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 September 30, 2017

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	(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)

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, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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: 56,891,484 shares of common stock outstanding as of October 30, 2017.

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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, 2016 and other reports filed with the Securities and Exchange Commission and the exhibits filed or incorporated by reference 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)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,832	$ 14,166
Gold and silver rounds/bullion	3,831	3,307
Accounts receivable	3,664	630
Inventories, net	9,890	8,946
Income tax receivable, net	1,025	626
Prepaid expenses and other current assets	1,822	1,587
Total current assets	36,064	29,262
Property, plant and mine development, net	79,447	70,059
Deferred tax assets, net	18,645	17,580
Other non-current assets	945	1,542
Total assets	$ 135,101	$ 118,443
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,883	$ 5,383
Loan payable, current	562	-
Mining royalty taxes payable	1,222	2,033
Accrued expenses and other current liabilities	2,165	1,526
Total current liabilities	12,832	8,942
Reclamation and remediation liabilities	2,790	2,425
Loan payable, long-term	1,789	-
Total liabilities	17,411	11,367
Shareholders' equity:		
Common stock - $0.001 par value, 100,000,000 shares authorized: 56,891,484 and 56,566,874 shares outstanding at September 30, 2017 and December 31, 2016, respectively	57	57
Additional paid-in capital	114,211	112,034
Retained earnings	10,477	2,040

Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive loss	(1,171)	(1,171)
Total shareholders' equity	117,690	107,076
Total liabilities and shareholders' equity	$ 135,101	$ 118,443

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Sales, net	$ 31,122	$ 21,367	$ 76,849	$ 64,968
Mine cost of sales:				
Production costs	16,122	12,767	39,634	34,570
Depreciation and amortization	3,762	3,189	10,271	9,049
Reclamation and remediation	37	48	101	139
Total mine cost of sales	19,921	16,004	50,006	43,758
Mine gross profit	11,201	5,363	26,843	21,210
Costs and expenses:				
General and administrative expenses	1,950	2,027	5,437	5,875
Exploration expenses	1,457	881	3,415	2,027
Other expense (income), net	110	74	1,183	(1,170)
Total costs and expenses	3,517	2,982	10,035	6,732
Income before income taxes	7,684	2,381	16,808	14,478
Provision for income taxes	3,103	787	6,987	6,479
Net income	$ 4,581	$ 1,594	$ 9,821	$ 7,999
Net income per common share:				
Basic	$ 0.08	$ 0.03	$ 0.17	$ 0.15
Diluted	$ 0.08	$ 0.03	$ 0.17	$ 0.14
Weighted average shares outstanding:				
Basic	56,888,115	55,781,382	56,841,897	54,994,430
Diluted	57,455,805	57,597,392	57,617,030	55,589,307

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of Common Shares	Par Value of Common Share	Additional Paid-in Capital	Accumulated (Deficit)/ Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2015	54,603,104	$ 55	$ 96,766	$ (948)	$ (5,884)	$ (1,171)	$ 88,818
Stock options exercised	169,999	-	391	-	-	-	391
Stock-based compensation	-	-	1,240	-	-	-	1,240
Dividends declared	-	-	(271)	(1,399)	-	-	(1,670)
Acquisitions	2,130,169	2	13,908	-	-	-	13,910
Net income	-	-	-	4,387	-	-	4,387
Balance, December 31, 2016	56,903,272	$ 57	$ 112,034	$ 2,040	$ (5,884)	$ (1,171)	$ 107,076
Adjustment to beginning retained earnings as a result of adoption of ASU 2016-16	-	-	-	(533)	-	-	(533)
Stock-based compensation	-	-	877	-	-	-	877
Common stock issued for vested restricted stock units	78,400	-	-	-	-	-	-
Common stock issued for the acquisition of mineral rights	246,210	-	1,300	-	-	-	1,300
Dividends declared	-	-	-	(851)	-	-	(851)
Net income	-	-	-	9,821	-	-	9,821
Balance, September 30, 2017 (unaudited)	57,227,882	$ 57	$ 114,211	$ 10,477	$ (5,884)	$ (1,171)	$ 117,690

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

(U.S. dollars in thousands)

(Unaudited)

	Nine months ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 9,821	$ 7,999
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income taxes	3,033	250
Depreciation and amortization	10,602	9,343
Stock-based compensation	877	997
Other operating adjustments	392	(531)
Changes in operating assets and liabilities:		
Accounts receivable	(3,034)	(2,092)
Inventories	(945)	(657)
Prepaid expenses and other current assets	958	1,203
Accounts payable and other accrued liabilities	3,319	(2,774)
Mining royalty and income taxes payable/receivable	(1,556)	3,690
Other noncurrent assets	36	64
Net cash provided by operating activities	23,503	17,492
Cash flows from investing activities:		
Capital expenditures	(20,382)	(12,637)
Proceeds from the sale of equity investments	-	749
Other investing activities	(265)	(315)
Net cash used in investing activities	(20,647)	(12,203)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	-	391
Dividends paid	(852)	(818)
Repayment of loan payable	(46)	-
Repayment of capital leases	(21)	(606)
Net cash used in financing activities	(919)	(1,033)
Effect of exchange rate changes on cash and cash equivalents	(271)	(13)
Net increase in cash and cash equivalents	1,666	4,243
Cash and cash equivalents at beginning of period	14,166	12,822
Cash and cash equivalents at end of period	$ 15,832	$ 17,065

Supplemental Cash Flow Information		
Income and mining taxes paid	$ 2,764	$ 256
Non-cash investing activities:		
Increase (decrease) in accrued capital expenditures	$ 510	$ (2,764)
Equipment purchased through loan payable	2,397	-
Equipment purchased under capital lease	21	300
Common stock issued for the acquisition of mineral rights	$ 1,300	$ 13,910

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

September 30, 2017

(Unaudited)

1. Basis of Preparation of Financial Statements

The interim Condensed Consolidated Financial Statements ("interim statements") of Gold Resource Corporation and its subsidiaries (collectively, the "Company") are unaudited and have been prepared in accordance with the rules of the Securities and Exchange Commission for interim statements. Certain information and footnote disclosures required by United States Generally Accepted Accounting Principles ("U.S. GAAP") have been condensed or omitted although the Company believes that the disclosures included are adequate to make the information presented not misleading. In the opinion of management, all adjustments (including normal recurring adjustments) and disclosures necessary for a fair presentation of these interim statements have been included. The results reported in these interim statements are not necessarily indicative of the results that may be reported for the entire year. These interim statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016 included in the Company's annual report on Form 10-K. The year-end balance sheet data was derived from the audited financial statements. Unless otherwise noted, there have been no material changes to the footnotes from those accompanying the audited consolidated financial statements contained in the Company's annual report on Form 10-K.

