GOLD RESOURCE CORP
Form 10-Q
July 31, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

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

For the transition period from to

Commission File Number: 001-34857

Gold Resource Corporation

(Exact Name of Registrant as Specified in its charter)

Colorado	84-1473173
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

2886 Carriage Manor Point, Colorado Springs, Colorado 80906

(Address of Principal Executive Offices) (Zip Code)

(303) 320-7708

(Registrant’s telephone number including area code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 57,592,052 shares of common stock outstanding as of July 30, 2018.

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GOLD RESOURCE CORPORATION

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References in this report to agreements to which Gold Resource Corporation is a party and the definition of certain terms from those agreements are not necessarily complete and are qualified by reference to the agreements. Readers should refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and other reports filed with the Securities and Exchange Commission and the exhibits filed or incorporated by reference therein.

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PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,645	$ 22,390
Gold and silver rounds/bullion	3,664	3,812
Accounts receivable	1,727	2,884
Inventories, net	12,542	11,636
Prepaid expenses and other current assets	1,661	1,767
Total current assets	46,239	42,489
Property, plant and mine development, net	91,124	82,599
Deferred tax assets, net	7,951	6,854
Other non-current assets	835	981
Total assets	$ 146,149	$ 132,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,798	$ 6,904
Loan payable, current	581	568
Capital lease, current	393	382
Income taxes payable, net	1,179	1,944
Mining royalty taxes payable, net	1,554	2,359
Accrued expenses and other current liabilities	3,018	2,851
Total current liabilities	18,523	15,008
Reclamation and remediation liabilities	2,961	2,946
Loan payable, long-term	1,351	1,645
Capital lease, long-term	1,019	1,218
Total liabilities	23,854	20,817
Shareholders' equity:		
Common stock - $0.001 par value, 100,000,000 shares authorized: 57,592,052 and 56,916,484 shares outstanding at June 30, 2018 and December 31, 2017, respectively	58	57

Additional paid-in capital	116,135	114,584
Retained earnings	13,157	4,520
Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive loss	(1,171)	(1,171)
Total shareholders' equity	122,295	112,106
Total liabilities and shareholders' equity	$ 146,149	$ 132,923

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales, net	$ 30,768	$ 21,391	$ 62,919	$ 45,727
Mine cost of sales:				
Production costs	17,579	12,177	33,114	23,512
Depreciation and amortization	3,579	3,953	7,072	6,509
Reclamation and remediation	89	35	292	64
Total mine cost of sales	21,247	16,165	40,478	30,085
Mine gross profit	9,521	5,226	22,441	15,642
Costs and expenses:				
General and administrative expenses	2,225	1,675	4,579	3,487
Exploration expenses	1,251	1,136	2,436	1,958
Other expense, net	510	609	788	1,073
Total costs and expenses	3,986	3,420	7,803	6,518
Income before income taxes	5,535	1,806	14,638	9,124
Provision for income taxes	1,781	942	5,427	3,884
Net income	$ 3,754	$ 864	$ 9,211	$ 5,240
Net income per common share:				
Basic	$ 0.07	$ 0.02	$ 0.16	$ 0.09
Diluted	$ 0.06	$ 0.02	$ 0.16	$ 0.09
Weighted average shares outstanding:				
Basic	57,315,472	56,839,823	57,218,389	56,818,406
Diluted	58,314,123	57,375,938	58,153,350	57,744,817

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of Common Shares	Par Value of Common Shares	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 31, 2016	56,903,272	$ 57	$ 112,034	$ 2,040	$ (5,884)	$ (1,171)	$ 107,076
Adjustment to beginning retained earnings as a result of adoption of ASU 2016-16	-	-	-	(533)	-	-	(533)
Stock-based compensation	-	-	1,192	-	-	-	1,192
Stock options exercised	25,000	-	58	-	-	-	58
Common stock issued for vested restricted stock units	78,400	-	-	-	-	-	-
Common stock issued for the acquisition of mineral rights	246,210	-	1,300	-	-	-	1,300
Dividends declared	-	-	-	(1,137)	-	-	(1,137)
Net income	-	-	-	4,150	-	-	4,150
Balance, December 31, 2017	57,252,882	$ 57	$ 114,584	$ 4,520	$ (5,884)	$ (1,171)	$ 112,106
Share-based compensation			485	-	-	-	485
Net stock options exercised	660,604	1	1,066	-	-	-	1,067
Common stock issued for vested restricted stock units	14,964	-	-	-	-	-	-
Dividends declared	-	-	-	(574)	-	-	(574)
Net income	-	-	-	9,211	-	-	9,211
Balance, June 30, 2018 (unaudited)	57,928,450	$ 58	$ 116,135	$ 13,157	$ (5,884)	$ (1,171)	$ 122,295

