GOLD RESOURCE CORP
Form 10-Q
May 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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

For the transition period from to

Commission File Number: 001-34857

Gold Resource Corporation

(Exact Name of Registrant as Specified in its charter)

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)

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

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

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

Larger accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 54,266,706 shares of common stock outstanding as of May 3, 2016.

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References in this report to agreements to which Gold Resource Corporation is a party and the definition of certain terms from those agreements are not necessarily complete and are qualified by reference to the agreements. Readers should refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and the exhibits listed therein.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands, except share and per share amounts)

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,325	$ 12,822
Gold and silver bullion	3,413	2,988
Accounts receivable	907	321
Inventories	9,318	8,753
IVA taxes receivable	1,331	1,332
Income tax receivable	3,887	3,794
Prepaid expenses and other current assets	2,434	2,608
Total current assets	31,615	32,618
Property, plant and mine development, net	53,073	51,637
Deferred tax assets	20,494	21,064
Investments in equity securities	231	231
Other non-current assets	937	985
Total assets	$ 106,350	$ 106,535
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,901	$ 11,600
Accrued expenses and other current liabilities	2,079	2,140
Capital lease obligations	696	842
Mining royalty taxes payable	3	230
Dividends payable	90	90
Total current liabilities	13,769	14,902
Capital lease obligations	24	-
Reclamation and remediation liabilities	2,795	2,815
Total liabilities	16,588	17,717
Shareholders' equity:		
Preferred stock - $0.001 par value, 5,000,000 shares authorized: no shares issued and outstanding	-	-

Common stock - $0.001 par value, 100,000,000 shares authorized: 54,603,104 and 54,266,706 shares issued and outstanding, respectively, at March 31, 2016 and December 31, 2015	55	55
Additional paid-in capital	96,913	96,766
Accumulated deficit	(151)	(948)
Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive loss	(1,171)	(1,171)
Total shareholders' equity	89,762	88,818
Total liabilities and shareholders' equity	$ 106,350	$ 106,535

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

for the three months ended March 31, 2016 and 2015

(U.S. dollars in thousands, except share and per share amounts)

(Unaudited)

	Three months ended March 31, 2016	2015
Sales, net	$ 17,403	$ 28,372
Mine cost of sales:		
Production costs	11,096	12,934
Depreciation and amortization	2,806	1,392
Reclamation and remediation	47	23
Total mine cost of sales	13,949	14,349
Mine gross profit	3,454	14,023
Costs and expenses:		
General and administrative expenses	2,178	2,731
Exploration expenses	504	1,712
Total costs and expenses	2,682	4,443
Operating income	772	9,580
Other income (expense), net	706	(504)
Income before income taxes	1,478	9,076
Provision for income taxes	681	4,023
Net income	$ 797	$ 5,053
Net income per common share:		
Basic and diluted	$ 0.01	$ 0.09
Weighted average shares outstanding:		
Basic and diluted	54,266,706	54,179,369

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

for the three months ended March 31, 2016 and 2015

(U.S. dollars in thousands)

(Unaudited)

	Three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net income	$ 797	$ 5,053
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income taxes	515	6
Depreciation, depletion and amortization	2,856	1,457
Stock-based compensation	418	1,066
Other operating adjustments	(608)	286
Changes in operating assets and liabilities:		
Accounts receivable	(586)	(6,043)
Inventories	(566)	(724)
Prepaid expenses and other current assets	394	(24)
Accounts payable and other accrued liabilities	815	1,046
Mining and income taxes payable/receivable	(331)	(1,255)
Other noncurrent assets	26	-
Net cash provided by operating activities	3,730	868
Cash flows from investing activities:		
Capital expenditures	(5,687)	(4,937)
Proceeds from the sale of equity investments	163	-
Other investing activities	2	7
Net cash used in investing activities	(5,522)	(4,930)
Cash flows from financing activities:		
Dividends paid	(271)	(1,625)
Repayment of capital leases	(424)	(372)
Net cash used in financing activities	(695)	(1,997)
Effect of exchange rate changes on cash and cash equivalents	(10)	(38)
Net decrease in cash and cash equivalents	(2,497)	(6,097)
Cash and cash equivalents at beginning of period	12,822	27,541
Cash and cash equivalents at end of period	$ 10,325	$ 21,444

