material” property in accordance with Guide 7. We currently have an interest in six properties, including one Operating Property and five Exploration Properties, in the southern state of Oaxaca, Mexico. All of the properties 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:

Operating Properties

The El Aguila Project

Background

The El Aguila Project currently comprises 10 mining concessions aggregating 20,055 hectares as described in the table below:

Acquisition Date	Concession Names	Hectares	Acquisition
2002	El Aguila and El Aire	971	Lease, subject to royalty
2010	El Chacal and El Pilon,	1,445	Lease, subject to royalty
2010	El Pitayo, El Talaje, El Coyote, El Zarrito, San Luis and La Curva	17,639	Concession holder

Effective October 14, 2002, we leased El Aguila, El Aire and La Tehuana, from a former consultant to our company. 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 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 from our former consultant, at no additional cost, the El Chacal and El Pilon concessions, which are subject to a 2% royalty, but are not subject to the El Aguila lease agreement. We filed for and received additional concessions from the Mexican government which are also not part of the concessions leased or acquired from our former consultant. 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 $68,000 during 2012 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 gravel and paved 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, within the definition of the SEC Guide 7, 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.

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 an access road from the major highway, a water line and pumping station, haul roads from the mine site to the mill, constructing buildings adjacent to the mill facility for office space and an assay lab and 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 2012, we have drilled a total of 359 core holes equaling 114,936 meters and 177 reverse circulation holes equaling 15,609 meters for a total of 536 holes totaling 130,545 meters (428,292 feet).

Exploration at the El Aguila Project includes 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.

Surface drilling at El Aguila in 2012 was mainly a continuation of the previous year's activities of infill and step out drilling from the mine. In 2012, 52 surface diamond drill holes totaling 31,763 meters (104,209 feet) were completed on the El Aguila Project. New significant high-grade mineralization was encountered in 17 holes with drill intercepts including 3.83 grams per tonne gold and 985 grams per tonne silver over a core length of 4.21 meters and 9.23 grams per tonne gold and 1,040 grams per tonne silver over a core length of 2.93 meters. Other surface prospecting work consisted of field geological, structural and alteration mapping, geochemical sampling and a ground geophysical survey. The ground geophysical survey was carried out over the area of the mine and the area to the west and southwest. This survey generated a number of target areas that are marked for future drilling.

In 2013, we anticipate spending approximately $7.4 million for exploration at El Aguila, consisting of approximately $5.1 million for drilling, $414,000 for geochemical surveys and $400,000 for geophysical exploration, including an airborne magnetic and radiometric survey of all of our properties which was delayed from 2012. 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 lower-grade stockpile of open pit ore approximating 78,000 tonnes for future processing at the end of 2012.

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 two kilometers from the mill. We have constructed a primary decline ramp and that reached Level 14, approximately 262 meters below the portal, at December 31, 2012. We have also constructed a safety/ventilation decline ramp in conjunction with the primary decline ramp along with various drifts and stopes.

During 2012, we continued underground mining of the La Arista ore at our El Aguila Project and the main production areas were from level 8 to 10. Mine development and preparation occurred on Levels 11 to 13. Several factors contributed to the challenges we encountered with production from La Arista during 2012, including higher than planned dilution in our long-hole stopes, mining of lower grade vein margins and splays and continued development and infrastructure needs in the mine related to abatement of water inflow at lower levels along with required ventilation upgrades to reduce carbon dioxide levels associated with the increased water flows. To remediate these issues we installed additional water pumping stations and upgraded the underground mine ventilation system with several new vent fans.

We began transitioning from processing the open pit ore to the underground ore at our mill facilities in March 2011. In 2012, we processed underground ore through the mill at an average of 773 tonnes of ore per day and totaled 282,120 tonnes for the year, with an average grade of 4.3 grams per tonne gold and 355 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 either the El Rey or Las Margaritas properties or any other property with potential oxide ore.

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 2012 and 2011.

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 on a portion of the claims. 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 $7,300 in maintenance fees for the concessions comprising El Rey property in 2012.

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. Early in 2012, we completed a small amount of work to finish refurbishing and extending an existing shaft on the property to permit underground exploratory drilling. We ceased work at El Rey during 2012 following a request to obtain additional approvals from local community agencies. We continue to work 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. If the matter is resolved, we will conduct follow-up drilling and exploration based on the drilling done in 2008, and have budgeted $1.5 million for that purpose in that event. It is anticipated that El Rey will be included in our anticipated airborne geophysical survey.

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 $17,500 in maintenance fees during 2012.

In 2012, we conducted a geochemical stream sediment sampling program on Las Margaritas. A total of 300 samples were collected. Six rock samples were also collected from this property and submitted for fluid inclusion study. The result of this survey indicated a number of areas were appropriate for further investigation by diamond drilling from surface. We completed a series of access roads after consultation with the local community to help facilitate the drill program. In 2012, fifteen surface diamond drill holes totaling 5,002 meters (16,410 feet) were completed on the Las Margaritas property. High-grade mineralization was encountered with drill intercepts including 27.90 grams per tonne gold and 2,600 grams per tonne silver over a core length of 2.85 meters. In 2013, drilling will continue at Las Margaritas to test various structural and mineralized exploration targets and we have budgeted approximately $500,000 for this purpose.

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 $14,000 in annual fees during 2012.

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. During 2010 and 2011, we identified multiple drill targets. We also conducted a small amount of underground exploration by driving drifts and crosscuts into exposed veins. In 2012, we completed a preliminary drill program consisting of twelve surface diamond drill holes totaling 3,262 meters (10,702 feet). Drill results were encouraging and will be assessed in 2013 to help plan further drilling campaigns. In addition, detailed mapping and sampling will be required to assess the resource potential of Alta Gracia to determine if mine development is warranted. We will also conduct additional metallurgical test work to determine the amenability of the ore at our El Aguila processing facility.

