

GOLD RESOURCE CORP
Form 10-Q
August 14, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

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

For the transition period from _____ to _____

Commission File Number: 333-129321

GOLD RESOURCE CORPORATION

(Exact Name of Small Business Issuer as Specified in its Charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

222 Milwaukee Street, Suite 301, Denver, Colorado 80206
(Address of Principal Executive Offices) (Zip Code)

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

N/A

Former name, former address, and former fiscal year, if changed since last report

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by 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

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: 34,324,619 shares of common stock, par value \$0.001, outstanding as of August 14, 2008.

GOLD RESOURCE CORPORATION

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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, 2007 and the exhibits listed therein.

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Unaudited)	
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 12,138,644	\$ 22,007,216
Other current assets	192,429	43,940
	<hr/>	<hr/>
Total current assets	12,331,073	22,051,156
	<hr/>	<hr/>
Investment in mineral properties		
Property and equipment - net	3,504,877	504,951
Other assets	1,469	1,469
	<hr/>	<hr/>
Total assets	\$ 15,837,419	\$ 22,557,576
	<hr/>	<hr/>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,075,897	\$ 768,452
	<hr/>	<hr/>
Total current liabilities	1,075,897	768,452
	<hr/>	<hr/>
Shareholders' equity:		
Preferred stock - \$0.001 par value, 5,000,000 shares authorized: no shares issued and outstanding		
Common stock - \$0.001 par value, 60,000,000 shares authorized: 34,231,952 and 34,146,952 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	34,232	34,147
Additional paid-in capital	38,486,509	36,498,444
(Deficit) accumulated during the exploration stage	(23,630,955)	(14,673,211)
Other comprehensive income:		
Currency translation adjustment	(128,264)	(70,256)
	<hr/>	<hr/>
Total shareholders' equity	14,761,522	21,789,124
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 15,837,419	\$ 22,557,576
	<hr/>	<hr/>

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

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended June 30, 2008 and 2007
(Unaudited)

	2008	2007
	<hr/>	<hr/>
Revenues:		
Gold sales	\$	\$
	<hr/>	<hr/>
Costs and Expenses:		
Property acquisition		42,662
Property exploration and evaluation	1,922,824	1,068,202
Engineering and construction	1,969,092	
General and administrative		
Salaries and benefits	176,638	138,442
Legal and accounting	92,658	66,263
Investor relations	69,650	130,464
Travel related	22,450	31,464
All other general and administrative	54,746	28,070
Stock based compensation		
Stock awards		250,170
Grant of stock options		
Depreciation	35,007	11,327
	<hr/>	<hr/>
Total costs and expenses	4,343,065	1,767,064
	<hr/>	<hr/>
Operating (loss)	(4,343,065)	(1,767,064)
Other income:		
Interest income	100,550	53,748
	<hr/>	<hr/>
(Loss) before income taxes	(4,242,515)	(1,713,316)
Provision for income taxes		
	<hr/>	<hr/>
Net (loss)	(4,242,515)	(1,713,316)
Other comprehensive income:		
Currency translation gain (loss)	(13,498)	(18,824)
	<hr/>	<hr/>
Net comprehensive (loss)	\$ (4,256,013)	\$ (1,732,140)
	<hr/>	<hr/>
Net (loss) per common share:		
Basic and Diluted	\$ (0.12)	\$ (0.06)
	<hr/>	<hr/>
Weighted average shares outstanding:		
Basic and Diluted	34,222,062	28,216,695
	<hr/>	<hr/>

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

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
for the six months ended June 30, 2008 and 2007,
and for the period from Inception (August 24, 1998) to June 30, 2008
(Unaudited)