Supplemental Cash Flow Information		
Interest expense paid	$ 8	$ 24
Income and mining taxes paid	$ 256	$ 5,239

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

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GOLD RESOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

1. Basis of Preparation of Financial Statements

Basis of Presentation: The unaudited interim condensed consolidated financial statements included herein are expressed in United States dollars and are prepared in conformance with United States generally accepted accounting principles ("U.S. GAAP") and applicable rules of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. The unaudited interim condensed consolidated financial statements include the accounts of Gold Resource Corporation (the "Company"), its U.S. subsidiary GRC Nevada Inc. and its Mexican subsidiary Don David Gold Mexico S.A. de C.V. Significant intercompany accounts and transactions have been eliminated. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Form 10-K for the year ended December 31, 2015. Unless otherwise noted, there have been no material changes to the footnotes from those accompanying the audited financial statements contained in the Company's annual report on Form 10-K.

In management's opinion, the unaudited condensed consolidated financial statements contained herein reflect all material normal and recurring adjustments that are necessary for the fair presentation of the Company's financial position, results of operations, and cash flows on a basis consistent with that of its audited consolidated financial statements for the year ended December 31, 2015. However, the results of operations for the interim period ended March 31, 2016 may not be indicative of results of operations to be expected for the full fiscal year.

Recently Issued Accounting Pronouncements: Accounting Standards Update 2016-09—Compensation—Stock compensation (Topic 718): Improvements to employee share-based payment accounting. On March 30, 2016 the Financial Accounting Standards Board ("FASB") issued guidance intended to improve the accounting for employee share-based payments. The standard affects all organizations that issue share-based payment awards to their employees and was part of the FASB's Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification in this standard involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the amendments in this standard are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is the process of evaluating the impact of this standard on the financial statements and disclosures.

2. Fair Value Measurement

Fair value accounting establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

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Level 3Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following tables set forth certain of the Company's assets measured at fair value by level within the fair value hierarchy. As required by accounting guidance, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value as of March 31, 2016				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
	(in thousands)				
Receivables related to unsettled invoices	$ -	$ 907	$ -	$ 907	Accounts receivable
Investments in equity securities	$ 620	$ -	$ -	$ 620	Prepaid expense and other current assets

	Fair Value as of December 31, 2015				
	Level 1	Level 2	Level 3	Total	Balance Sheet Classification
	(in thousands)				
Receivables related to unsettled invoices	$ -	$ 321	$ -	$ 321	Accounts receivable
Investments in equity securities	$ 400	$ -	$ -	$ 400	Prepaid expense and other current assets

Cash and cash equivalents consist primarily of money market funds and are valued at cost, which approximates fair value. The Company determined that it was not practicable to estimate the fair value of its non-current investment in equity securities of $0.2 million and as such, is reported at cost.

Trade accounts receivable include amounts due to the Company for shipments of concentrates and doré sold to customers. Concentrate sales contracts provide for provisional pricing as specified in such contracts. These sales contain an embedded derivative related to the provisional pricing mechanism which is bifurcated and accounted for as a derivative. At the end of each reporting period, the Company records an adjustment to sales to reflect the mark-to-market of outstanding provisional invoices. Because these provisionally priced sales have not yet settled as of the reporting date, the mark-to-market adjustment related to these invoices is included in accounts receivable as of each reporting date.

The Company’s current investments consist of marketable equity securities which are valued using quoted market prices for each security, when available. Gains and losses related to changes in the fair value of these financial instruments were included in the Company’s consolidated statements of income as shown in the following table:

	Three months ended March 31,		
	2016	2015	Statement of Income Classification
	(in thousands)		
Derivative gain (loss)	$ 685	$ (15)	Sales, net
Investment gain (loss)	$ 364	$ (719)	Other income (expense), net

3. Gold and Silver Bullion

The Company periodically purchases gold and silver bullion on the open market to use in its dividend exchange program under which shareholders may exchange their cash dividends for gold and silver bullion. The Company’s investment in gold and silver bullion is carried at the lower of cost or market.