2. Recent Accounting Pronouncements

Recently Adopted 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. Because of the Company's current valuation allowance position, the adoption of this guidance, effective January 1, 2017, did not result in an adjustment to retained earnings as of December 31, 2016. Nor did it result in current tax expense or benefit related to vested stock-based awards for the nine months ended September 30, 2017. As a result, the Company did not exclude any excess tax benefits from the calculation of diluted earnings per share during the nine months ended September 30, 2017, and there was no method change to the cash flow presentation as required by the guidance. Please see Note 5 for more information.

Accounting Standards Update 2016-16 – Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). In October 2016, the FASB issued guidance intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by requiring an entity to recognize the income tax consequences when a transfer occurs, instead of when an asset is sold to an outside party. The amendments in this guidance should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is required to adopt this new standard on January 1, 2018, for its fiscal year 2018 and for interim periods within that fiscal year. Early adoption is permitted as of the beginning of an annual reporting period for which interim or annual financial statements have not been issued. The Company elected to early adopt this guidance as of January 1, 2017 which resulted in the Company adjusting its deferred tax charge, previously reported in other long-term assets, to nil with the related offset to beginning retained earnings.

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The net effect was a decrease of $0.5 million to other long-term assets and a corresponding decrease to beginning retained earnings.

Recently Issued Accounting Pronouncements

Accounting Standards Update (“ASU”) No. 2014-09—Revenue from Contracts with Customers (Topic 606). On May 28, 2014, the FASB issued guidance that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU was further amended in August 2015, March 2016, April 2016, May 2016 and December 2016 by ASU No. 2015-14, No. 2016-08, No. 2016-10, No. 2016-12 and No. 2016-20, respectively. The guidance provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition.

The Company has performed an assessment of the revised guidance and the impacts on the Company’s Consolidated Financial Statements and disclosures. The Company has completed the review of all contracts and determined that the adoption of this guidance will not impact the timing of revenue recognition based on the Company’s determination of when control is transferred. Currently, revenue is recognized for contracts upon delivery of material to the customer and will not change under the new guidance.

The Company furthered its evaluation of variable consideration for concentrate sales related to the variable nature of the price and metal quantity. Based on its current analysis, the estimate of revenue recognized for concentrates will remain unchanged as sales will initially be recorded on a provisional basis based on the forward prices for the estimated month of settlement and the Company’s estimated metal quantities delivered based on weighing and assay data. The Company believes changes in the underlying weight and metal content are not significant to the sale as a whole and therefore do not preclude the recognition of revenue upon transfer of control.

Additionally, the Company completed its evaluation of the impacts of refining fee classification. The Company also determined that revenue will be recognized, net of treatment and refining charges when these payments are made to customers. This classification remains unchanged from current practice.

The Company will adopt the new guidance effective January 1, 2018. The guidance may be applied retrospectively for all periods presented or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company currently anticipates adopting the guidance retrospectively with the cumulative effect of initially applying the amended guidance recognized at January 1, 2018. As there are no changes to the Company’s current revenue recognition model, no changes will be made to prior period amounts or related prior period disclosures.

Accounting Standards Update No. 2016-02 Leases (Topic 842). In February 2016, the FASB issued a new standard regarding leases. Lessees will be required to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and a lease liability. Public business entities are required to adopt the new leasing standard for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For calendar year-end public companies, this means an adoption date of January 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact on its consolidated financial statements and disclosures.

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3. Gold and Silver Rounds/Bullion

The Company periodically purchases gold and silver bullion on the open market for investment purposes and to use in its dividend exchange program under which shareholders may exchange their cash dividends for minted gold and silver rounds. During the nine months ended September 30, 2017 and 2016, the Company purchased 215.85 ounces and nil ounces, respectively, of gold bullion. At September 30, 2017 and December 31, 2016, the Company's holdings of rounds/bullion, using quoted market prices, consisted of the following:

	2017		2016	
	Gold	Silver	Gold	Silver
	(in thousands, except ounces and per ounce)			
Ounces	1,794	90,685	1,579	90,971
Per ounce	$ 1,283	$ 16.86	$ 1,159	$ 16.24
Total	$ 2,302	$ 1,529	$ 1,830	$ 1,477

4. Inventories, net

At September 30, 2017 and December 31, 2016, inventories, net consisted of the following:

	2017	2016
	(in thousands)	
Stockpiles - underground mine	$ 809	$ 84
Stockpiles - open pit mine	53	288
Concentrates and doré	1,249	1,881
Materials and supplies (1)	7,779	6,693
Total	$ 9,890	$ 8,946

(1) Net of reserve for obsolescence of $637 at September 30, 2017 and December 31, 2016.

5. Income Taxes

The Company recorded income tax expense of $3.1 million and $7.0 million for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2016, the Company recorded income tax expense of $0.8 million and $6.5 million, respectively.

In 2015, the Mexican government approved a 2016 Federal Revenue Act that provides tax incentives, including tax credits on Mexican Excise Duty (a.k.a., IEPS), for the acquisition of combustible fossil fuels to be used in productive processes. The Company’s Mexican operations utilize a significant amount of diesel fuel for power generation that qualifies for such tax credits. These tax credits can be applied against income taxes payable, as well as other income tax withholdings during the year. In the three and nine months ended September 30, 2017, the Company recorded $1.0 million and $2.6 million, respectively, of fuel tax credits to offset production costs and such credits were applied against the income tax payable. During the three and nine months ended September 30, 2016, the Company recorded $0.6 million and $2.3 million, respectively, of fuel tax credits to offset production costs and such credits were applied against the income tax payable and other taxes payable.

The Company has asserted permanent reinvestment of all Mexico undistributed earnings as of September 30, 2017. The impact of the planned annual dividends for 2017, 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 planned annual dividends from our Mexican subsidiary as well as differences in statutory rates for income and mining taxes in Mexico.

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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 are available for deduction. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment. Except as noted in the following paragraph, as of September 30, 2017, the Company believes it has sufficient positive evidence to conclude that its federal and foreign deferred tax assets are more likely than not to be realized. The Company has determined that the realization of its state deferred tax assets is not more likely that not to be realized and has a valuation allowance offsetting its state deferred tax assets.

As a result of the adoption of ASU 2016-09 in the first quarter of 2017, excess tax benefits and tax deficiencies will be prospectively classified to the statement of operations instead of additional paid-in capital. Upon adoption, the Company recorded a $4.2 million deferred tax asset related to previously unrecognized foreign tax credits but placed a valuation allowance against the full amount of the deferred tax asset due to the Company’s assessment of the realizability of these foreign tax credits. Thus, no net impact to the financial statements was generated as a result of adoption of ASU 2016-09. The Company's effective tax rate for the three and nine months ended September 30, 2017 was not materially impacted by the adoption of ASU 2016-09.

