

GOLD RESOURCE CORP  
Form POS AM  
October 07, 2009

As filed with the Securities and Exchange Commission on October 6, 2009  
Registration No. 333-129321

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

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FORM S-1/A  
Post- Effective Amendment No. 5

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

GOLD RESOURCE CORPORATION  
(Name of small business issuer in its charter)

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Colorado	1041	84-1473173
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

222 Milwaukee Street, Suite 301, Denver, Colorado 80206  
(303) 320-7708  
(Address and telephone number of principal executive offices)

222 Milwaukee Street, Suite 301, Denver, Colorado 80206  
(Address of principal place of business or intended place of business)

William W. Reid, President  
Gold Resource Corporation  
222 Milwaukee Street, Denver, Colorado 80206  
(303) 320-7708  
(Name, address and telephone number of agent for service)

With a copy to:  
David J. Babiarz, Esq.  
Jessica M. Browne, Esq.  
Dufford & Brown, P.C.  
1700 Broadway, Suite 2100  
Denver, Colorado 80290-2101  
(303) 861-8013

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Approximate date of commencement of proposed sale to public: As soon as practical after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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EXPLANATORY NOTE

The registrant hereby files this fifth post-effective amendment to its registration statement on Form SB-2 (File No. 333-129321) as originally filed with the Securities and Exchange Commission on October 28, 2005. The amendment is filed to include information required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act").

The registrant previously paid a registration fee of \$1,929.19 in connection with the filing of the initial registration statement.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 6, 2009

PROSPECTUS

GOLD RESOURCE CORPORATION

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7,293,407 Shares  
of Common Stock  
Offered by  
Selling Shareholders

Certain of our shareholders identified in the section of this prospectus titled "SELLING SHAREHOLDERS" may offer and sell from time to time up to 7,293,407 shares of our common stock owned by those shareholders, their transferees, pledges, donees or successors in interest. The shares may be offered at prices prevailing in the market or at privately negotiated prices. We will not receive the proceeds from the sale of those shares. The selling shareholders may sell these securities to or through one or more underwriters, broker-dealers or agents, or directly to purchasers on a continuous or delayed basis. The names of any underwriters or agents will be included in a post-effective amendment to the registration statement of which this prospectus is a part, as required. See "PLAN OF DISTRIBUTION" on page 51 for additional information.

Our common stock currently trades over the counter and is quoted on the OTC Bulletin Board ("OTCBB") under the symbol "GORO." On October 5, 2009, the closing price of our common stock was \$7.35.

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Investing in our common stock involves risks that are described in the "RISK FACTORS" section beginning on page 4 of this prospectus.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of our common stock or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is \_\_\_\_\_, 2009

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Additional Information

This prospectus contains descriptions of certain contracts, agreements or other documents affecting our business. These descriptions are not necessarily complete. For the complete text of these documents, you can refer to the exhibits filed with the registration statement of which this prospectus is a part. (See "WHERE YOU CAN FIND MORE INFORMATION").

You should rely only on the information contained in this prospectus, or to which we have referred you. We have not authorized anyone to provide you with information other than as contained or referred to in this prospectus. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

Special Note Regarding Forward-Looking Statements

Please see the note under "RISK FACTORS" for a description of special factors potentially affecting forward-looking statements included in this prospectus

SUMMARY

The following summary highlights information contained elsewhere in this prospectus. It does not contain all of the information you should consider before investing in our stock. You should read the entire prospectus carefully, including the sections entitled “RISK FACTORS” and “FINANCIAL STATEMENTS.”

As used in this prospectus, unless the context requires otherwise, the terms “Gold Resource,” “we,” “our” or “us” refer to Gold Resource Corporation and where the context requires, our consolidated subsidiaries.

### Our Company

We are an exploration stage company organized in Colorado on August 24, 1998 to search for gold and silver. We currently have an interest in five properties located in the southern state of Oaxaca, Mexico. Our five properties are called the El Aguila property, the Las Margaritas property, the El Rey property, the Solaga property and the Alta Gracia property. Our exploration efforts and development activities to date are primarily focused on the El Aguila property and El Rey property. We have yet to commence exploration activity on the Las Margaritas property, the Solaga property or the Alta Gracia property.

We leased an interest in several mineral claims in 2002. We hold a 100% interest in these claims which total approximately 1,896 hectares (4,685 acres)<sup>1</sup> and which comprise the El Aguila property and Las Margaritas property. In response to what we perceive to be promising drilling results at the El Aguila property, we moved forward with our plans to develop this property for mineral production, which we now refer to as the “El Aguila Project.” We are nearing completion of the mill facility and other infrastructure required to commence production, including an access road and tailings impoundment facility. To date, we have committed or spent approximately \$22,000,000 on construction of a mill and an additional \$6,000,000 on infrastructure. We estimate we will spend an additional \$5,000,000 to complete the mill facility. We anticipate that the facility we are building will process 850 tonnes of ore per day through a flotation circuit and 150 tonnes of ore per day through an agitated leach circuit. We are estimating completion of the mill in 2009, but we cannot predict the exact date since the construction progress depends on the performance of multiple contractors.

We expect that mining in the first year of production will take place at the El Aguila near-surface mineralization open pit mine and have commenced pre-stripping of the open pit mine area. Mining in the second year is anticipated to come from another area of mineralized material we refer to as the La Arista vein, and will require development of an underground mine.

To date, at the El Aguila property, we have drilled approximately 373 holes totaling 53,476 meters (175,400 feet). We are continuing our exploration efforts on this property, in addition to expanding our exploration efforts at the El Rey property. Through mid-2009, we have drilled 48 holes totaling 5,293 meters (17,361 feet) at El Rey.

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<sup>1</sup> Please see the Glossary appearing at the end of the section titled “BUSINESS AND PROPERTIES” for a description of certain terms used in this prospectus, including conversion of metric units.

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Our operations in Mexico are conducted through our wholly-owned Mexican subsidiaries, Don David Gold, S.A. de C.V., Golden Trump S. A. de C.V. and Oaxaca Servicios Mineros, S.A. de C.V. All references to us or our company in this prospectus include our subsidiaries.

Our principal executive offices are located at 222 Milwaukee Street, Suite 301, Denver, Colorado 80206, and our telephone number is (303) 320-7708. We maintain a website at [www.goldresourcecorp.com](http://www.goldresourcecorp.com) and through a link on our website you can view the periodic filings that we make with the SEC. The information contained on our website is not a part of this prospectus.

### Recent Events

**Strategic Alliance.** In December 2008, we entered into a strategic alliance agreement with Hochschild Mining Holdings Limited (“Hochschild”), a Peruvian based precious metals producer operating primarily in the Americas. Pursuant to the terms of the strategic alliance agreement, we sold Hochschild 1,670,000 shares of our common stock for gross proceeds of \$5,010,000 in a private placement. We also granted Hochschild an 80-day option to purchase 4,330,000 additional shares of our common stock for gross proceeds of \$12,990,000, which was exercised on February 25, 2009. We also agreed, among other things, to offer Hochschild a right of first refusal to participate in future equity financings solicited by us prior to commencement of commercial production.

In June 2009, pursuant to its right of first refusal, Hochschild subscribed to purchase a total of 5,000,000 shares of our common stock for gross proceeds of \$20,000,000. We completed the transaction in two stages; the first closing for 1,250,000 shares occurred on June 30, 2009 and the second closing for the remaining 3,750,000 shares took place on July 20, 2009. We expect to use the proceeds of the second financing transaction with Hochschild to continue developing the El Aguila Project and for working capital. In addition, \$4,000,000 of the proceeds have been reserved to be used solely for additional exploration. See “BUSINESS AND PROPERTIES – Recent Developments” for additional information.

**Permitting.** In August 2009, we received the final federal permit from the Mexican government necessary to commence mining activity at the El Aguila Project. We expect to begin commercial mineral production in 2009.

### The Offering

Common Stock outstanding before the Offering	46,095,489 shares(1)(2)(3)
Common Stock outstanding after the Offering	46,095,489 shares(1)(2)(3)
Common Stock offered by the Selling Shareholders	7,293,407
Use of Proceeds	We will not receive any proceeds from the sale of common stock by the selling shareholders
Stock Symbol	“GORO” on the OTCBB

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(1) Adjusted to reflect a two for one stock split effective February 21, 2005. All references in this prospectus have been adjusted to reflect the results of that split.

(2) Excludes 3,500,000 shares of common stock underlying options which are presently exercisable.

(3) Includes shares to be offered by the selling shareholders.





## Risk Factors

An investment in our common stock is subject to a number of risks. Risk factors relating to our company include a history of operating losses, lack of proven or probable reserves, location of our properties in a foreign country and dependence on key personnel. Risk factors relating to our common stock include our limited trading market, lack of dividends and volatility of our stock price. See "RISK FACTORS" for a full discussion of these and other risks.

## Summary Financial Data

The following tables present certain selected historical consolidated financial data about our company. Historical consolidated financial information as of and for the years ended December 31, 2008 and 2007 has been derived from our consolidated financial statements, which have been audited by Stark Winter Schenkein & Co., LLP, our independent registered public accounting firm. The financial information for the six months ended June 30, 2009 and 2008 is unaudited. All amounts included in these tables and elsewhere in this prospectus are stated in United States dollars. You should read the data set forth below in conjunction with the section entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," our financial statements and related notes included elsewhere in this prospectus.

	Balance Sheet Data		
	June 30, 2009 (unaudited)	December 31, 2008	December 31, 2007
Cash and Cash Equivalents	\$ 6,122,813	\$ 3,534,578	\$ 22,007,216
Total Assets	7,460,091	4,781,018	22,557,576
Current Liabilities	1,113,987	1,753,285	768,452
Total Liabilities	1,113,987	1,753,285	768,452
Shareholders' Equity	6,346,104	3,027,733	21,789,124

	Operating Data				
	Six months ended June 30, 2009 (unaudited)		2008	Year ended December 31, 2007 2006	
Other Income	\$ 8,919	\$ 264,950	\$ 333,609	\$ 242,513	\$ 57,089
Property Exploration and Evaluation	1,982,993	2,838,461	8,171,396	5,711,190	528,851
Engineering and Construction	11,757,472	3,596,871	14,501,461	--	--
General and Administrative Expenses	3,636,467	2,731,939	3,552,007	2,539,604	2,096,961
Total costs and expenses	17,447,868	9,222,694	26,348,812	8,318,855	2,743,851
Net Comprehensive (Loss)	(17,365,983)	(9,015,752)	(25,951,667)	(8,166,281)	(2,667,218)
Net (Loss) per Share	\$ (0.44 )	\$ (0.26 )	\$ (0.76 )	\$ (0.28 )	\$ (0.13 )



## RISK FACTORS

Investment in our common stock involves a high degree of risk and could result in a loss of your entire investment. Prior to making an investment decision, you should carefully consider all of the information in this prospectus and, in particular, you should evaluate the risk factors set forth below. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also impair our business operations. The following information summarizes all material risks known to us as of the date of this prospectus.

### Risks Relating to Our Company

Since we have no operating history, investors have no basis to evaluate our ability to operate profitably. We were organized in 1998 but have had no revenue from operations since our inception. Our activities to date have been limited to organizational efforts, raising financing, acquiring mining properties, conducting limited exploration and preparation for production at the El Aguila Project. We have never produced gold or other metals and have received no revenue from operations to date. We face all of the risks commonly encountered by other businesses that lack an established operating history, including the need for additional capital and personnel, and intense competition. There is no assurance that our business plan will be successful. In particular, there can be no assurance that commercial production at our El Aguila Project will be achieved in the time frames estimated, at the rates and costs estimated, if at all.

We have a history of losses and may incur losses in the future. We have incurred losses since inception and may incur losses in the future. We incurred the following losses from operations during each of the following periods:

- Approximately \$17,448,000 for the six months ended June 30, 2009;
- Approximately \$26,349,000 for the year ended December 31, 2008; and
- Approximately \$8,319,000 for the year ended December 31, 2007.

We had an accumulated deficit of approximately \$58,000,000 as of June 30, 2009. We expect to continue to incur losses unless and until such time as one of our properties enters into commercial production and generates sufficient revenues to fund continuing operations.

We have no proven or probable reserves, and the probability of an individual prospect having reserves is extremely remote. Therefore, in all likelihood, our properties do not contain any reserves, and any funds spent by us on exploration or development could be lost. We have not established the presence of any proven or probable mineral reserves, as defined by the SEC, at any of our properties. The SEC has defined a "reserve" as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Any mineralized material discovered by us should not be considered proven or probable reserves.

In order to demonstrate the existence of proven or probable reserves, it would be necessary for us to continue exploration to demonstrate the existence of sufficient mineralized material with satisfactory continuity and then obtain a positive feasibility study. Exploration is inherently risky, with few properties ultimately proving economically successful. We do not intend to pursue additional exploration for the purpose of establishing proven or probable reserves.



Establishing reserves requires a feasibility study demonstrating with reasonable certainty that the deposit can be economically extracted and produced. We have not completed a feasibility study with regard to all or a portion of any of our properties, nor do we intend to perform such feasibility study at this time.

Since we have no proven or probable reserves, our investment in mineral properties is not reported as an asset in our financial statements which may have a negative impact on the price of our stock. We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America and intend to report substantially all exploration and construction expenditures as expenses until we are able to establish proven or probable reserves. If we are able to establish proven or probable reserves, we would report development expenditures as an asset subject to future amortization using the units-of-production method. Since it is uncertain when, if ever, we will establish proven or probable reserves, it is uncertain whether we will ever report these expenditures as an asset. Accordingly, our financial statements report fewer assets and greater expenses than would be the case if we had proven or probable reserves, which could have a negative impact on our stock price.