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

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GOLD RESOURCE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

(Unaudited)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 9,211	$ 5,240
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income taxes	(1,134)	1,097
Depreciation and amortization	7,386	6,727
Stock-based compensation	485	383
Other operating adjustments	364	148
Changes in operating assets and liabilities:		
Accounts receivable	1,157	(646)
Inventories	(897)	(1,049)
Prepaid expenses and other current assets	7	1,086
Other noncurrent assets	134	25
Accounts payable and other accrued liabilities	4,564	2,324
Mining royalty and income taxes payable, net	(1,815)	(1,316)
Net cash provided by operating activities	19,462	14,019
Cash flows from investing activities:		
Capital expenditures	(15,108)	(10,818)
Other investing activities	4	(187)
Net cash used in investing activities	(15,104)	(11,005)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,124	-
Dividends paid	(571)	(568)
Repayment of loan payable	(281)	-
Repayment of capital leases	(189)	(1)
Net cash provided by (used in) financing activities	83	(569)
Effect of exchange rate changes on cash and cash equivalents	(186)	(201)
Net increase in cash and cash equivalents	4,255	2,244
Cash and cash equivalents at beginning of period	22,390	14,166
Cash and cash equivalents at end of period	$ 26,645	$ 16,410

Supplemental Cash Flow Information		
Interest expense paid	$ 94	$ 13
Income and mining taxes paid	$ 6,298	$ 2,369
Non-cash investing activities:		
Increase in accrued capital expenditures	$ 918	$ 4,328
Equipment purchased under capital leases	$ -	$ 21
Common stock issued for the acquisition of mineral rights	$ -	$ 1,300

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

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GOLD RESOURCE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

1. Basis of Preparation of Financial Statements

The interim Condensed Consolidated Financial Statements ("interim financial statements") of Gold Resource Corporation and its subsidiaries (collectively, the "Company") are unaudited and have been prepared in accordance with the rules of the Securities and Exchange Commission for interim statements. Certain information and footnote disclosures required by United States Generally Accepted Accounting Principles ("U.S. GAAP") have been condensed or omitted although the Company believes that the disclosures included are adequate to make the information presented not misleading. In the opinion of management, all adjustments (including normal recurring adjustments) and disclosures necessary for a fair presentation of these interim financial statements have been included. The results reported in these interim financial statements are not necessarily indicative of the results that may be reported for the entire year. These interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 included in the Company's annual report on Form 10-K. The year-end balance sheet data was derived from the audited financial statements. Unless otherwise noted, there have been no material changes to the footnotes from those accompanying the audited consolidated financial statements contained in the Company's annual report on Form 10-K.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Accounting Standards Update No. 2014-09—Revenue from Contracts with Customers (Topic 606). On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU was further amended in August 2015, March 2016, April 2016, May 2016 and December 2016 by ASU No. 2015-14, No. 2016-08, No. 2016-10, No. 2016-12 and No. 2016-20, respectively. The guidance provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. On January 1, 2018, the Company adopted the new accounting guidance for all contracts using the retrospective approach. The adoption of this new guidance did not result in any changes to previously reported revenue amounts. Please see Note 3 for more information.

In March 2018, the Company adopted Accounting Standards Update No. 2018-05—Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which updates the income tax accounting in U.S. GAAP to reflect the Securities and Exchange Commission ("SEC") interpretive guidance released on December 22, 2017, when the Tax Cuts and Jobs Act was signed into law. Please see Note 6 for additional information.

Recently Issued Accounting Pronouncements

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

The Company has begun its assessment of the new guidance and the impact it will have on the consolidated financial statements and disclosures and expects to complete its analysis in 2018. Management is still completing its assessment of the impacts; however, based on preliminary findings, the Company expects that the majority of its identified leases will be required to be reported on the Consolidated Balance Sheets. Based on the preliminary

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assessment, the Company expects there will be minimal impacts to the Consolidated Statements of Operations. The Company expects to have an update to the impacts of the standard in the third quarter of 2018.

