Synthetic Biologics, Inc.
Form 424B2
December 13, 2013

Filed Pursuant to Rule 424(b)(2)

Registration No. 333-189794

PROSPECTUS SUPPLEMENT

(To the Prospectus dated July 16, 2013)

11,500,000 Shares

Common Stock

We are offering 11,500,000 shares of our common stock, par value $0.001 per share, pursuant to this prospectus supplement and the accompanying prospectus.

Our common stock is listed on the NYSE MKT under the symbol "SYN." On December 10, 2013, the closing price of our common stock was $1.35 per share.

As of December 11, 2013, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $44,922,912, based on 44,654,414 shares of outstanding common stock, of which approximately 17,262,394 shares are held by affiliates, and a per share price of $1.64 based on the closing sale price of our common stock on October 22, 2013. We have not offered any securities during the past twelve months pursuant to General Instruction I.B.6 of Form S-3.

Our business and an investment in our common stock involve significant risks. See "Risk Factors" beginning on page S-7 of this prospectus supplement and on page 5 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$1.00	$11,500,000
Underwriting discount[1]	$0.065	$747,500
Proceeds, before expenses, to us	$0.935	$10,752,500

(1) The underwriters will receive compensation in addition to the underwriting discount. See "Underwriting" beginning on page S-12 of this prospectus supplement for a description of compensation payable to the underwriters.

We have granted a 45-day option to the underwriters solely to cover over-allotments, if any.

The underwriters expect to deliver the shares against payment therefor on or about December 17, 2013.

Aegis Capital Corp

December 11, 2013

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is part of the registration statement that we filed with the Securities and Exchange Commission (the "SEC") using a "shelf" registration process and consists of two parts. The first part is this prospectus supplement, including the documents incorporated by reference, which describes the specific terms of this offering. The second part, the accompanying prospectus, including the documents incorporated by reference, gives more general information, some of which may not apply to this offering. Generally, when we refer only to the "prospectus," we are referring to both parts of this document combined. This prospectus supplement may add to, update or change information in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement or the accompanying prospectus.

If information in this prospectus supplement is inconsistent with the accompanying prospectus or with any document incorporated by reference that was filed with the SEC before the date of this prospectus supplement, you should rely on this prospectus supplement. This prospectus supplement, the accompanying prospectus and the documents incorporated into each by reference include important information about us, the securities being offered and other information you should know before investing in our securities. You should also read and consider information in the documents we have referred you to in the section of this prospectus supplement and the accompanying prospectus entitled "Where You Can Find More Information."

You should rely only on this prospectus supplement, the accompanying prospectus and any free writing prospectus we may provide to you in connection with this offering and the information incorporated or deemed to be incorporated by reference therein. We have not authorized anyone to provide you with information that is in addition to or different from that contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not offering to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than as of the date of this prospectus supplement or the accompanying prospectus, as the case may be, or in the case of the documents incorporated by reference, the date of such documents regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or any sale of our securities. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

No action has been or will be taken in any jurisdiction by us or the underwriters that would permit a public offering of the common stock or the possession or distribution of this prospectus supplement and the accompanying prospectus in any jurisdiction, other than in the United States. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about, and observe any restrictions relating to, the offering of the common stock and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained or incorporated by reference in this prospectus supplement or in the accompanying prospectus may include forward-looking statements that reflect our current views with respect to our ongoing and planned clinical trials, business strategy, business plan, financial performance and other future events. These statements include forward-looking statements both with respect to us, specifically, and the biotechnology sector, in general. We make these statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “estimate,” “may,” “should,” “ “will” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

All forward-looking statements involve inherent risks and uncertainties, and there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, those factors set forth under the caption “Risk Factors” in this prospectus supplement and in the accompanying prospectus and under the captions “Risk Factors,” “Business,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this prospectus supplement and the accompanying prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materializes, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we anticipate. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this Note. Before purchasing any shares of common stock, you should consider carefully all of the factors set forth or referred to in this prospectus supplement and in the accompanying prospectus that could cause actual results to differ.

INDUSTRY AND MARKET DATA

We obtained the industry and market data in this prospectus supplement from our own research as well as from industry and general publications, surveys and studies conducted by third parties. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry in which we operate is necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk Factors” and elsewhere in this prospectus supplement. These and other factors could cause results to differ materially from those expressed in the estimates made by the independent parties and by us.