We have no established timetable for our exploration activities at Alta Gracia and any additional exploration activities conducted in 2013 will be included as part of the exploration budget for El Aguila.

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 we paid approximately $24,000 in maintenance fees during 2012. In March 2013, we acquired a concession known as Cerro Colorado from Almaden Minerals, Ltd. consisting of approximately 1,860 hectares. The Cerro Colorado concession is surrounded by our El Chamizo concession and we include it as part of the El Chamizo property. Any future production from the Cerro Colorado concession is subject to a 2% net smelter return royalty in favor of Almaden.

Because of the close proximity of 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). No significant work was conducted at El Chamizo during 2012. In 2013, exploration on the property will include the property-wide airborne geophysical survey and additional geochemical sampling, which is included in the exploration budget for El Aguila.

El Fuego Property

In March 2013, we acquired two concessions from Almaden Minerals Ltd. for $100,000 cash subject to a 2% net smelter return royalty. The Cerro Colorado concession is surrounded by our El Chamizo property and included as part of this property as discussed above. The El Fuego concession consists of approximately 2,554 hectares and is located south of our Alta Gracia and El Chamizo property along the San Jose structural corridor. We will be required to pay maintenance fees to the Mexican government semi-annually to maintain this claim during 2013. We currently do not anticipate conducting exploration activities on El Fuego during 2013, however, it will be included in the property-wide airborne geophysical survey.

The Solaga Property

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 in February 2007 located approximately 120 kilometers (75 miles) northeast of the El Aguila Project. In early 2013, we terminated our interest in this lease, which was subject to a 4% net smelter return royalty on any production and required an annual minimum advance royalty payment of $10,000 if production had not commenced by 2010. We paid the minimum advance royalty to the lessor in 2012, 2011 and 2010 in accordance with the lease. We also paid $5,500 in maintenance fees for Solaga during 2012.

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 maintain offices in Oaxaca and in Colorado. We constructed an administrative office building adjacent to the mill site as part of the facilities at the El Aguila Project. We also lease office space in Oaxaca City, Oaxaca consisting of approximately 3,000 square feet. The lease commenced in 2012 for ten years at approximately $6,000 per month. In 2010, we purchased a building in Colorado Springs, Colorado, containing approximately 4,500 square feet which serves as our executive and administrative headquarters. We also established a small satellite office in Denver, Colorado in 2012 consisting of approximately 2,500 square feet, which we leased for three years at approximately $5,000 per month.

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.
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

On October 25, 2012, a purported securities class action lawsuit captioned Scott Cantor, on Behalf of Himself and All Others Similarly Situated v. Gold Resource Corporation, et al., was filed in the U.S. District Court for the District of Colorado and on November 13, 2012, a similar case captioned Robert Rhodes, on Behalf of Himself and All Others Similarly Situated v. Gold Resource Corporation, et al., was filed in the same court. The cases were subsequently consolidated into In re Gold Resource Corp. Securities Litigation, No.1:12-cv-02832. This federal court action names the company and certain of its executive officers individually as defendants and alleges, among other things, that we and those officers violated Section 10(b) and Rule 10b-5 of the Securities Exchange Act of 1934 in connection with statements and/or omissions relating to our annual production targets, mine operations and financial reporting for the period between January 30, 2012 and November 8, 2012. The plaintiffs seek damages, including interest, equitable relief and reimbursement of the costs and expenses they incur in the lawsuit. We believe the allegations are without merit and that we have valid defenses to such allegations. We intend to defend this action vigorously.

On February 8, 2013, a shareholder's derivative lawsuit entitled City of Bristol Pension Fund v. Reid et al., No. 1:13-CV-00348 was filed in the U.S. District Court for the District of Colorado naming us as a nominal defendant, and naming seven of our current and former officers and directors as defendants. The lawsuit alleges breach of fiduciary duty, gross mismanagement and unjust enrichment and seeks to recover, for Gold Resource Corporation's benefit, unspecified damages purportedly sustained by us in connection with the alleged misconduct identified in the class action lawsuit discussed above and an award of attorney's fees and costs. Pursuant to our articles of incorporation, we are obligated to indemnify our officers and directors with respect to this litigation and our company will bear the cost associated with defense of these claims. We are investigating the claims alleged in the derivative lawsuit and will respond appropriately.

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 MKT LLC stock exchange, which we refer to as the NYSE MKT, under the symbol "GORO". The table below sets forth the high and low bid prices for our common stock on the NYSE MKT for the last two fiscal years (previously known as NYSE Amex).

Year Ending	High	Low
December 31, 2012		
First Quarter	$ 27.74	$ 21.65
Second Quarter	28.37	21.03
Third Quarter	26.96	16.54
Fourth Quarter	21.98	12.13
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

On March 15, 2013, the high and low sales price of our common stock on the NYSE MKT stock exchange were $13.27 and $12.67, respectively, and we had approximately 115 holders of record of our common stock. The approximate number of beneficial shareholders is 23,000.

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, 2012.

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	6,020,000	$ 8.55	1,578,000

security holders:			
Equity compensation plans not approved by security holders:	-	-	-
Total	6,020,000	$ 8.55	1,578,000

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 (in thousands)
July 1-September 30, 2011	51,000	$ 19.01	51,000	$ 19,030
October 1-December 31, 2011	53,251	18.39	53,251	18,046
Total 2011	104,251	18.69	104,251	18,046
January 1-March 31, 2012	-			18,046
April 1-June 30, 2012	-			18,046
July 1-September 30, 2012	82,740	18.07	82,740	16,551
October 1-December 31, 2012	149,407	16.30	149,407	14,116
Total 2012	232,147	16.93	232,147	14,116
Total	336,398	$ 17.49	336,398	$ 14,116

(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 SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference in such filing.