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 are proceeding with the construction of the El Aguila Project based on estimates of mineralized material identified in our drilling program and estimates of gold and silver recovery based on testwork developed during our scoping study. However, risks related to metallurgy are inherent when working with extractable minerals. Sales of gold and silver, if any, that we realize from future mining activity will be less than anticipated if the mined material does not contain the concentration of gold and silver predicted by our geological exploration. This risk may be increased since we have not sought or obtained a feasibility study or reserve report with regard to any of our properties. If sales of gold and silver are less than anticipated, we may not be able to recover our investment in our property and our operations may be adversely affected.

We may require significant additional capital to fund our business plan. We will require additional capital for exploration of one or more of our existing properties or to acquire additional properties. It may be the case that we will require additional capital in addition to the funds already raised in our private placements to fund the completion of construction of the mill and startup of the El Aguila Project. We will be required to hire additional staff. In addition, we may require additional working capital to continue to fund operations pending sale of any gold or other metals. Our ability to obtain necessary funding for these purposes, in turn, depends upon a number of factors, including the status of the national and worldwide economy and the price of gold and other precious metals. Capital markets worldwide have been adversely affected by substantial losses by financial institutions, in turn caused by investments in asset-backed securities. We may not be successful in obtaining the required financing, or if we can obtain such financing, such financing may not be on terms that are favorable to us. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration or development and the possible, partial or total loss of our potential interest in our properties.

Estimates of mineralized material are based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated. Unless otherwise indicated, mineralized material presented in our filings with securities regulatory authorities, including the SEC, press releases and other public statements that may be made from time to time are based upon estimates made by our consultants. When making determinations about whether to advance any of our projects to development, we must rely upon such estimated calculations as to the mineralized material on our properties. Until mineralized material is actually mined and processed, it must be considered an estimate only.



These estimates are imprecise and depend on geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. We cannot assure you that these mineralized material estimates will be accurate or that this mineralized material can be mined or processed profitably.

Any material changes in estimates of mineralized material will affect the economic viability of placing a property into production and such property's return on capital. There can be no assurance that minerals recovered in small scale tests will be recovered at production scale.

The mineralized material estimates have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove inaccurate. Extended declines in market prices for gold and silver may render portions of our mineralized material uneconomic and adversely affect the commercial viability of one or more of our properties and could have a material adverse effect on our results of operations or financial condition.

Should we successfully commence mining operations at our El Aguila Project, our ability to remain profitable long-term will depend on our ability to identify, explore, and develop additional properties. Gold and silver properties are wasting assets. They eventually become depleted or uneconomical to continue mining. The acquisition of gold and silver properties and their exploration and development are subject to intense competition. Companies with greater financial resources, larger staff, more experience and more equipment for exploration and development may be in a better position than us to compete for such mineral properties. If we are unable to find, develop, and economically mine new properties, we most likely will not be able to be profitable on a long term basis.

The construction of our mine and mill are subject to all of the risks inherent in construction. These risks include potential delays, cost overruns, shortages of material or labor, construction defects, and injuries to persons and property. We have retained Lyntek, Inc. of Denver, Colorado as a consultant to act as our general contractor for construction of the mill. We expect that Lyntek will engage a combination of American and Mexican subcontractors and material suppliers in connection with the project. While we anticipate taking all measures which we deem reasonable and prudent in connection with construction of the mill, there is no assurance that the risks described above will not cause delays or cost overruns in connection with such construction. Any delay would postpone our anticipated receipt of revenue and adversely affect our operations. Cost overruns would likely require that we obtain additional capital in order to commence production. Any of these occurrences may adversely affect our ability to generate revenues and the price of our stock.

Our operations are subject to permitting requirements which could require us to delay, suspend or terminate our operations. Our operations, including our ongoing exploration drilling program and proposed production plan at the El Aguila Project, require permits from the government. We may be unable to obtain these permits in a timely manner, on reasonable terms, or at all. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving these permits, our timetable and business plan for exploration of our property or commercial production will be adversely affected.

Our properties are located in Mexico and are subject to changes in political conditions and regulations in that country. Our existing properties are located in Mexico. In the past, Mexico has been subject to political and social instability, changes and uncertainties which may cause changes to existing government regulations affecting mineral exploration and mining activities. Civil or political unrest could disrupt our operations at any time. Our mineral exploration and mining activities in Mexico may be adversely affected in varying degrees by changing governmental regulations relating to the mining industry or shifts in political conditions that increase the costs related to our activities or maintaining our properties. Finally, Mexico's status as a developing country may make it more difficult for us to obtain required financing for our project.





Our business operations may be adversely affected by social and political unrest in Oaxaca. The properties which we are currently exploring for mineralization and the mill we are building are located in the State of Oaxaca, Mexico. Oaxaca City, the capital of the State of Oaxaca, experienced a period of social and political unrest in 2006. Certain civilian groups seeking political reform staged protests and demonstrations in various locations in Oaxaca City, including schools, government offices and major roadways. Although our property is roughly a 90 minute drive from Oaxaca City and the civil disturbances appear to have dissipated, our business operations could be negatively impacted if Oaxaca experiences another such event. Our exploration and construction program may be interrupted if we are unable to hire qualified personnel or if we are denied access to the site where our property is located. We may also be required to make additional expenditures to provide increased security in order to protect property or personnel located at our exploration and construction sites. Significant delays in exploration or increases in expenditures will likely have a material adverse affect on our financial condition and results of operations.

Our ability to continue exploration and extract any minerals that we discover is subject to payment of concession fees and if we fail to make these payments, we may lose our interest in the properties. Mining concessions in Mexico are subject to payment of concession fees to the federal government or lease payments to the owner of the concessions. The payments are based on the size of the property we are exploring. Our failure or inability to pay the concession fees to the government may cause us to lose our interest in one or more of our properties.

Our primary exploration target is subject to a lease in favor of a third party which provides for royalties on production. We lease our El Aguila property from a third party. Our lease for the El Aguila property is subject to a net smelter return royalty of 4% where production is sold in the form of gold/silver dorè and 5% where production is sold in concentrate form. The requirement to pay royalties to the owner of the concessions at our El Aguila property will reduce our profitability, if any, if we commence commercial production of gold or other precious metals.

Our ability to develop our property is subject to the rights of the Ejido (local inhabitants) to surface use for agricultural purposes. Our ability to mine minerals is subject to making satisfactory arrangements with the Ejido for access and surface disturbances. Ejidos are groups of local inhabitants who were granted rights to conduct agricultural activities on the property. We must negotiate and maintain a satisfactory arrangement with these inhabitants in order to disturb or discontinue their rights to farm. While we have successfully negotiated and signed such agreements to enable us to begin construction at the El Aguila Project, our inability to maintain these agreements could impair or impede our ability to successfully mine the properties.

The volatility of the price of gold could adversely affect our future operations and, if warranted, our ability to develop our properties. The potential for profitability of our operations, the value of our properties and our ability to raise funding to conduct continued exploration and development, if warranted, are directly related to the market price of gold and other precious metals. The price of gold may also have a significant influence on the market price of our common stock and the value of our properties. Our decision to put a mine into production and to commit the funds necessary for that purpose must be made long before the first revenue from production would be received. A decrease in the price of gold may prevent our property from being economically mined or result in the writeoff of assets whose value is impaired as a result of lower gold prices. The price of gold 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 by central banks, and the political and economic conditions of major gold producing countries throughout the world. During the last five years, the average annual market price of gold has fluctuated between \$406 per ounce and \$872 per ounce, based on the daily London P.M. fix, as shown in the table below:

2004	2005	2006	2007	2008
\$406	\$445	\$604	\$696	\$872

The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. In the event gold prices decline or remain low for prolonged periods of time, we might be unable to develop our properties, which may adversely affect our results of operations, financial performance and cash flows.

Competition in the mining industry is intense, and we have limited financial and personnel resources with which to compete. Competition in the mining industry for desirable properties, investment capital and personnel is intense. Numerous companies headquartered in the United States, Canada and elsewhere throughout the world compete for properties on a global basis. We are an insignificant participant in the gold mining industry due to our limited financial and personnel resources. We presently operate with a limited number of personnel and we anticipate that we will compete with other companies in our industry to hire additional qualified personnel which will be required to successfully operate our mine and mill site. We may be unable to attract the necessary investment capital or personnel to fully explore and if warranted, develop our properties and be unable to acquire other desirable properties.

An adequate supply of water may not be available to undertake mining and production at our property. Water rights are owned by the Mexican nation and are administered by a Mexican government agency. This agency has granted water concessions to private parties throughout the area defined as the Oaxaca Hydrologic Basin, however there is no assurance that we will be granted such concessions. We have purchased water rights which we believe will be sufficient for our anticipated production needs. However, we have no assurance these water rights will continue to produce enough water for our activities. Accordingly, we may not have access to the amount of water needed to operate a mine at the property.

Since most of our expenses are paid in Mexican pesos, and we anticipate selling any production from our properties in United States dollars, we are subject to adverse changes in currency values that will be difficult to prevent. Our operations in the future could be affected by changes in the value of the Mexican peso against the United States dollar. At the present time, since we have no production, we have no plans or policies to utilize forward sales contracts or currency options to minimize this exposure. If and when these measures are implemented, there is no assurance they will be cost effective or be able to fully offset the effect of any currency fluctuations.

Our activities in Mexico are subject to significant environmental regulations, which could raise the cost of doing business. Mining operations are subject to environmental regulation by SEMARNAT, the environmental protection agency of Mexico. Regulations require that an environmental impact statement, known in Mexico as a Manifiestacion de Impacto Ambiental, be prepared by a third party contractor for submission to SEMARNAT. Studies required to support this impact statement include a detailed analysis of many subject areas, including soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. We may also be required to submit proof of local community support for a project to obtain final approval. Significant environmental legislation exists in Mexico, including fines and penalties for spills, release of emissions into the air, seepage and other environmental damage.

The nature of mineral exploration and production activities involves a high degree of risk and the possibility of uninsured losses. Exploration for and the production of minerals is highly speculative and involves greater risk than many other businesses. Many exploration programs do not result in the discovery of mineralization, and any mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Our operations are, and any future development or mining operations we may conduct will be, subject to all of the operating hazards and risks normally incident to exploring for and development of mineral properties, such as, but not limited to:

- economically insufficient mineralized material;
- fluctuation in production costs that make mining uneconomical;
  - labor disputes;
- unanticipated variations in grade and other geologic problems;
  - environmental hazards;
    - water conditions;
  - difficult surface or underground conditions;
    - industrial accidents;
  - metallurgic and other processing problems;
- mechanical and equipment performance problems;
  - failure of pit walls or dams;
  - unusual or unexpected rock formations;
- personal injury, fire, flooding, cave-ins and landslides; and
- decrease in the value of mineralized material due to lower gold and silver prices.

Any of these risks can materially and adversely affect, among other things, the development of properties, production quantities and rates, costs and expenditures, potential revenues and production dates. We currently have no insurance to guard against any of these risks. If we determine that capitalized costs associated with any of our mineral interests are not likely to be recovered, we would incur a writedown of our investment in these interests. All of these factors may result in losses in relation to amounts spent which are not recoverable.

We depend upon a limited number of personnel and the loss of any of these individuals could adversely affect our business. If any of our current executive employees, our principal consultant in Mexico or our principal financial consultant were to die, become disabled or leave the company, we would be forced to identify and retain individuals to replace them. Messrs. William, David and Jason Reid and Mr. Jorge Sanchez del Toro are our critical employees at this time. Jose Perez Reynoso is our consultant in Mexico who oversees our properties and operations. Frank L. Jennings is a financial consultant who provides services to us as chief financial officer. There is no assurance that we can find suitable individuals to replace them or to add to our employee base if that becomes necessary. We are entirely dependent on these individuals as our critical personnel at this time. We have no life insurance on any individual, and we may be unable to hire a suitable replacement for them on favorable terms, should that become necessary.

In the event of a dispute regarding title to our property or any facet of our operations, it will likely be necessary for us to resolve the dispute in Mexico, where we would be faced with unfamiliar laws and procedures. The resolution of disputes in foreign countries can be costly and time consuming, similar to the situation in the United States. However, in a foreign country, we face the additional burden of understanding unfamiliar laws and procedures. We may not be entitled to a jury trial, as we might be in the United States. Further, to litigate in any foreign country, we would be faced with the necessity of hiring lawyers and other professionals who are familiar with the foreign laws. For these reasons, we may incur unforeseen losses if we are forced to resolve a dispute in Mexico or any other foreign country.

While we presently believe that we have adequate internal controls over financial reporting, we will be required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 annually and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have a material adverse effect on the price of our common stock. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have furnished a report by our management on internal controls for the fiscal year ended December 31, 2008. Such a report contains, among other matters, our assessment of the effectiveness of our internal controls over financial reporting, including a statement as to whether or not our internal controls are effective. This assessment must include disclosure of any material weaknesses in our internal controls over financial reporting identified by our management. While we believe our internal controls over financial reporting are effective as of the date of this prospectus, there is no assurance that we can retain that control in the future, as our business expands. In addition, our evaluation of the effectiveness of our internal controls will be subject to audit by our independent registered accountants in the future and there is no assurance that they will agree with our assessment. If we are unable to maintain the effectiveness of our controls, or if our accountants do not agree with our assessment in the future, investors could lose confidence in our financial reports and our stock price may decline.

We are not registered under the Securities Exchange Act of 1934. Our common stock is presently registered with the SEC only under the Securities Act of 1933, as amended. Because we have not registered our common stock under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), we are not required to file information reports with the SEC, although we now voluntarily file certain reports. Additionally, our directors and officers are not required to file reports under Section 16 of the Exchange Act. As a result, there is less information available to the public regarding our corporate affairs and insider transactions in our common stock than other companies that have registered common stock under the Exchange Act. In the future, we could cease filing information reports with the SEC at any time.