As of September 30, 2017, the Company believes that it has no liability for uncertain tax positions.

6. Prepaid Expenses and Other Current Assets

At September 30, 2017 and December 31, 2016, prepaid expenses and other current assets consisted of the following:

	2017	2016
	(in thousands)	
Advances to suppliers	$ 175	$ 122
Prepaid insurance	821	531
Vendor deposits	245	218
IVA taxes receivable, net	69	489
Other current assets	512	227
Total	$ 1,822	$ 1,587

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7. Property, Plant and Mine Development, net

At September 30, 2017 and December 31, 2016, property, plant and mine development, net consisted of the following:

	2017	2016
	(in thousands)	
Asset retirement costs	$ 637	$ 637
Construction-in-progress	8,670	586
Furniture and office equipment	1,632	1,580
Land	242	230
Light vehicles and other mobile equipment	2,072	1,914
Machinery and equipment	21,530	20,293
Mill facilities and infrastructure	9,847	9,643
Mineral interests and mineral rights (1)	17,658	19,413
Mine development	53,825	42,951
Software and licenses	1,678	1,624
Subtotal (2)	117,791	98,871
Accumulated depreciation and amortization	(38,344)	(28,812)
Total	$ 79,447	$ 70,059

(1) During the three months ended September 30, 2017, the Company revised its temporary book and tax differences in the basis of its Isabella Pearl property, which resulted in a $4.2 million decrease in property, plant and mine development, net and a corresponding increase in deferred tax assets, net.
(2) Includes accrued capital expenditures of $0.5 million and nil at September 30, 2017 and December 31, 2016, respectively.

The Company recorded depreciation and amortization expense of $3.9 million and $10.6 million for the three and nine months ended September 30, 2017, respectively. The Company recorded depreciation and amortization expense of $3.3 million and $9.3 million for the three and nine months ended September 30, 2016, respectively.

8. Accrued Expenses and Other Current Liabilities

At September 30, 2017 and December 31, 2016, accrued expenses and other current liabilities consisted of the following:

	2017	2016
	(in thousands)	
Accrued insurance	$ 433	$ 381
Accrued royalty payments	1,465	1,043
Dividends payable	95	94
Other payables	172	8
Total	$ 2,165	$ 1,526

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9. Reclamation and Remediation

The Company's reclamation and remediation obligations primarily relate to the Aguila Project. The following table presents the changes in reclamation and remediation obligations for the nine months ended September 30, 2017 and year ended December 31, 2016:

	2017	2016
	(in thousands)	
Reclamation liabilities – balance at beginning of period	$ 1,907	$ 2,192
Changes in estimate	10	82
Foreign currency exchange loss (gain)	249	(367)
Reclamation liabilities – balance at end of period	2,166	1,907
Asset retirement obligation – balance at beginning of period	518	623
Changes in estimate	-	(21)
Accretion expense	35	23
Foreign currency exchange loss (gain)	71	(107)
Asset retirement obligation – balance at end of period	624	518
Total period end balance	$ 2,790	$ 2,425

10. Loan Payable

On August 8, 2017, the Company entered into a 48-month loan agreement in the amount of $2.4 million for the purchase of certain equipment. The loan bears annual interest of 4.48%, is secured by the equipment, and requires monthly principal and interest payments of $0.05 million. As of September 30, 2017, there is an outstanding balance of $2.4 million. Scheduled minimum repayments are $0.2 million in 2017, $0.6 million in 2018, $0.6 million in 2019, $0.6 million in 2020, and $0.4 million in 2021. The Company is subject to a repayment penalty, ranging from 1% to 3% of the outstanding loan balance at time of full repayment, depending of time of repayment.

11. Commitments and Contingencies

As of September 30, 2017, the Company had outstanding cancellable equipment purchase contracts totaling $7.2 million. The contracts require payments during the equipment construction periods and the Company is required to reimburse the vendors for all costs up to the cancellation date, if cancelled.

12. Shareholders' Equity

The Company declared and paid $0.9 million and $0.8 million of dividends during the nine months ended September 30, 2017 and 2016, respectively. On October 26, 2017, the Board of Directors declared a dividend on common stock totaling $0.1 million payable in November 2017.

On January 6, 2017, the Company issued 59,642 shares of common stock as partial consideration for additional mineral rights for its Isabella Pearl project. At the time of issuance, the shares were valued at $5.03 per share, for an aggregate value of $0.3 million.

On January 17, 2017, the Company issued 186,568 shares of common stock as partial consideration for mineral rights at the East Camp Douglas property. At the time of issuance, the shares were valued at $5.36 per share, for an aggregate value of $1.0 million.

13. Equity Incentive Plans

The Company maintains an Equity Incentive Plan ("Incentive Plan") that provides for the issuance of up to 5 million shares of common stock (plus additional shares that are terminated or forfeited under the previous equity plan) in the form of stock-based awards. The Incentive Plan was adopted in April 2016 and became effective in June 2016 and replaced the Amended and Restated Stock Option and Stock Grant Plan.

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During the nine months ended September 30, 2017, a total of 78,400 restricted stock units ("RSUs") vested and shares were issued with an intrinsic value $0.3 million and a fair value of $0.4 million.

A total of 341,000 options with a term of 10 years were granted during the nine months ended September 30, 2017, of which 37,000 vested immediately and the remainder vest over a three year period. A total of 105,945 restricted stock units were granted during the nine months ended September 30, 2017, of which 14,964 vest within six months and the remainder vest over a three year period.

Stock-based compensation expense for stock options and RSUs is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Stock options	$ 361	$ 410	$ 625	$ 896
Restricted stock units	133	101	252	101
Total	$ 494	$ 511	$ 877	$ 997

Total stock-based compensation related to stock options and RSUs has been allocated between production costs, general and administrative expenses, and exploration expense as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Production costs	$ 37	$ 55	$ 66	$ 172
General and administrative expenses	429	450	769	819
Exploration expense	28	6	42	6
Total	$ 494	$ 511	$ 877	$ 997

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14. Embedded Derivatives

Concentrate sales contracts contain embedded derivatives due to the provisional pricing terms for unsettled shipments. At the end of each reporting period, the Company records an adjustment to accounts receivable and revenue to reflect the mark-to-market adjustments for outstanding provisional invoices based on metal forward prices. Please see Note 17 for additional information.