PROSPECTUS SUPPLEMENT SUMMARY

The items in the following summary are described in more detail elsewhere in this prospectus supplement and in the documents incorporated by reference herein. This summary provides an overview of selected information and does not contain all the information you should consider before investing in our common stock. Therefore, you should read the entire prospectus supplement and any free writing prospectus that we have authorized for use in connection with this offering carefully, including the "Risk Factors" section and other documents or information included or incorporated by reference in this prospectus supplement before making any investment decision.

Our Business

We are a biotechnology company focused on the development of biologics for the prevention and treatment of serious infectious diseases. We are developing an oral enzyme for the prevention of *C. difficile* infections, and a series of monoclonal antibody therapies for the treatment of Pertussis and *Acinetobacter* infections. In addition, we are developing a drug candidate for the treatment of relapsing-remitting multiple sclerosis and cognitive dysfunction in multiple sclerosis, and have partnered the development of a treatment for fibromyalgia.

Product Pipeline:

Summary of Infectious Disease Programs:

· ***Clostridium difficile (C. difficile, C. diff)*** **infections:** We are in preclinical development with SYN-004, a novel second-generation oral enzyme drug candidate, for co-administration with commonly used IV antibiotics intended to prevent the development of severe effects of *C. diff* infections, the leading cause of hospital acquired infections, that generally occur secondary to treatment with intravenous antibiotics. Designed to be given orally to protect the gut while certain IV beta-lactam antibiotics (penicillins and cephalosporins) fight the primary infection, SYN-004 is believed to have a similar profile to its first-generation predecessor, which demonstrated favorable protection of the gut flora (microbiome) during treatment with certain penicillins, with the potentially added ability to act against a broader spectrum of IV beta-lactam antibiotics. Beta-lactam antibiotics are a mainstay in hospital infection management and include the commonly used penicillin and cephalosporin classes of antibiotics. Roughly 14.4 million patients are administered "SYN-004 target" IV beta-lactam antibiotics annually, representing an estimated target market for SYN-004 of 117.6 million beta-lactam doses purchased by U.S. hospitals. While the final dosing regimen for SYN-004 is yet to be determined, the addressable market is extremely significant. Currently there are no approved treatments designed to protect the microbiome from the damaging effects of IV antibiotics. This worldwide opportunity could represent a potential multi-billion dollar market.* In October 2013, we initiated manufacturing of SYN-004 material to support our planned preclinical and clinical studies.

*This information is an estimate derived from the use of information under license from the following IMS Health Incorporated information service: CDM Hospital database for full year 2012. IMS expressly reserves all rights, including rights of copying, distribution and republication.

- **Pertussis:** In December 2012, in collaboration with Intrexon Corporation (NYSE: XON) (“Intrexon”), we initiated development of a monoclonal antibody (mAb) therapy for the treatment of Pertussis infections, more commonly known as whooping cough. We are developing a mAb therapy, SYN-005, designed to target and neutralize the pertussis toxin, in order to reduce the mortality rate in infants and potentially shorten the duration of chronic cough in afflicted adults. To further the development of this potential therapy for Pertussis, we entered into an agreement with The University of Texas at Austin to license the rights to certain research and pending patents related to pertussis antibodies. According to the World Health Organization, each year, *B. pertussis* infection causes an estimated 300,000 deaths worldwide, primarily among young, unvaccinated infants.

- ***Acinetobacter* infections:** In September 2012, in collaboration with Intrexon, we initiated efforts to develop a mAb therapy for the treatment of *Acinetobacter* infections. Many strains of *Acinetobacter* are multidrug-resistant and pose an increasing global threat to hospitalized patients, wounded military personnel and those affected by natural disasters. A treatment for *Acinetobacter* infections represents a billion dollar market opportunity.

Summary of Multiple Sclerosis Program:

- Trimesta™ (oral estriol) is being developed as an oral once-daily treatment for relapsing-remitting multiple sclerosis (“MS”) in women. Patient enrollment is complete in this two-year, randomized, double-blind, placebo-controlled Phase II clinical trial being conducted at 15 centers in the United States. The primary endpoint is relapse rate at two years, with top-line results expected in 1H 2014. This trial is supported by grants exceeding $8 million, which should be sufficient to fund the trial through completion. Annual worldwide sales of current MS therapies are estimated at $14.1 billion.