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

	12/07	12/08	12/09	12/10	12/11	12/12
Gold Resource Corp.	100.00	78.65	252.81	665.55	490.96	367.38
NYSE Composite	100.00	60.74	77.92	88.36	84.96	98.55
S&P/TSX Global Gold	100.00	81.17	102.84	137.44	115.88	101.10

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. As described in more detail below in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," we use Cash Flow from Mine Site Operations as a metric to determine whether to declare and pay dividends to shareholders. Our long-term goal is to distribute one-third of Cash Flow from Mine Site Operations back 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. In April 2012, we increased the dividend to $0.06 per share. Special and regular dividends should not be considered a prediction or guarantee of future dividends. Our instituted dividend may be modified or discontinued at the discretion of our Board of Directors, depending on variables such as, but not limited to, operating cash flow, development requirements and strategies, construction projects, spot gold and silver prices, taxation and general market conditions. At the present time, we are not a party to any agreement that would limit our ability to pay dividends. All dividends have been declared and charged against additional paid in capital.

The table below sets forth the frequency and amounts of cash dividends declared on our common stock for the fiscal years ended December 31, 2011 and 2012, respectively.

Date Declared		Per Share Amount
2011		
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
2012		
January 26, 2012	$	0.05
February 24, 2012		0.05
March 27, 2012		0.05
April 30, 2012		0.06
May 29, 2012		0.06
June 28, 2012		0.06
July 24, 2012		0.06
August 28, 2012		0.06
September 27, 2012		0.06
October 31, 2012		0.06
November 27, 2012		0.06
December 31, 2012		0.06
Total 2012:	$	0.69

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, 2012, 2011, 2010, 2009, and 2008. 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.”

Operating Data	Year Ended December 31,				
(in thousands, except share data)	2012	2011	2010	2009	2008
Sales of metals concentrate	$ 131,794	$ 105,163	$ 14,754	$ -	$ -
Mine gross profit	87,773	80,521	7,971	-	-
Operating Income (loss)	49,704	45,674	(22,839)	(34,184)	(26,349)
Other (expense) income	(2,736)	2,414	(235)	55	334
Income (loss) before income taxes	46,968	48,088	(23,074)	(34,129)	(26,015)
Provision for income taxes	13,297	(12,037)	-	-	-
Net income (loss) before extraordinary item	33,671	60,125	(23,074)	(34,129)	(26,015)
Extraordinary item	-	(1,756)	-	-	-
Net income (loss)	$ 33,671	$ 58,369	$ (23,074)	$ (34,129)	$ (26,015)
Net income per common share:					
Basic:					
Before extraordinary item	$ 0.64	$ 1.13	$ (0.46)	$ (0.78)	(0.76)
Extraordinary item	-	(0.03)	-	-	-
Net income	$ 0.64	$ 1.10	$ (0.46)	$ (0.78)	(0.76)
Diluted:					
Before extraordinary item	$ 0.60	$ 1.06	$ (0.46)	$ (0.78)	(0.76)
Extraordinary item	-	(0.03)	-	-	-
Net income	$ 0.60	$ 1.03	$ (0.46)	$ (0.78)	(0.76)
Weighted average shares outstanding:					
Basic	52,846,163	52,979,481	50,042,471	43,764,703	34,393,854
Diluted	56,315,885	56,414,654	50,042,471	43,764,703	34,393,854

Balance Sheet Data	As of December 31,				
(in thousands)	2012	2011	2010	2009	2008
Cash and cash equivalents	$ 35,780	$ 51,960	$ 47,582	$ 6,752	$ 3,535
Total current assets	58,984	85,108	57,687	20,701	3,737
Land and mineral rights	227	227	227	227	227
Property and equipment, net	14,050	10,318	4,849	1,726	812
Deferred tax asset	31,559	19,517	-	-	-
Total assets	105,629	115,170	62,797	22,665	4,781
Current liabilities	13,025	25,761	6,456	725	1,753
Long-term obligations	2,790	2,281	2,495	1,992	-
Shareholders’ equity	89,814	87,128	53,846	19,948	3,028

See the consolidated financial statements attached hereto under Item 8 for additional information

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

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

Introduction

The following discussion summarizes our results of operations for three fiscal years ended December 31, 2012 and our financial condition at December 31, 2012 and 2011, with a particular emphasis on the year ended December 31, 2012. The discussion also presents certain Non-GAAP financial measures that are important to management in its evaluation of our operating results and which are used by management to compare our performance with what we perceive to be peer group mining companies and relied on as part of management's decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the Non-GAAP financial measures, please see the discussion under "Non-GAAP Measures" below.

Overview

Business

We are a mining company that pursues gold and silver projects that are expected to have low operating costs and high returns on capital. We are presently focused on mineral production at the El Aguila Project in Oaxaca, Mexico. We achieved commercial production in July 2010 at our El Aguila open pit mine with a metal concentrate containing our primary product of gold and a silver by-product. Operations at the El Aguila open pit mine ceased in February 2011 with the start-up of mine operations at the La Arista underground mine in March 2011. Our La Arista underground mine produces metal concentrates that contain our primary metal products of gold and silver, and by-products of copper, lead and zinc.

The mill located at our El Aguila Project produced a total of 90,432 precious metal gold equivalent ounces for the year ended December 31, 2012, which was within our revised 2012 target mill production of 85,000 to 100,000 precious metal gold equivalent ounces. During this period, we sold 72,399 of precious metal gold equivalent ounces at a total cash cost (including royalties) of $419 per precious metal gold equivalent ounce sold. Precious metal gold equivalent is determined by taking the silver ounces produced or sold and converting them to precious metal gold equivalent ounces using the gold to silver average price ratio. The gold and silver average prices used are the actual metal prices realized from the sales of our metals concentrate. (Please see the section titled "Non-GAAP Measures" below for additional information concerning the cash cost per ounce measure.) For the year ended December 31, 2012, we recorded revenues of $131.8 million, mine gross profit of $87.8 million and net income of $33.7 million.