The following table summarizes the Company's unsettled sales contracts at September 30, 2017 with the quantities of metals under contract subject to final pricing occurring through November 2017:

	Gold (ounces)	Silver (ounces)	Copper (tonnes)	Lead (tonnes)	Zinc (tonnes)
Under contract	6,728	512,105	477	1,565	6,717
Average forward (price per ounce or tonne)	$ 1,283	$ 17.05	$ 6,133	$ 2,296	$ 2,824

15. Other Expense (Income), net

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Unrealized currency exchange loss	$ 165	$ 259	$ 138	$ 57
Realized currency exchange (gain) loss	(111)	(44)	882	(183)
Unrealized gain from gold and silver rounds/bullion, net (1)	(111)	(93)	(267)	(925)
Loss (gain) from sale of investments, net (1)	-	49	-	(351)
Loss on disposal of fixed assets	163	9	462	523
Gain on insurance reimbursement	-	-	-	(620)
Write down of materials and supplies inventory	-	-	-	102
Other expense (income)	4	(106)	(32)	227
Total	$ 110	$ 74	$ 1,183	$ (1,170)

(1) Gains and losses due to changes in the fair value are non-cash in nature until such time that they are realized through cash transactions. For additional information regarding the fair value measurements and investments, please see Note 17.

16. Net Income per Common Share

Basic earnings per common share is calculated based on the weighted average number of common shares outstanding for the period. Diluted earnings per common 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, would 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 the Company's restricted stock units are considered to be dilutive.

The effect of the Company's dilutive securities is calculated using the treasury stock method and only those instruments that result in a reduction in net income per common share are included in the calculation. Options to purchase 3.1 million and 3.7 million shares of common stock at weighted average exercise prices of $11.44 and $10.32 were outstanding at September 30, 2017 and 2016, respectively, but were not included in the computation of diluted weighted average common shares outstanding, as the exercise price of the options exceeded the average price of the Company's common stock during those periods, and therefore are anti-dilutive.

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Basic and diluted net income per common share is calculated as follows:

	Three months ended September 30, 2017	2016	Nine months ended September 30, 2017	2016
Net income (in thousands)	$ 4,581	$ 1,594	$ 9,821	$ 7,999
Basic weighted average shares of common stock outstanding	56,888,115	55,781,382	56,841,897	54,994,430
Dilutive effect of stock-based awards	567,690	1,816,010	775,133	594,877
Diluted weighted average common shares outstanding	57,455,805	57,597,392	57,617,030	55,589,307
Net income per share:				
Basic	$ 0.08	$ 0.03	$ 0.17	$ 0.15
Diluted	$ 0.08	$ 0.03	$ 0.17	$ 0.14

17. 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

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).

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. The following table sets forth certain of the Company's assets measured at fair value by level within the fair value hierarchy as of September 30, 2017 and December 31, 2016:

	2017	2016	Input Hierarchy Level
	(in thousands)		
Cash and cash equivalents:			
Bank deposits	$ 15,832	$ 14,166	Level 1
Gold and silver rounds/bullion	3,831	3,307	Level 1
Accounts receivable:			
Receivables from provisional concentrate sales	3,664	630	Level 2
	$ 23,327	$ 18,103	

Cash and cash equivalents consist primarily of cash deposits and are valued at cost, which approximates fair value. Gold and silver rounds/bullion consist of precious metals used for investment purposes and in the dividend program which are valued using quoted market prices. Please see Note 3 for additional information. 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, it 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 contain embedded derivatives due to the provisional pricing terms for unsettled shipments. At the end of each reporting period, the Company records an adjustment to accounts receivable and revenue to reflect the mark-to-market adjustments for outstanding provisional invoices based on the forward prices. Please see Note 14 for additional information.

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18. Supplementary Cash Flow Information

Other operating adjustments and write-downs within the net cash provided by operations on the statement of cash flows for the nine months ended September 30, 2017 and 2016 consisted of the following:

	2017	2016
	(in thousands)	
Unrealized gain on gold and silver rounds/bullion	$ (267)	$ (925)
Unrealized foreign currency exchange loss	138	57
Gain on sale of investments	-	(351)
Loss on disposition of fixed assets	462	523
Increase in reserve for inventory obsolescence	-	102
Other	59	63
Total other operating adjustments	$ 392	$ (531)

19. Segment Reporting

The Company has organized its operations into two geographic regions. The geographic regions include Oaxaca, Mexico and Nevada, U.S.A. and represent the Company's operating segments. During the first quarter of 2017, the Company began to make decisions about resources to be allocated to the operating segments. As a result, these operating segments represent the Company's reportable segments. The prior periods have been conformed to reflect the change in presentation. The Company's business activities that are not considered operating segments are included in Corporate and Other.

The financial information relating to the Company's segments is as follows (in thousands):

	Mexico	Nevada	Corporate and Other	Consolidated
Three months ended September 30, 2017				
Revenue	$ 31,122	$ -	$ -	$ 31,122
Exploration expense	446	976	35	1,457

	Mexico	Nevada	Corporate and Other	Consolidated
Capital expenditures	5,869	2,274	-	8,143

	Mexico	Nevada	Corporate and Other	Consolidated
Three months ended September 30, 2016				
Revenue	$ 21,367	$ -	$ -	$ 21,367
Exploration expense	488	315	78	881
Capital expenditures	2,342	3	21	2,366

	Mexico	Nevada	Corporate and Other	Consolidated
Nine months ended September 30, 2017				
Revenue	$ 76,849	$ -	$ -	$ 76,849
Exploration expense	1,050	2,253	112	3,415
Capital expenditures (1)	15,983	8,618	9	24,610

	Mexico	Nevada	Corporate and Other	Consolidated
Nine months ended September 30, 2016				
Revenue	$ 64,968	$ -	$ -	$ 64,968
Exploration expense	1,094	710	223	2,027
Capital expenditures (2)	9,971	35	167	10,173

(1) Includes an increase in accrued capital expenditures of $510 and non-cash additions of $3,718; consolidated capital expenditures on a cash basis were $20,382.

(2) Includes a decrease in accrued capital expenditures of $2,764 and a non-cash addition of $300; consolidated capital expenditures on a cash basis were $12,637.

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Total asset balances, excluding intercompany balances at September 30, 2017 and December 31, 2016 are as follows:

	2017	2016
	(in thousands)	
Mexico	$ 93,406	$ 79,677
Nevada	24,427	15,122
Corporate and Other	17,268	23,644
Consolidated	$ 135,101	$ 118,443

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 and nine months ended September 30, 2017 and compares those results to the three and nine months ended September 30, 2016. It also analyzes our financial condition at September 30, 2017 and compares it to our financial condition at December 31, 2016. This discussion should be read in conjunction with the management's discussion and analysis and the audited consolidated financial statements and footnotes for the year ended December 31, 2016 contained in our annual report on Form 10-K for the year ended December 31, 2016.