- Trimesta is also being developed for the treatment of cognitive dysfunction in female MS patients. This 12-month randomized, double-blind, placebo-controlled Phase II clinical trial is being conducted at the University of California, Los Angeles (“UCLA”). The primary endpoint is the effect on cognitive function as assessed by Paced Auditory Serial Addition Test (“PASAT”). Patient enrollment is ongoing. The majority of the costs of this trial are being funded by grants from foundations and charitable organizations and we have pledged approximately $500,000 to UCLA to partially fund this trial payable over three years. An estimated 50-65% of MS patients are expected to develop disabilities due to cognitive dysfunction and there is currently no approved treatment.

Summary of Fibromyalgia Program:

- Effirma™ (flupirtine) is being developed for the treatment of fibromyalgia by Meda AB (Meda), a multi-billion dollar international pharmaceutical company. On May 6, 2010, we entered into a sublicense agreement with Meda covering all of our patents’ rights on the use of flupirtine for fibromyalgia in the United States, Canada and Japan. The sublicense agreement provides that all ongoing and future development costs are to be borne by Meda and we are entitled to receive certain payments if milestones are achieved and royalties on sales. According to Meda's 2012 Year-End Report filed in February 2013, Meda has received the go-ahead from the United States Food and Drug Administration ("FDA") to conduct a Phase II proof of concept study for the treatment of fibromyalgia. Meda also announced that the randomized, double-blind, placebo and active-controlled study of patients with fibromyalgia will be conducted at 25 clinics in the United States Based on an estimated annual price of $1,200 per fibromyalgia patient, we estimate that the total market potential in the United States is $6 billion.

In order to further prioritize our focus, we elected to discontinue further development of AEN-100 for the treatment of amyotrophic lateral sclerosis. However, we are seeking development partners for our zinc-based intellectual property and assets including, AEN-100.

Recent Developments

On December 5, 2013, we, through our newly formed, majority owned subsidiary, Synthetic Biomics, Inc. ("SYN Biomics"), entered into a worldwide exclusive license agreement (the "CSMC License Agreement") and option agreement (the "CSMC Option Agreement") with Cedars-Sinai Medical Center ("CSMC") for the right to develop, manufacture, use, and sell products for the human and veterinary therapeutic and prophylactic treatments for acute and chronic diseases discovered by an investigational team led by Mark Pimentel, M.D. at CSMC to be associated with pathogenic gastrointestinal microorganisms, including for example, irritable bowel syndrome (IBS), obesity and type 2 diabetes. The portfolio of intellectual property licensed to SYN Biomics under the License Agreement includes 9 issued U.S. patents, 1 issued European patent validated in 18 countries, 1 issued European patent validated in 3 countries, 2 issued Australian patents, and 1 issued Japanese patent as well as 13 pending U.S. and international patent applications for most fields of use and modalities (subject to certain agreed-upon exceptions); two pending U.S. patent applications are optioned to SYN Biomics under the Option Agreement."