Although our annual mill production increased 36.5% over the prior year, we encountered several challenges with production at La Arista during 2012, including higher than planned mining dilution in our long-hole stopes, mining of lower grade vein margins and splays, continued development and infrastructure needs in the mine related to abatement of water inflow at lower levels and ventilation upgrades to reduce carbon dioxide levels. In order to adequately address these issues in 2013, our new on-site management team has taken a more proactive development approach to mitigate effects of water and carbon dioxide gas including some off vein development, construction of additional ventilation fans providing fresh air to the mine and additional water pumping stations.

Exploration Stage Company

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

Our characterization as an exploration stage company regarding the treatment of construction and development expenditures as an operating expense rather than as a capital expenditure, has caused us to report larger losses in 2010 and lower net income in 2011 and 2012 than if we had capitalized the expenditures. Additionally, we will not have a corresponding depreciation or amortization expense for these costs going forward since they are expensed as incurred rather than capitalized. Although the majority of the capital expenditures for the El Aguila Project were completed between 2007 and 2010, we expect underground mine construction to continue in future years and we will be completing additional capital improvements at our El Aguila mill during 2013 and future years. In comparison to other mining companies that capitalize development expenditures because they have exited the exploration stage, we may report larger losses or lesser profits as a result of this ongoing construction, which will be expensed instead of capitalized for accounting purposes. We expect to remain as an exploration stage company for the foreseeable future, even though we have reached commercial production. We will not exit the exploration stage until such time, if ever, that we demonstrate the existence of proven or probable reserves that meet the SEC guidelines. Likewise, unless mineralized material is classified as proven or probable reserves, substantially all expenditures for mine and mill construction have been or will be expensed as incurred.

Exploration Activities

During 2012, we continued to focus primarily on infill and step out drilling at the La Arista underground mine, located at the El Aguila Project. Because this drilling is used to define the mineralization and to assist in mining of the ore at the underground mine, these expenses are considered development and delineation of the ore body (not exploration), and these costs are classified as construction and development in the consolidated statements of operations.

Exploration activities that are classified as exploration expenses in the consolidated statements of operations include, but are not limited to, drilling on other areas of the El Aguila property to test new geologic targets and exploration work on our other properties. Exploration during 2012 included commencing a surface drill program on portions of the Las Margaritas property, we also are completing a limited drilling campaign at Alta Gracia and El Chamizo focusing on previously identified drill targets.

Physical Dividend Program

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

· Shareholders must register and hold their Gold Resource Corporation common shares in their name directly with our transfer agent, Computershare Investor Services, and not through a brokerage house or other intermediary. This is a requirement so that we can locate and validate the shareholder’s position in our common stock.

· Shareholders must set up an individual account with Gold Bullion International (“GBI”), 225 Liberty Street New York, NY 10006. GBI facilitates the cash to gold and silver conversion.

· Shareholders then direct their cash dividend check issued by Computershare to be electronically sent to that shareholder’s GBI account for the option to have it, or any portion thereof that denominates into a one ounce gold or silver bullion round. The election to convert all or any portion of the shareholder’s cash dividend into bullion is governed by an agreement between the shareholder and GBI.

- Shareholders with accounts at GBI who wish to change their current gold, silver or cash allocations for their cash dividend must do so by midnight EDT on the date preceding the monthly dividend record date. (We issue a press release with details of each dividend declaration, and the dividend record and payment dates.)

- On the dividend record date, the number of bullion ounces to be converted and distributed to the shareholder’s individual account on the dividend payment date is calculated as the dollar value of that portion of the cash dividend the shareholder elected to convert to bullion, divided by the London Bullion Market PM gold fix on the record date or the London Bullion Market silver fix on the record date.

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

During the year ended December 31, 2012, we purchased approximately 1,974 ounces of gold and 59,001 ounces of silver at market prices for a total cost of $5.2 million. During the year ended December 31, 2011, we purchased approximately 868 ounces of gold and 41,728 ounces of silver at market prices for a total cost of $3.0 million.

Settlement with Concentrate Buyer

On November 5, 2012, we entered into a settlement agreement with our concentrate buyer as a result of the dispute over the metallurgical content of the concentrates sampled at buyer's facility after discovering issues related to the transportation, handling, control and sampling of those concentrates, and the resulting assays that were obtained from those samples. We believe the concentrates had been tampered with and compromised sometime after the shipments left the mine site and until the concentrates were sampled at the buyer's warehouse. The settlement agreement required the buyer to pay us $1.5 million, representing the amount by which our provisional invoices for April, May and June 2012 exceeded the tentative settlement value, based on assays taken at the buyer's warehouse. In addition, the settlement agreement required us to accept the final settlement value, based on assays taken at the buyer's warehouse, for shipments made in February and March 2012. The settlement resulted in a reduction to precious metal gold equivalent sold of approximately 1,400 ounces and a net reduction to sales of metal concentrates of $3.3 million, which included assay, pricing and other settlement adjustments with the buyer, for the six months ended June 30, 2012. These adjustments were recorded in the restated first and second quarter 2012 financial statements.

Other Events

In April 2012, the Board of Directors increased the instituted monthly dividend payment from $0.05 per share to $0.06 per share. Prior to instituting a regular monthly dividend in August 2011, the dividends were characterized as special dividends. Our long-term goal is to distribute approximately one-third of our Cash Flow from Mine Site Operations (See Non-GAAP Measures) as dividends to shareholders. In 2011, we distributed approximately 29.8% of Cash Flow from Mine Site Operations in shareholder dividends. In 2012, we distributed approximately 39.5% of Cash Flow from Mine Site Operations to our shareholders as dividends. Our dividends should not be considered a prediction or guarantee of future dividends. Our instituted dividend may be modified or discontinued at the discretion of our Board of Directors, depending on variables such as, but not limited to, operating cash flow, development requirements and strategies, construction projects, spot gold and silver prices, taxation and general market conditions.