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During the three months ended March 31, 2016, the Company made no purchases of gold or silver bullion. The Company recorded a $0.4 million increase in market value on its gold and silver bullion for the three months ended March 31, 2016 and nil for the three months ended March 31, 2015. At March 31, 2016 and December 31, 2015, the Company's holdings of bullion consisted of the following:

	2016		2015	
	Gold	Silver	Gold	Silver
	(in thousands, except ounces and per ounce)			
Ounces	1,623	91,416	1,623	91,522
Carrying value per ounce	$ 1,237	$ 15.38	$ 1,062	$ 13.82
Total carrying value	$ 2,007	$ 1,406	$ 1,723	$ 1,265

4. Current Inventories

At March 31, 2016 and December 31, 2015, inventories consisted of the following:

	2016	2015
	(in thousands)	
Stockpiles - underground mine	$ 455	$ 121
Stockpiles - open pit mine	554	729
Concentrates	1,832	1,432
Materials and supplies (1)	6,477	6,471
Total	$ 9,318	$ 8,753

(1)Net of reserve for obsolescence of $92.

5. Income Taxes

The Company recorded income tax expense of $0.7 million for the three months ended March 31, 2016. During the three months ending March 31, 2015, the Company recorded income tax expense of $4 million.

The Company has asserted permanent reinvestment of all Mexico undistributed earnings as of December 31, 2015. The impact of the planned annual dividends for 2016, net of foreign tax credits, is reflected in the estimated annual effective tax rate. The Company's annualized effective rate differs from the statutory rate primarily due to dividends from our Mexican subsidiary, unwinding US GAAP deferred tax assets, as well as differences in statutory rates for income and mining taxes in Mexico.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carry forward periods), projected future taxable income and tax-planning strategies in making this assessment. As of March 31, 2016, the Company believes it has sufficient positive evidence to conclude that realization of its federal and foreign deferred tax assets are more likely than not to be realized. The Company continues to a carry valuation allowance against its state deferred tax assets, as they are more likely not to be realized.

As of March 31, 2016, the Company believes that it has no uncertain tax positions. If the Company were to determine there was an uncertain tax position, the Company would recognize the liability and related interest and penalties within income tax expense.

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The Company recently underwent a tax examination by the Mexican tax authorities that spanned back to 2011 and 2012 tax years. The tax examinations were closed with no material adjustments recorded.

6. Prepaid Expenses and Other Current Assets

At March 31, 2016 and December 31, 2015, prepaid expenses and other current assets consisted of the following:

	2016	2015
	(in thousands)	
Advances to suppliers	$ 101	$ 89
Other receivables	96	86
Prepaid insurance	671	1,120
Vendor deposits	784	797
Investment in equity securities (1)	620	400
Other current assets	162	116
Total	$ 2,434	$ 2,608

(1) Please see Note 2.

7. Property, Plant and Mine Development – net

At March 31, 2016 and December 31, 2015, property, plant and mine development consisted of the following:

	2016	2015
	(in thousands)	
Asset retirement costs	$ 659	$ 659
Construction-in-progress	4,333	3,916
Furniture and office equipment	1,557	1,555
Land and mineral rights	230	230
Light vehicles and other mobile equipment (1)	2,247	1,887

Machinery and equipment (2)	19,945	19,867
Mill facilities and infrastructure	8,919	8,920
Mine development	33,580	31,079
Software and licenses	1,559	1,193
Subtotal (3)	73,029	69,306
Accumulated depletion, depreciation and amortization (4)	(19,956)	(17,669)
Total	$ 53,073	$ 51,637

(1) Includes $0.3 million of assets recorded under capital leases for the period ended March 31, 2016.

(2) Includes $3.1 million of assets recorded under capital leases for the periods ended March 31, 2016 and December 31, 2015.

(3) Includes accrued capital expenditures of $1.3 million and $2.9 million for the periods ended March 31, 2016 and December 31, 2015, respectively.

(4) Includes $1.1 million and $0.5 million for the periods ended March 31, 2016 and December 31, 2015, respectively, of accumulated depreciation associated with capitalized leased assets. Depreciation on the leased assets is recorded over their estimated useful lives.