The discussion also presents certain financial measures that are not prepared in accordance with U.S. Generally Accepted Accounting Principles ("non-GAAP") but which are important to management in its evaluation of our operating results and 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 and development of the new Mirador Mine on the Alta Gracia Project within our Oaxaca Mining Unit. Our processing facilities at the Aguila Project produce doré and 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. Additionally, we are focused on exploration and advancement of our Nevada properties, including our Isabella Pearl Project which is in advanced stages of engineering and permitting.

In our financial statements, we report the sale of precious and base metals as revenue and we periodically review our revenue streams to ensure that this treatment remains appropriate.

Precious metal gold equivalent, used periodically throughout this discussion, 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 cash cost per ounce measures.

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Highlights

Highlights for the third quarter of 2017 are included below and discussed further in our Results of Operations:

- Ending working capital was $23.3 million;
- Cash balance was $15.8 million;
- Net income was $4.6 million or $0.08 per share;
- Total cash cost after by-product credits per precious metal gold equivalent ounce sold was $2;
- Total all-in sustaining cost per precious metal gold equivalent ounce sold was $639.

Exploration and Development Activities

Exploration activities are performed on our portfolio of exploration properties in Oaxaca, Mexico and Nevada, U.S.A. All of the properties that make up our Oaxaca Mining Unit are located along what is known as the San Jose structural corridor, which runs north 70 degrees west. Our properties comprise 55 continuous kilometers of this structural corridor which spans three historic mining districts in Oaxaca. Our Nevada Mining Unit properties are in close proximity to each other as well as other major gold deposits in the Walker Lane Mineral Belt which are known for their significant and high-grade gold-silver production from historic mines.

Oaxaca Mining Unit, Mexico

The Aguila Project: Our mine activities during the third quarter of 2017 continued to focus on development and ore extraction from the Arista and Switchback vein systems. Exploration activities during the quarter mainly focused on underground exploration drilling at the Switchback vein system in the Arista Mine. The Switchback drilling program continued to target further expansion and delineation of the multiple high-grade parallel veins for reserve definition, expansion and mine plan optimization. The Switchback vein system remains open on strike and vertical extent. Eight underground diamond drill holes totaling 2,676 meters were completed during the third quarter of 2017. Also during the third quarter, data compilation, review and field studies were conducted in a prospective exploration target area located in the southern portion of the Aguila Project.

Alta Gracia property: Mirador Mine development and access to previously identified mineralization at Alta Gracia continued during the third quarter of 2017. Exploration activities during the quarter included 1) interpretation of results from surface drilling completed earlier this year, 2) surveying, detailed geological mapping, and rock chip channel sampling of Alta Gracia historic underground workings, and 3) construction of a drilling access road to an exploration target area on the Alta Gracia property.

Margaritas property: During the third quarter of 2017, interpretation of results from previous surface drilling, surveying, detailed geological mapping and rock chip channel sampling were conducted for the Margaritas property.

Nevada Mining Unit, U.S.A.

Isabella Pearl Project: Project permitting continued during the third quarter. Our goal remains to advance the project into production at the earliest possible date, subject to permit timing and funding. We are targeting the production of gold doré from a potential open pit heap leach operation. We have received Nevada Department of Environmental Protection approvals and are now awaiting the Bureau of Land Management regulatory permit approvals to move the project forward. During the quarter, reconnaissance geological mapping and rock chip sampling delineated a new, surface high-grade gold target area located along strike to the northwest of the Isabella Pearl deposit currently targeted for development.

Mina Gold property: During the third quarter of 2017, we completed fourteen reverse circulation drill holes totaling 1,900 meters on the Mina Gold property. This surface drilling program targeted expansion to depth of known surface high-grade gold mineralization on our patented claims. Additional reverse circulation drilling, environmental baseline studies, and a preliminary engineering evaluation are also targeted for the Mina Gold property during the fourth quarter of 2017 and early 2018.

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Gold Mesa property: Reverse circulation drilling continued at Gold Mesa during the third quarter of 2017. The program continued to target expansion of several areas of surface and near surface high-grade gold mineralization discovered during previous drilling programs. During the quarter, twelve shallow holes totaling 356 meters were drilled on the Gold Mesa property.

East Camp Douglas property: We continued to review historical geological, exploration and mining data on the East Camp Douglas property during the third quarter of 2017. A systematic rock chip sampling program covering a more than one square kilometer area of gold-bearing silicified volcanic rocks on the East Camp Douglas property commenced during the quarter.

Results of Operations

The following table summarizes our results of operations:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Sales, net	$ 31,122	$ 21,367	$ 76,849	$ 64,968
Mine gross profit	11,201	5,363	26,843	21,210
General and administrative expenses	1,950	2,027	5,437	5,875
Exploration expenses	1,457	881	3,415	2,027
Other expense (income)	110	74	1,183	(1,170)
Income before income taxes	7,684	2,381	16,808	14,478
Provision for income taxes	3,103	787	6,987	6,479
Net income	$ 4,581	$ 1,594	$ 9,821	$ 7,999

Sales, net

Metal sales of $31.1 million for the third quarter of 2017 increased by $9.8 million, or 46%, when compared to the same period in 2016. Our increase in net sales was primarily a result of higher volume and prices for base metals and lower treatment charges due to more favorable contract terms. For the three months ended September 30, 2017, average realized prices for base metals increased from the same period in 2016 as follows: copper by 32% to $6,341 per tonne, lead by 23% to $2,349 per tonne, and zinc by 21% to $2,936 per tonne. During the same period, the average metal prices for gold and silver decreased by 4% and 18%, respectively, from 2016 prices.

Metal sales for the nine months ended September 30, 2017 were $76.8 million as compared to $65.0 million for the same period of 2016, representing an $11.8 million increase. The increase is primarily attributable to an increase in base metal realized prices and volumes and lower treatment charges, partially offset by lower precious metals sales.

Please see the Production and Sales Statistics table below for additional information regarding our mineral sales statistics.

Production

For the third quarter of 2017, gold and silver production were 6,465 ounces and 392,153 ounces, respectively, as compared to 6,066 and 431,335 ounces over the same period in 2016. Gold grade for the third quarter increased by 12% over the same period in 2016 while silver grades decreased by 9%. Production during the quarter was impacted by higher grades of gold and base metals as a function of the particular areas of the mine where the ore was extracted. The development of a high-grade area in the Arista vein system was also completed during the quarter which allowed for higher-grade ore feed.

For the nine months ended September 30, 2017, the Company produced 18,908 and 1,217,713 ounces of gold and silver, respectively, as compared to 22,540 and 1,437,975 ounces of gold and silver, respectively, over the same period in 2016. The decrease in gold and silver production over the nine month period compared to that of 2016 was the result

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of lower average grades processed as a result of the particular areas being developed and mined. Ore grades in the Arista Mine vary depending on the mining locations and mining techniques being utilized during a particular quarter or quarters. Fourth quarter 2017 production is expected to benefit from the mining of higher-grade areas and veins within the Arista Mine.