Results of Operations—Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Sales of metals concentrate, net

During the year ended December 31, 2012, we generated sales of $131.8 million, net of treatment charges, compared to sales of $105.2 million during the same period of 2011, an increase of 25.3%. The significant increase in sales for the year ended December 31, 2012 resulted from an increase in payable metals sold due to an increase in tonnes milled in 2012 at the La Arista underground mine. Fewer ore tonnes were milled and payable metals sold in 2011, principally due to operations at La Arista not commencing until March 2011. Revenue generated from sale of base metals contained in our concentrates is considered a by-product of our gold and silver production. (See Production and Sales Statistics tables titled "La Arista Underground Mine" and "El Aguila Open Pit Mine" below for additional information regarding the three months and years ended December 31, 2012 and 2011). The year ended 2012 was our second full year of commercial production. Metals prices realized in 2012 were mixed over the prior year, with average per ounce gold prices increasing to $1,676 from $1,644 per ounce, a 2% increase, and average per ounce silver prices decreasing to $31 from $35 per ounce, a 12% decrease.

Below are certain key operating statistics for our La Arista underground mine for 2012 and 2011 and the El Aguila open pit mine for 2011. Our production for 2012 consisted of ore from our La Arista underground mine. Our production for 2011 consisted of ore from both the La Arista underground mine and the El Aguila open pit mine. Production for the three months ended December 31, 2011 did not include ore from the El Aguila open pit mine, which ceased operations in February 2011, but it did include ore from the La Arista underground mine, which began operations in March 2011. Our production rate at La Arista is directly a result of mine development and the establishment of sufficient stopes and working faces. The number of stopes and working faces has increased as we have gone deeper in the mine, which has resulted in more tonnes of ore processed at the mill in 2012 as compared to 2011. We also sustained, at various times, higher than expected mining dilution rates as high as 35% to 40% in the second quarter of 2012 as well as higher than targeted dilution rates at various times in the remaining quarters. This dilution lowers the head grades. We believe this to be an unacceptable dilution percentage and we continue to take steps to lower dilution.

Production and Sales Statistics

	La Arista Underground Mine		La Arista Underground Mine	
	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Year Ended December 31, 2012	Year Ended December 31, 2011
Production Summary				
Milled:				
Tonnes Milled	71,541	55,434	282,120	167,806
Tonnes Milled per Day	778	603	773	561
Grade:				
Average Gold Grade (g/t)	4.63	4.20	4.30	3.35
Average Silver Grade (g/t)	314	453	355	424
Average Copper Grade (%)	0.46	0.61	0.45	0.48
Average Lead Grade (%)	1.99	1.73	1.70	1.40
Average Zinc Grade (%)	4.78	3.70	3.98	2.92
Recoveries:				
Average Gold Recovery (%)	89	89	88	89
Average Silver Recovery (%)	94	93	93	93
Average Copper Recovery (%)	85	76	78	77
Average Lead Recovery (%)	73	79	70	78
Average Zinc Recovery (%)	82	79	81	76
Mill production (before payable metal deductions)(1)				
Gold (ozs.)	9,528	6,631	34,417	16,027
Silver (ozs.)	675,607	753,414	2,996,743	2,122,000
Copper (tonnes)	277	258	986	620
Lead (tonnes)	1,037	760	3,374	1,840
Zinc (tonnes)	2,809	1,617	9,115	3,730
Payable metal sold(1)				
Gold (ozs.)	5,774	5,873	26,675	15,700
Silver (ozs.)	417,932	716,221	2,446,232	2,034,187
Copper (tonnes)	162	194	769	464
Lead (tonnes)	953	622	3,187	1,510
Zinc (tonnes)	2,218	1,390	7,222	2,812
Average metal prices realized				
Gold (oz.)	$ 1,691	$ 1,691	$ 1,676	$ 1,644
Silver (oz.)	$ 36	$ 30	$ 31	$ 35
Copper (tonne)	$ 7,942	$ 7,019	$ 8,033	$ 8,095
Lead (tonne)	$ 2,256	$ 1,873	$ 2,110	$ 2,184

Zinc (tonne)	$ 1,952	$ 1,800	$ 1,967	$ 1,995
Gold equivalent ounces produced (mill production)[1]				
Gold Ounces	9,528	6,631	34,417	16,027
Gold Equivalent Ounces from Silver	14,254	13,303	56,015	44,663
Total Gold Equivalent Ounces [3]	23,782	19,934	90,432	60,690
Gold equivalent ounces sold[1]				
Gold Ounces	5,774	5,873	26,675	15,699
Gold Equivalent Ounces from Silver	8,818	12,646	45,724	42,815
Total Gold Equivalent Ounces	14,592	18,519	72,399	58,514
Total Cash Cost per Gold Equivalent Ounce[2]	$ 551	$ 279	$ 419	$ -

(1) Mill production represents metal contained in concentrates produced at the mill, which is before payable metal deductions are levied by the buyer of our concentrates. In addition, mill production quantities for the year ended December 31, 2012 do not reflect any deduction for 583 gold ounces, respectively, and 45,432 silver ounces, respectively, (approximately 1,400 gold equivalent ounces) resulting from the settlement agreement with the buyer of our concentrates as discussed on page 30 under “Settlement with Concentrate Buyer”. Gold equivalent ounces sold for the year ended December 31, 2012 have been reduced by approximately 1,400 gold equivalent ounces as a result of the settlement.

