

GOLD RESOURCE CORP

Form 424B3

October 17, 2008

**PROSPECTUS**

**GOLD RESOURCE CORPORATION**

**11,133,545 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 11,133,545 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 39 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 16, 2008, the closing price of our common stock was \$2.22.

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

**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 October 16, 2008**

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**TABLE OF CONTENTS**

	<b>Page</b>
Prospectus Summary	1
Risk Factors	4
Business and Properties	12
Market for Common Stock and Related Stockholder Information	20
Management's Discussion and Analysis or Plan of Operation	21
Management	28
Security Ownership of Certain Beneficial Owners and Management	34
Selling Shareholders	35
Plan of Distribution	39
Description of Capital Stock	40
Shares Eligible For Future Sale	41
Where You Can Find More Information	42
Legal Matters	42
Experts	42
Financial Statements	F-1
About This Prospectus	Back Cover

**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 four properties located in the southern state of Oaxaca, Mexico. Our four properties are called the *El Aguila* property, the *Las Margaritas* property, the *El Rey* property and the *Solaga* 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 or the *Solaga* property.

We leased an interest in several mineral claims in 2002. We lease 100% of the mineable interest in the approximately 1,896 hectares (4,685 acres)<sup>(1)</sup> which comprise the *El Aguila* property and *Las Margaritas* property and hold mineral concessions for an additional 8,492 hectares (20,984 acres) in the surrounding area. At the *El Aguila* property, we have drilled approximately 357 holes totaling 47,019 meters (155,163 feet) in one section of the property and have encountered gold and silver mineralized material. We are continuing our exploration efforts on this property as well as moving forward to develop this property for mineral production, which we refer to as the *El Aguila* Project.

In 2005, we obtained some additional mineral claims in the State of Oaxaca by filing mineral concessions with the Mexican government for the *El Rey* property. During 2007 and the first three quarters of 2008, we drilled 48 holes totaling 5,293 meters (17,467 feet) on this property.

In February 2007, we leased a 100% interest in a property we refer to as the *Solaga* property. We have conducted no exploration of this property to date.

Our operations in Mexico are conducted through our wholly-owned Mexican subsidiaries, Don David Gold, S.A. de C.V. and Golden Trump 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.

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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.

**Recent Events**

Based on the results of our exploration program to date at the *El Aguila* property, we have decided to move forward with our plans to develop the *El Aguila* property (the *El Aguila* Project ) for production and hope to begin commercial production during the first quarter of 2009, subject to obtaining all required permits and regulatory approvals, necessary funding and equipment delivery schedules. We have reached agreements with the local agrarian cooperatives regarding surface use of the *El Aguila* property which is a necessary step in order to obtain federal mining permits. We have started purchasing equipment in connection with construction at the site. In January 2008, we received our first federal permit from the Mexican government to construct a road at the site and construction on the road is substantially complete. We recently received our permit to construct the mill and have commenced construction for the mill facility. We have applied for and are awaiting approval of additional permits necessary to begin constructing the mine and for the tailings. While we believe these are promising developments which strengthen the likelihood we will be able to begin production at the *El Aguila* Project, there can be no assurance we will be successful in this endeavor.

On December 5, 2007, we completed a private placement of 5,558,500 shares of our common stock for \$4.00 per share, from which we received \$22,234,000 aggregate gross proceeds. We expect to use a significant amount of the proceeds from the private placements to fund the development of the *El Aguila* Project. See **MANAGEMENT S DISCUSSION AND ANALYSIS** for additional information regarding this offering.

**The Offering**

Common Stock outstanding before the Offering 34,324,619 shares<sup>(1)(2)(3)</sup>

Common Stock outstanding after the Offering 34,324,619 shares<sup>(1)(2)(3)</sup>

Common Stock offered by the Selling Shareholders 11,133,545

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

<sup>(1)</sup> 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.

<sup>(2)</sup> Excludes 3,783,000 shares of common stock underlying options which are presently exercisable.

