

GOLD RESOURCE CORP
Form 10-K
March 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2014

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)

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(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

Indicate by check mark whether the 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 No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 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

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

The aggregate market value of the common stock of Gold Resource Corporation held by non-affiliates as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was \$274,147,607 based on the closing price of the common stock of \$5.06 as reported on the NYSE MKT, LLC.

As of March 18, 2015 there were 54,179,369 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 2015 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.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that involve risks and uncertainties. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words “plan,” “target,” “anticipate,” “believe,” “estimate,” “intend” and “expect” and similar 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 mine construction 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

Gold Resource Corporation was organized under the laws of the State of Colorado on August 24, 1998. We are a producer of metal concentrates that contain gold, silver, copper, lead and zinc, as well as, doré containing gold and silver at the El Aguila Project in the southern state of Oaxaca, Mexico. The El Aguila Project includes the El Aguila open pit mine, which ceased operations in February 2011, and the La Arista underground mine, which is currently in operation. We are also performing exploration and evaluation work on certain of our portfolio of precious and base metal exploration properties in Mexico and Nevada and are evaluating other properties for possible acquisition.

In this report, “Company,” “our,” “us” and “we” refer to Gold Resource Corporation together with our affiliates and subsidiaries, unless the context otherwise requires.

On April 30, 2014, we announced the completion of our initial reserve study and issued a report dated December 31, 2013, confirming the existence of proven and probable reserves as defined in Industry Guide 7 (“Guide 7”) promulgated by the U.S. Securities and Exchange Commission (“SEC”). As a result of the completion of the reserve study, we have transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise in accordance with Guide 7. We no longer consider ourselves to be a Development Stage Entity as defined in Accounting Standards Codification 915 – Development Stage Entities (“ASC 915”).

We completed our initial public offering (“IPO”) in August 2006. Since that time, we have raised additional capital pursuant to several private placements of our common stock. We used the proceeds of our IPO and additional private placements to conduct exploration activities at the El Aguila property. Based on our successful exploration efforts, we decided on April 11, 2007, to move forward to construct a mill and a mine at the El Aguila Project. We began mining and milling operations at the El Aguila Project on July 1, 2010. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations for more information. The El Aguila Project includes approximately 30,074 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. 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 SEC.

Our operations at our Oaxaca Mining Unit in Mexico are conducted through our wholly-owned Mexican subsidiary, Don David Gold Mexico S.A.de C.V. (DDGM). In November 2013, we divested our interest in Golden Trump Mexico S.A. de C.V. Our Nevada Exploration Unit operates through our wholly-owned subsidiary, GRC Nevada Inc.

Developments During 2014

We completed our fourth full year of mining operations in 2014. 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 mineralized material from the La Arista underground mine in March 2011. In 2014, we processed ore from the La Arista underground mine with gold and silver as our primary

metal products and copper, lead and zinc as by-products. Our El Aguila milling facility located on our El Aguila Project produced both concentrates and doré.

During 2014, we continued to develop the La Arista underground mine; reaching Level 19 on the decline ramp by year end. We developed multiple stopes and working faces for mining, predominantly from Levels 12 to Level 17 during the year. The mining methods of long-hole stoping and cut-and-fill were utilized.

Our optimization of the mill expansion, completed in the fourth quarter of 2013, resulted in our ability to begin producing a higher grade gold and silver concentrate in the first quarter of 2014, due to being able to utilize a Knelson gravity concentrator at our mill facilities. With the goal of reducing refining costs, royalties and treatment costs, we completed the commissioning phase of the doré processing facility and achieved commercial production in the fourth quarter of 2014.

In 2014, we leased two properties in Nevada, United States of America, for exploration purposes. We leased the Radar property from Altan Nevada Minerals Limited and the Goose property from Nevada Eagle LLC, and formed our Nevada Mining Unit. We believe that these properties have excellent potential for discovery of both bulk tonnage replacement-type and bonanza-grade vein-type gold deposits, similar to other gold deposits historically mined in the Paradise Peak and Goldfield districts. These mines are also in the Walker Lane Mineral Belt and well known for their significant and high-grade gold-silver production. We believe the Radar and Goose properties are highly prospective based on their proximity to other major gold deposits in the Walker Lane Mineral Belt. Our operations in Nevada are in the exploration stage. See Item 2. Properties for additional information.