During the quarter ended September 30, 2017, we processed 1,346 ore tonnes per day compared to 1,278 ore tonnes per day for the same period in 2016, representing an increase of 5%. During the quarter, the agitated leach plant produced at approximately 48% of our targeted throughput of 150 tonnes per day, which is the average throughput level targeted for the remainder of 2017 and into early 2018. Lower than plan mill throughput and lower silver grades resulted in lower than anticipated silver production from Mirador for the quarter. Going forward, production is expected to improve as we develop more working faces, mine additional areas, and continue to optimize the recently commissioned leach plant.

On a precious metal gold equivalent basis, our mill production totaled 11,637 ounces and 35,630 ounces for the third quarter and first nine months of 2017, respectively, compared to 12,763 ounces and 42,281 ounces for same periods of 2016. Please see the Production and Sales Statistics table below for additional information regarding our mineral production statistics.

During the three months ended September 30, 2017, we sold 5,672 gold ounces and 371,754 silver ounces at a total cash cost per ounce, after by-product credits, of $2 as a result of strong base metal sales during the quarter. Please see Non-GAAP Measures below for additional information concerning the cash cost per ounce measures.

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The following Production and Sales Statistics table summarizes certain information about our mining operations for the periods indicated:

Production and Sales Statistics

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Milled				
Tonnes Milled (1)	114,678	113,945	329,798	331,423
Tonnes Milled per Day (2)	1,346	1,278	1,282	1,269
Grade				
Average Gold Grade (g/t)	2.09	1.86	2.10	2.36
Average Silver Grade (g/t)	117	128	125	146
Average Copper Grade (%)	0.35	0.24	0.32	0.31
Average Lead Grade (%)	1.73	1.18	1.44	1.18
Average Zinc Grade (%)	5.04	3.45	4.19	3.71
Recoveries				
Average Gold Recovery (%)	84	89	85	90
Average Silver Recovery (%)	91	92	92	92
Average Copper Recovery (%)	72	78	76	77
Average Lead Recovery (%)	73	74	75	72
Average Zinc Recovery (%)	80	82	83	84
Mill production (before payable metal deductions) (3)				
Gold (ozs.)	6,465	6,066	18,908	22,540
Silver (ozs.)	392,153	431,335	1,217,713	1,437,975
Copper (tonnes)	291	213	804	777
Lead (tonnes)	1,449	1,000	3,583	2,847
Zinc (tonnes)	4,628	3,232	11,447	10,306
Payable metal sold				
Gold (ozs.)	5,672	6,683	17,521	21,096
Silver (ozs.)	371,754	410,337	1,121,870	1,337,668
Copper (tonnes)	328	200	769	739
Lead (tonnes)	1,389	893	3,299	2,629
Zinc (tonnes)	4,326	2,480	9,452	8,503
Average metal prices realized (4)				
Gold ($ per oz.)	1,289	1,339	1,262	1,271
Silver ($ per oz.)	17.00	20.79	17.33	17.45
Copper ($ per tonne)	6,341	4,791	6,042	4,577
Lead ($ per tonne)	2,349	1,908	2,293	1,808
Zinc ($ per tonne)	2,936	2,421	2,790	2,012
Precious metal gold equivalent ounces produced (mill production) (3)				
Gold Ounces	6,465	6,066	18,908	22,540
Gold Equivalent Ounces from Silver	5,172	6,697	16,722	19,741
Total Precious Metal Gold Equivalent Ounces	11,637	12,763	35,630	42,281
Precious metal gold equivalent ounces sold				

Gold Ounces	5,672	6,683	17,521	21,096
Gold Equivalent Ounces from Silver	4,901	6,371	15,411	18,364
Total Precious Metal Gold Equivalent Ounces	10,573	13,054	32,932	39,460
Total cash cost before by-product credits per precious metal gold equivalent ounce sold (5)	$ 1,709	$ 1,287	$ 1,353	$ 1,152
Total cash cost after by-product credits per precious metal gold equivalent ounce sold (5)	$ 2	$ 623	$ 181	$ 511
Total all-in sustaining cost per precious metal gold equivalent ounce sold (5)	$ 639	$ 757	$ 664	$ 765
Total all-in cost per precious metal gold equivalent ounce sold (5)	$ 756	$ 902	$ 768	$ 919

(1) For the third quarter of 2017 and 2016 and first nine months of 2017 and 2016, this includes 2,108, 11,459, 42,079, and 38,764 tonnes, respectively of open pit ore.

(2) Based on actual days the mill operated during the period.

(3) Mill production represents metal contained in concentrates produced at the mill, which is before payable metal deductions are levied by the buyer of our concentrates. Payable metal deduction quantities are defined in our contracts with the buyer of our concentrates and represent an estimate of metal contained in the concentrates which the buyer deducts from payment. There are inherent limitations and differences in the sampling method and assaying of estimated metal contained in concentrates that are shipped, and those contained metal estimates are derived from sampling methods and assaying throughout the mill production process. We monitor these differences to ensure that precious metal mill production quantities are materially correct.

(4) Average metal prices realized vary from the market metal prices due to final settlement adjustments from our provisional invoices when they are settled. Our average metal prices realized will therefore differ from the market average metal prices in most cases.

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(5) For a reconciliation of this non-GAAP measure to total mine cost of sales, which is the most comparable U.S. GAAP measure, please see Non-GAAP Measures.

Other Financial Results

Mine gross profit. For the three and nine months ended September 30, 2017, mine gross profit increased by $5.8 million or 109% and $5.6 million or 27%, respectively, compared to the same periods in 2016. The increase was due to increased metals sales as a result of higher realized base metal prices and lower treatment and refining charges as a result of more favorable contract terms.

General and administrative expenses. For the quarter and nine months ended September 30, 2017, general and administrative expenses totaled $2.0 million and $5.4 million, respectively, compared to $2.0 million and $5.9 million, respectively, for the same periods in 2016. The decrease in the nine months ended September 30, 2017 of $0.5 million was due to a lower IT support costs and lower tax and audit fees.

Exploration expenses. For the three and nine months ended September 30, 2017, exploration expenses totaled $1.5 million and $3.4 million as compared to $0.9 million and $2.0 million for the three and nine months ended September 30, 2016, respectively. The $0.6 and $1.4 million increase for the three and nine months ended September 30, 2017, respectively, was primarily the result of increased spending at our Isabella Pearl property.

Other expense (income). For the three and nine months ended September 30, 2017, we recorded other expense of $0.1 million and $1.2 million, respectively, compared to other expense of $0.1 million and other income of $1.2 million for the three and nine months ended September 30, 2016, respectively. The $2.4 million change in nine months ended September 30, 2017 was a result of a decrease in unrealized foreign currency gains as the Mexican peso strengthened in 2017 as compared to 2016. Additionally, we recognized no gains on investments in 2017 as the Company sold its investments in 2016. Please see Note 15 to the Condensed Consolidated Financial Statements for additional information.