(2) A reconciliation of this non-GAAP measure to mine cost of sales, the most comparable GAAP measure, can be found below in Non-GAAP Measures. Total cash cost per gold equivalent ounce sold for the combined La Arista underground mine and the El Aguila open pit mine for the for the year ended December 31, 2011, can be found in Non-GAAP Measures below.

(3) Gold equivalent mill production for 2012 of 90,432 ounces differs from gold equivalent ounces sold for 2012 of 72,399 due principally to buyer (smelter) concentrate processing deductions of approximately 9,078 gold equivalent ounces, a settlement agreement with the buyer of the Company’s concentrates of approximately 1,400 gold equivalent ounces and an increase in gold equivalent ounces contained in ending inventory of approximately 7,555 ounces.

Production and Sales Statistics

	El Aguila Open Pit Mine Year Ended December 31, 2011 (1)
Production Summary	
Milled:	
Tonnes Milled	46,409
Tonnes Milled per Day	829
Grade:	
Average Gold Grade (g/t)	4.18
Average Silver Grade (g/t)	53
Recoveries:	
Average Gold Recovery (%)	89
Average Silver Recovery (%)	75
Mill production (before payable metal deductions)	
Gold (ozs.)	5,559
Silver (ozs.)	58,309
Payable metal sold	
Gold (ozs.)	3,917
Silver (ozs.)	43,605
Average metal prices realized	
Gold (oz.)	$ 1,383
Silver (oz.)	$ 34
Gold equivalent ounces produced (mill production)	
Gold Ounces	5,559
Gold Equivalent Ounces from Silver (2)	-
Total Gold Equivalent Ounces	5,559

Gold equivalent ounces sold	
Gold Ounces	3,917
Gold Equivalent Ounces from Silver (2)	-
Total Gold Equivalent Ounces	3,917

(4) Total cash cost per gold equivalent ounce sold for the combined La Arista underground mine and the El Aguila open pit mine for the for the year ended December 31, 2011 can be found in the Non-GAAP Measures.
(5) Silver ounces were considered a by-product in arriving at the total cash cost per ounce equivalent.

For the year ended December 31, 2012, we sold 26,675 ounces gold and 2,446,232 ounces silver from the La Arista underground mine for at gross sales value of approximately $44.7 million and $75.8 million, respectively. This compares to 19,617 ounces gold and 2,077,792 ounces silver during 2011 from both the La Arista underground mine and El Aguila open pit mine, for gross sales value of $31.3 million and $72.7 million respectively. From the El Aguila open pit mine, we sold 3,917 ounces gold and 43,605 ounces silver during the first two months of 2011 and from the La Arista underground mine, we sold 15,700 ounces gold and 2,034,187 ounces silver during the last ten months of 2011. The increase in sales in 2012 principally resulted from a full year of operations at La Arista in 2012, versus ten months of operations at La Arista in 2011.

Production

For the year ended December 31, 2012 mill production totaled 90,432 ounces of precious metal gold equivalent compared to 66,249 ounces of precious metal gold equivalent for 2011. See the table titled “Production and Sales Statistics-El Aguila Project” above for additional information regarding our mineral production statistics.

We continue to focus on mining and development activities at the La Arista underground mine. Our production is dependent on the rate of mine development and the establishment of sufficient stopes and working faces. We anticipate the number of stopes and working faces will increase in 2013 and that precious metal mill production may be similar with 2012 mill production. Our 2013 mine plan anticipates that we will be mining areas of the deposit that contain higher levels of base metals, as compared to 2012.We are targeting mill production of 80,000 to 100,000 ounces of precious metal gold equivalent in 2013.

Mine gross profit. For the year ended December, 2012 mine gross profit totaled $87.8 million compared to $80.5 million for the year ended December 31, 2011. The increase in mine gross profit from the prior year was primarily due to the increase in sales of metal concentrate due to an increase in the quantities of payable metal sold. Mine gross profit as a percent of sales for the year ended December 31, 2012 decreased to 66.6% from 76.6% during the same period in 2011, principally due to higher labor, contractor services, diesel, concentrate transportation and other operating costs in 2012.

Net income (loss) before extraordinary item. For the year ended December 31, 2012, net income before extraordinary item was $33.7 million, or $0.60 per diluted share, as compared to net income before extraordinary item of $60.1 million or $1.06 per diluted share, for the comparable period of 2011. The $26.4 million decrease in net income in 2012 was principally attributable to a $12.0 million income tax benefit in 2011 resulting from a reduction to the income tax valuation allowance, as compared to $13.3 million of income tax expense in 2012.

Costs and expenses. Total costs and expenses during the year ended December 31, 2012 were $38.1 million compared to $34.9 million during the comparable period of 2011, an increase of $3.2 million, or 9.2%. The increase resulted from an increase in general and administrative expenses, and exploration expenses, which were partially offset by a decrease in construction and development expenses, as discussed in more detail below.

General and administrative expenses. General and administrative expenses for the year ended December 31, 2012 was $13.5 million compared to $8.9 million for the same periods of 2011. The $4.6 million increase in 2012 principally resulted from higher stock-based compensation expense, investor relations activities, professional services and insurance costs.

Exploration expenses. Property exploration expenses totaled $8.0 million for the year ended December 31, 2012, compared to $4.9 million during the same period of 2011. The $3.1 million increase in exploration expenses results from higher expenditures in 2012 to evaluate and drill new exploration targets on the El Aguila and Alta Gracia properties, and to evaluate other prospects near our La Arista underground mine. We also set up an exploration office in Turkey in September 2012. Exploration costs associated with definition and delineation drilling of the La Arista vein system are reflected in construction and development expenses.

Construction and development expenses. Construction and development expenses during the year ended December 31, 2012 decreased to $16.6 million from $21.0 million during 2011. Construction and development includes mine development costs attributable to definition and delineation drilling of the La Arista vein system, and construction related activities at the El Aguila Project. The $4.4 million decrease when compared to 2011 is due to lower expenditures in 2012 relating to construction of the tailings dam, expansion of the flotation cells in the flotation circuit in the mill, construction of the mine camp and infrastructure construction. We will continue to focus on further mine development of La Arista and construction related activities at the El Aguila Project for the foreseeable future.