The laws of the State of Colorado and our Articles of Incorporation may protect our directors from certain types of lawsuits. The laws of the State of Colorado provide that our directors will not be liable to us or our shareholders for monetary damages for all but certain types of conduct as directors of the company. Our Articles of Incorporation permit us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing shareholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

#### Risks Related to Our Common Stock

Our stock price may be volatile and as a result you could lose all or part of your investment. In addition to volatility associated with over the counter securities in general, the value of your investment could decline due to the impact of any of the following factors upon the market price of our common stock:

- Changes in the worldwide price for gold;
- Disappointing results from our exploration efforts;
- Failure to reach commercial production or producing at rates lower than those targeted;
  - Failure to meet our revenue or profit goals or operating budget;
  - Decline in demand for our common stock;
- Downward revisions in securities analysts' estimates or changes in general market conditions;
  - Technological innovations by competitors or in competing technologies;
  - Investor perception of our industry or our prospects; and
  - General economic trends.



In addition, stock markets have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to resell their shares at a fair price.

Since there is presently a limited trading market for our common stock, purchasers of our common stock may have difficulty selling their shares, should they desire to do so. Due to a number of factors, including the lack of listing of our common stock on a national securities exchange, the trading volume in our common stock is limited. Our trading volume on the OTC Bulletin Board over the past three months has averaged approximately 130,000 shares per day. As a result, the sale of a significant amount of common stock by the selling shareholders may depress the price of our common stock and you may lose all or a portion of your investment.

A small number of existing shareholders own a significant amount of our common stock, which could limit your ability to influence the outcome of any shareholder vote. Our executive officers and directors beneficially own approximately 23% of our common stock and our largest shareholder owns approximately 24% of our common stock as of the date of this prospectus. Under our Articles of Incorporation and Colorado law, the vote of a majority of the shares outstanding is generally required to approve most shareholder action. As a result, this group may be able to influence the outcome of shareholder votes for the foreseeable future, including votes concerning the election of directors, amendments to our Articles of Incorporation or proposed mergers or other significant corporate transactions. We have no existing agreements or plans for mergers or other corporate transactions that would require a shareholder vote at this time. However, shareholders should be aware that they may have limited ability to influence the outcome of any vote in the future. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS" for additional information.

Since our common stock is not presently listed on a national securities exchange, trading in our shares may be subject to rules governing "penny stocks," which will impair trading activity in our shares. Our common stock may be subject to rules adopted by the SEC regulating broker-dealer practices in connection with transactions in penny stocks. Those disclosure rules applicable to penny stocks require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized disclosure document required by the SEC. These rules also require a cooling off period before the transaction can be finalized. These requirements may have the effect of reducing the level of trading activity in any secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

Issuances of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock. We have the authority to issue up to 60,000,000 shares of common stock, 5,000,000 shares of preferred stock, and to issue options and warrants to purchase shares of our common stock without stockholder approval. Because our common stock is not currently listed on an exchange, we are not required to solicit shareholder approval prior to issuing large blocks of our stock. These future issuances could be at values substantially below the price paid for our common stock by our current shareholders. In addition, we could issue large blocks of our common stock to fend off unwanted tender offers or hostile takeovers without further stockholder approval. Because we believe that trading in our common stock is limited, the issuance of our stock may have a disproportionately large impact on its price compared to larger companies.

We have never paid dividends on our common stock and we do not anticipate paying any in the foreseeable future. We have not paid dividends on our common stock to date, and we may not be in a position to pay dividends for the foreseeable future. Our ability to pay dividends will depend on our ability to successfully develop one or more properties and generate earnings from operations. Further, our initial earnings, if any, will likely be retained to finance our operations. Any future dividends will depend upon our earnings, our then-existing financial requirements and other factors, and will be at the discretion of our Board of Directors.

#### Forward-Looking Statements

This prospectus contains or incorporates by reference forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 concerning our future business plans and strategies, the proposed exploration and development of our property, the receipt of working capital, future revenues and other statements that are not historical in nature. In this prospectus, forward-looking statements are often identified by the words “anticipate,” “plan,” “believe,” “expect,” “estimate,” and the like. These forward-looking statements reflect our current beliefs, expectations and opinions with respect to future events, and involve future risks and uncertainties which could cause actual results to differ materially from those expressed or implied.

In addition to the specific factors identified under “RISK FACTORS” above, other uncertainties that could affect the accuracy of forward-looking statements include:

- decisions of foreign countries and banks within those countries;
- technological changes in the mining industry;
- our costs;
- the level of demand for our products;
- changes in our business strategy;
- interpretation of drill hole results and the geology, grade and continuity of mineralization;
- the uncertainty of reserve estimates and timing of development expenditures; and
- commodity price fluctuations.

This list, together with the factors identified under “RISK FACTORS,” is not exhaustive of the factors that may affect any of our forward-looking statements. You should read this prospectus 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 this prospectus. 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.

Prospective investors are urged not to put undue reliance on forward-looking statements.

## BUSINESS AND PROPERTIES

### History and Organization

We are engaged in the exploration of gold and silver properties, primarily in Mexico, with a goal of production in the near future. We were organized under the laws of the State of Colorado in 1998. We pursue exploration of gold and silver projects that we believe feature low operating costs and have the potential to produce a high return on the capital invested. We hold a 100% interest in five properties in Mexico's southern State of Oaxaca. See “--Our Properties” below for more information about our properties. We are constructing a mill and a mine at our flagship property, the El Aguila Project, which will be our first mine upon successful start-up, which is targeted for late 2009.





We completed our IPO in August 2006 at \$1.00 per share and received gross proceeds of \$4,600,000. We raised additional capital pursuant to four private placements of our common stock; one in December 2006 for gross proceeds of \$5,186,400, one in December 2007 for gross proceeds of \$22,234,000, one with two tranches in December 2008 and February 2009 for gross proceeds of \$18,000,000 and one with two tranches in June and July of 2009 for gross proceeds of \$20,000,000. We used the initial IPO and the 2006 private placement funds to conduct exploration activities at the El Aguila property. We decided to move forward with efforts to construct a mill and a mine at the El Aguila Project on April 11, 2007. We used the funds from the 2007 and 2008 private placements to commence construction of a mine and mill at the El Aguila Project. We anticipate using the funds provided by the most recent private placement, discussed in more detail below, to continue these efforts, as well as to undertake additional exploration activities. See “MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION” for more information.

Our principal executive offices are located at 222 Milwaukee Street, Suite 301, Denver, Colorado 80206, and our telephone number is (303) 320-7708. Our operations in Mexico are conducted through our wholly-owned Mexican subsidiaries, Don David Gold, S.A. de C.V., Golden Trump Resources S. A. de C.V. and Oaxaca Servicios Mineros, S.A. de C.V. We maintain a website at [www.goldresourcecorp.com](http://www.goldresourcecorp.com) and through a link on our website you can view the periodic filings that we make with the Securities and Exchange Commission (“SEC”).

Please refer to page 20 of this prospectus for a glossary of certain terms used herein.

#### Recent Developments

**Exploration.** Our flagship property, the El Aguila property, was the primary focus of our exploration program during 2008. Using funds obtained from our private placement in 2007, we focused exploration drilling on three areas: the El Aguila near-surface mineralized area, the El Aire vein area, which is located along the same structural zone two kilometers from the near-surface mineralized area, and a new discovery of mineralization near El Aire which we call the La Arista area. Our drilling has shown that each of these areas have gold and silver mineralized material and, except for the El Aguila near-surface mineralized area, have base metal mineralization of copper, lead and zinc. As a result of encouraging exploration results and our belief that the mineralized material can be extracted and processed economically, we made a decision in 2007 to begin preparing El Aguila for production, targeting to begin production in 2009. A substantial amount of our business activities during 2008 were focused toward that goal. Additional, albeit limited, exploration was conducted at our El Rey property during 2008. We completed a total of 21,200 meters (69,565 feet) in exploration drilling and spent approximately \$22,670,000 in 2008 at our properties in Mexico. However, we have not established proven or probable reserves as defined by regulation of the SEC on our El Aguila Project or any of our other properties.

**Construction at El Aguila Project.** The engineering firm of Lyntek Inc. of Denver, Colorado has designed the mill and infrastructure requirements at the El Aguila Project on our behalf. We anticipate that the facility we are building will process 850 tonnes of ore per day through a flotation circuit and 150 tonnes of ore per day through an agitated leach circuit. We are estimating completion of the mill in the fourth quarter of 2009, but we cannot predict the exact date since the construction progress depends on the performance of multiple contractors.

During 2008, we received permits from the Mexican government for construction of the access road, the mill facility and the tailings impoundment. In August 2009, we received the open pit mine permit which will allow us to begin mining the mineralized material from the open pit mine at the El Aguila Project.



We expect that mining in the first year of production will take place at the El Aguila near-surface mineralization open pit mine and have commenced pre-stripping of the open pit mine area. Mining in the second year is anticipated to come from the La Arista vein mineralized material and will require development of an underground mine. We expect to begin construction of the decline ramp and underground mine in 2010.

In October 2007, we acquired an additional parcel of land which comprises approximately five hectares and is located adjacent to the community of San Jose de Gracia. During 2008, we completed construction of an employee housing facility for the El Aguila Project, as well as a health clinic which will be available to employees and local residents. The facility encompasses 10 buildings, including a cafeteria, and can house approximately 50 people. See "--Our Properties" below for additional information.

Strategic Alliance with Hochschild. In December 2008, we entered into a strategic alliance agreement with Hochschild Mining Holdings Limited ("Hochschild"), a Peruvian based precious metals producer operating primarily in the Americas. Pursuant to the terms of the strategic alliance agreement, we sold Hochschild 1,670,000 shares of our common stock for gross proceeds of \$5,010,000 in a private placement. We also granted Hochschild an 80-day option to purchase 4,330,000 additional shares of our common stock for gross proceeds of \$12,990,000, which was exercised on February 25, 2009. We also have agreed, among other things, to the following:

- To offer Hochschild a right of first refusal to participate in future equity financings solicited by us prior to commencement of commercial production;
- To afford it a first right of refusal to participate in any joint ventures we might pursue with regard to any of our properties;
  - To grant Hochschild preemptive rights to participate in certain financing transactions; and
  - To appoint one individual nominated by Hochschild to our Board of Directors under certain conditions.

Hochschild also has the right to purchase additional shares of our common stock in the market, however, it has agreed to a standstill for two years where it will not exceed 40% total ownership in our company. Certain of the rights discussed above will be forfeited by Hochschild at such time as its percentage ownership in our company decreases below 14.5%.

During the first half of 2009, we used the proceeds of the Hochschild private placement to continue construction at the El Aguila Project. We determined to seek additional equity financing for the El Aguila Project and Hochschild exercised its right of first refusal under the Strategic Alliance Agreement to provide such financing.

In June 2009, Hochschild subscribed to purchase a total of 5,000,000 shares of our common stock for gross proceeds of \$20,000,000. We completed the transaction in two stages; the first closing for 1,250,000 shares occurred on June 30, 2009 and the second closing for the remaining 3,750,000 shares took place on July 20, 2009. We expect to use the proceeds of the second financing transaction with Hochschild to continue developing the El Aguila Project and for working capital. In addition, \$4,000,000 of the proceeds have been reserved to be used solely for additional exploration. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" for additional information.

Acquisition of Alta Gracia property. In August 2009, we filed mineral concessions with the Mexican government concerning an additional 5,175 hectares (12,782 acres) adjacent to the Las Margaritas property, which we refer to as the Alta Gracia property.



### Competitive Business Conditions

The exploration for, and the acquisition of gold and silver properties, are subject to intense competition. Due to our limited capital and personnel, we are at a competitive disadvantage compared to other companies with regard to exploration and, if warranted, development. Our present limited funding 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.

The availability of funds for exploration is sometimes limited, and we may find it difficult to compete with larger and more well-known companies for capital. Our inability to develop our mining properties due to lack of funding, even if warranted, could have a material adverse effect on our operation and financial position.

### Government Regulations and Permits

In connection with mining, milling and exploration activities, we are subject to extensive Mexican federal, state and local laws and regulations governing the protection of the environment, including laws and regulations relating to protection of air and water quality, hazardous waste management and mine reclamation as well as the protection of endangered or threatened species. The department responsible for environmental protection in Mexico is SEMARNAT, which is similar to the United States Environmental Protection Agency. SEMARNAT has broad authority to shut down and/or levy fines against facilities that do not comply with its environmental regulations or standards. Potential areas of environmental consideration for mining companies, including ours if we are successful in commencing mining operations, include, but are not limited to, acid rock drainage, cyanide containment and handling, contamination of water courses, dust and noise.

Prior to the commencement of any mining operations at the El Aguila Project, if any, we have and will continue to secure various regulatory permits from federal, state and local agencies. These governmental and regulatory permits generally govern the processes being used to operate, the stipulations concerning air quality and water issues, and the plans and obligations for reclamation of the properties at the conclusion of operations. Regulations require that an environmental impact statement, known in Mexico as a Manifiestacion de Impacto Ambiental ("MIA"), be prepared by a third-party contractor for submission to SEMARNAT. We have submitted our MIA to SEMARNAT for their review and it has been approved. Studies required to support the MIA include a detailed analysis of these areas, among others: soil, water, vegetation, wildlife, cultural resources and socio-economic impacts. Although the regulatory process in Mexico has a public review component, proof of local community support for a project is required to gain final MIA approval. We have received the required local community support.