Accounting Standards Update No. 2018-07—Compensation — Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting" ("ASU 2018-07"). In June 2018, the FASB issued new guidance regarding accounting for stock compensation. The new guidance expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from non-employees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods and services to be used or consumed in its own operations by issuing share-based payment awards. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under ASC 606. ASU 2018-07 is effective for public entities beginning December 1, 2019, with early adoption permitted, but no earlier than the adoption of ASC 606. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

3. Revenue

The Company derives its revenue from the sale of doré and concentrate. The following table presents the Company's net sales disaggregated by source:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Doré sales, net				
Gold	$ 1,722	$ 1,435	$ 3,631	$ 3,062
Silver	472	21	769	42
Less: Refining charges	(38)	(5)	(63)	(22)
Total doré sales, net	2,156	1,451	4,337	3,082
Concentrate sales				
Gold	5,396	4,514	10,937	11,600
Silver	8,803	5,604	14,884	12,892
Copper	2,638	1,219	5,018	2,529
Lead	3,498	2,316	7,345	4,254
Zinc	11,841	7,790	25,225	13,846
Less: Treatment and refining charges	(1,261)	(1,479)	(3,095)	(2,987)
Total concentrate sales, net	30,915	19,964	60,314	42,134
Realized/unrealized embedded derivative, net	(2,303)	(24)	(1,732)	511
Total sales, net	$ 30,768	$ 21,391	$ 62,919	$ 45,727

Doré Revenue

Doré sales are recognized upon the satisfaction of performance obligations, which occurs when control of the doré transfers to the customer. Transfer of control occurs once the customer takes possession of the doré. Doré sales are recorded using quoted metal prices, net of refining charges.

Concentrates Revenue

Concentrate sales are initially recorded based on 100% of the provisional sales prices, net of treatment and refining charges, at the time of delivery to the customer at which point the performance obligations are satisfied and control of the product is transferred to the customer. Adjustments to the provisional sales prices are made to take into account the mark-to-market changes based on the forward prices of metals until final settlement occurs. The changes in price between the provisional sales price and final sales price are considered an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrates at the quoted metal prices at the time of delivery. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through revenue each period prior to final settlement. Market changes in the

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prices of metals between the delivery and final settlement dates will result in adjustments to revenues related to previously recorded sales of concentrate. Sales are recorded net of charges for treatment, refining, smelting losses and other charges negotiated with the buyer. These charges are estimated upon delivery of concentrates based on contractual terms and adjusted to reflect actual charges at final settlement. Historically, actual charges have not varied materially from the Company's initial estimates.

4. Gold and Silver Rounds/Bullion

The Company periodically purchases gold and silver bullion on the open market for investment purposes and to use in its dividend exchange program under which shareholders may exchange their cash dividends for minted gold and silver rounds. During the six months ended June 30, 2018 and 2017, the Company purchased nil ounces and 151.55 ounces, respectively, of gold bullion.

At June 30, 2018 and December 31, 2017, the Company's holdings of rounds/bullion, using quoted market prices, consisted of the following:

	2018			2017		
	Ounces	Per Ounce	Amount (in thousands)	Ounces	Per Ounce	Amount (in thousands)
Gold	1,904	$ 1,250	$ 2,380	1,905	$ 1,291	$ 2,459
Silver	80,099	$ 16.03	1,284	80,224	$ 16.87	1,353
Total holdings			$ 3,664			$ 3,812

5. Inventories, net

At June 30, 2018 and December 31, 2017, inventories, net consisted of the following:

	2018	2017
	(in thousands)	
Stockpiles - underground mine	$ 1,165	$ 1,450

Stockpiles - open pit mine	132	101
Concentrates and doré	2,123	2,367
Materials and supplies (1)	9,122	7,718
Total	$ 12,542	$ 11,636

(1) Net of reserve for obsolescence of $734 and $743, respectively.