Provision for income taxes. For the three and nine months ended September 30, 2017, our provision for income tax was $3.1 million and $7.0 million, respectively, compared to $0.8 million and $6.5 million for the three and nine months ended September 30, 2016, respectively. The increase of $2.3 in taxes for the third quarter of 2017 is commensurate with our increase in income for period as compared to the same period in 2016. Please see Note 5 to the Condensed Consolidated Financial Statements for additional information.

Non-GAAP Measures

Throughout this report, we have provided information prepared or calculated according to U.S. GAAP and have referenced some non-GAAP performance measures which we believe will assist with understanding the performance of the business. These measures are based on precious metal gold equivalent ounces sold and include cash cost before by-product credits per ounce, total cash cost after by-product credits per ounce, total all-in sustaining cost per ounce (“AISC”) and all-in cost per ounce (“AIC”). Because the non-GAAP performance measures do not have any standardized meaning prescribed by U.S. GAAP, they may not be comparable to similar measures presented by other companies. Accordingly, these measures should not be considered in isolation, or as a substitute for, measures of performance prepared in accordance with U.S. GAAP. These non-GAAP measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP.

Total cash cost, after by-product credits, is a measure developed by the Gold Institute in an effort to provide a uniform standard for comparison purposes. The guidance was first issued in 1996 and revised in November 1999. AISC and AIC are calculated based on guidance from the World Gold Council issued in June 2013.

Total cash cost before by-product credits includes all direct and indirect production costs related to our production of metals (including mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and site

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general and administrative costs) less stock-based compensation allocated to production costs plus treatment and refining costs.

Total cash cost after by-product credits includes total cash cost before by-product credits less by-product credits, or revenues earned from base metals.

AISC includes total cash cost after by-product credits plus other costs related to sustaining production, including sustaining capital expenditures. We determined sustaining capital expenditures as those capital expenditures that are necessary to maintain current production and execute the current mine plan.

AIC includes all-in sustaining costs plus non-sustaining capital expenditures, exploration expense, and allocated corporate general and administrative expenses related to the Oaxaca Mining Unit. Capital expenditures and exploration expenses related to projects in our Oaxaca Mining Unit are classified as non-sustaining. Exploration and capital expenditures to develop new properties outside our Oaxaca Mining Unit are excluded from this calculation.

Cash cost before by-product credits per ounce, total cash cost after by-product credits per ounce, AISC and AIC are calculated by dividing the relevant costs, as determined using the cost elements noted above, by precious metal gold equivalent ounces sold for the periods presented.

Reconciliations to U.S. GAAP

The following table provides a reconciliation of total cash cost after by-product credits to total mine cost of sales (a U.S. GAAP measure) as presented in the Condensed Consolidated Statements of Operations:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Total cash cost after by-product credits	$ 30	$ 8,126	$ 5,985	$ 20,226
Treatment and refining charges	(1,987)	(4,082)	(4,997)	(11,078)
By-product credits	18,043	8,668	38,580	25,250
Depreciation and amortization	3,762	3,189	10,271	9,049
Reclamation and remediation	36	48	101	139
Stock-based compensation allocated to production costs	37	55	66	172

Total mine cost of sales	$ 19,921	$ 16,004	$ 50,006	$ 43,758

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The following table presents a reconciliation of the non-GAAP measures of total cash cost before by-product credits, total cash cost after by-product credits and AISC to AIC:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)			
Total cash cost before by-product credits (1)	$ 18,073	$ 16,794	$ 44,565	$ 45,476
By-product credits (2)	(18,043)	(8,668)	(38,580)	(25,250)
Total cash cost after by-product credits	30	8,126	5,985	20,226
Sustaining capital expenditures	6,737	1,750	15,908	10,040
Total all-in sustaining cost	6,767	9,876	21,893	30,266
Non-sustaining capital expenditures	-	611	9	2,597
Non-sustaining general and administrative expenses	789	789	2,367	2,367
Non-sustaining exploration expense	447	488	1,052	1,095
Total all-in cost	$ 8,003	$ 11,764	$ 25,321	$ 36,325
Precious metal gold equivalent ounce sold (3)	10,573	13,054	32,932	39,460
Total cash cost before by-product credits per precious metal gold equivalent ounce sold	$ 1,709	$ 1,287	$ 1,353	$ 1,152
By-product credits per precious metal gold equivalent ounce sold	(1,707)	(664)	(1,172)	(641)
Total cash cost after by-product credits per precious metal gold equivalent ounce sold	2	623	181	511
Other sustaining expenditures per precious metal gold equivalent ounce sold	637	134	483	254
Total all-in sustaining cost per precious metal gold equivalent ounce sold	639	757	664	765
Non-sustaining expenditures per precious metal gold equivalent ounce sold	117	145	104	154
Total all-in cost per precious metal gold equivalent ounce sold	$ 756	$ 902	$ 768	$ 919

(1) Production cost less stock-based compensation allocated to production cost plus treatment and refining charges.
(2) Please see the tables below for a summary of our by-product revenue and by-product credit per precious metal equivalent ounces sold.
(3) Gold ounces sold, plus gold equivalent ounces of silver ounces sold converted to gold ounces using our realized gold price per ounce to silver price per ounce ratio.

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The following tables summarizes our by-product revenue and by-product credit per precious metal gold equivalent ounce sold:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
By-product credits by dollar value:				
Copper sales	$ 2,080	$ 959	$ 4,646	$ 3,384
Lead sales	3,263	1,704	7,565	4,755
Zinc sales	12,700	6,005	26,369	17,111
Total sales from by-products	$ 18,043	$ 8,668	$ 38,580	$ 25,250

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
By-product credits per precious metal gold equivalent ounce sold:				
Copper sales	$ 197	$ 73	$ 141	$ 86
Lead sales	309	131	230	121
Zinc sales	1,201	460	801	434
Total by-product credits per precious metal gold ounces sold	$ 1,707	$ 664	$ 1,172	$ 641

Liquidity and Capital Resources

As of September 30, 2017, we had working capital of $23.3 million, consisting of current assets of $36.1 million and current liabilities of $12.8 million. This represents an increase of $3.0 million from the working capital balance of $20.3 million at December 31, 2016. Our working capital balance fluctuates as we use cash to fund our operations, financing and investing activities, including exploration, mine development, income taxes and shareholder dividends.

Cash and cash equivalents increased $1.7 million to $15.8 million during the first nine months of 2017.