We received a federal permit granting permission to construct a road at the El Aguila Project. We completed construction of this road during 2008. Additionally, during 2008, we received permits allowing us to construct our mill facilities and tailings impoundment facility. Construction of these structures is presently underway. We received a permit from SEMARNAT in August 2009 which will allow us to begin open pit mining at the El Aguila Project.

We purchased a permitted water well for the mill site at the El Aguila Project. We believe the water provided by this well will be adequate to meet the needs for any mining activity for the foreseeable future.

We have obtained, and will obtain at the appropriate time, environmental permits, licenses or approvals required for operations. We are not aware of any material violations of environmental permits, licenses or approvals issued with respect to our operations.



## Employees

We currently have four full-time employees, three of whom serve as our executive officers. These individuals devote all of their business time to our affairs. In addition to our executive officers, we employ approximately 50 Mexican nationals, including one who serves as our El Aguila Project Manager, through one of our Mexican subsidiaries. We also engage two significant consultants, one to generally oversee our property and activities in Mexico and one to assist with our administrative and financial affairs. Our consultant in Mexico serves on a full-time basis and our financial consultant provides his services to us as necessary.

## Our Properties

We currently have an interest in five properties, the El Aguila property, the Las Margaritas property, the El Rey property, the Solaga property and the Alta Gracia property. We lease certain claims comprising the El Aguila property and the Las Margaritas property from an individual who serves as our consultant in Mexico and the Solaga property from an entity partially owned by the same consultant. We own mining concessions for the El Rey property and the Alta Gracia property, and for certain other claims at the El Aguila property. All of these properties are in the exploration stage and have no proven or probable reserves. The map below shows the general location of our four properties in Oaxaca, Mexico:

## The El Aguila Project

Background. Effective October 14, 2002, we leased three mining concessions, El Aguila, El Aire and La Tehuana, totaling 1,896 hectares, from Jose Perez Reynoso, a consultant to our company. The lease agreement is subject to a 4% net smelter return royalty where production is sold in the form of gold/silver dore and 5% for production sold in concentrate form. We have made periodic advance royalty payments under the lease totaling \$260,000 and no further advance royalty payments are due. Subject to minimum exploration requirements, there is no expiration term for the lease. We may terminate it at any time upon written notice to the lessor and the lessor may terminate it if we fail to fulfill any of our obligations. The El Aguila and El Aire concessions make up the El Aguila Project and the La Tehuana concession makes up the Las Margaritas property.

We have filed for and received additional concessions for the El Aguila Project that total an additional 8,492 hectares. These additional concessions are not part of the concessions leased from our consultant, and bring our interest in the El Aguila Project to an aggregate of 9,463 hectares. The mineral concessions making up the El Aguila Project are located within the San Pedro Totolapam Ejido.

**Location and Access.** The El Aguila Project is located in the Sierra Madre del Sur of southern Mexico, in the central part of the State of Oaxaca. Access to the property is by way of the Pan American Highway (Highway # 190), approximately 120 kilometers (75 miles) southeast of Oaxaca City, the state's capital city. At the village of San Jose de Gracia, a gravel road goes approximately four kilometers northwest to the property. We have completed construction to upgrade this road to make it better suited for our construction and potential mining activities.

The climate of the El Aguila area is dry and warm to very warm with most rainfall occurring in the summer and annual precipitation averaging only 423.7 mm (17 inches). The average yearly temperature is 26.6 degrees centigrade (80° F). The area is very rocky with scarce vegetation. Subsistence farming occurs and the main agricultural crop is agave cactus that is cultivated for the production of mescal.

**Exploration Activities.** The early history of activity at the El Aguila property, as known by us, is prospecting and limited mining for gold and silver from the early 1900's to the mid 1960's. In 1998, Mr. Perez Reynoso acquired the concessions and leased them to Apex Silver Corporation of Denver, Colorado. Apex carried out an exploration program involving geologic mapping, surface sampling and an 11-hole drilling program (1,242 meters, or 4,074 feet). The results did not meet Apex's expectations so it cancelled its lease on the property in 2002. We leased the property from Mr. Perez Reynoso in October 2002.

In August 2003, we entered into an exploration agreement with Canyon Resources Corporation pertaining to our interest in the El Aguila property whereby Canyon loaned us \$500,000 for exploration costs, and subsequently converted its note into 1,200,000 shares of our common stock in 2004. The drilling program was completed in 2004 and included approximately 3,900 meters (12,795 feet) of drilling in 69 holes focused on one target area of the property.

We have carried out more recent exploration on the El Aguila Project that has included geologic mapping, surface sampling, geochemical sampling, a geomagnetic survey and exploratory drilling. We have drilled 4,373 holes for a total of 53,476 meters (175,400 feet), including 48 holes for 18,126 meters (59,453 feet) during 2008 and the first part of 2009.

**Construction Activities.** We made a decision in April 2007 to undertake efforts to place the El Aguila Project into commercial production. At our request, Lyntek Inc., an engineering firm in Denver, Colorado, has designed the mill and infrastructure requirements with an estimated capital cost of \$25,000,000. We anticipate that the facility we are building will process 850 tonnes of ore per day through a flotation section and 150 tonnes of ore per day through an agitated leach section. The flotation process produces a mineral concentrate through the use of chemical conditioning agents to float or depress certain minerals from a mineral rich foam concentrate created by agitation. We will use an agitated leach section to produce a dore bar of gold and silver from oxide ore.

We received the permit granting permission to construct the mill in June 2008. We have completed the grading and site work for the facility, the concrete work and we have erected the buildings and are presently placing and connecting various pieces of equipment. We have also completed construction on a large and small dam for our tailings impoundment after receiving a federal permit for the tailings facility in October 2008. We began pre-stripping activity at the near-surface open pit area in conjunction with construction of the tailings impoundment. In August, 2009, we received the necessary permit from the Mexican federal agency granting us approval to begin mining the mineralized material.





During our first year of anticipated production, we expect that we will conduct open pit mining at the El Aguila near-surface mineralized material area. We are targeting the La Arista vein area for mining during our second year of production, which would require construction of an underground mine.

We plan to generate our own electrical power for the mill through diesel generators, although the federal power grid, located along the Pan American Highway, may be utilized in certain aspects of operations. We purchased a permitted water well to supply water for our mining activities, however the water will require pumping to the site approximately 4 kilometers away.

In October 2007, we acquired an additional parcel of land which is approximately five hectares in size and adjacent to the community of San Jose de Gracia. The land cost us \$152,522. We have completed construction of an employee housing facility on this parcel that includes 10 buildings and will house approximately 50 people.

**Geology and Mineralization.** The El Aguila Project is located in the San Jose de Gracia Mining District in the Sierra Madre del Sur of southern Mexico. Multiple volcanic domes of various scales, and probably non-vented intrusive domes, dominate the district geology. These volcanogenic features are imposed on a pre-volcanic basement of sedimentary rocks. Gold and silver mineralization in this district is related to the manifestations of this classic volcanogenic system and is considered epithermal in character.

Certain deposits on the El Aguila property are primarily hosted in a quartz rich, stratiform zone (manto). The main manto drilled to date that forms our initial El Aguila shallow mineralization, which we hope to mine by an open pit, is conformable with the rhyolitic volcanic rock above and below the manto. It varies in thickness from less than two meters (6.6 feet) to more than 30 meters (98.4 feet). The gold and silver mineralization is considered low sulfidation, epithermal in character. There appear to be several other prospective manto units on the property.

Surface sampling yielded anomalous gold and silver values from early district-wide exploration where silicified zones were encountered. In addition, a small, shallow adit and winze provided limited sampling underground, yielding indications of gold values in a silicified, sub-horizontal manto. Based on these early anomalous exploration samples, a drilling program was carried out by us that in fact resulted in defining a central zone of continuous, shallow, sub-horizontal mineralized material. The fact that the mineralization is relatively shallow will make mining less difficult and less expensive from an open pit mine compared to an underground mine. This mineralized material at the El Aguila is near surface and lends itself to open pit mining.

Our 2008 drilling program continued to explore a relatively new area of mineralization at the El Aguila Project that we call the La Arista vein area, approximately two kilometers from the mill site. This mineralized material is different from the El Aguila near surface mineralization in that it is polymetallic in character. This polymetallic mineralization contains gold and silver plus the base metals copper, lead and zinc. The character of this mineralization is also epithermal but considered intermediate sulfidation. We anticipate that this mineralized material would be mined underground and mining activity in this area is targeted for year two and beyond of our production plan.

#### The El Rey Property

We have acquired claims in another area in the state of Oaxaca by filing concessions under the Mexican mining laws, referred to by us as the El Rey property. These concessions total 892 hectares. We have conducted minimal exploration and drilling on this property to date.



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

Limited drilling at El Rey has encountered gold and silver mineralization up to 1 meter of 132.5 g/tonne gold (4.25 ounces/tonne) and 1.5 meters of 958 g/tonne silver. We have drilled 48 holes for a total of 5,293 meters (17,361 feet) at the El Rey property. Additional exploration drilling is planned.

#### The Las Margaritas Property

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

#### The Solaga Property

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

#### The Alta Gracia Property

In August 2009, we acquired claims adjacent to the Las Margaritas property in the Alta Gracia Mining District by filing concessions under the Mexican mining laws. We refer to this property as the Alta Gracia property. These concessions are comprised of three mining claims, the David 1, the David 2 and La Hurradura. The concessions total 5,175 hectares, and the acquisition of these claims extended our land position along what is known as the San Jose structural corridor to just over 16 kilometers. To date, we have not conducted significant exploration activities at the property.

#### Mineral Concessions

Mineral rights in Mexico belong to the Mexican government and are administered pursuant to Article 27 of the Mexican Constitution. Exploitation concessions may be granted or transferred to Mexican citizens and corporations. Our leases or concessions are held by our Mexican subsidiaries. Exploitation concessions have a term of 50 years and can be renewed for another 50 years. Concessions grant the holder the right to explore and exploit all minerals found in the ground. Maintenance of concessions requires the semi-annual payment of mining duties (due in January and July) and the performance of assessment work, on a calendar year basis, with assessment work reports required to be filed in the month of May for the preceding calendar year. The amount of mining duties and annual assessment are set by regulation and may increase over the life of the concession and include periodic adjustments for inflation. Mining concessions are registered at the Public Registry of Mining in Mexico City and in regional offices in Mexico.



### Ejido Lands and Surface Right Acquisitions

Surface lands at the El Aguila Project area are Ejido lands (agrarian cooperative lands granted by the federal government to groups of Campesinos pursuant to Article 27 of the Mexican Constitution of 1917). Prior to January 1, 1994, Ejidos could not transfer Ejido lands into private ownership. Amendments to Article 27 of the Mexican Constitution in 1994 now allow individual property ownership within Ejidos and allow Ejidos to enter into commercial ventures with individuals or entities, including foreign corporations. We have an agreement with the local San Pedro TotolapamEjido allowing exploration and exploitation of mineralization at the El Aguila Project.

Mexican law recognizes mining as a land use generally superior to agricultural. However, the law also recognizes the rights of the Ejidos to compensation in the event mining activity interrupts or discontinues their use of the agricultural lands. Compensation is typically made in the form of a cash payment to the holder of the agricultural rights. The amount of such compensation is generally related to the perceived value of the agricultural rights as negotiated in the first instance between the Ejidos and the owner of the mineral rights. If the parties are unable to reach agreement on the amount of the compensation, the decision will be referred to the government.

We have established surface rights agreements with the San Pedro TotolapamEjido and the individuals impacted by our proposed operations which allow disturbance of the surface where necessary for our proposed mining operations.

### Office Facilities

Effective October 1, 2005, we leased approximately 1,000 square feet of office space under a three year agreement with an independent third party. In May 2007, we amended the lease to add approximately 300 square feet and extended the lease term through April 30, 2010. Monthly rent payments under this lease, including parking and operating expenses, will average \$2,470 per month through April 30, 2010, when the lease expires. We believe this space is adequate for our needs for the foreseeable future.

### Legal Proceedings

We are not currently subject to any legal proceedings, and to the best of our knowledge, no such proceeding is threatened, the results of which would have a material impact on our properties, results of operation, or financial condition. Nor, to the best of our knowledge, are any of our officers or directors involved in any legal proceedings in which we are an adverse party.

## Glossary

- Adit:** A more or less horizontal drive (walk-in mine) into a hill that is usually driven for the purpose of intersecting or mining an ore body. An adit may also be driven into a hill to intersect or connect a shaft for the purpose of dewatering. Adits were commonly driven on a slight incline to enable loaded mine trucks to have the advantage of a downhill run out, while the empty (lighter) truck was pushed uphill back into the hill. The incline also allows water to drain out of the adit. An adit only becomes a tunnel if it comes out again on the hill somewhere, like a train tunnel.
- Andesite:** A gray to black volcanic rock with between about 52 to 63 weight percent silica (SiO<sub>2</sub>). Andesite magma commonly erupts from stratovolcanoes as thick lava flows, some reaching several km in length.
- Cretaceous period:** Flowering plants appeared and dinosaurs were at their height during the Cretaceous period. 146-65 million years ago. There was a mass extinction (the K-T extinction) at the end of the Cretaceous, marking the end of the dinosaurs and many other species.
- Doré:** Unrefined gold and silver bars usually containing more than 90% precious metal.
- Epithermal:** Used to describe gold deposits found on or just below the surface close to vents or volcanoes, formed at low temperature and pressure.
- Felsic:** The minerals feldspar and quartz or an igneous rock or metamorphic rock made predominantly of feldspar and quartz; poor in iron and magnesium. Light-colored.
- Gram:** A metric unit of weight and mass, equal to 1/1000th of a kilogram. One gram equals .035 ounces. One ounce equals 31.103 grams.
- Hectare:** Another metric unit of measurement, for surface area. One hectare equals 1/200th of a square kilometer, 10,000 square meters, or 2.47 acres. A hectare is approximately the size of a soccer field.
- Horst-graben:** Horst and graben are formed by widespread block faults giving rise to a mountain and valley topography that owes its origin in part at least to regional block faulting.
- Kilometer:** Another metric unit of measurement, for distance. The prefix “kilo” means 1000, so one kilometer equals 1,000 meters, one kilometer equals 3,280.84 feet, which equals 1,093.6 yards, which equals 0.6214 miles.