6. Income Taxes

The Company recorded income tax expense of $1.8 million and $5.4 million for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017, the Company recorded income tax expense of $0.9 million and $3.9 million, respectively. The Company's annualized effective rate differs from the U.S. corporate rate of 21% primarily due to differences in statutory rates for income and mining taxes in Mexico.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation (the "Tax Act"), which significantly revised the U.S. corporate income tax law by lowering the U.S. federal corporate income tax rate from 35% to 21%, implementing a territorial tax system, imposing a one-time tax on foreign unremitted earnings and setting limitations on deductibility of certain costs, among other things. The Company has not revised any of the 2017 provisional estimates under SAB No. 118 and ASU No 2018-05. The Company continues to gather information and is awaiting further guidance from the IRS, SEC and FASB on the Tax Act.

The Company periodically transfers funds from its Mexican wholly-owned subsidiary to U.S. in the form of dividends. Mexico requires a 10% withholding tax on dividends to foreign parent companies on all post-2013 earnings. Dividends from earnings generated prior to 2014 were exempted from the new dividend withholding tax. The Company plans to distribute post-2013 earnings from Mexico beginning in 2018. According to the existing

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U.S. – Mexico tax treaty, the dividend withholding tax between these countries is limited to 5% if certain requirements are met. Based on the Company's review of these requirements, it estimates it will pay a 5% withholding tax on dividends received from Mexico in 2018. The impact of the planned annual dividends for 2018 is reflected in the estimated annual effective tax rate.

In 2015, the Mexican government approved a 2016 Federal Revenue Act that provides tax incentives, including tax credits on Mexican Excise Duty (a.k.a., IEPS), for the acquisition of combustible fossil fuels to be used in productive processes. The Company's Mexican operations utilize a significant amount of diesel fuel for power generation that qualifies for such tax credits. These tax credits can be applied against income taxes payable, as well as other income tax withholdings during the year. In the three and six months ended June 30, 2018, the Company recorded $1.1 million and $2.1 million, respectively, of fuel tax credits. For the three and six months ended June 30, 2017, the Company recorded $0.9 million and $1.6 million, respectively, of fuel tax credits. These fuel tax credits were used to offset production costs and such credits were applied against the income tax payable.

As of June 30, 2018, the Company believes that it has no liability for uncertain tax positions.

7. Prepaid Expenses and Other Current Assets

At June 30, 2018 and December 31, 2017, prepaid expenses and other current assets consisted of the following:

	2018	2017
	(in thousands)	
Advances to suppliers	$ 423	$ 163
Prepaid insurance	665	869
Vendor deposits	224	501
IVA taxes receivable, net	111	-
Other current assets	238	234
Total	$ 1,661	$ 1,767

8. Property, Plant and Mine Development, net

At June 30, 2018 and December 31, 2017, property, plant and mine development, net consisted of the following:

	2018	2017
	(in thousands)	
Asset retirement costs	$ 969	$ 1,079
Construction-in-progress (1)	17,844	10,838
Furniture and office equipment	1,711	1,664
Land	242	242
Light vehicles and other mobile equipment	2,244	2,211
Machinery and equipment	23,960	22,916
Mill facilities and infrastructure	10,817	10,075
Mineral interests and mineral rights	17,958	17,658
Mine development	63,760	56,957
Software and licenses	1,659	1,678
Subtotal (2) (3)	141,164	125,318
Accumulated depreciation and amortization	(50,040)	(42,719)
Total	$ 91,124	$ 82,599

(1) Includes Isabella Pearl asset and development costs of $11.3 million and $7.4 million at June 30, 2018 and December 31, 2017, respectively.
(2) Includes $1.6 million of assets recorded under capital leases at June 30, 2018 and December 31, 2017. Please see Note 12 for additional information.
(3) Includes accrued capital expenditures of $2.0 and $1.0 million at June 30, 2018 and December 31, 2017, respectively.

During three months ended June 30, 2018, the Company commenced development and construction of the mine and processing facilities at its Isabella Pearl property. As result of this decision, the Company began capitalizing development and construction costs associated with Isabella Pearl.

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The Company recorded depreciation and amortization expense of $3.7 million and $7.4 million for the three and six months ended June 30, 2018, respectively. For the three and six months ended June 30, 2017, the Company recorded $4.0 million and $6.7 million, respectively.