Net cash provided by operating activities of $23.5 million increased $6.0 million for the first nine months of 2017 compared to the same period in 2016, primarily due to an increase in net income.

Net cash used in investing activities of $20.6 million increased $8.4 million for the first nine months of 2017 compared to the same period in 2016 due to increased mine development in our Arista Mine and the purchase of additional mineral rights and equipment at our Nevada Mining Unit.

Net cash used in financing activities decreased $0.1 million for the first nine months of 2017 compared to the same period in 2016 primarily due to proceeds of the exercise of stock options and the early repayment of capital leases which occurred in 2016.

We believe that our liquidity and capital resources are adequate to fund our operations for the foreseeable future.

Accounting Developments

For a discussion of Recently Adopted and Recently Issued Accounting Pronouncements, please see Note 2 to the Condensed Consolidated Financial Statements.

Contractual Obligations

Please see Note 11 to the Condensed Consolidated Financial Statements.

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Critical Accounting Estimates

There have been no changes in our critical accounting estimates since December 31, 2016.

Forward-Looking Statements

This report contains or incorporates by reference "forward-looking statements," as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others:

- statements about our future exploration, permitting, and plans for development of our properties;
- statements concerning the benefits that we expect will result from our business activities and certain transactions that we contemplate or have completed, such as receipt of proceeds, decreased expenses and avoided expenses and expenditures; and
- statements of our expectations, beliefs, future plans and strategies, our targets, exploration activities, anticipated developments and other matters that are not historical facts.

These statements may be made expressly in this document or may be incorporated by reference from other documents that we will file with the SEC. You can find many of these statements by looking for words such as "believes," "expects," "targets," "anticipates," "estimates," or similar expressions used in this report or incorporated by reference in this report.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied in those statements. Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied. We caution you not to put undue reliance on these statements, which speak only as of the date of this report. Further, the information contained in this document or incorporated herein by reference is a statement of our present intention and is based on present facts and assumptions, which may change at any time and without notice, based on changes in such facts or assumptions.

Risk Factors Impacting Forward-Looking Statements

The important factors that could prevent us from achieving our stated goals and objectives include, but are not limited to, those set forth in other reports we have filed with the SEC, including our Form 10-K for the year ended December 31, 2016 and the following:

- Changes in the worldwide price for gold and/or silver;
- Volatility in the equities markets;
- Adverse results from our exploration or production efforts;
  - Producing at rates lower than those targeted;
- Political and regulatory risks;
- Weather conditions, including unusually heavy rains;
- Earthquakes or other unforeseen ground movements impacting mining or processing;
- Failure to meet our revenue or profit goals or operating budget;
- Decline in demand for our common stock;
- Downward revisions in securities analysts' estimates or changes in general market conditions;
- Technological innovations by competitors or in competing technologies;
- Investor perception of our industry or our prospects;

- Lawsuits;
- Actions by government central banks; and
- General economic trends.

We undertake no responsibility or obligation to update publicly these forward-looking statements, but may do so in the future in written or oral statements. Investors should take note of any future statements made by us or on our behalf.

ITEM 3: Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risks includes, but is not limited to, the following risks: changes in commodity prices, foreign currency exchange rates, provisional sales contract risks, and equity price risks. We do not use derivative financial instruments as part of an overall strategy to manage market risk; however, we may consider such arrangements in the future as we evaluate our business and financial strategy.

Commodity Price Risk

The results of our operations depend in large part upon the market prices of gold and silver, and to a lesser extent on base metal prices of copper, lead and zinc. Gold and silver prices fluctuate widely and are affected by numerous factors beyond our control. The level of interest rates, the rate of inflation, the stability of exchange rates, the world supply of and demand for gold, silver and other metals, among other factors, can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments. The price of gold and silver has fluctuated widely in recent years, and future price declines could cause a mineral project to become uneconomic, thereby having a material adverse effect on our business and financial condition. We have not entered into derivative contracts to protect the selling price for gold or silver. We may in the future more actively manage our exposure through derivative contracts or other commodity price risk management programs, although we have no intention of doing so in the near-term.

In addition to adversely affecting our reserve estimates, results of operations and/or our financial condition, declining gold and silver prices could require a reassessment of the feasibility of a project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause delays in the implementation of a project.

Foreign Currency Risk

Foreign currency exchange rate fluctuations can increase or decrease our costs to the extent we pay costs in currencies other than the U.S. dollar. We are primarily impacted by Mexican peso rate changes relative to the U.S. Dollar. When the value of the peso rises in relation to the U.S. Dollar, some of our costs in Mexico may increase, thus affecting our operating results. Alternatively, when the value of the peso drops in relation to the US Dollar, peso-denominated costs in Mexico will decrease in U.S. Dollar terms. These fluctuations do not impact our revenues since we sell our metals in U.S. dollars. Future fluctuations may give rise to foreign currency exposure, which may affect our financial results.

We have not utilized market-risk sensitive instruments to manage our exposure to foreign currency exchange rates but may in the future actively manage our exposure to foreign currency exchange rate risk.

Provisional Sales Contract Risk

We enter into concentrate sales contracts which, in general, provide for a provisional payment based upon provisional assays and prices. The provisionally priced sales contracts contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates determined at the average forward prices at the time of sale. The embedded derivative, which is the final settlement based on a future price, does not qualify for hedge accounting and the marked-to-market adjustments are

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recorded in net sales each period prior to final settlement. Please see Note 14 to the Condensed Consolidated Financial Statements for additional information.

Equity Price Risk

We have in the past sought and may in the future seek to acquire additional funding by sale of common stock and other equity. The price of our common stock has been volatile in the past and may also be volatile in the future. As a result, there is a risk that we may not be able to sell our common stock at an acceptable price should the need for new equity funding arise.

ITEM 4: Controls and Procedures

During the fiscal period covered by this report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the required time periods and are designed to ensure that information required to be disclosed in our reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

There were no changes that occurred during the three months ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 2:Unregistered Sales of Equity Securities and Use of Proceeds

(a) In September 2011, our Board of Directors authorized a share repurchase of up to $20.0 million with no pre-established end date. During the first nine months of 2017 we did not repurchase any shares of our common stock on the open market.

ITEM 6: Exhibits

The following exhibits are filed or furnished herewith:

Exhibit Number	Descriptions
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John A. Labate.
32*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid and John A. Labate.
101	Financial statements from the Quarterly Report on Form 10-Q of Gold Resource Corporation for the nine months ended September 30, 2017, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements.

*This document is not being "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the SEC shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Company has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	GOLD RESOURCE CORPORATION	
Dated: October 31, 2017		/s/ Jason D. Reid
	By:	Jason D. Reid, Chief Executive Officer and President
Dated: October 31, 2017		/s/ John A. Labate
	By:	John A. Labate, Chief Financial Officer