Production Summary

During 2014, mill production totaled 83,903 ounces of precious metal gold equivalent from the La Arista mine, which was a 1.1% decrease in mill production from 2013. We processed an aggregate of 375,623 tonnes of mineralized material with an average grade of 3.21 grams per tonne gold and 296 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 Operations for detailed information regarding our production statistics.

Exploration

Exploration during 2014 continued to focus primarily on our Oaxaca Mining Unit and specifically the El Aguila Project with infill and step-out drilling at the La Arista deposit's vein system. This included follow-up of the new Switchback discovery which is an area of mineralization approximately 500 meters northeast of the La Arista deposit, for which drill results continue to show multiple veins over a 60 to 80 meter interval. We also performed exploration at several of our other properties, including continuing a surface drill program on portions of the Alta Gracia property that focused on previously identified drill targets. Please see the map of our properties under Oaxaca Mining Unit in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding our exploration properties in Mexico. See Item 2. Properties for additional information regarding our exploration activities.

Dividends

We declared and paid an aggregate of \$0.12 per share in dividends in 2014. In 2012, we commenced a physical dividend program pursuant to which our shareholders have the option to convert the cash dividends into physical gold and silver bullion and take physical delivery of bullion or have it stored in a secured vault network. See Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities for additional information.

Proven and Probable Reserves

Beginning January 1, 2014, we transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise as defined by Guide 7. On April 30, 2014, we announced the completion of our reserve study and issued a report dated December 31, 2013 confirming the existence of proven and probable reserves as defined in Guide 7 promulgated by the SEC. As a result of the completion of the reserve study, we have transitioned from an Exploration Stage Enterprise to a Production Stage Enterprise in accordance with Guide 7. We no longer consider ourselves to be a Development Stage Entity as defined in ASC 915 and accordingly cumulative and other disclosures required by ASC 915 are no longer included in our financial statements.

Prior to January 1, 2014, we were considered an Exploration Stage Enterprise under SEC criteria since we had not demonstrated proven and probable reserves at our El Aguila Project in Oaxaca, Mexico or any of our other properties. Accordingly, as required under SEC guidelines, substantially all of our investment in mining properties up to that date, including construction of the mill, mine facilities and mine construction expenditures, were expensed as incurred and therefore do not appear as assets on our balance sheet.

Our characterization as an Exploration Stage Enterprise resulted in the classification of our facilities and mine construction expenditures as operating expenses rather than capital expenditures, and may have caused us to report lower net income than if we had capitalized the expenditures. In addition, prior to January 1, 2014, our financial statements did not reflect a corresponding depreciation or amortization expense for our facilities and mine construction costs since they were expensed as incurred rather than capitalized. The change in our accounting presentation as a result of our transition to a Production Stage Enterprise may make certain period-over-period comparisons less meaningful than otherwise since we capitalized mine development related expenditures that would have been expensed under our prior accounting presentation.

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As of December 31, 2014, our proven and probable reserves were:

Reserve Class	Tonnes	Gold g/t	Silver g/t	Precious Metal Gold Equivalent g/t	Gold Ounces	Silver Ounces	Precious Metal Gold Equivalent Ounces	Copper %	Lead %	Zinc %
La Arista										
Proven	1,010,700	2.91	289	7.83	94,600	9,376,500	254,300	0.6	1.5	3.2
Probable	526,500	2.09	230	6.01	35,400	3,894,300	101,800	0.4	1.7	3.1
Total	1,537,200	2.63	269	7.21	130,000	13,270,800	356,100	0.6	1.6	3.2

Notes to the above proven and probable ("P & P") reserves:

1. Metal prices used for P & P reserves were \$1,448.19 per ounce of gold, \$24.67 per ounce of silver, \$3.35 per pound of copper, \$0.95 per pound of lead and \$0.91 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
2. Precious metal gold equivalent is 58.70:1 using gold and silver only to calculate gold equivalencies.
3. A breakeven net smelter return cutoff grade of \$110 per tonne was used for estimations of P & P reserves.
4. Mining, processing, energy, administrative and smelting/refining costs were based on 2014 actual costs for the El Aguila Project.
5. Metallurgical recovery assumptions used were 92% for gold, 92% for silver, 78% for copper, 77% for lead and 83% for zinc. These recoveries reflect 2014 actual average recoveries for the El Aguila project.
6. P & P reserves are diluted and factored for expected mining recovery.
7. Minimum mining width for P & P reserves is 1.4 meters.
8. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

In addition to our proven and probable reserves, we estimated measured and indicated mineralized material within the definition of Guide 7. Mineralized material does not have demonstrated economic viability. As of December 31, 2014, our measured and indicated mineralized material was:

Mineralized Zones	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Switchback						
Measured	128,600	1.46	90	0.4	1.1	3.7
Indicated	320,000	1.26	90	0.4	1.1	3.8
	448,600	1.32	90	0.4	1.1	3.8
Santiago						
Measured	30,300	2.30	144	0.3	0.7	1.4
Indicated	79,400	1.62	132	0.2	0.4	0.9

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	109,700	1.81	135	0.2	0.5	1
Alta Gracia						
Measured	78,800	0.47	349	-	-	-
Indicated	79,800	0.67	330	-	-	-
	158,600	0.57	339	-	-	-
Total	716,900					

Notes to the above measured and indicated (“M & I”) mineralized material:

1. A breakeven net smelter return cutoff grade of \$110 per tonne was used for estimations of M & I mineralized material.
2. Metallurgical recovery assumptions used were 92% for gold, 92% for silver, 78% for copper, 77% for lead and 83% for zinc. These recoveries reflect 2014 actual average recoveries for the El Aguila project.
3. M & I mineralized material is diluted and factored for expected mining recovery.
4. Minimum mining width for M & I mineralized material is 1.4 meters.
5. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

Reserve estimates are prepared by Barry Devlin, Vice President of Exploration. Mr. Devlin holds a BS degree with honors in Geology, 1981, and a Masters in Geology, 1987, from the University of British Columbia, Vancouver, Canada. He is also a Professional Geologist registered with the Association of Professional Engineers and Geoscientists of British Columbia.

Condition of Physical Assets and Insurance

Our business is capital intensive and requires ongoing capital investment for the replacement, modernization or expansion of equipment and facilities. For more information, see Item 7, Management’s Discussion and Analysis of Consolidated Financial Condition and Results of Operations, Liquidity and Capital Resources, below. We maintain insurance policies against property loss and business interruption and insure against risks that are typical in the operation of our business in amounts that we believe to be reasonable. Such insurance, however, contains exclusions and limitations on coverage, particularly with respect to loss, environmental liability and political risk. There can be no assurance that claims would be paid under such insurance policies in connection with a particular event. See Item 1A, Risk Factors, below for additional information

Environmental Matters

We conduct our operations so as to protect the environment and believe our operations are in compliance with applicable laws and regulations in all material respects. Our operating mine has a reclamation plan in place that we believe meets all applicable legal and regulatory requirements. At December 31, 2014, \$3.0 million was accrued for reclamation costs relating to current or recently producing properties.

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, advancement 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 the United States and 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 Secretaria de Medio Ambiente y Recursos Naturales (“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 sources, dust and noise.

In connection with our mill and mining operations at the El Aguila Project, we have and intend 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 from which we are currently producing.

We have obtained, and plan to obtain at the appropriate time, environmental permits, licenses or approvals required for operations. During 2014, we received a permit to begin constructing the third phase of the tailings impoundment facility at the El Aguila Project. We are not aware of any material violations of environmental permits, licenses or approvals issued with respect to our operations.

In connection with exploration activities in the state of Nevada, United States of America, we are subject to various federal and state laws and regulations governing protection of the environment, including the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response; the Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Endangered Species Act; the Federal Land Policy and Management Act; the National Environmental Policy Act; the Resource Conservation and Recovery Act; and related state laws. These laws and regulations are continually changing and are generally becoming more restrictive. Our activities outside the United States are also subject to various levels of governmental regulations for the protection of the environment and, in some cases, those regulations can be as, or more, restrictive than those in the United States.