	<u>2008</u>	<u>2007</u>	<u>Inception (August 24, 1998) to June 30, 2008</u>
Revenues:			
Gold sales	\$	\$	\$
Costs and Expenses:			
Property acquisition		52,662	479,262
Property exploration and evaluation	2,838,461	1,782,308	10,861,642
Engineering and construction	3,596,871		3,596,871
Management contract - U. S. Gold, related party			752,191
General and administrative			
Salaries and benefits	354,821	279,284	2,225,843
Legal and accounting	200,416	139,288	753,121
Investor relations	111,393	202,502	606,461
Travel related	44,548	80,093	396,112
All other general and administrative	107,611	110,429	545,773
Stock based compensation			
Stock awards	42,470	323,010	1,740,788
Grant of stock options	1,870,680		2,117,212
Depreciation	55,423	18,931	128,190
Total costs and expenses	<u>9,222,694</u>	<u>2,988,507</u>	<u>24,203,466</u>
Operating (loss)	(9,222,694)	(2,988,507)	(24,203,466)
Other income:			
Interest income	264,950	118,811	572,511
(Loss) before income taxes	(8,957,744)	(2,869,696)	(23,630,955)
Provision for income taxes			
Net (loss)	(8,957,744)	(2,869,696)	(23,630,955)
Other comprehensive income:			
Currency translation gain (loss)	(58,008)	(21,070)	(128,264)
Net comprehensive (loss)	<u>\$ (9,015,752)</u>	<u>\$ (2,890,766)</u>	<u>\$ (23,759,219)</u>
Net (loss) per common share:			
Basic and Diluted	<u>\$ (0.26)</u>	<u>\$ (0.10)</u>	
Weighted average shares outstanding:			
Basic and Diluted	<u>34,199,742</u>	<u>28,184,469</u>	

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

GOLD RESOURCE CORPORATION AND SUBSIDIARIES**(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS**

*for the six months ended June 30, 2008 and 2007,
and for the period from Inception (August 24, 1998) to June 30, 2008
(Unaudited)*

	<u>2008</u>	<u>2007</u>	<u>Inception (August 24, 1998) to June 30, 2008</u>
Cash flows from operating activities:			
Net cash (used in) operating activities	\$ (6,888,223)	\$ (2,995,259)	\$ (18,156,612)
Cash flows from investing activities:			
Capital expenditures	(3,055,349)	(202,462)	(3,633,067)
Net cash (used in) investing activities	(3,055,349)	(202,462)	(3,633,067)
Cash flows from financing activities:			
Cash proceeds from initial public stock offering			4,351,200
Cash proceeds from other sales of stock			28,889,623
Cash proceeds from exercise of options	75,000		137,500
Proceeds from debentures - founders			50,000
Proceeds from exploration funding agreement - Canyon Resources			500,000
Net cash provided by financing activities	75,000		33,928,323
Net increase (decrease) in cash and equivalents	(9,868,572)	(3,197,721)	12,138,644
Cash and equivalents at beginning of period	22,007,216	7,660,258	
Cash and equivalents at end of period	\$ 12,138,644	\$ 4,462,537	\$ 12,138,644
Supplemental Cash Flow Information			
Interest paid	\$	\$	\$
Income taxes paid	\$	\$	\$
Non-cash investing and financing activities:			
Conversion of Canyon Resources funding into common stock	\$	\$	\$ 500,000
Conversion of founders debentures into common stock	\$	\$	\$ 50,000

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

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

1. Summary of Significant Accounting Policies

Gold Resource Corporation (the Company) was organized under the laws of the State of Colorado on August 24, 1998. The Company has been engaged in the exploration for precious and base metals, primarily in Mexico, as an exploration stage company. The Company has not generated any revenues from operations. The consolidated financial statements included herein are expressed in United States dollars, the Company's reporting currency.

Basis of Presentation. The interim consolidated financial statements included herein have been prepared by the Company, without audit, in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) pursuant to Item 210 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) have been condensed or omitted pursuant to such SEC rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management's opinion, the consolidated balance sheet as of June 30, 2008 (unaudited), the unaudited consolidated statements of operations for the three and six month periods ended June 30, 2008 and 2007, and the unaudited consolidated statements of cash flows for the six month periods ended June 30, 2008 and 2007, contained herein, reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company's financial position, results of operations, and cash flows on a basis consistent with that of its prior audited consolidated financial statements. However, the results of operations for interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto and summary of significant accounting policies included in the Company's Form 10-K for the year ended December 31, 2007.

Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned Mexican corporate subsidiaries, Don David Gold S.A. de C.V. and Golden Trump Resources S.A. de C.V. The expenditures of Don David Gold and Golden Trump Resources are generally incurred in Mexican pesos. Significant inter-company accounts and transactions have been eliminated.