The Company recorded depletion, depreciation and amortization expense of $2.9 million and $1.5 million for the three months ended March 31, 2016 and 2015, respectively.

Scheduled minimum capital lease repayments are $0.6 million in 2016 and $0.1 million in 2017.

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8. Other Non-Current Assets

At March 31, 2016 and December 31, 2015, other non-current assets consisted of the following:

	2016	2015
	(in thousands)	
Deferred charge	$ 598	$ 620
Other non-current assets	339	365
Total	$ 937	$ 985

9. Accrued Expenses and Other Current Liabilities

At March 31, 2016 and December 31, 2015, accrued expenses and other current liabilities consisted of the following:

	2016	2015
	(in thousands)	
Accrued insurance	$ 484	$ 909
Accrued royalty payments	1,199	1,152
Other taxes payable	113	79
Other accruals	283	-
Total	$ 2,079	$ 2,140

10. Reclamation and Remediation

The Company’s reclamation and remediation obligations relate to the Aguila Project. The following table presents the changes in reclamation and remediation obligations for the three months ended March 31, 2016 and the twelve months ended December 31, 2015:

	2016	2015
	(in thousands)	
Reclamation liabilities – balance at beginning of period	$ 2,192	$ 2,545
Changes in estimate	-	17
Foreign currency exchange gain	(24)	(370)
Reclamation liabilities – balance at end of period	2,168	2,192
Asset retirement obligation – balance at beginning of period	623	448
Changes in estimate	-	187
Accretion expense	12	42
Foreign currency exchange gain	(8)	(54)
Asset retirement obligation – balance at end of period	627	623
Total period end balance	$ 2,795	$ 2,815

11. Shareholders’ Equity

The Company declared and paid $0.3 million of dividends during the three months ended March 31, 2016. During the three months ended March 31, 2015, the Company declared and paid dividends of $1.6 million. Since July 2010, the Company has declared monthly cash dividends totaling $2.04 per share of outstanding common stock to shareholders of record. On April 27, 2016, the Board of Directors declared a dividend on common stock totaling $0.1 million payable in May 2016.

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12. Concentrate Sale Settlements

The Company records adjustments to sales of metals concentrate that result from final settlement of provisional invoices in the period that the final invoice settlement occurs. The Company also compares assays taken at the mine site on its concentrate shipments, upon which the Company's provisional invoices are based, to assays obtained from samples taken at the buyer's warehouse prior to final settlement, upon which the final invoices are in part based, to assess whether an adjustment to sales is required prior to final invoice settlement. These adjustments resulted in decreases to sales of $0.6 million for the three months ended March 31, 2016, and a decrease to sales of $0.3 million for the three months ended March 31, 2015.

In addition to the final settlement adjustments on provisional invoices, the Company records a sales adjustment to mark-to-market outstanding provisional invoices at the end of each reporting period. These adjustments resulted in an increase to sales of $0.1 million for the three months March 31, 2016, and nil sales adjustments for the three months ended March 31, 2015.

Sales of metal concentrates are recorded net of smelter refining fees, treatment charges and penalties. Total charges for these items totaled $2.9 million and $2.7 million for the three months ended March 31, 2016 and 2015, respectively.

13. Stock Options

The Company has a non-qualified stock option and stock grant plan under which equity awards may be granted to key employees, directors and others (the "Plan"). The Plan is administered by the Board of Directors, which determines the terms pursuant to which any option is granted. The maximum amount of common stock subject to grant under the Plan is 10 million shares. As of March 31, 2016, there were 0.4 million shares available for future grant under the Plan.

A summary of activity under the Plan for the three months ended March 31, 2016 is presented below:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2015	5,550,000	$ 7.75	5.10	$ -
Granted	240,000	2.35	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Outstanding as of March 31, 2016	5,790,000	$ 7.53	5.90	$ -
Vested and exercisable as of March 31, 2016	4,591,666	$ 8.87	4.97	$ -

A total of 240,000 options were granted during the three months ended March 31, 2016, of which 100,000 options vested immediately and have an exercise term of 10 years. The remaining options vest over a three year period and have an exercise term of 10 years. The fair value of options granted during the period ended March 31, 2016 was $1.15 per share. The total fair value of options vested during the period ended March 31, 2016 was $0.8 million.