Manto:	A mineralogy term meaning a layer or stratum.
Minerals or Mineralized Material:	Any mass of host rock in which minerals of potential commercial value occur.
Net Smelter Return:	A share of the net revenue generated from the sale of metal produced by the mine.
Royalty:	
Ore or Ore Deposit:	Rocks that contain economic amounts of minerals in them and that are expected to be profitably mined.
Rhyolite:	A type of volcanic lava or rock that is usually light in color: it contains greater than 68% silica, by weight, and is high in potassium and sodium.
Silicified:	Is combined or impregnated with silicon or silica.
Tertiary period:	This period lasted from 65 to 1.8 million years ago. It followed the Cretaceous period (the end of the Mesozoic Era) and the K-T extinction. Many mammals developed then, including primitive whales, rodents, pigs, cats, rhinos, etc.
Tonne:	A metric ton. One tonne equals 1000kg. It is approximately equal to 2,204.62 pounds.
Volcanogenic:	Of volcanic origin.
Volcanic domes:	These are mounds that form when viscous lava is erupted slowly and piles up over the vent, rather than moving away as lava flow. The sides of most domes are very steep and typically are mantled with unstable rock debris formed during or shortly after dome emplacement. Most domes are composed of silica-rich lava which may contain enough pressurized gas to cause explosions during dome extrusion.
Winze:	Secondary or tertiary vertical or near-vertical opening sunk from a point inside a mine for the purpose of connecting with a lower level or of exploring the ground for a limited depth below a level.

Conversion Table

Metric System		Imperial System
1 metre (m)	=	3.2808 feet (ft)
1 kilometer (km)	=	0.6214 mile (mi)
1 square kilometer (km <sup>2</sup> )	=	0.3861 square mile (mi <sup>2</sup> )
1 square kilometer (km <sup>2</sup> )	=	100 hectares (has)
1 hectare (ha)	=	2.471 acres (ac)



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1 gram (g)	=	0.0322 troy ounce (oz)
1 kilogram (kg)	=	2.2046 pounds (lbs)
1 tonne (t)	=	1.1023 tons (t)
1 gram/tonne (g/t)	=	0.0292 ounce/ton (oz/t)

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MARKET FOR COMMON STOCK  
AND RELATED STOCKHOLDER INFORMATION

## Market Information

Our common stock trades over-the-counter and is quoted on the OTCBB under the symbol "GORO." The table below sets forth the high and low bid prices for our common stock as reflected on the OTCBB for the last two fiscal years. Quotations represent prices between dealers, do not include retail markups, markdowns or commissions, and do not necessarily represent prices at which actual transactions were effected.

Year Ending	High	Low
December 31, 2009		
First Quarter	\$ 5.75	\$ 3.15
Second Quarter	5.45	3.85
Third Quarter	7.47	4.13
December 31, 2008		
First Quarter	\$ 4.70	\$ 3.27
Second Quarter	6.09	4.28
Third Quarter	5.65	2.36
Fourth Quarter	3.88	2.00
December 31, 2007		
First Quarter	\$ 3.97	\$ 1.30
Second Quarter	3.85	2.70
Third Quarter	4.83	3.57
Fourth Quarter	5.10	3.39

On October 5, 2009, the high and low sales price of our common stock on the OTCBB were \$7.40 and \$7.05, respectively, and we had approximately 116 holders of record of our common stock.

## Penny Stock Rules

Due to the price of our common stock, as well as the fact that we are not listed on Nasdaq or a national securities exchange, our stock may be characterized as a "penny stock" under applicable securities regulations. If our stock is or becomes a penny stock, we will be subject to rules adopted by the SEC regulating broker-dealer practices in connection with transactions in penny stocks. The broker or dealer proposing to effect a transaction in a penny stock must furnish his customer a document containing information prescribed by the SEC and obtain from the customer an executed acknowledgment of receipt of that document. The broker or dealer must also provide the customer with pricing information regarding the security prior to the transaction and with the written confirmation of the transaction. The broker or dealer must also disclose the aggregate amount of any compensation received or receivable by him in connection with such transaction prior to consummating the transaction and with the written confirmation of the trade. The broker or dealer must also send an account statement to each customer for which he has executed a transaction in a penny stock each month in which such security is held for the customer's account. The existence of these rules may have an effect on the price of our stock, and the willingness of certain brokers to effect transactions in our stock.



## Transfer Agent

We have appointed Corporate Stock Transfer, Inc. (“CST”) as the transfer agent for our common stock. The principal office of CST is located at 3200 Cherry Creek Drive South, Suite 430, Denver, CO 80209 and its telephone number is (303) 282-4800.

## Dividend Policy

We have never declared or paid dividends on our common stock. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including the terms of any credit arrangements, our financial condition, operating results, current and anticipated cash needs and plans for expansion. At the present time, we are not party to any agreement that would limit our ability to pay dividends.

## Securities Authorized for Issuance Under Equity Compensation Plans

Our Non-Qualified Stock Option and Stock Grant Plan (also referred to as the “Plan”) was adopted by us effective March 4, 1999. The Plan, as amended, terminates by its terms on February 28, 2019. Under the Plan, as approved by shareholders on March 4, 2005, a total of 6,000,000 shares of common stock are reserved for issuance thereunder. Set forth below is information as of December 31, 2008 with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

## Non-Qualified Stock Option and Stock Grant Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	3,583,000	\$ 1.60	1,830,000
Equity compensation plans not approved by shareholders	100,000	\$ 4.07	0
TOTAL	3,683,000		1,830,000

Under the Plan, non-qualified stock options and/or grants of our common stock may be issued to key persons. Key persons include officers, directors, employees, consultants and others providing service to us. The Plan was established to advance the interests of our company and our stockholders by affording key persons, upon whose judgment, initiative and efforts we may rely for the successful conduct of our businesses, an opportunity for investment in our company and the incentive advantages inherent in stock ownership in our company. This Plan gives our Board of Directors broad authority to grant options and make stock grants to key persons selected by the Board while considering criteria such as employment position or other relationship with us, duties and responsibilities, ability, productivity, length of service or association, morale, interest in us, recommendations by supervisors, and other matters, and to set the option price, term of option, and other broad authorities. Options may not be granted at less than the fair market value at the date of grant and may not have a term in excess of 10 years.



Options granted under the Plan do not generally give rise to taxable income to the recipient or any tax consequence to us, since the Plan requires that the options be issued at a price not less than the fair market value of the common stock on the date of grant. However, when an option is exercised, the holder is subject to tax on the difference between the exercise price of the option and the fair market value of the stock on the date of exercise. We receive a corresponding deduction for income tax purposes. Recipients of stock grants are subject to tax on the fair market value of the stock on the date of grant and we receive a corresponding deduction. The foregoing is intended as a summary of the income tax consequences to an individual recipient of an option or stock grant, and should not be construed as tax advice. Holders of stock options or common stock should consult their own tax advisors.

Shares issued upon exercise of options or upon stock grants under the Plan are "restricted securities" as defined under the Securities Act unless a registration statement covering such shares is effective. Restricted shares cannot be freely sold and must be sold pursuant to an exemption from registration (such as Rule 144) which exemptions typically impose conditions on the sale of the shares.

#### SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for our company for the last five completed fiscal years:

	Year Ended December 31,				
	2008	2007	2006	2005	2004
<b>Operating Data</b>					
Net loss from operations	\$ (26,348,812 )	\$ (8,318,855 )	\$ (2,743,851 )	\$ (1,224,085 )	\$ (853,706 )
Other income	333,609	242,513	57,089	6,174	113
Net loss	(26,015,203 )	(8,076,342 )	(2,686,762 )	(1,217,711 )	(853,593 )
Basic & diluted loss per share	(0.76 )	\$ (0.28 )	\$ (0.13 )	\$ (0.08 )	\$ (0.08 )
Weighted average shares	34,393,854	28,645,038	20,218,659	16,164,715	10,827,672
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 3,534,578	\$ 22,007,216	\$ 7,660,258	\$ 176,182	\$ 9,560
Total current assets	3,737,468	22,051,156	7,866,370	191,159	9,560
Property and equipment, net	812,219	352,429	96,279	54,352	--
Land and mineral rights	226,610	152,522	--	--	--
Total assets	4,781,018	22,557,576	7,964,118	246,980	11,141
Current liabilities	1,753,285	768,452	451,163	33,607	408,476
Long-term obligations	--	--	--	--	--
Shareholders' equity (deficit)	3,027,733	21,789,124	7,512,955	213,373	(397,335 )

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATION

This discussion updates our business plan for the balance of 2009. It analyzes our financial condition at June 30, 2009 and compares it to our financial condition at December 31, 2008. It also compares our financial condition at December 31, 2008 and 2007. This discussion summarizes the results of our operations for the six months ended June 30, 2009 and compares those results to the six months ended June 30, 2008 and the years ended December 31, 2008, 2007 and 2006. This discussion and analysis should be read in conjunction with our audited financial statements for the three years ended December 31, 2008, including footnotes, and the discussion and analysis included in our Form 10-Ks for the years ended December 31, 2008 and 2007, as amended.

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## Overview

We are a company engaged in the exploration of gold and silver properties in Mexico, with a goal of production in the near future. We pursue exploration of gold and silver projects that we believe feature low operating costs and have the potential to produce a high return on the capital invested. We hold a 100% interest in five properties in Mexico's southern State of Oaxaca. Mineral exploration requires significant capital and our assets and resources are limited. We have never received revenue from operations and have relied on equity financing to fund our operations to date.

Since August 2006, we raised capital through various sales of common stock, yielding gross proceeds of approximately \$70,000,000. Our most recent financings were part of a strategic alliance with Hochschild, pursuant to which Hochschild purchased 1,670,000 shares of our common stock for gross proceeds of \$5,010,000 in December 2008, 4,330,000 shares of our common stock for \$12,990,000 in February 2009 and 5,000,000 shares of our common stock for gross proceeds of \$20,000,000 in June 2009. We have used the funds primarily to fund exploration and construction at the El Aguila Project. In 2007, we commenced activities that we hope will allow us to mine the deposits at El Aguila, including the construction of a processing mill and other infrastructure.

During 2009, we continued efforts to construct our mine and mill and complete other activities necessary to place our El Aguila Project into production. We expect to commission those facilities in late 2009 and generate revenue from the sale of precious metals.

We continue to refine our capital requirements. As an exploration stage company, there is significant uncertainty in our estimates regarding both future costs and future revenue. We may require additional capital resources to complete our plans.

Exploration Stage Company. We are considered an exploration stage company for accounting purposes, since we have not demonstrated the existence of proven or probable reserves. In accordance with accounting principles generally accepted in the United States, all expenditures for exploration and evaluation of our properties have been expensed as incurred. Furthermore, unless mineralized material is classified as proven or probable reserves, substantially all expenditures for mine and mill construction have been or will be expensed as incurred. Certain expenditures, such as for rolling stock or other general purpose equipment, may be capitalized, subject to our evaluation of the future recoverability of the asset. Since substantially all of our expenditures to date have been expensed and we expect to expense additional expenditures during 2009, most of our investment in mining properties and equipment does not appear as an asset on our balance sheet.

We accelerated exploration of our properties in late 2006, and have continued our activities into 2009. From inception to June 30, 2009, we expensed approximately \$18,657,000 on the exploration and evaluation of our various properties, substantially all of which has been spent on the currently active property known as El Aguila. In addition, we have expensed, from inception to June 30, 2009, approximately \$26,259,000 in design, engineering, and construction costs, all of which apply to the El Aguila Project.



## Plan of Operation

In April 2007, we decided to undertake construction at the El Aguila Project in an effort to commence commercial production. Our decision was made based upon drilling data that we believe provides evidence of mineralized material in amounts sufficient to proceed with construction activities. However, we have not commenced a feasibility study that would allow us to classify any of our mineralized material as proven or probable reserves, as those terms are defined by the SEC in Industry Guide 7, "Description of Property by Issuers Engaged or to Be Engaged in Significant Mining Operations." The SEC definition of reserve is "that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination."

Our ability to demonstrate the existence of proven or probable reserves would require us to continue exploration drilling that demonstrated the existence of sufficient mineralized material and to complete a positive feasibility study. A feasibility study must demonstrate with reasonable certainty that the deposit can be legally and economically extracted and produced. At this time, we have neither undertaken these additional activities nor implemented plans to undertake these activities in the future. Accordingly, the mineralized material identified by us should not be considered proven or probable mineral reserves. Additionally, the assumptions used by us in our decision to undertake construction of the mill and mine may prove to be inaccurate. Thus, we may never be able to recover sufficient mineralized material to become profitable.

**Anticipated Production.** While we intend to continue exploration at the El Aguila Project for the foreseeable future, we are moving forward with our plans to make improvements to the property for anticipated production. This includes acquisition of equipment and construction of a mill. We engaged Lyntek, Inc. of Denver, Colorado, on a month to month basis, to design and build the mill at the El Aguila Project. We presently anticipate mining by open pit and building a mill that is designed to process 850 tonnes of ore per day through a flotation section and 150 tonnes of ore per day through an agitated leach section. We expect the mining to be done under contract with a third party contractor. Only after a mine and a mill are constructed and operational do we expect to generate any revenue. In August 2009, we received the open pit mine permit which is required before we commence production.