The CSMC License Agreement provides that we will issue to CSMC 291,569 unregistered shares of Company common stock, subject to approval by the NYSE MKT, LLC, or in the event such shares are not issued within 30 days, pay to CSMC in the form of cash, an initial license fee and patent reimbursement fee of $150,000 and $220,000, respectively. The parties also entered into a Stock Purchase Agreement with respect to such stock issuance and other issuances of our unregistered shares of common stock that may be issued to CSMC in lieu of cash, including license fees, milestone payments expense reimbursements and options fees under the CSMC License Agreement or CSMC Option Agreement. Any and all such stock issuances by us shall be subject to the prior approval of the NYSE MKT, LLC. The CSMC License Agreement also provides that commencing on the second anniversary of the CSMC License Agreement, SYN Biomics will pay an annual maintenance fee, which payment shall be creditable against annual royalty payments owed under the CSMC License Agreement. In addition to royalty payments which are a percentage of Net Sales (as defined in the CSMC License Agreement) of Licensed Products (as defined in the CSMC License Agreement) and Licensed Technology products (as defined in the CSMC License Agreement), SYN Biomics is obligated to pay CMSC a percentage of any non-royalty sublicense revenues as well as additional consideration upon the achievement of the following milestones (the first two of which are payable in cash or our unregistered shares of stock at our option): (i) successful Phase I trial completion of the first Licensed Product or first Licensed Technology Product; (ii) successful Phase II trial completion of the first Licensed Product or first Licensed Technology Product; (iii) initiation of Phase III dosing for each additional indication of a Licensed Product or Licensed Technology Product; (iv) successful Phase III trial completion for each Licensed Product and each Licensed Technology Product; (v) the FDA's acceptance of a New Drug Application for each Licensed Product and each Licensed Technology Product; (vi) regulatory approval for each Licensed Product and each Licensed Technology Product; and (vii) the first commercial sale of each Licensed Product and each Licensed Technology Product. The stock issuances are subject to prior approval of the NYSE MKT, LLC. The CSMC License Agreement automatically terminates upon the occurrence of certain events and SYN Biomics has the right to terminate the CSMC License Agreement without cause, upon 6 months notice to CSMC however, upon such termination, SYN Biomics is obligated to pay a termination fee with the amount of such fee reduced: (i) if such termination occurs after an IND submission to the FDA but prior to completion of a Phase II clinical trial; (ii) reduced further if such termination is after completion of Phase II clinical trial but prior to completion of a Phase II clinical trial; and (iii) reduced to zero if such termination occurs after completion of a Phase III clinical trial.

Prior to the execution of the License Agreement, we issued shares of common stock of SYN Biomics to each of CSMC and Mark Pimentel, M.D. (the primary inventor of the intellectual property), representing 11.5% and 8.5%, respectively, of the outstanding shares of SYN Biomics (the “SYN Biomics Shares”). The Stock Purchase Agreements for the SYN Biomics Shares provide for certain anti-dilution protection until such time as an aggregate of $3,000,000 in proceeds from equity financings are received by SYN Biomics as well as a right, under certain circumstances in the event that the SYN Biomics Shares are not then freely tradeable, and subject to NYSE MKT, LLC approval, as of the 18 and 36 month anniversary date of the effective date of the Stock Purchase Agreements, for each of CSMC and the Mark Pimentel to exchange up to 50% of their SYN Biomics shares for unregistered shares of our common stock, with the rate of exchange based upon the relative contribution of the valuation of SYN Biomics to our public market valuation at the time of each exchange. The Stock Purchase Agreements also provide for tag-along rights in the event of the sale by us of our shares of SYN Biomics.

Pursuant to the terms of the CSMC Option Agreement, SYN Biomics has a period of six months to negotiate an exclusive license to develop, manufacture, use, and sell biologic products relating to the prevention, acute treatment and chronic treatment of irritable bowel syndrome or other indications utilized or derived from certain optioned patent applications pending completion of certain limited testing of technology embodied in the patents applications. The CSMC Option Agreement provides that, within 30 days of the execution of the CSMC Option Agreement, we are obligated to pay to CSMC a non-refundable option fee of 43,342 shares of our unregistered stock, or $50,000 cash in the event such issuance is not approved by NYSE MKT, LLC. In addition, SYN Biomics has the right to extend the option period for an additional six months, for an additional non–refundable extension fee of $25,000, payable in our unregistered shares of common stock having a market value of 110% of such amount, subject to approval of NYSE MKT, LLC, or in cash. At any time during the 6 or 12 month option period (if so extended) SYN Biomics has the right to exercise the option and negotiate an exclusive license to be optioned patent applications, which shall provide for (i) a $50,000 license issue fee plus reimbursement of patent expenses incurred by CSMC prior to the exclusive license payable to CSMC in our unregistered shares of stock having a market value of 110% of such amount, subject to approval of the NYSE MKT, LLC, or in cash, (ii) the same milestone payments, royalties and sublicense fees as are payable under the CSMC License Agreement, and (iii) such other customary terms and conditions CSMC typically includes in its license agreements.

In collaboration with Intrexon Corporation, and partially utilizing the intellectual property optioned or licensed from CSMC described in the CSMC Option Agreement, we and SYN Biomics intend to develop biologic approaches for the prevention, and acute and chronic treatment of a subset of irritable bowel syndrome (IBS) pathologies specifically caused by auto-antibodies. During the option period, we, SYN Biomics and Intrexon will seek to create and test a variety of biologic candidates for the treatment of IBS. This biologic program has been selected as the third target under our exclusive channel collaboration with Intrexon Corporation dated August 6, 2012.