9. Accrued Expenses and Other Current Liabilities

At June 30, 2018 and December 31, 2017, accrued expenses and other current liabilities consisted of the following:

	2018	2017
	(in thousands)	
Accrued insurance	$ 88	$ 662
Accrued royalty payments	2,585	1,805
Dividends payable	96	95
IVA taxes payable, net	-	274
Other payables	249	15
Total	$ 3,018	$ 2,851

10. Reclamation and Remediation

The Company's reclamation and remediation obligations primarily relate to the Aguila Project. The following table presents the changes in reclamation and remediation obligations for the six months ended June 30, 2018 and year ended December 31, 2017:

	2018	2017
	(in thousands)	
Reclamation liabilities – balance at beginning of period	$ 2,005	$ 1,907
Changes in estimate	-	10
Foreign currency exchange (gain) loss	(15)	88
Reclamation liabilities – balance at end of period	1,990	2,005
Asset retirement obligation – balance at beginning of period	941	518
Changes in estimate	-	366

Accretion expense	40	35
Foreign currency exchange (gain) loss	(10)	22
Asset retirement obligation – balance at end of period	971	941
Total period end balance	$ 2,961	$ 2,946

The Company's reclamation and remediation obligations as of June 30, 2018 and December 31, 2017 were discounted using a discount rate of 8%.

The Company is required to post bonds with the Bureau of Land Management ("BLM") for reclamation of planned mineral exploration and development programs associated with the Company's mineral properties located on BLM lands in the United States. As a part of the permitting process for the Isabella Pearl project, the Company is currently required to have a reclamation bond of approximately $9.2 million held with the BLM. The Company purchased a surety contract for the reclamation bond which did not require any cash collateral. The Company is required to maintain the reclamation bond until all abandonment and remediation obligations have been completed to the satisfaction of the BLM. The surety contract names the Company's subsidiary Walker Lane Minerals Corp. as an indemnitor to the surety agreement. The surety may require additional collateral to be placed into the reclamation deposit account at their discretion. As of June 30, 2018, the Company did not incur any significant disturbances related to the Isabella Pearl project, therefore no reclamation and remediation liability has been recorded.

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11. Loan Payable

On August 8, 2017, the Company entered into a 48-month loan agreement in the amount of $2.4 million for the purchase of certain equipment. The loan bears annual interest of 4.48%, is collateralized by the equipment, and requires monthly principal and interest payments of $0.05 million. As of June 30, 2018, there is an outstanding balance of $1.9 million which approximates its fair value. Scheduled minimum repayments are $0.3 million for the remainder of 2018, $0.6 million in 2019, $0.6 million in 2020, and $0.4 million in 2021. The loan is subject to a prepayment penalty, ranging from 1% to 3% of the outstanding loan balance at time of full repayment, depending on the time of repayment.

12. Capital Lease

The Company has a capital lease agreement for certain equipment. The lease bears annual imputed interest of 5.95% and requires monthly principal, interest, and sales tax payments of $0.04 million. Scheduled minimum annual payments as of June 30, 2018 are as follows (in thousands):

Year Ending December 31:	
2018	$ 232
2019	461
2020	461
2021	397
Total minimum obligations	1,551
Interest portion	(139)
Present value of net minimum payments	1,412
Less: current portion	(393)
Non-current portion	$ 1,019

13. Commitments and Contingencies

Operating leases

The Company also leases equipment and facilities under non-cancelable operating leases expiring at various dates through 2021. The Company also leases its office in Colorado Springs from a related party under a non-cancelable operating lease which expires in 2019. Future minimum lease payments under operating leases are as follows:

	Payments due by Period					
	Total	2018	2019	2020	2021	2022 and Thereafter
	(in thousands)					
Operating leases	$ 361	$ 102	$ 113	$ 74	$ 72	$ -

Other Commitments

As of June 30, 2018, the Company has equipment purchase commitments aggregating approximately $2.3 million.

14. Embedded Derivatives

Concentrate sales contracts contain embedded derivatives due to the provisional pricing terms for unsettled deliveries. At the end of each reporting period, the Company records an adjustment to accounts receivable and revenue to reflect the mark-to-market adjustments for outstanding provisional invoices based on metal forward prices. Please see Note 18 for additional information.