Other (expense)income. For the year ended December 31, 2012, we recorded other expense of $2.7million, compared to other income of $2.4 million during the same period of 2011. The change in other (expense) income resulted primarily from recognizing a foreign currency loss of $2.9 million during the year ended December 31, 2012 compared to a foreign currency gain of $2.7 million in the comparable period in 2011. The current year losses resulted from currency translation adjustments during a period when the dollar was increasing compared to the Mexican peso, and a $2.0 million reclassification from other comprehensive loss to foreign exchange loss.

Provision for income taxes. For the year ended December 31, 2012, income tax provision was $13.3 million as compared to an income tax benefit of $12.0 million for the year ended December 31, 2011. The $25.3 million increase in income tax provision in 2012 principally resulted from a $28.3 million reduction to a valuation allowance on deferred tax assets in 2011 as compared to a $4.6 million reduction to a valuation allowance on deferred tax assets in 2012. There was no corresponding income tax provision or benefit during the 2010 due to start-up of operations in 2010. As of December 31, 2012, there were no remaining valuation allowances on the Company’s deferred tax assets. See Note 7 to the Consolidated Financial Statements for additional information.

Extraordinary item. On April 20, 2011, the El Aguila Project suffered severe damage from an anomalous rain and hail storm which flooded the La Arista underground mine and damaged existing roads, buildings and equipment. We experienced a loss of $2.5 million, for which we recorded an extraordinary loss of $1.8 million, net of income tax benefit of $0.8 million, for the year ended December 31, 2011.

Results of Operations – Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

During the year ended December 31, 2011 we sold 19,617 ounces of gold at an average realized price of $1,596 per ounce for $31.3 million of gross revenue, and 2,077,792 ounces of silver at an average realized price of $35 per ounce for approximately $72.7 million of gross revenue, compared to 10,493 ounces of gold at an average realized price of $1,201 per ounce for $12.6 million of gross revenues, and 111,316 ounces of silver at an average realized price of $20 per ounce for approximately $2.2 million of gross revenue for 2010. Mine gross profit for the year ended December 31, 2011 was $80.5 million compared to $8.0 million in the comparable period of 2010, an increase of $72.5 million or 906%. The increase was due to a full twelve months of mine operations in 2011 compared to only six months of operations in 2010.

For the year ended December 31, 2011 we reported a net income of $58.4 million, or $1.10 per share, compared to a net loss of $23.1 million, or $0.46 per share, for the year ended December 31, 2010. Our net income increased in 2011 due to ramp-up of operations in 2010 as compared to a full year of operations in 2011.

Total costs and expenses for the year ended December 31, 2011 were $34.9 million compared to $30.8 million in the comparable period of 2010, an increase of $4.1 million or 13.3%. The increase in costs and expenses was primarily due to our operations transitioning to underground mine development activities and an increase in stock-based compensation.

Exploration expense for the year ended December 31, 2011 of $4.9 million was consistent with our level of exploration activity in 2010 of $4.7 million.

Construction and development for the year ended December 31, 2011 of $21.0 million increased by $2.6 million or 14.1% when compared to 2010 of $18.4. The higher cost in 2011 was primarily due to the completion of the second phase of the tailings dam, and expansion of the flotation cells in the mill's flotation circuit during 2011.

General and administrative expenses increased $1.4 million or 18.7% to $8.9 million for the year ended December 31, 2011 as compared to $7.5 million for the comparable period in 2010. The increase was attributable to increases in professional fees, salaries and benefits and stock-based compensation.

For the years ended December 31, 2011 and 2010, we recorded a currency translation adjustment loss of $3.2 million and a currency translation adjustment gain of $0.2 million, respectively, resulting from the translation of our subsidiary's Mexican peso denominated functional currency financial statements into the US dollar reporting currency.

Non-GAAP Measures

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

Total Cash Cost per Gold Equivalent Ounce Sold

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

For reporting periods prior to 2012, we reported cash operating cost per gold equivalent ounce produced (on-site mill production). These amounts have been restated in this Management's Discussion and Analysis to reflect our current reporting method, of total cash cost per gold equivalent ounce sold, which we believe is the most common method used by companies that apply the Gold Institute Standard. The principal difference between cash operating costs and total cash costs is that cash operating costs exclude royalty costs, whereas total cash costs include royalty costs. Our concentrates are subject to a 5% net smelter returns royalty. The principal difference between gold equivalent ounces produced at the mill and gold equivalent ounces sold, is that gold equivalent ounces produced at the mill do not reflect payable metal deductions levied by smelters, whereas gold equivalent ounces sold are after payable metal deductions levied by smelters.

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

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands, except ounces sold and total cash cost per gold equivalent ounce)			
Gold equivalent ounces sold	14,592	18,519	72,399	62,431
Cost of sales - production costs	$ 11,182	$ 7,284	$ 44,021	$ 24,642
Treatment and refining charges	3,978	4,273	16,680	11,400
By-product credits	(7,609)	(5,027)	(26,837)	(14,357)
Depreciation and amortization	(425)	(146)	(1,366)	(473)
Accretion	(21)	(18)	(81)	(82)
Reclamation costs	(314)	-	(373)	-
Stock-based compensation	1,251	(1,195)	(1,737)	(4,336)
Total cash costs	$ 8,042	$ 5,171	$ 30,307	$ 16,794
Total cash cost per gold equivalent ounce sold (including royalties)	$ 551	$ 279	$ 419	$ 269

Cash Flow from Mine Site Operations

Cash flow from mine site operations ("Cash Flow from Mine Site Operations") is furnished to provide additional information and is a Non-GAAP measure. This measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. We believe that certain investors use this measure as a basis to assess mine performance and we use it as a measure on which our planned distributions to shareholders are currently based. The following table provides a reconciliation of Cash Flow from Mine Site Operations to mine gross profit as presented in the consolidated statements of operations.