On July 3, 2013, we entered into a Controlled Equity Offering[SM] Sales Agreement with Cantor Fitzgerald & Co. pursuant to which we may offer and sell shares of our common stock in an at-the-market public offering for up to $15,000,000 of shares of our common stock from time to time through Cantor Fitzgerald & Co., acting as agent (the "ATM"). As of the date of this filing, we have not sold any shares under the ATM. We amended the Controlled Equity Offering[SM] Sales Agreement on December 10, 2013 to limit our ability to sell shares of our common stock under such agreement to the lesser of $15,000,000 or the amount that we can sell under General Instruction I.B.6 of Form S-3, if still applicable, after this offering. We will not use the ATM unless and until we file an updated prospectus supplement reflecting the number or dollar amount of shares which we may sell under the ATM after taking into account the foregoing amendment, but only if such amount is less than $15,000,000.

On December 19, 2012, we entered into a Patent License Agreement (the "License Agreement") with The University of Texas at Austin (the "University") for the exclusive license of the right to use, develop, manufacture, market and commercialize certain research and patents related to Pertussis antibodies developed in the lab of Dr. Jennifer A. Maynard, Assistant Professor of Chemical Engineering. In connection with the License Agreement, we and the University also entered into a Sponsored Research Agreement pursuant to which the University is performing certain research work related to pertussis under the direction of Dr. Jennifer Maynard and we will obtain certain rights to patents and technology developed during the course of such research.

On November 28, 2012, a closing was held for the transaction contemplated by the Asset Purchase Agreement (the "Prev Agreement") we entered into with Prev ABR LLC ("Prev"), pursuant to which we acquired the *C. diff* program assets of Prev, including pre-Investigational New Drug ("IND") package, Phase I and Phase II clinical data, manufacturing process data and all issued and pending United States and international patents. Pursuant to the Prev Agreement, we paid Prev an initial cash payment of $100,000 upon execution of the Prev Agreement, and at closing paid an additional cash payment of $135,000 and issued 625,000 unregistered shares of our common stock to Prev. In addition, upon the achievement of the milestones set forth below, Prev may be entitled to receive additional consideration payable 50% in cash and 50% in our stock, subject to Prev's option to receive the entire payment in shares of our stock, with the exception of the first milestone payments to be paid in cash: (i) upon commencement of an IND; (ii) upon commencement of a Phase I clinical trial; (iii) upon commencement of a Phase II clinical trial; (iv) upon commencement of a Phase III clinical trial; (v) upon Biologic License Application ("BLA") filing in the United States and for territories outside of the United States (as defined in the Prev Agreement); and (vi) upon BLA approval in the United States and upon approval in territories outside the United States. The future stock issuances are subject to prior approval of the NYSE MKT, LLC. No royalties are payable to Prev under the Prev Agreement. The Prev Agreement also provides that Prev has a right to the return to it of all assets acquired by us under the Prev Agreement if on or prior to the date that is (i) thirty (30) months after the execution of the Prev Agreement, we have not initiated toxicology studies in non-rodent models or (ii) thirty-six (36) months after the execution of the Prev Agreement, we have not filed an IND under the program related to the assets and such failure is not due to action or inaction of Prev or breach of its representations or warranties or covenants or if there is a change of control as defined in the Prev Agreement and after such change of control the assets are not further developed; provided, however that such thirty (30) and thirty-six (36) month periods can be extended by us for an additional twelve (12) months upon payment of a cash milestone payment.

On October 30, 2012, we completed a private placement (the "October 2012 Private Placement") with certain accredited investors, pursuant to which we sold an aggregate of 6,750,000 shares of our common stock at a price per share of $1.60 (the "Common Shares") for aggregate gross proceeds of $10.8 million and net proceeds of $10.1 million. In connection with the October 2012 Private Placement, we filed a registration statement with the SEC which was declared effective on December 20, 2012 for the resale of our common stock owned by certain of the purchasers in the October 2012 Private Placement. In connection with the October 2012 Private Placement, we also entered into an agreement with a certain purchaser that is an affiliate of Intrexon (the "Joinder Agreement") pursuant to which such purchaser agreed to be bound by the terms of and join Intrexon as a party to its registration rights agreement with us entered into in connection with the Second Channel Agreement (the "First Amendment to Registration Rights Agreement") and we registered the shares issued to such purchaser in accordance with the First Amendment to Registration Rights Agreement.