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The following table summarizes the Company's unsettled sales contracts as of June 30, 2018 with the quantities of metals under contract subject to final pricing occurring through September 2018:

	Gold (ounces)	Silver (ounces)	Copper (tonnes)	Lead (tonnes)	Zinc (tonnes)
Under contract	8,928	891,195	740	2,941	7,959
Average forward price (per ounce or tonne)	$ 1,318	$ 16.61	$ 6,934	$ 2,440	$ 3,263

15. Stock-Based Compensation

During 2016, the Company replaced its Amended and Restated Stock Option and Stock Grant Plan (the "Prior Plan") with the Gold Resource Corporation 2016 Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan allows for the issuance of up to 5 million shares of common stock in the form of incentive and non-qualified stock options, stock appreciation rights, RSUs, stock grants, stock units, performance shares, performance share units and performance cash. Additionally, pursuant to the terms of the Incentive Plan, any award outstanding under the Prior Plan that is terminated, expired, forfeited, or canceled for any reason, will be available for grant under the Incentive Plan.

During the six months ended June 30, 2018, a total of 14,964 restricted stock units ("RSUs") vested and shares were issued with an intrinsic and a fair value of $0.1 million.

During the six months ended June 30, 2018, stock options to purchase an aggregate of 1,361,259 shares of the Company's common stock were exercised at a weighted average exercise price of $3.14 per share. Of that amount, 945,000 of the options were exercised on a net exercise basis, resulting in 244,345 shares being delivered. The remaining 416,259 options were exercised for cash.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Stock options	$ 181	$ 133	$ 355	$ 264

Restricted stock units	68	50	130	119
Total	$ 249	$ 183	$ 485	$ 383

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Production costs	$ 20	$ 15	$ 12	$ 29
General and administrative expenses	201	161	424	340
Exploration expense	28	7	49	14
Total	$ 249	$ 183	$ 485	$ 383

The Company sponsors a short-term incentive plan for its executive officers that provides the grant of either cash or stock-based bonus awards payable upon achievement of specified performance metrics (the “STIP”). As of June 30, 2018, $0.2 million has been accrued and is included in accrued expenses and other current liabilities on the accompanying Condensed Consolidated Balance Sheet.

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16. Other Expense, net

Other expense, net, consisted of the following:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Unrealized currency exchange loss (gain)	$ 1,100	$ (625)	$ 74	$ (27)
Realized currency exchange (gain) loss	(735)	929	589	993
Unrealized loss (gain) from gold and silver rounds/bullion, net (1)	159	148	141	(156)
Loss on disposal of fixed assets	-	205	5	301
Other income	(14)	(48)	(21)	(38)
Total	$ 510	$ 609	$ 788	$ 1,073

(1) Gains and losses due to changes in fair value are non-cash in nature until such time that they are realized through cash transactions. For additional information regarding our fair value measurements and investments, please see Note 18.

17. Net Income per Common Share

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

The effect of the Company's dilutive securities is calculated using the treasury stock method and only those instruments that result in a reduction in net income per common share are included in the calculation. Options to purchase 3.0 million and 2.8 million shares of common stock at weighted average exercise prices of $11.65 and $9.42 were outstanding at June 30, 2018 and 2017, respectively, but were not included in the computation of diluted weighted average common shares outstanding, as the exercise price of the options exceeded the average price of the Company's common stock during those periods, and therefore are anti-dilutive.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income (in thousands)	$ 3,754	$ 864	$ 9,211	$ 5,240
Basic weighted average shares of common stock outstanding	57,315,472	56,839,823	57,218,389	56,818,406
Dilutive effect of share-based awards	998,651	536,115	934,961	926,411
Diluted weighted average common shares outstanding	58,314,123	57,375,938	58,153,350	57,744,817
Net income per share:				
Basic	$ 0.07	$ 0.02	$ 0.16	$ 0.09
Diluted	$ 0.06	$ 0.02	$ 0.16	$ 0.09

18. Fair Value Measurement

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

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

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

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

As required by accounting guidance, assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table sets forth certain of the Company's assets measured at fair value by level within the fair value hierarchy as of June 30, 2018 and December 31, 2017:

	2018	2017	Input Hierarchy Level
	(in thousands)		
Cash and cash equivalents:			
Bank deposits	$ 26,645	$ 22,390	Level 1
Gold and silver rounds/bullion	3,664	3,812	Level 1
Accounts receivable:			
Receivables from provisional concentrate sales	1,727	2,884	Level 2
	$ 32,036	$ 29,086	

Cash and cash equivalents consist primarily of cash deposits and are valued at cost, which approximates fair value. Gold and silver rounds/bullion consist of precious metals used for investment purposes and in the dividend program which are valued using quoted market prices. Please see Note 4 for additional information. The Company determined that it was not practicable to estimate the fair value of its non-current investment in equity securities of $0.2 million and as such, it is reported at cost. There have been no events or changes in circumstances that may have a significant adverse effect on the investment.