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The following table summarizes information about stock options outstanding at March 31, 2016:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price (per share)	Number of Options	Weighted Average Exercise Price (per share)
$0.26 - $3.39	1,500,000	9.53	$ 2.31	325,000	$ 2.32
$3.40 - $3.95	1,900,000	2.45	$ 3.66	1,900,000	$ 3.66
$5.81 - $14.36	1,150,000	6.27	$ 10.13	1,126,666	$ 10.19
$14.37 - $17.09	240,000	6.76	$ 14.63	240,000	$ 14.63
$17.10 - $20.51	1,000,000	6.38	$ 18.02	1,000,000	$ 18.02
	5,790,000	5.90	$ 7.53	4,591,666	$ 8.87

The fair value of stock option grants is amortized over the respective vesting period. Total stock-based compensation expense related to stock options has been allocated between production costs and general and administrative expense as follows:

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Production costs	$ 102	$ 348
General and administrative expenses	316	718
Total	$ 418	$ 1,066

The estimated unrecognized stock-based compensation expense from unvested options as of March 31, 2016 was $0.6 million, and is expected to be recognized over the remaining vesting periods of up to three years. The assumptions used to determine the value of stock-based awards under the Black-Scholes-Merton method are summarized below:

	Three months ended March 31,

	2016		2015
Risk-free interest rate	0.90	%	-
Dividend yield	0.02	%	-
Expected volatility	61.66	%	-
Expected life in years	5.00		-

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14. Other Income (Expense), Net

Other income (expense), net consisted of the following:

	Three months ended March 31, 2016	2015
	(in thousands)	
Unrealized currency exchange (loss) gain	(88)	545
Realized currency exchange gain (loss)	142	(322)
Gain on gold and silver bullion	426	-
Unrealized gain (loss) from investments (1)	364	(719)
Interest income	1	132
Interest expense	(18)	(26)
Other expense	(121)	(114)
Total	$ 706	$ (504)

(1) The unrealized gain (loss) due to changes in an equity investment include gains and losses that are non-cash in nature until such time that they are realized through cash transactions. For additional information regarding our fair value measurements and investments, please see Notes 2 and 6.

15. Net Income per Share

Basic earnings per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated based on the assumption that stock options outstanding, which have an exercise price less than the average market price of the Company’s common shares during the period, have been exercised on the later of the beginning of the period or the date granted and that the funds obtained from the exercise were used to purchase common shares at the average market price during the period.

All stock options outstanding as of March 31, 2016 and March 31, 2015 were anti-dilutive and therefore excluded from the computation of diluted weighted average shares outstanding. The exercise price of those stock options exceeded the average market price of the Company’s common shares of $1.80 and $3.35 for the periods ended March 31, 2016 and March 31, 2015, respectively.

Net income per share is as follows:

	Three months ended March 31,	
	2016	2015
	(in thousands, except shares and per share amounts)	
Net income	$ 797	$ 5,053
Basic weighted average shares of common stock outstanding	54,266,706	54,179,369
Dilutive effect of stock options	-	-
Diluted weighted average common shares outstanding	54,266,706	54,179,369
Net income per:		
Basic and diluted share	$ 0.01	$ 0.09

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16. Supplementary Cash-Flow Information

Other operating adjustments and write-downs within the net cash provided by operations on the statement of cash flows consisted of the following:

	Three months ended March 31,	
	2016	2015
	(in thousands)	
Deferred charge (1)	$ 22	$ 88
Gain on gold and silver coins and bullion	(426)	-
Unrealized foreign currency exchange loss	88	(545)
Unrealized (gain) loss on investments	(364)	719
Other	72	24
Total other operating adjustments	$ (608)	$ 286

(1)Please see Note 8.

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

The following discussion summarizes the results of operations of Gold Resource Corporation and its subsidiaries ("we", "our", or "us") for the three months ended March 31, 2016 and compares those results to the three months ended March 31, 2015. It also analyzes our financial condition at March 31, 2016 and compares it to our financial condition at December 31, 2015. This discussion should be read in conjunction with the management's discussion and analysis and the audited financial statements and footnotes for the year ended December 31, 2015 contained in our annual report on Form 10-K for the year ended December 31, 2015.