Our primary target for production in 2009 will be gold from the near-surface mineralization at El Aguila to be mined as an open pit. Any silver contained in the mineralization will be produced as a by-product, any revenue from which will help offset the costs of producing the gold. In the following year, if activities go as planned, we intend to undertake production of gold from an underground mine at the nearby La Arista vein. Our plan to construct the underground mine includes driving a decline ramp. A portion of the proceeds from our equity financing in 2009 are dedicated for this purpose. Since we believe the La Arista vein area also contains base metals such as copper, lead, and zinc, we intend to produce those metals as by-products, any revenue from which would help offset the costs of producing gold and silver. The ore from both the near-surface deposit and the anticipated underground mine will be processed at the mill at the El Aguila Project.

From inception to date, we have committed or spent approximately \$22,000,000 on construction of the mill and an additional \$6,000,000 on infrastructure and an employee housing complex. We completed construction of a road to the mine site to improve access and facilitate delivery of equipment and construction of the mill and mine. We completed grading of the mill site and the concrete foundations. Construction of the tailings facility for Phase 1 is complete. The buildings are erected. We are in the process of erecting the structural steel and placing the equipment. All of the processing equipment has been purchased and is being connected under the electrical and plumbing contract. We anticipate start up and testing in 2009.



In October 2007, we acquired an additional parcel of land which comprises approximately five hectares and is located adjacent to the community of San Jose de Gracia. During 2008, we substantially completed construction of an employee housing facility for the El Aguila Project, as well as a health clinic which will be available to employees and local residents. The facility encompasses 10 buildings, including a cafeteria, and can house approximately 50 people.

We estimate we will spend an additional \$5,000,000 during 2009 to complete the mine and milling facilities and to start up commercial production. As the proceeds from our equity financings in 2009 may not be sufficient to fully fund our capital resource requirements, we may seek additional funding.

#### Liquidity and Capital Resources

June 30, 2009. As of June 30, 2009, we had a working capital balance of \$5,142,605, consisting of current assets of \$6,256,592 and current liabilities of \$1,113,987. This represents an increase of \$3,158,422 from the working capital balance of \$1,984,183 at December 31, 2008. Our current assets consist primarily of cash which is deposited in short term, interest bearing accounts. Consistent with our plans, we continued to consume working capital to fund our exploration and construction activities and to a lesser extent, general and administrative expenses, and we replenished our working capital through the sale of additional common stock, discussed below.

We have historically relied on equity financings and, to a significantly lesser extent, loans to continue funding our operations. From inception through June 30, 2009, we received \$64,407,221 in cash, services and other consideration through issuance of our common stock. As of June 30, 2009, we did not have any outstanding debt, as all previous borrowings have been repaid or converted into equity. We believe that we will continue to fund our future working capital requirements through the sale of equity, and eventually through cash flow from operations. However, we may consider debt financing if market conditions allow.

On December 5, 2008, we entered into a subscription agreement and a strategic alliance agreement with Hochschild. Under the terms of the subscription agreement, we sold 1,670,000 restricted shares of common stock to Hochschild in December 2008 at \$3.00 per share for total cash proceeds of \$5,010,000. On February 25, 2009, we sold an additional 4,330,000 shares of our restricted common stock at a price of \$3.00 per share for total cash proceeds of \$12,990,000 to Hochschild. On June 30, 2009 we entered into a subscription agreement with Hochschild to sell 5,000,000 shares of restricted common stock at a price of \$4.00 per share, or a total of \$20,000,000. Closing of the first tranche, comprising 1,250,000 shares of common stock for proceeds of \$5,000,000, was completed on June 30, 2009. Closing of the second tranche, comprising 3,750,000 shares of common stock for proceeds of \$15,000,000, was completed on July 20, 2009. We agreed to reserve \$4,000,000 of the proceeds solely for exploration activities, including driving the decline ramp, and the \$4,000,000 was deposited into a restricted cash account.

Our sole source of funds during the first and second quarters of 2009 was the proceeds that we received from the stock sales to Hochschild. We may need additional funds to achieve commercial production.

During the six months ended June 30, 2009, we spent \$1,982,993 on the exploration and evaluation of our properties, predominantly at our El Aguila Project. This compares to \$2,838,461 spent during the six months ended June 30, 2008. While we continued our exploration drilling program to further delineate the area of mineralized material, our emphasis has shifted to construction of the mine and mill. During the six months ended June 30, 2009, we spent \$11,757,472 on engineering and construction activities. This compares to \$3,596,871 spent during the six months ended June 30, 2008, and reflects the acceleration of construction.

Our most significant expenditures for 2009 were for the construction of the mill and associated infrastructure. We spent approximately \$7,400,000 on the engineering and construction of the mill, including the tailings dam, and we purchased \$2,950,000 of processing equipment that will be installed at the mill. Infrastructure costs totaled approximately \$1,400,000 and included continued construction at the employee village, construction of the lab and work on the water and electrical systems.

Our most significant expenditures for the remainder of 2009 are expected to be costs of completing the mill at El Aguila and costs of our production start-up phase which we estimate will total approximately \$5,000,000.

Furthermore, we continue to incur operating expenses of approximately \$157,000 per month for salaries and other corporate overhead. We expect to continue depleting our working capital until such time, if ever, as we successfully commence production and generate cash flow from the production and sale of gold and other metals.

Net cash used in operating activities during the six months ended June 30, 2009 was \$15,174,925, compared to \$6,888,223 during the comparable period of 2008, an increase of \$8,286,702. We accelerated our expenditures in 2009 consistent with our plan to commence production.

Net cash used in investing activities for capital expenditures for the six months ended June 30, 2009 was \$226,840, compared to \$3,055,349 for the six months ended June 30, 2008. Although most of our exploration stage expenditures are recorded as an expense rather than an investment, we capitalize the acquisition cost of land and mineral rights and certain equipment that has alternative future uses or significant salvage value, including rolling stock, furniture, and electronics. During 2008, our most significant capital expenditures were for mill equipment.

Net cash provided by financing activities for the six months ended June 30, 2009 was \$17,990,000, consisting of proceeds from the Hochschild financings previously discussed. For the six months ended June 30, 2008, financing activities provided cash of \$75,000 from the exercise of stock options.

The balance of cash and equivalents increased to \$6,122,813 as of June 30, 2009, from \$3,534,578 as of December 31, 2008, a net increase in cash of \$2,588,235. We expect to continue our plan of raising funds from equity sales if necessary and to expend our cash for exploration stage activities until such time, if ever, we successfully commence production and generate cash flow from the production and sale of gold and other metals.

December 31, 2008. At December 31, 2008, we had working capital of \$1,984,210, consisting of current assets of \$3,737,468 and current liabilities of \$1,753,258. Our current assets consisted primarily of cash.

During the year ended December 31, 2008, our cash decreased by \$18,472,638 as a result of our operating and investment activities. Operating expenses totaled \$26,348,812, which, reduced by non-cash expenses such as stock-based compensation, amortization of equipment, and changes in assets and liabilities, resulted in \$23,005,822 of net cash used in operating activities. The significant amount of cash used in operating activities is attributable to our decision to begin constructing the mill and related facilities at our El Aguila Project. Cash used in investing activities totaled \$657,816 resulting solely from capital expenditures. We received \$5,191,000 as a result of financing activities in 2008.

December 31, 2007. At December 31, 2007, we had working capital of \$21,282,704, consisting of current assets of \$22,051,156 and current liabilities of \$768,452. Our current assets consisted primarily of cash.

During the year ended December 31, 2007, our cash increased by \$14,346,948, primarily representing the proceeds of the private placement financing completed in the fourth quarter of that year. In that financing, we issued an aggregate of 5,558,500 shares of our common stock at a price of \$4.00 for gross proceeds of \$21,712,000.

The increase in cash from our financing activities was offset by cash used in operations of \$6,908,890. The cash related to our net loss for the year of \$8,076,342 was partially reduced by non-cash items such as stock-based compensation of \$730,450, and an increase in accounts payable and accrued liabilities of \$317,289, among others. We expect that our operations will continue to consume cash until such time, if ever, we are successful in placing one or more of our properties into production.

#### Results of Operations – Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

For the six months ended June 30, 2009, we reported a net loss of \$17,438,949 or \$(0.44) per share, compared to a net loss of \$8,957,744 or \$(0.26) per share for the six months ended June 30, 2008.

Total costs and expenses in the six months ended June 30, 2009 were \$17,447,868 compared to \$9,222,694 in the comparable period of 2008, an increase of \$8,225,174 or 89%. The additional expenditures reflect our increasing activities at the El Aguila Project. Total mineral property costs, which include property exploration and evaluation expenses and engineering and construction costs, increased \$7,305,133, or 114%, from \$6,435,332 for the six months ended June 30, 2008 to \$13,740,465 for the six months ended June 30, 2009. The property exploration and evaluation component decreased \$855,468, or 30%, from \$2,838,461 for the six months ended June 30, 2008 to \$1,982,993 for the six months ended June 30, 2009. Our exploration drilling activity temporarily decreased as we focused our efforts on engineering and construction.

The engineering and construction cost component during the six months ended June 30, 2009 was \$11,757,472, compared to \$3,596,871 during the comparable period in 2008. As more fully described in the preceding discussions of our liquidity and capital resources, we accelerated construction of the mine and mill site and infrastructure during 2009.

General and administrative expenses for the six months ended June 30, 2009 increased to \$3,636,467, compared to \$2,731,939 during the comparable period in 2008, a difference of \$904,528 or 33%. As explained below, there was a significant increase in stock option compensation.

The component of general and administrative expense representing stock option compensation expense was \$2,694,354 for the six months ended June 30, 2009, compared to \$1,870,680 for the comparable period in 2008. During 2009, we granted options to officers and directors to purchase 1,000,000 shares of common stock at an exercise price of \$3.95 per share, all of which vested immediately. The estimated value of those options using the Black-Scholes-Merton model was \$2,575,000. During 2009, we also recognized a portion of the fair value of options issued during previous periods, pro-rated over the vesting period. During the six months ended June 30, 2008, we granted 1,050,000 stock options with an estimated value of \$1,870,680 using the Black-Scholes-Merton model. We granted options to officers and directors to purchase 1,000,000 shares of common stock at an exercise price of \$3.40 per share, all of which vested immediately. We also granted stock options to an investor relations consultant to purchase 50,000 shares of common stock at an exercise price of \$4.45 per share, all of which vested immediately.

During the six months ended June 30, 2009, we did not grant any shares of common stock as compensation. During the six months ended June 30, 2008, we issued 10,000 shares of common stock valued at \$42,470 as partial compensation for investor relations services.

The other components of general and administrative expense, including salaries and benefits, professional fees, investor relations, and travel, increased to \$942,113 during the six months ended June 30, 2009 from \$818,789 during the comparable period in 2008, an increase of \$123,324, or 15%. There were no significant changes in this component of our cost structure, although we have slightly increased activity levels as we prepare the El Aguila Project for production. We anticipate these costs may increase if we commence commercial production.

Interest income for the six months ended June 30, 2009 decreased to \$8,919 compared to \$264,950 for the comparable period of 2008, a decrease of \$256,031, or 97%, representing lower deposits in short term interest bearing accounts.

Our mining operations are located in Mexico and we primarily transact business in Mexican pesos. Our reporting currency is the US dollar. Changes in the rate of currency exchange between the Mexican peso and the US dollar create translation gains and losses, which are reported as a component of other comprehensive income. For the six months ended June 30, 2009 and 2008, we recorded a currency translation gain of \$72,966 and a loss of \$58,008, respectively.

#### Results of Operations – Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

For the year ended December 31, 2008, we reported a net loss of \$26,015,203, or \$(0.76) per share, compared to a net loss of \$8,076,342, or \$(0.28) per share for 2007. We expect to incur losses until such time, if ever, we begin generating significant revenue from operations.

In neither year did we report any revenue from the sale of gold or other minerals. Our only revenue since inception has consisted of interest income. We currently expect to commence sales of gold and silver upon commissioning of our El Aguila processing facility during 2009, but we cannot guarantee that we will meet our expected timetable.

Total costs and expenses were \$26,348,812 in 2008 compared to \$8,318,855 in 2007, an increase of \$18,029,957 or 217%. The additional expenditures reflect our increasing activities at the El Aguila Project. Mineral property costs, including exploration and evaluation, increased \$2,439,625 from \$5,731,771 for the year ended December 31, 2007 to \$8,171,396 for the year ended December 31, 2008. We continued our exploration of the El Aguila property. We conducted limited exploration on the El Rey property.

Engineering and construction costs were \$14,501,461 in 2008 compared to nil in 2007. As more fully described in the preceding discussions of our expenditures, we commenced construction of the mine and mill site and other infrastructure during 2008.

General and administrative expense for the year ended December 31, 2008 increased to \$3,552,007 compared to \$2,539,604 during 2007, an increase of \$1,012,403 or 40%. As explained below, there was a significant increase in non-cash stock option compensation, partially reduced by decreases in other items.

General and administrative expense includes recognition of non-cash compensation expense for grants of stock options and grants of common stock.

The component of general and administrative expense representing non-cash stock option compensation expense was \$1,956,806 for the year ended December 31, 2008, compared to \$99,482 for 2007. We use an option pricing model to estimate the value of stock options granted to officers, directors, employees and consultants. It is difficult to estimate the value of options that we grant. The options are subject to significant restrictions and cannot be purchased or sold on the open market. Therefore, there is no objective and independent valuation measurement for them. We use the Black-Scholes-Merton model, which requires considerable judgment selecting the subjective assumptions that are critical to the results produced by the model, to calculate the estimated fair value. We record the estimated fair value as an expense on a pro-rata basis over the vesting period of the options.