We conduct our operations so as to protect public health and the environment and believe our operations are in compliance with applicable laws and regulations in all material respects. Our operating mine has a reclamation plan in place that we believe meets all applicable legal and regulatory requirements.

Customers

During the year ended December 31, 2014, our revenue was predominately through the sales of metals concentrate to Consorcio Minero de Mexico Cormin Mex. S.A. de C.V., a Trafigura Group Company (“Trafigura”) which was 93% of our sales for the year. During the fourth quarter of 2014, we reached commercial production of gold and silver doré bars and began selling to Johnson Matthey Gold & Silver Refining Inc. (“Johnson Matthey”). In the event that our relationships with Trafigura or Johnson Matthey is interrupted for any reason, we believe that we would be able to locate another entity to purchase our precious metals and by-product metals. However, any interruption could temporarily disrupt the sale of our principal products and adversely affect our operating results. We periodically review our options of alternative sales outlets to mitigate the concentration of risk with one concentrate buyer in case of any unforeseen disruptions.

Employees and Contractors

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

During 2013, we divested a wholly-owned Mexican subsidiary that held our Mexican employees to a third-party employee service company, and our El Aguila Project General Manager is currently our only employee in Mexico. We contract for the services of our approximately 380 former employees with the firm that acquired our subsidiary and also use various independent contractors for constructing our underground mine, surface exploration drilling and trucking.

ITEM 1A.RISK FACTORS

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

Risks Relating to Our Company

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 mineralized material for processing at our mill facility which 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 following such interruption. Additionally, if we are unable to economically develop additional mines, we will eventually deplete the body of mineralized material 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 mineralized material from the La Arista underground 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 initial scoping study, reports and subsequent Proven and Probable Reserve report. 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, studies and reports. 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.

Estimates of proven and probable reserves and mineralized material are uncertain and the volume and grade of ore actually recovered may vary from our estimates. The proven and probable reserves and mineralized material stated in this report represent the amount of gold, silver, copper, lead and zinc that we estimated, at December 31, 2014, could be economically and legally extracted or produced at the time of the reserve determination. Estimates of proven and probable reserves and mineralized material are subject to considerable uncertainty. Such estimates are, to a large extent, based on the prices of gold, silver, copper, lead and zinc and interpretations of geologic data obtained from drill holes and other exploration techniques.

Additionally, the term “mineralized material” as used in this report does not indicate proven and probable reserves as defined by Guide 7 or our standards. Estimates of mineralized material are subject to further exploration and development, and are, therefore, subject to considerable uncertainty. We cannot be certain that any part or parts of the mineralized material deposit will ever be confirmed or converted into Guide 7 compliant reserves or that mineralized material can be economically or legally extracted.

If the price of gold or silver declines from recent levels, if production costs increase or recovery rates decrease or if applicable laws and regulations are adversely changed, we can offer no assurance that the indicated level of recovery will be realized or that mineral reserves as currently reported can be mined or processed profitably. If we determine that a portion of our ore reserves become uneconomic, this may ultimately lead to a reduction in our reported reserves. Consequently, if our actual mineral reserves are less than current estimates, our business, prospects, results of operations and financial position may be materially impaired.

We may be unable to replace reserves as they become depleted. Gold and silver producers must continually replace reserves depleted by production to maintain production levels over the long term and provide a return on invested capital. Depleted reserves can be replaced in several ways, including expanding known ore bodies, locating new deposits, or acquiring interests in reserves from third parties. Exploration is highly speculative in nature, involves many risks and is frequently unproductive. Our current or future exploration programs may not result in new mineral producing operations. Even if significant mineralization is discovered, it will likely take many years from the initial phases of exploration until commencement of production, during which time the economic feasibility of production may change.

As a result of these uncertainties, our exploration programs and any acquisitions which we may pursue may not result in the expansion or replacement of our current production with new ore reserves or operations, which could have a material adverse effect on our business, prospects, results of operations and financial position.