The discussion also presents certain non-U.S. Generally Accepted Accounting Principles ("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 are 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 below under Non-GAAP Measures.

See Forward-Looking Statements at the end of this Item 2 for important information regarding statements contained herein.

Overview

We are a mining company which pursues gold and silver projects that are expected to have both low operating costs and high returns on capital. We are presently focused on mineral production from the Aguila Project in Oaxaca, Mexico. Our processing facilities at the Aguila Project produce doré and base metal concentrates, primarily from ore mined from the Arista underground mine, which contains precious metals of gold and silver and base metals of copper, lead and zinc.

In our financial statements we currently report the sale of precious metals and base metals as revenue and we periodically review our revenue streams to ensure that this remains appropriate. We consider precious metals to be the primary driver of our economic decisions and believe that base metals are secondary products; consequently, for purposes of calculating the non-GAAP measure total cash cost, after by-product credits, per precious metal gold equivalent ounce sold (including royalties.) Please see Non-GAAP Measures below for additional information.

For the first quarter of 2016, our mill produced 6,463 gold ounces, 434,142 silver ounces, 244 copper tonnes, 838 lead tonnes and 3,261 zinc tonnes. During the same period, we sold 6,215 gold ounces and 378,794 silver ounces, or a total of 10,757 precious metal gold equivalent ounces at a gold to silver price ratio of 83:1, at a total cash cost per gold equivalent ounce of $667. Precious metal gold equivalent is determined by taking gold ounces produced or sold, plus silver ounces produced or sold converted to precious metal gold equivalent ounces using the gold to silver average price ratio for the period. The gold and silver average prices used to determine the gold to silver average price ratio are the actual metal prices realized from sales of our gold and silver. Please see the section titled Non-GAAP Measures below for additional information concerning the cash cost per ounce measures.

For the three months ended March 31, 2016, we reported revenue of $17.4 million, mine gross profit of $3.5 million and net income of $0.8 million.

Exploration Activities

Oaxaca Mining Unit

The Aguila Project: Our mine exploration activities during the first quarter of 2016 at the Aguila Project focused mainly on underground exploration drilling at the Switchback vein system which is an area of mineralization approximately 500 meters northeast of the Arista vein system. This program targets further exploration and delineation of the multiple high-grade parallel veins at Switchback for reserve definition and optimization of the initial mine plan. A second exploration ramp initiated from the 21 level of the Arista mine also advanced during the quarter to access previously delineated mineralized material at the Switchback deposit. In addition, our mine exploration activities during the first quarter included both infill and step-out holes testing the mineralized vein extensions at our producing Arista underground mine. During the quarter, underground drilling principally targeted the extensions of the Baja, Splay 66, Arista-Chuy and Santa Lucia veins, which are all currently in production in the Arista underground mine. Fifteen diamond drill holes totaling 4,415 meters were completed at the Aguila Project during the first quarter of 2016.

Alta Gracia property: Access agreements with the local Alta Gracia community were finalized and a mining permit was received from the Mexican authorities during the first quarter of 2016. We are awaiting the blasting permit before mining operations can commence. Should a decision be made to conduct mining operations at Alta Gracia, small scale underground mining, with delivery of mineralized material to our Aguila processing facility, could occur later in 2016.

Las Margaritas property: Geological mapping and geochemical sampling continued during the first quarter of 2016 on the new gold and silver mineralized zone called “Trenes” identified at Margaritas. An initial diamond drilling program for Trenes is being evaluated.

Nevada Mining Unit

Gold Mesa property: Exploration targets at Gold Mesa were evaluated for an initial drilling program which commenced in April 2016. The Bureau of Land Management has approved a permit granting the Company access to 30 drill sites on the Gold Mesa property. The initial exploration drill program will consist of approximately 2,000 meters of drilling, with a goal of extending previously known near surface gold mineralization through infill and step-out drill holes.