During 2008, we granted a total of 1,320,000 stock options with an estimated value of \$2,508,114. We granted options to officers and directors to purchase 1,000,000 shares of common stock at an exercise price of \$3.40 per share, all of which vested immediately. We also granted stock options to an investor relations consultant to purchase 50,000 shares of common stock at an exercise price of \$4.45 per share, all of which vested immediately. We also granted options to employees covering 270,000 shares of common stock at a weighted average price of \$3.91. Those options will vest over the next three years.

During the year ended December 31, 2007, we granted stock options to a public relations consultant to purchase 50,000 shares of common stock at an exercise price of \$3.68 per share, all of which vested in 2007. The estimated fair value of those options was \$83,192.

The component of general and administrative expense representing a non-cash expense for grants of common stock was \$42,470 for the year ended December 31, 2008 compared to \$630,968 for 2007. Shares of common stock issued by us in exchange for services are recorded as an expense, the amount of which is determined by reference to the market prices of our stock reported by the OTC Bulletin Board.

During the year ended December 31, 2008, we issued 10,000 shares of common stock valued at \$42,470 as partial compensation for investor relations services. During the year ended December 31, 2007, we issued 185,000 shares of common stock valued at \$630,968 as partial compensation for consulting services.





Cash compensation costs included in general and administrative expense decreased to \$716,057 during 2008 from \$880,098 during 2007. Certain cash compensation attributed to 2007 was replaced by non-cash compensation during 2008. Professional fees increased to \$368,975 in 2008 compared to \$234,154 in 2007, an increase of \$134,821, which reflects our increasing activities. Investor relations expenses decreased to \$167,732 during 2008 from \$342,083 during 2007. There were investor relations costs associated with the private placement in December 2007 that were not repeated in 2008.

Interest income increased to \$333,609 for the year ended December 31, 2008 compared to \$242,513 for 2007, an increase of \$91,096, or 38%, representing higher deposits in short term interest bearing accounts pending utilization in our exploration, construction and operating activities.

Our mining operations are located in Mexico and we primarily transact business in Mexican pesos. Our reporting currency is the US dollar. Changes in the rate of currency exchange between the Mexican peso and the US dollar create translation gains and losses, which are reported as a component of other comprehensive income. For the years ended December 31, 2008 and 2007, we recorded currency translation gains (losses) of \$63,536 and (\$89,939), respectively.

#### Results of Operations – Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

For the year ended December 31, 2007 we reported a net loss of \$8,076,342, or \$(0.28) per share, compared to a net loss of \$2,686,762, or \$(0.13) per share for 2006. In neither year did we report any revenue except interest income. We expect to incur losses until such time, if ever, as we begin generating revenue from operations. We are considered an exploration stage company for accounting purposes, since we have not received any revenue from mineral sales.

Total costs and expenses were \$8,318,855 in 2007 compared to \$2,743,851 in 2006, an increase of \$5,575,004 or 203%. Mineral property costs for the year ended December 31, 2007, including acquisition and exploration costs, increased \$5,102,920 from \$628,851 in 2006 to \$5,731,771 in 2007. The increase reflects our increasing exploration and construction activities at our various properties located in and around the El Aguila Project. During the latter part of 2006, we began to increase our exploration spending and committed to an initial exploratory drilling contract for \$300,000. We subsequently expanded our drilling program and aggregate drilling costs during 2007 were approximately \$2,700,000.

General and administrative expense for the year ended December 31, 2007 increased to \$1,809,154 compared to \$1,470,061 during 2006. The increase of \$339,093 primarily reflects increased wage and salary costs of approximately \$30,000, an increase of \$28,000 in legal and accounting fees associated with SEC reporting requirements, and \$211,500 of investor relations expenses necessary to disseminate information to potential and existing investors. Travel expenses increased from \$103,241 to \$173,559. The increase represents increased travel to the mineral properties in Mexico, as well as meetings with investors.

We incurred stock compensation expenses of \$730,450 for the year ended December 31, 2007 compared to \$626,900 for 2006. During 2007, we issued 170,000 restricted shares of common stock as partial compensation for investor relations services valued at a weighted average price of \$3.39. We also issued 15,000 shares of common stock valued at \$3.68 per share in recognition of consulting services performed in Mexico. The cost of shares issued was determined using quoted market values either at the time of the stock grant or at the average stock price during the period of service.



During 2006, we issued 100,000 restricted shares of common stock valued at \$1.00 per share to a director as partial compensation for his service to the Board of Directors. We also issued 35,000 shares of common stock valued at \$1.71 to two employees for their services. We also issued 250,000 restricted shares of common stock valued at \$1.10 to a firm that provided investor relations services and we issued 30,000 shares of restricted common stock valued at \$1.45 to a consultant who provided investor relations services.

During the year ended December 31, 2007, we also granted stock options to a public relations consultant to purchase 50,000 shares of common stock at an exercise price of \$3.68 per share, all of which vested in 2007. We used an option pricing model to value the options at \$83,192. Total compensation expense related to option grants recorded during 2007 was \$99,482, including all options issued during 2007 and options issued during prior years that required the allocation of certain amounts to 2007.

During the year ended December 31, 2006 we granted stock options to purchase 1,200,000 shares of common stock at an exercise price of \$1.00 per share, of which 1,150,000 vested in 2006 and 50,000 vested in 2007. We used an option pricing model to value the options. The 1,200,000 options were valued at \$163,340 and the expense was allocated partially to 2007 (\$16,290) and partially to 2006 (\$147,050).

Interest income increased to \$242,513 in 2007 compared to \$57,089 in 2006, an increase of \$185,424, or 325%. The increase is due to the proceeds from our 2007 and 2006 private placement financings which have been deposited in short term interest bearing accounts. Monthly interest earnings from invested cash is expected to decline in future months as we utilize the cash balances for operating and exploration activities.

#### Off-Balance Sheet Arrangements

As of and subsequent to June 30, 2009, we had no off-balance sheet arrangements.

#### Contractual Obligations

Our known obligations at fiscal year end are set forth in the table below:

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	\$40,000	\$30,000	\$10,000	--	--
Purchase Obligations(1)	1,324,000	662,000	662,000	--	--
Total	\$1,364,000	\$692,000	\$672,000	--	--

(1) Represents amounts due to our executive officers pursuant to their respective employment agreements with our company.

## Critical Accounting Policies

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions are revised periodically and the effects of revisions are reflected in the financial statements in the period it is determined to be necessary. Actual results could differ from these estimates.

We believe that application of the following accounting policies, which are critical to our financial position and results of operations, requires significant judgments and estimates on the part of management.

**Proven and Probable Reserves.** The definition of proven and probable reserves is set forth in SEC Industry Guide 7. Proven reserves are reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation. In addition, reserves cannot be considered proven and probable until they are supported by a feasibility study, indicating that the reserves have had the requisite geologic, technical and economic work performed and are economically and legally extractable at the time of the reserve determination.

**Mineral Acquisition Costs.** The costs of acquiring land and mineral rights are considered tangible assets pursuant to EITF Issue No. 04-2, “Whether Mineral Rights are Tangible or Intangible Assets.” Significant acquisition payments are capitalized. General, administrative and holding costs to maintain an exploration property are expensed as incurred. If a mineable ore body is discovered, such costs are amortized when production begins using the units-of-production method. If no mineable ore body is discovered or such rights are otherwise determined to have diminished value, such costs are expensed in the period in which the determination is made.

**Exploration Costs.** Exploration costs are charged to expense as incurred. Costs to identify new mineral resources, to evaluate potential resources, and to convert mineral resources into proven and probable reserves are considered exploration costs.

**Design, Construction, and Development Costs.** Certain costs to design and construct mine and processing facilities may be incurred prior to establishing proven and probable reserves. Under these circumstances, we classify the project as an exploration stage project and expense substantially all costs, including design, engineering, construction, and installation of equipment. Certain types of equipment, which have alternative uses or significant salvage value, may be capitalized. After a project is determined to contain proven and probable reserves, costs incurred prospectively can be capitalized. Such costs include development drilling to further delineate the ore body, removing overburden during the pre-production phase, building access ways, constructing facilities, and installing equipment. Interest costs, if any, incurred during the development phase would be capitalized until the assets are ready for their intended use. The cost of start-up activities and on-going costs to maintain production are expensed as incurred. Costs of abandoned projects are charged to operations upon abandonment.

After a project commences commercial production, amortization and depletion of capitalized costs is computed on a unit-of-production basis over the expected life of the project based on estimated recoverable gold equivalent ounces.

**Impairment of Long-Lived Assets.** We evaluate our long-lived assets for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), and EITF Issue No. 04-3, "Mining Assets: Impairment and Business Combinations." If impairment indicators exist, we perform additional analysis to quantify the amount by which capitalized costs exceed recoverable value. The periodic evaluation of capitalized costs is based upon expected future cash flows, including estimated salvage values. As of December 31, 2008, our mineral resources do not meet the definition of proven or probable reserves or value beyond proven and probable reserves and any potential revenue has been excluded from the cash flow assumptions. Accordingly, recoverability of capitalized cost is based primarily on estimated salvage values.

**Property Retirement Obligation.** We follow SFAS No 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which requires the fair value of a liability for an asset retirement obligation to be recognized in the period that it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

**Stock Based Compensation.** We account for stock-based compensation in accordance with SFAS No. 123 (Revised 2004), "Share Based Payment" ("SFAS 123R"), which requires the recognition of compensation costs for stock options determined in accordance with a fair value based methodology. We estimate the fair value of stock options at their grant date by using the Black-Scholes-Merton option pricing model and provides for expense recognition over the vesting period, if any, of the stock option.

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

Income Taxes. We account for income taxes under SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires recognition of deferred tax assets and liabilities for temporary differences and the effect of net operating losses based upon the enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 ("FIN 48"), clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109, and prescribes a recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

#### Recent Accounting Pronouncements

We monitor pronouncements issued by the various authoritative sources that serve to define and clarify US GAAP, including statements issued by the Financial Accounting Standards Board ("FASB"), the SEC, and the Emerging Issues Task Force ("EITF"), among others.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). This statement replaces FAS No. 141, which was effective July 1, 2001. The statement provides guidance for how the acquirer recognizes and measures the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. SFAS 141R provides for how the acquirer recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. The statement provides for disclosures to enable users to be able to evaluate the nature and financial effects of the business combination. The provisions of SFAS 141R are effective for the first annual reporting period beginning on or after December 15, 2008, and must be applied prospectively to business combinations completed after that date. Early adoption is prohibited. Management is currently evaluating the impact of adopting this statement.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), which becomes effective for annual periods beginning after December 15, 2008. This standard establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. This statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. Management is currently evaluating the impact of adopting this statement.

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

In May 2009, the FASB issued SFAS No. 165, Subsequent Events ("SFAS 165"), which provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This topic was previously addressed only in auditing literature. SFAS 165 is similar to the existing auditing guidance with some exceptions that are not intended to result in significant changes to practice. Entities are now required to disclose the date through which subsequent events have been evaluated, with such date being the date the financial statements were issued or available to be issued. SFAS 165 is effective on a prospective basis for interim or annual reporting periods ending after June 15, 2009. Management is currently evaluating the impact of adopting this statement.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162" ("SFAS 168"). SFAS 168 will become the source of authoritative US GAAP to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for public companies. The codification will supersede all non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the codification will become non-authoritative. The codification is effective for interim and annual periods ending on or after September 15, 2009. Management is currently evaluating the impact of adopting this statement.

There were no other accounting standards and interpretations recently issued which are expected to have a material impact on our financial position, results of operations or cash flows.

#### Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with our independent registered public accounting firm on accounting and financial disclosure.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risks includes, but is not limited to, the following risks: changes in foreign currency exchange rates, changes in interest rates, equity price risks, commodity price fluctuations, and country risk. 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.

### Foreign Currency Risk

We transact a significant amount of our business in Mexican pesos. As a result, currency exchange fluctuations may impact our operating costs. The appreciation of non-US dollar currencies such as the peso against the US dollar increases expenses and the cost of purchasing capital assets in US dollar terms in Mexico, which can adversely impact our operating results and cash flows. Conversely, a depreciation of non-US dollar currencies usually decreases operating costs and capital asset purchases in US dollar terms.

The value of cash and cash equivalents denominated in foreign currencies also fluctuates with changes in currency exchange rates. Appreciation of non-US dollar currencies results in a foreign currency gain on such investments and a decrease in non-US dollar currencies results in a loss. 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. We also hold portions of our cash reserves in non-US dollar currencies.

### Interest Rate Risk

We have no debt outstanding nor do we have any investment in debt instruments other than highly liquid short-term investments. Accordingly, we consider our interest rate risk exposure to be insignificant at this time.

### 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. Movements in the price of our common stock have 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.

### Commodity Price Risk

We currently do not have any production and expect to be engaged in exploration activities for the foreseeable future. However, if we commence production and sales, changes in the price of gold and other minerals could significantly affect our results of operations and cash flows in the future.

### Country Risk

All of our mineral properties are located in Mexico. In the past, that country has been subject to political instability, changes and uncertainties which may cause changes to existing government regulations affecting mineral exploration and mining activities. Civil or political unrest could disrupt our operations at any time. Our exploration and mining activities may be adversely affected in varying degrees by changing government regulations relating to the mining industry or shifts in political conditions that could increase the costs related to our activities or maintaining our properties. Finally, Mexico's status as a developing country may make it more difficult for us to obtain required financing for our properties.