We have identified material weaknesses in our internal controls over financial reporting that, if not properly corrected, could materially adversely affect our operations and result in material misstatements in our financial statements. As described in Item 9A. Controls and Procedures, we have concluded that our internal control over financial reporting was ineffective as of December 31, 2014, because certain material weaknesses existed in our internal control over financial reporting related to the validation of the completeness and accuracy of underlying data used in the determination of significant estimates and accounting transactions and the presentation of income tax expense. We are working to remediate these material weaknesses, however, if we are unable to remediate our material weaknesses in a timely manner, we may be unable to provide holders of our securities with the required financial information in a timely and reliable manner and we may incorrectly report financial information. Additionally, if our remedial measures are insufficient to address the material weaknesses, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated

financial statements may contain material misstatements and we could be required to restate our financial results. These events could have a material adverse effect on our operations, result in sanctions or investigations by regulatory authorities, or loss of investor, supplier and customer confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our stock.

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 mine construction, if warranted, are directly related to the market price of gold, silver and other base metals. The price of gold and silver 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 prices 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	2010	2011	2012	2013	2014
Gold	\$ 1,225	\$ 1,572	\$ 1,669	\$ 1,411	\$ 1,266
Silver	\$ 20.19	\$ 35.12	\$ 31.15	\$ 23.79	\$ 19.08

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 or silver 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 have incurred substantial losses in the past and may not continue to be profitable. During the fiscal years ended December 31, 2014, 2013 and 2012, we reported comprehensive net income of \$16.2 million, \$0.1 million and \$36.0 million, respectively. We have accumulated retained earnings of \$4.0 million as of December 31, 2014. While we were profitable during the past three years, there is no assurance that we will be profitable in the future. Unexpected interruptions in our mining business may cause us to incur losses, or the revenue that we generate from production may not be sufficient to fund continuing operations including exploration and mine construction costs. Our failure to generate future profits may adversely affect the price of our common stock and you may lose all or part of your investment.

We may require significant additional capital to fund our business plan. We may be required to expend significant funds to determine if mineralized material and proven and probable mineral reserves exist at any of our non-producing 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 may 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.

Our ability to obtain necessary funding for these purposes, in turn, depends upon a number of factors, including our historical and prospective results of operations, the status of the national and worldwide economy, the price of gold, silver and other valuable metals and the costs associated with extracting them. The mining sector has been negatively impacted by declining metal prices in the last two years. We may not be successful in generating or 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 construction and the possible partial or total loss of our potential interest in our properties.

Revenue from the sale of our metals may be adversely affected by loss or damage during shipment and storage at our buyer's facilities. We rely on third-party transportation companies to transport our metals to the buyer's facilities for processing and further refining. The terms of our sales contract with the buyers require us to rely on assay results from samples of our metals that are obtained at the buyer's warehouse to determine the final sales value for our metals. Once the metal leaves our mill facility, we no longer have direct custody and control of these products. Theft, loss, automobile accidents, improper storage, fire, natural disasters, tampering or other unexpected events while in transit or at the buyer's location may lead to the loss of all or a portion of our metal 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.

Exploration and if deemed feasible, development of mineral properties is inherently risky and could lead to unproductive properties and/or capital investments. Our long-term success depends on our ability to identify additional mineral deposits on the El Aguila Property and any other properties that we have or may acquire and to develop one or more of those properties into commercially viable mining operations. Mineral exploration is highly speculative in nature, involves many risks and is frequently unproductive. These risks include unusual or unexpected geologic formations and the inability to obtain suitable or adequate machinery, equipment or labor. The success of gold exploration is determined in part by the following factors:

- The identification of potential gold mineralization based on surface analysis;
- Availability of government-granted exploration and construction permits;
- The quality of our management and our geological and technical expertise; and
- The capital available for exploration.

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Substantial expenditures are required to establish proven and probable reserves through detail drilling and analysis, to develop metallurgical processes to extract metal and to develop the mining and processing facilities and infrastructure at any site chosen for mining. Whether a mineral deposit will be commercially viable depends on a number of factors, which include, without limitation, the particular attributes of the deposit, such as size, grade, metallurgy, and proximity to infrastructure like power, water and roads; metal prices, which fluctuate widely; and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. We may invest significant capital and resources in exploration activities and abandon such investments if we are unable to identify commercially exploitable mineral reserves. The decision to abandon a project may have an adverse effect on the market value of our securities and our ability to raise future financing.

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 produce at quoted market metal prices. 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.