Griffin Securities, Inc. (“Griffin”) served as the placement agent for the October 2012 Private Placement. In consideration for services rendered by Griffin in the October 2012 Private Placement, we (i) paid to Griffin cash commissions equal to 6.0% of the gross proceeds received in the October 2012 Private Placement, (ii) issued to Griffin, or its designee, warrants, which are five-year warrants to purchase 635,855 shares of our common stock with an exercise price of $1.60 per share (the “Agent Warrants”); and (iii) reimbursed Griffin for its reasonable actual out-of-pocket expenses incurred in connection with the October 2012 Private Placement, including reasonable legal fees and disbursements. The common stock underlying the Agent Warrants was registered under the registration statement declared effective on December 20, 2012.

On August 6, 2012, we expanded our relationship with Intrexon and entered into a Second Channel Agreement with Intrexon (the “Second Channel Agreement”) that governs an “exclusive channel collaboration” arrangement in which we will use Intrexon’s technology relating to the identification, design and production of human antibodies and DNA vectors for the development and commercialization of a series of monoclonal antibody therapies for the treatment of certain serious infectious diseases (the “Program”). The Second Channel Agreement establishes committees comprised of our and Intrexon’s representatives that will govern activities related to the Program in the areas of project establishment, chemistry, manufacturing and controls, clinical and regulatory matters, commercialization efforts and intellectual property. On October 16, 2012, a closing was held for the transaction contemplated by the Second Channel Agreement. Pursuant to the terms of a Stock Issuance Agreement with Intrexon (the “Second Stock Purchase Agreement”), we issued 3,552,210 shares of our common stock, $0.001 par value, which issuance is also deemed paid in consideration for the execution and delivery of the Second Channel Agreement, dated August 6, 2012, between ourselves and Intrexon. We registered the shares issued to Intrexon in accordance with the First Amendment to Registration Rights Agreement.

On February 15, 2012, upon stockholder approval, we amended our Articles of Incorporation to change our name to Synthetic Biologics, Inc. Our common stock continues trade on the NYSE MKT (formerly the NYSE Amex and American Stock Exchange) under the symbol “SYN.” Prior to this time and since October 16, 2008, our name was Adeona Pharmaceuticals, Inc. and we traded on the NYSE MKT stock exchange under the symbol “AEN.” We are incorporated in the State of Nevada.

On December 21, 2011, we announced that the Board of Directors had taken several actions to prioritize our focus on our entry into the emerging field of synthetic biology. In connection with the change in business focus on March 8, 2012, we entered into a Membership Interest Purchase Agreement, and certain related agreements, pursuant to which we sold all of our interest in the Adeona Clinical Laboratory (the “Lab”) to Hartlab, LLC, an entity controlled by the Lab’s former owner, in consideration for (i) the immediate assignment of the Lab’s outstanding accounts receivable up through the date of closing, plus (ii) Seven Hundred Thousand Dollars ($700,000) payable pursuant to the terms of a two-year non-recourse promissory note secured by all of the assets of the Lab. During the three month period ended September 30, 2013, the note receivable and associated interest receivable were deemed uncollectible. Accordingly, we recorded bad debt expense of $763,000.

On November 18, 2011, we entered into a Stock Purchase Agreement with Intrexon pursuant to which we issued to Intrexon 3,123,558 shares of our common stock at a purchase price equal to the $0.001 par value of such shares, which issuance was deemed paid in consideration for the execution and delivery of the channel agreement, which was entered into on November 18, 2011 and terminated on April 16, 2013. We also agreed to an equity participation right in future securities offerings.

Corporate Information

Our predecessor, Sheffield Pharmaceuticals, Inc., was incorporated in 1986, and in 2006 engaged in a reverse merger with Pipex Therapeutics, Inc., a Delaware corporation formed in 2001. After the merger, we changed our name to Pipex Pharmaceuticals, Inc., and in October 2008 we changed our name to Adeona Pharmaceuticals, Inc. On October 15, 2009, we engaged in a merger with a wholly owned subsidiary for the purpose of reincorporating in the State of Nevada. After reprioritizing our focus on the emerging area of synthetic biologics and entering into our first collaboration with Intrexon, we amended our Articles of Incorporation to change our name to Synthetic Biologics, Inc. on February 15, 2012.