## MANAGEMENT

## Directors and Executive Officers

The following individuals presently serve as our officers and directors:

Name	Age	Positions With the Company	Board Position Held Since
William W. Reid	61	President, Chief Executive Officer and Director	1998
David C. Reid	60	Vice President, Secretary, Treasurer and Director	1998
Bill M. Conrad	53	Director	2006
Isac Burstein	42	Director	2009
Frank L. Jennings	59	Chief Financial Officer	N/A
Jason D. Reid	37	Vice President of Corporate Development	N/A

Each of our directors is serving a term which expires at the next annual meeting of shareholders and until his successor is elected and qualified or until he resigns or is removed. Our officers serve at the will of our Board of Directors.

Messrs. William and David Reid should be considered founders of our company, as each has taken initiative in the organization of our business. William Reid and David Reid are brothers. Jason Reid is the son of William Reid.

The following information summarizes the business experience of each of our officers and directors for at least the last five years:

William W. Reid. Mr. Reid has served as a director and our President and Chief Executive Officer since our inception in 1998. Since August 2005, Mr. Reid has devoted all of his business time to our affairs, averaging 40 hours per week. Mr. Reid received a Bachelor of Science in physics in 1970 and a Master's in Economic Geology in 1972 from Purdue University. From 1977 to August 18, 2005, he served as the president, chief executive officer and chairman of the board of directors of US Gold Corporation, a Colorado corporation engaged in the exploration of gold mining properties. During his tenure with US Gold, that entity acquired, developed and produced gold from five different mines, but has not produced any revenue since 1990. The securities of US Gold are traded on the NYSE Alternext.

David C. Reid. Mr. David Reid has served as a director and our Vice President since our inception in 1998. Since August 2005, he has devoted all of his time to our business and affairs, also averaging 40 hours per week. From 1977 to August 18, 2005, he was the vice president and a director of US Gold during the time that it acquired, developed and produced gold. Mr. Reid received a Bachelor of Science degree in geology from Ball State University in 1972.

Bill M. Conrad. Mr. Conrad was elected to the Board of Directors on June 1, 2006. From its inception in May 2005 until September 2008, Mr. Conrad served as the vice-president and secretary of Brishlin Resources, Inc., formerly Blue Star Energy, Inc. and now known as Synergy Resources Corporation, a Colorado corporation engaged in the energy industry. Mr. Conrad continues to serve as a director of Synergy Resources, a position he has held since the company's inception. From February 2002 until June 2005, Mr. Conrad served as president and a director of Wyoming Oil & Minerals, Inc., and from May 2000 until April 2003, he served as vice president and a director of New Frontier Energy, Inc. The securities of Wyoming Oil & Mineral, now known as Sun Motor International Inc., New Frontier Energy, and Synergy Resources are quoted on the OTCBB. In 1990, Mr. Conrad co-founded MCM Capital Management Inc. and has served as vice president since that time.

Isac Burstein. Isac Burstein was appointed to the Board of Directors on April 1, 2009. Mr. Burstein is presently the Corporate Manager of Business Development for Hochschild Mining Plc, where he has been employed since 1995. Prior to his current position, Mr. Burstein served as Manager for Project Evaluation, Exploration Manager for Mexico from July 2000 to May 2009, and Exploration Geologist for Hochschild from January 1996 to July 2000. He holds a BSc in Geological Engineering from the Universidad Nacional de Ingenieria, an MSc in Geology from the University of Missouri and an MBA from Krannert School of Management, Purdue University. Mr. Burstein was nominated as a director by Hochschild and appointed to the Board pursuant to the terms of our strategic alliance agreement with Hochschild.

Frank L. Jennings. Mr. Jennings was appointed to serve as our principal financial officer on June 1, 2006. He is primarily responsible for financial reporting of our company and with our CEO, oversight of our internal controls. Mr. Jennings serves our company on a part-time basis as his services are deemed necessary. Since 2001, Mr. Jennings has been a financial consultant and provides management and financial consulting services primarily to smaller public companies. From April 2001 to December 2005, he served as the chief financial officer and a director of Global Casinos, Inc., a publicly traded Utah corporation, and from April 2001 to April 2005, he served as the chief financial officer and a director of OnSource Corporation, now known as Ceragenix Pharmaceuticals, Inc., a publicly traded Delaware corporation. During his tenure with Global Casinos and Ceragenix Pharmaceuticals, each company was engaged in the gaming industry and each had common stock quoted on the OTCBB.

Jason D. Reid. Mr. Reid was promoted to Vice President of Corporate Development effective January 2, 2008. He is responsible for formulating corporate growth strategies, retail and institutional marketing of our securities, assisting the CEO with oversight of our financing requirements and overseeing our investor relations programs. Mr. Reid joined our company in May 2006 as the Corporate Development Assistant. Mr. Reid received a Bachelor of Science degree in Anthropology with an emphasis on Archaeology in 1995 from Fort Lewis College. From January 1996 until he joined our company in May 2006, Mr. Reid served as president of Reid Farrier, Inc., formerly known as Reid Fencing, Inc., a business he founded which focused operations in the equine and construction industries.

### Other Significant Employees or Consultants

In addition to our officers and directors, we also utilize the services of the following significant consultants:

Jose Perez Reynoso. Mr. Reynoso, a Mexican national, has served our company as a full time consultant since 2002. In that capacity, he oversees all our operations in Mexico, and provides advice in relations with the Mexican Government, primarily related to permitting, personnel and mine development. From 1995 to 2002, he was a consulting geologist for mining companies operating in Mexico. Mr. Reynoso received an undergraduate degree in geology and engineering in 1974 and a master's degree in economic geology in 1979 from the National University of Mexico. We leased the El Aguila property from Mr. Reynoso in 2002.

Jorge Luis Sanchez Del Toro. In August 2008, Mr. Sanchez, a Mexican national, accepted a position with our Mexican subsidiary, Golden Trump Resources, to serve as the Project Manager for the El Aguila Project. Mr. Sanchez has over 33 years of experience in the mining industry and is responsible for overseeing the entire El Aguila Project, including our labor relations and construction progress. From 2001 until he joined our company, Mr. Sanchez was the general manager for Ingenieria Y Trituracion, a company that consulted with various companies regarding open pit and underground mining operations and crushing plants. Mr. Sanchez graduated from the University of Autonoma of Mexico with a degree in mining engineering in 1975.

### Director Independence

Bill Conrad and Isac Burstein are our independent directors under the definition set forth in Rule 4200(a)(15) of the Marketplace Rules. William Reid, our Chief Executive Officer, is a member of the Audit Committee and the Nominating Committee, and does not meet the independence standards for committee members set forth in the Marketplace Rules. David Reid, our Executive Vice President, is a member of the Nominating and Compensation Committee, and does not meet the independence standards for committee members set forth in the Marketplace Rules.

### Compensation Discussion and Analysis

The individuals who served as our principal executive officer and principal financial officer during the year ended December 31, 2008, as well as the other individuals included on the Summary Compensation Table below, are referred to as "named executive officers" throughout this Compensation Discussion and Analysis.

Overview of Compensation Philosophy, Objectives and Policies. We attempted to meet two main objectives when we designed our executive and employee compensation. First, the program is intended to be fully competitive so that we may attract, motivate and retain talented executives and key employees. Second, the program is intended to create an alignment of interests between our executives and key employees, on the one hand, and our shareholders, on the other, such that a portion of each executive's or key employee's compensation consists of awards of stock options or restricted stock grants. In this manner, if the price of our stock increases over time, our executive officers, key employees and our shareholders will benefit. The compensation program is designed to reward performance that supports our principles of building shareholder value, and may also recognize individual performance from time to time. The Compensation Committee is vested with the authority to review and recommend the compensation program structure and level of compensation for the executive officers, directors and key employees of our company.

Our present compensation structure for the named executive officers generally consists of salary and incentive compensation. The incentive component consists of a short-term cash portion and a long-term equity portion. We believe the present structure achieves our compensation objectives; however, the Compensation Committee is presently exploring additional ways to ensure consistency and enhance our company's compensation program and may add additional components or policies in order to assist our company in achieving its compensation goals more effectively or efficiently. We believe that the present compensation structure appropriately aligns the interests of the executives and key employees with our shareholders by encouraging equity ownership through awards of stock options and stock grants to executive officers and key employees and to motivate our named executive officers and other key employees to contribute to an increase in shareholder value. While equity ownership is highly encouraged, we do not presently have a policy that requires our named executive officers or directors to own shares of our stock.

Each January, the Compensation Committee reviews and recommends to the Board the level of compensation for the named executive officers and key employees. Our Chief Executive Officer reports to the Committee regarding the individual performance of the other named executive officers. Additionally, the Committee considers recommendations from the named executive officers regarding incentive compensation for key employees who report to that executive officer.

**Elements and Mix of Compensation.** Our consideration of base salary ranges for the named executive officers are based upon a review of broad-based information obtained from third parties as well as publicly disclosed compensation information of members of our peer group. The Committee also takes into account work experience, performance, level of responsibility, impact on the business, tenure and potential for advancement within the organization when making decisions about individual compensation packages. Annual salaries for newly-hired executives are determined at the time of hire taking into account the above factors other than tenure.

Cash bonuses are a form of short-term incentive compensation which may be recommended by the Compensation Committee in its discretion, based on individual and overall company performance. There is no specific bonus plan or policy in place setting forth timing of awards or establishing specific performance objectives. The Compensation Committee, in its discretion, determines and recommends the amounts and timing of any bonus awards. If applicable and in the sole discretion of the Committee, a "merit-based" bonus may be recommended based on criteria such as exceptional performance, assuming additional responsibility without an increase in base compensation, or such other criteria which the Committee may determine from time to time.

The long-term equity compensation component of our compensation program is comprised of equity awards and makes up a significant part of our named executive officers' compensation package. Under our Non-Qualified Stock Option and Stock Grant Plan ("Plan"), we are authorized to issue non-qualified stock options, to make grants of stock and award grants of restricted stock to the officers, directors and key employees of our company, including the named executive officers. There is no specific policy or procedure in place setting forth timing or amount of awards, although the outstanding awards and future compensation are reviewed at least annually. The Compensation Committee, in its discretion, determines and recommends the amounts and timing of any equity awards. The stock options are priced based on the closing market price of our common stock on the grant date, which is the date the Board approves the award. Due to our status as an exploration stage company with no revenue, and our need to conserve working capital, we believe our compensation structure is weighted more toward equity compensation and less toward salary and other forms of cash compensation, with the exception of our current Chief Financial Officer, who we contract with on an hourly basis and who does not receive equity compensation.



Additional benefits provided to executive officers and key employees as part of their compensation packages include health, life and disability insurance. To the extent the named executive officers participate in these programs, they do so generally on the same basis as our other employees. Our named executive officers do not receive perquisites and we do not maintain any non-equity incentive plans or deferred compensation plans.

The compensation for our directors is structured similar to that of our named executive officers. Specifically, the directors receive a combination of cash and equity incentives in the form of stock grants or options to purchase our common stock. The Compensation Committee reviews the form and amount of such compensation periodically to insure that it is competitive and meeting our objectives discussed above.

**Specific Compensation Decisions.** Each of our named executive officers except our Chief Financial Officer receives an annual salary under their terms of his respective employment agreements. In addition, each of our named executive officers except our Chief Financial Officer has received stock options as part of their current compensation package.

In 2008, our Compensation Committee recommended that we increase the base salaries of our President and Chief Executive Officer and our Vice Presidents to remain competitive amongst our peer group. As a result of this decision, William Reid's base salary increased from \$240,000 to \$300,000, David Reid's base salary increased from \$170,000 to \$212,000 and Jason Reid's base salary increased from \$100,000 to \$150,000. Additionally, from 2007 to 2008, our named executive officers experienced a sizeable increase in their responsibilities and workload due to the acceleration of our commercial production timetable. The Compensation Committee considered these increased demands and recommended we further compensate these individuals with cash bonuses and equity compensation in the form of stock options. In February 2008, William and David Reid each received 250,000 non-qualified stock options which vested immediately and expire 10 years from the date of grant. Jason Reid received 400,000 non-qualified stock options under the same terms. The Committee recommended increasing Jason Reid's option award in order to balance the fact that the exercise period for the original option grant he received upon accepting employment with us was only three years instead of the customary 10 year period and was due to expire within a year.

We expect the compensation levels for our named executive officers to remain relatively unchanged during 2009. The base salaries of our named executive officers (with the exception of the Chief Financial Officer) are fixed pursuant to employment agreements with the individuals. On April 23, 2009, the Board approved the Compensation Committee's recommendation of additional equity compensation to the named executive officers in response to the individuals' efforts, as well as to further motivate them to increase shareholder value. William Reid received 300,000 stock options, David Reid received 250,000 stock options and Jason Reid received 200,000 stock options. All of the 2009 awards consisted of non-qualified stock options which vested immediately and expire 10 years from the date of grant.

We believe that these compensation packages, consisting of cash and equity incentive compensation, will meet the objectives set forth above. Specifically, we believe that the cash salary is competitive and will serve to retain the individuals for the foreseeable future. The stock options are designed to reward the individuals and the inherent value in the options will help motivate him to further the interests of our shareholders. The Compensation Committee also has the ability to award discretionary cash incentive compensation in the form of bonuses to the named executive officers.

## Executive Compensation

The following table summarizes the total compensation for the two fiscal years ended December 31, 2008 of our executive officers:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards(2)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
William W. Reid, Chairman, Chief Executive Officer and President(1)	2008	\$300,000	\$100,000	\$—	\$450,848	\$ —	\$ —	\$850,848
	2007	240,000	150,000	—	—	—	—	390,000
	2006	240,000	—	—	—	—	—	240,000
Frank L. Jennings, Chief Financial Officer	2008	\$—	\$—	\$—	\$—	\$ —	\$ 82,256	\$82,256
	2007	—	—	—	—	—	49,185	49,185
	2006	—	—	—	—	—	—	—