Results of Operations

The following table summarizes our results of operations:

Operating Data	Three months ended March 31,	
	2016	2015
	(in thousands)	

Sales, net	$ 17,403	$ 28,372
Mine gross profit	3,454	14,023
Operating income	772	9,580
Other income (expense)	706	(504)
Income before income taxes	1,478	9,076
Provision for income taxes	681	4,023
Net income	$ 797	$ 5,053

Sales, net

Metal sales of $17.4 million for the three months ended March 31, 2016 decreased by $11.0 million, or 39%, when compared to the same period in 2015. This decrease was primarily due to lower gold and silver production, as well as lower realized metal prices for copper, zinc and particularly silver. For the three months ended March 31, 2016, average realized prices for metals decreased from the first quarter of 2015 as follows: silver by 14% to $14.38 per ounce, copper by 25% to $4,146 per tonne, and zinc by 14% to $1,717 per tonne.

Please see the Production and Sales Statistics table below for additional information regarding our mineral sales statistics for the three months ended March 31, 2016 and 2015.

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Production

For the three months ended March 31, 2016, mill production totaled 6,463 ounces of gold and 434,142 ounces of silver, a decrease of 23% and 45% respectively, over the same period in 2015. First quarter 2016 production saw lower head grades that were partially offset by a 23% increase in tonnes milled compared to the same period in 2015. In addition, significantly lower head grades were seen during the quarter from the processing of 16,697 tonnes, or approximately 15% of the throughput for the quarter, of low-grade stockpiled open pit ore mined in years past. The open pit stockpiles have primarily gold, negligible silver and no base metals of copper, lead and zinc which lower the overall grades for the quarter in all metals when processed. Gold and silver ore grades vary depending on the area of the deposit being mined and generally speaking, we expected grades to be lower than in the prior year when we mine in the deeper levels of the deposit. We remain on target with our 2016 annual production outlook of 26,000 gold ounces and 1.9 million silver ounces.

On a precious metal gold equivalent basis, our mill production totaled 11,669 ounces for the three months ended March 31, 2016. Please see the Production and Sales Statistics table below for additional information regarding our mineral production statistics.

We continue to focus on mining and development activities at the Arista underground mine. Our production rate and estimated average grades at Arista are a direct result of our mine development and the establishment of sufficient stopes and working faces while maintaining development consistent with the mine plan. The Aguila mill's flotation circuit processing capacity is a nominal 1,500 tonnes per day. Achieving this processing rate in the future is dependent upon our ability to develop the Arista underground mine to a point where ore extraction can consistently achieve an average rate of 1,500 tonnes per day assuming grade and dilution parameters are met. During the three months ended March 31, 2016, we processed 1,301 ore tonnes per calendar day, including low-grade open pit stockpiled ore, compared to 1,026 ore tonnes per calendar day for the same period in 2015.

The following table summarizes certain information about our mining operations:

Production and Sales Statistics

	Three months ended March 31,	
	2016	2015
Milled		

Tonnes Milled (1)	113,145	92,359
Tonnes Milled per Day (2)	1,301	1,026
Grade		
Average Gold Grade (g/t)	1.99	3.13
Average Silver Grade (g/t)	131	287
Average Copper Grade (%)	0.29	0.42
Average Lead Grade (%)	1.06	1.46
Average Zinc Grade (%)	3.43	3.71
Recoveries		
Average Gold Recovery (%)	89	90
Average Silver Recovery (%)	91	93
Average Copper Recovery (%)	74	76
Average Lead Recovery (%)	70	75
Average Zinc Recovery (%)	84	81
Mill production (before payable metal deductions) (3)		
Gold (ozs.)	6,463	8,348
Silver (ozs.)	434,142	790,300

Copper (tonnes)	244	293
Lead (tonnes)	838	1,013
Zinc (tonnes)	3,261	2,762

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Production and Sales Statistics, continued

	Three months ended March 31,	
	2016	2015
Payable metal sold		
Gold (ozs.)	6,215	8,678
Silver (ozs.)	378,794	727,315
Copper (tonnes)	220	277
Lead (tonnes)	762	920
Zinc (tonnes)	2,599	2,205
Average metal prices realized (4)		
Gold ($ per oz.)	1,199	1,203
Silver ($ per oz.)	14.38	16.74
Copper ($ per tonne)	4,146	5,532
Lead ($ per tonne)	1,807	1,731
Zinc ($ per tonne)		