Estimates. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. Estimates that are critical to the accompanying consolidated financial statements include the identification and valuation of proven and probable reserves, classification of expenditures as either an asset or an expense, valuation of deferred tax assets, and the likelihood of loss contingencies. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. Estimates and assumptions are revised periodically and the effects of revisions are reflected in the financial statements in the period it is determined to be necessary.

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

Per Share Amounts. SFAS 128, Earnings Per Share, provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities that could share in the earnings of the Company, similar to fully diluted earnings per share. Potentially dilutive securities, such as common stock options, are excluded from the calculation when their effect would be anti-dilutive. For the period ended June 30, 2008, outstanding options to purchase 3,625,000 shares of common stock would have an anti-dilutive effect and were therefore excluded from the calculation.

Exploration and Development Costs. Mineral property acquisition, exploration and related costs are expensed as incurred unless proven and probable reserves exist and the property is a commercially minable property. If it is determined that a mineral property can be economically developed, the costs incurred to develop such property, including costs to further delineate the ore body and develop the property for production, may be capitalized. Interest costs, if any, allocable to the cost of developing mining properties and constructing new facilities would be capitalized until operations commence. Mine development costs incurred either to develop new ore deposits, expand the capacity of operating mines, or to develop mine areas substantially in advance of current production would also be capitalized.

All such capitalized costs, and estimated future development costs, if any, will be amortized using the units-of-production method over the estimated life of the ore body. The units-of-production method requires an estimate of proven and probable reserves. Unless we establish proven and probable reserves, we will generally not capitalize mining costs and will not report any amortization expense.

Costs incurred to maintain current production or to maintain assets on a standby basis are charged to operations. Costs of abandoned projects are charged to operations upon abandonment. The Company evaluates, at least annually, the carrying value of capitalized mining costs and related property, plant and equipment costs, if any, to determine if these costs are in excess of their net realizable value and if a permanent impairment needs to be recorded. The periodic evaluation of carrying value of capitalized costs and any related property, plant and equipment costs are based upon expected future cash flows and/or estimated salvage value in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for Impairment or Disposal of Long-Lived Assets.

Foreign Operations. The Company's present mining activities are in Mexico. As with all types of international business operations, currency fluctuations, exchange controls, restrictions on foreign investment, changes to tax regimes, political action and political instability could impair the value of the Company's investments.

Foreign Currency Translation. The local currency, the Mexican peso, is the functional currency for the Company's subsidiaries. Current assets and liabilities are translated using the exchange rate in effect at the balance sheet date. Other assets and liabilities are translated using historical rates. Revenues and expenses are translated at the average exchange rate for the period. Translation adjustments are reported as a separate component of shareholders' equity.

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

Recent Accounting Pronouncements. In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133 (SFAS 161), which becomes effective on November 15, 2008. This standard changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Management is currently evaluating the impact of adopting this statement.

There were various other accounting standards and interpretations issued during 2008 and 2007, none of which are expected to have a material impact on the Company's financial position, operations or cash flows.

2. Mineral Properties

The Company currently has an interest in four properties, the *El Aguila* project, the *El Rey* property, the *Las Margaritas* property, and the *Solaga* property.

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

The Company has filed for and received additional concessions for the *El Aguila* project that total an additional 8,492 hectares. These additional concessions are not part of the concessions leased from our consultant, and bring our interest in the *El Aguila* project to an aggregate of 9,463 hectares. The mineral concessions making up the *El Aguila* project are located within the Mexican State of Oaxaca.

The *El Rey* Property. We have acquired claims in another area in the state of Oaxaca by filing concessions under the Mexican mining laws, referred to by us as the *El Rey* property. These concessions total 892 hectares and are subject to a 2% royalty on production payable to Mr. Reynoso. We have conducted minimal exploration and drilling on this property to date.

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

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

GOLD RESOURCE CORPORATION AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(Unaudited)

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

3. Property and Equipment

At June 30, 2008 and December 31, 2007, property and equipment consisted of the following:

	June 30, 2008	December 31, 2007
Land	\$ 152,522	\$ 152,522
Truck		