Trade accounts receivable include amounts due to the Company for deliveries of concentrates and doré sold to customers. Concentrate sales contracts provide for provisional pricing as specified in such contracts. These sales contain an embedded derivative related to the provisional pricing mechanism which is bifurcated and accounted for as a derivative. At the end of each reporting period, the Company records an adjustment to sales to reflect the mark-to-market of outstanding provisional invoices based on the forward price curve. Because these provisionally priced sales have not yet settled as of the reporting date, the mark-to-market adjustment related to these invoices is included in accounts receivable as of each reporting date. At June 30, 2018 and December 31, 2017, the Company had an unrealized loss of $2.3 million and an unrealized gain of $0.4 million, respectively, included in its accounts receivable on the accompanying Condensed Consolidated Balance Sheets. Please see Note 14 for additional information.

Gains and losses related to changes in the fair value of these financial instruments were included in the Company's Condensed Consolidated Statements of Operations as shown in the following table:

	Three months ended June 30,		Six months ended June 30,		
	2018	2017	2018	2017	Statement of Operations Classification
	(in thousands)				
Realized/unrealized derivative (loss) gain	$ (2,303)	$ (24)	$ (1,732)	$ 511	Sales, net
Gold and silver rounds/bullion (loss) gain	$ (160)	$ (148)	$ (144)	$ 154	Other expense, net

Realized/Unrealized Derivatives

The following tables summarize the Company's realized/unrealized derivatives (in thousands).

	Gold	Silver	Copper	Lead	Zinc	Total
Three months ended June 30, 2018						
Realized gain (loss)	$ -	$ -	$ -	$ -	$ -	$ -
Unrealized (loss) gain	$ (38)	$ 13	$ (103)	$ (138)	$ (2,037)	$ (2,303)

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	Gold	Silver	Copper	Lead	Zinc	Total
Three months ended June 30, 2017						
Realized gain (loss)	$ 177	$ 236	$ 23	$ 12	$ (220)	$ 228
Unrealized (loss) gain	$ (138)	$ (236)	$ (7)	$ 2	$ 127	$ (252)

	Gold	Silver	Copper	Lead	Zinc	Total
Six months ended June 30, 2018						
Realized gain (loss)	$ 14	$ (53)	$ 53	$ (5)	$ 991	$ 1,000
Unrealized gain (loss)	$ 62	$ 162	$ (203)	$ (161)	$ (2,592)	$ (2,732)

	Gold	Silver	Copper	Lead	Zinc	Total
Six months ended June 30, 2017						
Realized gain (loss)	$ 129	$ 190	$ 37	$ 48	$ (177)	$ 227
Unrealized gain (loss)	$ 32	$ (9)	$ 19	$ 60	$ 182	$ 284

19. Supplementary Cash Flow Information

Other operating adjustments and write-downs within the net cash provided by operations on the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
	(in thousands)	
Unrealized loss (gain) on gold and silver rounds/bullion	$ 141	$ (156)
Unrealized foreign currency exchange loss (gain)	74	(27)
Loss on disposition of fixed assets	5	301
Other	144	30
Total other operating adjustments	$ 364	$ 148

20. Segment Reporting

The Company has organized its operations into two geographic regions. The geographic regions include Oaxaca, Mexico and Nevada, U.S.A. and represent the Company's operating segments. Intercompany revenue and expense amounts have been eliminated within each segment in order to report on the basis that management uses internally for evaluating segment performance. The Company's business activities that are not considered operating segments are included in Corporate and Other.

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

	Mexico	Nevada	Corporate and Other	Consolidated
Three months ended June 30, 2018				
Revenue	$ 30,768	$ -	$ -	$ 30,768
Exploration expense	490	726	35	1,251
Net income (loss)	7,036	(791)	(2,491)	3,754
Capital expenditures	5,832	3,055	-	8,887