	Three Months Ended December	Twelve Months Ended December

	31, 2012	2011	31, 2012	2011
	(In thousands)			
Mine gross profit	$ 16,188	$ 28,154	$ 87,773	$ 80,521
Stock-based compensation	(1,251)	1,195	1,737	4,336
Depreciation and amortization	426	146	1,366	473
Accretion	21	19	81	82
Cash flow from mine site operations	$ 15,384	$ 29,514	$ 90,957	$ 85,412

Liquidity and Capital Resources

As of December 31, 2012, we had working capital of $46.0 million, consisting of current assets of $59.0 million and current liabilities of $13.0 million. This represents a decrease of $13.3 million from the working capital balance of $59.3 million as of December 31, 2011. Our working capital balance fluctuates as we use cash to fund our operations, exploration, and mine development and construction activities, and to pay income taxes and fund our dividends.

Prior to achieving profitable operations in 2011, we relied on equity financings to fund our operating activities. Since achieving profitability in 2011, we have relied on cash flow generated from mining operations to fund our operations, income tax obligations, dividends and other activities. Our mine development, construction activities and equipment purchases at the La Arista mine are, in the aggregate, expected to be higher in 2013 as compared to 2012 or 2011. If our cash flows from operations is insufficient to cover our anticipated expenses we may be required to secure debt or equity financing, reduce our planned development, construction or other expenditures at the mine, reduce our monthly dividend or implement other measures. There is no assurance that, in the event debt or equity financing is needed, we would be able to secure this financing or that it could be secured under favorable terms.

We target calendar year cash distributions to our shareholders totaling approximately one-third of Cash Flow from Mine Site Operations (See "Non-GAAP Measures" above), subject to the laws of the State of Colorado that govern distributions to shareholders. Our target dividend payment of one-third of Cash Flow from Mine Site Operations may be increased, decreased, suspended or discontinued at any time at the sole discretion of the Board of Directors based on company development requirements and strategies, cash balances, construction projects, spot gold and silver prices, taxation, general market conditions or any other reason. For the year ended December 30, 2012, we declared dividends of $35.9 million, representing 39.5% of Cash Flow from Mine Site Operations.

Upon declaration of a dividend, each shareholder has the option to subsequently convert that cash dividend into gold and/or silver bullion. To the extent we do not hold sufficient gold and silver bullion by the distribution payment date we must purchase gold and/or silver bullion in the market. We intend to purchase gold and silver bullion in the market at various times throughout the year, and intend to hold quantities of gold and/or silver bullion to enable us to meet, at a minimum, our forecasted physical delivery requirements for the current and following month.

The mineral concessions that comprise our La Arista underground mine are subject to a 4% net smelter returns royalty on sales of any gold and silver dore, and a 5% net smelter returns royalty on sales of any concentrate. We produce copper, lead and zinc concentrates, but no gold and silver dore, at La Arista underground mine. We only produced a gold and silver concentrate at our El Aguila open pit mine. Royalties are considered mine operating costs and are funded from the sale of concentrates. Royalty expense is recorded based on provisional invoices and adjusted based on the final invoice. An initial royalty payment of 50% of the provisional invoice amount is made when the provisional invoice is collected. The remaining royalties owed are paid when we receive full payment for the final invoice. For the years ended December 31, 2012 and 2011, we made royalty payments totaling $5.8 and $3.6, respectively. We estimate that approximately $7 million of royalty payments will be made in 2013, subject to market prices for the metals in our concentrates, mine production and timing of final invoice settlements.

For 2013 we have budgeted approximately $7.4 million for drilling and other exploration related activities at our El Aguila property. In addition, we intend to spend approximately $2.2 million for drilling and other exploration activities on our other exploration properties in Mexico. In Turkey, we have budgeted $2.0 million for exploration and property acquisitions. Our planned exploration expenditures for 2013 are discretionary and could be significantly higher or lower depending on the ongoing results from the exploration programs. Exploration activities to further delineate and define our La Arista vein system are considered mine development costs and classified as development and construction expenses in the consolidated statement of operations.

Our cash and cash equivalents as of December 31, 2012 decreased to $35.8 million from $52.0 million as of December 31, 2011, a net decrease in cash of $16.2 million.

Net cash provided by operating activities for the year ended December 31, 2012 was $31.2 million compared to $41.3 million during 2011. The $10.1 million decrease in net cash provided by operation activities principally results from payment of our 2011 Mexican income tax liability in 2012.

Net cash used in investing activities for the year ended December 31, 2012 was $7.7 million compared to $10.4 million for 2011. The $2.7 million decrease in cash used in investing activities was primarily due to a decrease in capital expenditures and increase in proceeds from conversion of gold and silver bullion related to our physical gold and silver dividend program. Although most of our exploration stage expenditures are recorded as an expense rather than an investment, we capitalize the acquisition cost of land and mineral rights and certain equipment that has alternative future uses or significant salvage value, including rolling stock, furniture, and electronics. The cost of acquiring these assets is reflected in our investing activities.

Net cash used in financing activities for the year ended December 31, 2012 was $39.9 million compared to $27.4, consisting of dividends declared and treasury stock purchases. The $12.5 million increase in net cash used in financing activities principally results from an increase in dividends paid in 2012. In August 2011, we instituted a regular monthly dividend consisting of $0.05 per share, which was increased to $0.06 per share in April 2012, until such time as the Board of Directors determines otherwise.

Off-Balance Sheet Arrangements

As of December 31, 2012, we had no off-balance sheet arrangements.

Contractual Obligations