<sup>(3)</sup> 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, 2007 and 2006 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 quarters ended June 30, 2008 and 2007 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 OR PLAN OF OPERATION**, our financial statements and related notes included elsewhere in this prospectus.

	<b>Balance Sheet Data</b>	
	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>(unaudited)</b>	
Cash and Cash Equivalents	\$ 12,138,644	\$ 22,007,216
Total Assets	15,837,419	22,557,576
Current Liabilities	1,075,897	768,452
Total Liabilities	1,075,897	768,452
Shareholders' Equity	14,761,522	21,789,124

	<b>Operating Data</b>			
	<b>Six months ended June 30,</b>		<b>Year ended December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>			
Other Income	\$ 264,950	\$ 118,811	\$ 242,513	\$ 57,089
General and Administrative Expenses	818,789	811,596	1,809,154	1,470,061
Stock Compensation	1,913,150	323,010	730,450	626,900
Property Acquisition Related Costs		52,662	20,581	100,000
Exploration and Evaluation	2,838,461	1,782,308	5,711,190	528,851
Engineering and Construction	3,596,871			
Net Comprehensive (Loss)	(9,015,752)	(2,890,766)	(8,166,281)	(2,667,218)
Net (Loss) per Share	\$ (0.26)	\$ (0.10)	\$ (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. If we are unable to prevent events that have a negative effect from occurring, then our business may suffer.*

### Risks Relating to Our Company

*Since we are a new business with 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 beginning 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 new businesses, including the lack of an established operating history, 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 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 will first 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.

***We are dependent upon receipt of additional working capital to fund our business plan.*** We may require additional capital for exploration of one or more of our existing properties, or acquisition of additional properties. Subject to obtaining all required permits and regulatory approvals, we will require additional capital in addition to the funds recently raised in our private placement to fund the construction of the *El Aguila* Project. This work is anticipated to entail construction of a mill as well as other improvements to the property and we will be required to hire additional staff. In addition, we will require additional working capital to continue to fund operations pending sale of any gold or other metals.

***If we are unable to achieve gold and silver production levels anticipated from our El Aguila Project, our financial condition and results of operation will be adversely affected.*** We have proceeded with the 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, 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 and if the recoveries are less than predicted in our testwork. 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. There is no assurance that mineral recoveries in small scale laboratory tests will be duplicated in actual mining conditions.

***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 proposed mine and mill will be 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 Mexican 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 property which we are currently exploring for mineralization is 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, these events may still negatively impact our business operations if Oaxaca experiences another such event. Our exploration 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 site. 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.

***A portion of our primary exploration target is subject to a lease in favor of a third party which provides for royalties on production.*** We lease the *El Aguila* property, which is part of our *El Aguila* Project from a third party. The lease 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. *Ejidors* 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 commercial feasibility and potential profitability of our properties is 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 market price of gold historically has fluctuated significantly. The price of gold is affected by numerous factors beyond our control, including inflation, the relative strength of the U.S. Dollar and other currencies, global and regional demand, the sale of gold by central banks, the political and economic conditions of major gold producing countries throughout the world and a number of other factors.

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The volatility in gold prices is illustrated by the following table, which sets forth, for the periods indicated (calendar year), the high and low prices in U.S. Dollars per ounce of gold, based on the London P.M. fix.

### Gold Price Per Ounce (\$)

Year	High	Low
1998	\$ 313	\$ 273
1999	326	253
2000	312	263
2001	293	256
2002	349	278
2003	416	320
2004	454	375
2005	537	411
2006	725	525
2007	691	608
January 1, 2008 through September 30, 2008	1,011	741

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 and 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 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 *Manifestacion 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. Our operations are 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:

- encountering unusual or unexpected formations;
- environmental pollution;
- personal injury, flooding and landslides;
- variations in grades of ore;
- labor disputes; and
- decrease in the value of mineralized material due to lower gold and silver prices.

We currently have no insurance to guard against any of these risks. 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 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 are our only full-time 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 only personnel at this time. We have no life insurance on any individual at this time, and we may be unable to hire a suitable replacement for them on favorable terms, should that become necessary.