THE OFFERING

Common stock offered by us	11,500,000 shares of common stock
Common stock to be outstanding after this offering	56,154,414 shares of common stock
Use of Proceeds	We intend to use the net proceeds from this offering, if any, for general corporate purposes, which may include, among other things, increasing our working capital and funding research and development, and capital expenditures. In addition, we may use a portion of the net proceeds for licensing or acquiring intellectual property to incorporate into our products and product candidates or our research and development programs, and to fund possible investments in and acquisitions of complementary businesses or partnerships. See "Use of Proceeds" on page S-8.
Risk Factors	See "Risk Factors" beginning on page S-7 of this prospectus supplement and page 5 of the accompanying prospectus for a discussion of factors you should read and consider carefully before investing in our common stock.
NYSE MKT symbol	SYN

Except as otherwise indicated, all information in this prospectus supplement is:

- based on 44,654,414 shares outstanding on December 10, 2013;
- assumes no exercise by the underwriters of their over-allotment option to purchase up to an additional shares to cover over-allotments, if any;
- excludes 3,879,580 shares of our common stock subject to options outstanding as of December 10, 2013 having a weighted-average exercise price of $1.79 per share;
- excludes 4,107,321 shares of our common stock that have been reserved for issuance in connection with future grants under our stock option plans as of December 10, 2013; and
- excludes 1,632,501 shares of our common stock that have been reserved for issuance upon exercise of outstanding warrants as of December 10, 2013 having a weighted-average exercise price of $1.99 per share.

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RISK FACTORS

You should consider carefully the risks discussed under the section captioned "Risk Factors" contained in our annual report on Form 10-K for the year ended December 31, 2012 and in our subsequent quarterly reports on Form 10-Q, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), each of which is incorporated by reference in this prospectus in its entirety, together with other information in this prospectus, and the information and documents incorporated by reference in this prospectus, and any free writing prospectus that we have authorized for use in connection with this offering before you make a decision to invest in our common stock. If any of these events actually occur, our business, operating results, prospects or financial condition could be materially and adversely affected. This could cause the trading price of our common stock to decline and you may lose all or part of your investment.

Additional Risks Relating To The Offering

Our management team may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a significant return.

Our management will have broad discretion over the use of proceeds from this offering. The net proceeds from this offering will be used for general corporate purposes, which may include, among other things, increasing our working capital and funding research and development, and capital expenditures. In addition, we may use a portion of the net proceeds for licensing or acquiring intellectual property to incorporate into our products and product candidates or our research and development programs, and to fund possible investments in and acquisitions of complementary businesses or partnerships. Our management will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or enhance the value of our common stock.

If you purchase common stock sold in this offering, you will experience immediate dilution in your investment. You will experience further dilution if we issue additional equity securities in future fundraising transactions and if shares of our common stock underlying our significant number of outstanding warrants and options are purchased by the holders thereof.

The portion of the public offering price per share in this offering attributable to our common stock exceeds the net tangible book value per share of our common stock outstanding prior to this offering. Assuming we sell shares of common stock in this offering at a public offering price of $1.00 per share, after deducting the estimated underwriting discount and estimated offering expenses payable by us, you will experience immediate dilution of approximately

$0.70 per share (or immediate dilution of approximately $0.68 per share if the underwriters exercise in full their option to purchase additional shares in this offering), representing the difference between our as adjusted net tangible book value per share as of September 30, 2013 after giving effect to this offering and the public offering price. See the section entitled "Dilution" below for a more detailed illustration of the dilution you would incur if you participate in this offering.

If in the future we issue additional common stock, or securities convertible into or exchangeable or exercisable for common stock, our stockholders, including investors who purchase shares offered under this prospectus supplement, will experience additional dilution, and any such issuances may result in downward pressure on the price of our common stock.

In addition, we have a significant number of outstanding securities convertible into, or allowing the purchase of our Common Stock. Investors will be subject to increased dilution upon the exercise of outstanding stock options and warrants. There were 44,654,414 shares of our common stock outstanding as of December 10, 2013. As of that date, stock options and warrants outstanding represented 5,512,081 shares of our common stock that could be issued in the future. Most of the outstanding shares of our common stock, as well as the vast majority of the shares of our common stock that may be issued under our outstanding options and warrants, are not restricted from trading. Also, the issuance of additional shares as a result of such conversion or purchase, or their subsequent sale, could adversely affect the price of our common stock.