In addition to our full-time employees and our manager in Mexico, we also engage approximately 20 people in Mexico through an outsourcing agency. We believe these individuals make important contributions to our company and there is no assurance we could replace them with equally as competent personnel.

***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, 2007. 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.

*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**

*The sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.* Virtually all of our presently issued and outstanding common stock is registered with the SEC for resale by our shareholders. It is likely that market sales of large amounts of common stock (or the potential for those sales even if they do not actually occur) may cause the market price of our common stock to decline, which may make it difficult to sell our common stock in the future at a time and price which we deem reasonable or appropriate and may also cause you to lose all or a part of your investment.

*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 OTCBB over the past three months has averaged approximately 84,500 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.

*The exercise of outstanding options and future issuances of our common stock will dilute current shareholders and may reduce the market price of our common stock.* As of the date of this prospectus, we had outstanding options to purchase a total of 3,783,000 shares of our common stock, which if completely exercised, would dilute existing shareholders' ownership by approximately 11%. Many of the outstanding options are exercisable at prices significantly below the current market price of our common stock as of October 16, 2008. If the market price of our stock remains at or above the exercise price, it is likely that these options will be exercised. Issuance of additional securities underlying outstanding options in the future will dilute the percentage interest of existing shareholders and may reduce the market price of our common stock.

***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 29% 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, these individuals 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.

***Since our common stock is not presently listed on a national securities exchange, trading in our shares will likely 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.

***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.

*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 will initially be 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 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**

**Our History**

We are engaged in the exploration of gold and silver mining properties, primarily in Mexico. We were organized under the laws of the State of Colorado in 1998. We hold a 100% interest in four properties in Mexico's southern State of Oaxaca. We have undertaken efforts to construct a mill and a mine at our flagship property, the *El Aguila* Project, which would be our first mine upon successful start-up, which is targeted for 2009.

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.

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 two private placements of our common stock; one in December 2006 for gross proceeds of \$5,174,000 and one in December 2007 for gross proceeds of \$22,234,000. We used the initial IPO and the 2006 private placement funds to explore 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 anticipate using the funding provided by our December 2007 private placement to fund these efforts. See **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION** for more information.

**Our Properties**

We currently have an interest in four properties, the *El Aguila* property, the *Las Margaritas* property, the *El Rey* property and the *Solaga* property. We lease 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 our consultant in Mexico. We own mining concessions for the *El Rey* 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, which are not part of the concessions leased from our consultant, and are not subject to the production royalty, 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 received a federal permit in February 2008 to upgrade this road and we have substantially completed construction.



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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. Through June 2008, we have spent or incurred approximately \$13,651,000 in acquisition, exploration and related costs for the *El Aguila* Project. As of September 2008, we have drilled 357 holes for a total of 47,019 meters (155,163 feet) at the *El Aguila* Project.

*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 \$20,000,000. We anticipate 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 have purchased or ordered most, but not all, of the equipment needed for the mill. We recently received permit approval to begin construction of the mill and have commenced construction. We are awaiting receipt of the necessary permits from the appropriate Mexican federal agencies for our mine and tailings activities.

As discussed in further detail below, our drilling program to date has revealed an area of mineralization at the *El Aguila* Project which we believe is continuous, shallow and sub-horizontal and lends itself to open pit mining. During our first year of anticipated production, we expect that mining will be undertaken at this near-surface mineralization area. Additionally, we have identified an area we refer to as the *La Arista* area discussed in more detail below, which contains mineralization that will likely require underground mining. We are targeting the *La Arista* area for mining during our second year of production activity, 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.

In October 2007, we acquired an additional parcel of land which is approximately five hectares in size approximately six kilometers from the *El Aguila* Project, together with a permitted water well. The land and well cost us \$152,522. Construction is underway at this parcel of land for employee housing as well as a health clinic which will be available to employees and local residents. We intend to use water from the well for drinking, sanitation and production purposes.

*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 2007 drilling program identified a new area of mineralization at the *El Aguila* Project that we call the *La Arista* area. 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 proposed *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 (17,467 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.

### **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 Totolapam Ejido* 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 ri