USE OF PROCEEDS

We estimate that the net proceeds of this offering, after deducting the underwriting discount and the estimated offering expenses payable by us, will be approximately $10,487,500 million (or approximately $12,100,375 million if the underwriters exercise the over-allotment option in full).

We intend to use the net proceeds, if any, from this offering for general corporate purposes, which may include, among other things, increasing our working capital and funding research and development, and capital expenditures. In addition, we may use a portion of the net proceeds for licensing or acquiring intellectual property to incorporate into our products and product candidates or our research and development programs. We may also use a portion of the net proceeds to in-license, acquire or invest in complementary businesses or products; however, we have no current commitments or obligations to do so.

The amounts and timing of our actual expenditures will depend on numerous factors, including our development and commercialization efforts, as well as the amount of cash used in our operations. We therefore cannot estimate with certainty the amount of net proceeds to be used for the purposes described above. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the net proceeds. Pending the uses described above, we plan to invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities.

DILUTION

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the public offering price and the adjusted net tangible book value per share of our common stock after this offering.

Our net tangible book value on September 30, 2013 was approximately $6.4 million, or $0.14 per share. "Net tangible book value" is total assets minus the sum of liabilities and intangible assets. "Net tangible book value per share" is net tangible book value divided by the total number of shares outstanding.

After giving effect to the sale of $11.5 million of common stock in this offering at a public offering price of $1.00 per share, and after deducting estimated offering commissions and expenses payable by us, our as adjusted net tangible book value as of September 30, 2013 would have been approximately $16.9 million, or $0.30 per share of common stock. This represents an immediate increase in net tangible book value of $0.16 per share to our existing stockholders and an immediate dilution in net tangible book value of $0.70 per share to investors participating in this offering. The following table illustrates this dilution per share to investors participating in this offering:

Assumed offering price per share		$1.00
Net tangible book value per share as of September 30, 2013	$0.14	
Increase in net tangible book value per share attributable to new investors in offering	$0.16	
As adjusted net tangible book value per share after giving effect to the offering		$0.30
Dilution per share to new investors		$0.70

The above illustration of dilution per share to investors participating in this offering assumes no exercise of outstanding options to purchase our common stock or outstanding warrants to purchase shares of our common stock.

The above discussion and table are based on shares of our common stock issued and outstanding as of September 30, 2013, which does not include the following, all as of September 30, 2013:

• 3,804,580 shares issuable upon the exercise of outstanding stock options with a weighted-average exercise price of $1.79 per share;

• 1,182,321 shares of common stock which were reserved for future equity awards that may be granted in the future under our equity incentive plans; and

• 1,632,501 shares of our common stock reserved for issuance upon the exercise of outstanding warrants, each with a weighted-average exercise price of $1.99 per share.

To the extent that any of these outstanding options are exercised, there will be further dilution to new investors.

The information above assumes that the underwriters do not exercise their over-allotment option. If the underwriters exercise their over-allotment option in full, the as adjusted net tangible book value will increase to $0.32 per share, representing an immediate increase in as adjusted net tangible book value of $0.18 per share to our existing stockholders and an immediate dilution in net tangible book value of $0.68 per share to investors participating in this offering.

DIVIDEND POLICY

We have never declared or paid cash dividends on our capital stock. We currently intend to retain our future earnings, if any, for use in our business and therefore do not anticipate paying cash dividends in the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2013:

- on an actual basis, without giving effect to this offering and the use of net proceeds as discussed in "Use of Proceeds;" and

- on an as adjusted basis to reflect this offering and the use of net proceeds as discussed in "Use of Proceeds."

This capitalization table should be read in conjunction with management's discussion and analysis of results of operations and our consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2012 and in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013, and the other financial information included and incorporated by reference in this prospectus supplement.

	(in thousands) As of September 30, 2013	
	Actual	As Adjusted
Cash	$ 5,145	$ 15,633
Stockholders' equity:		
Preferred stock, par value $0.001, 10,000,000 shares authorized, none issued and outstanding	$ -	$ -
Common stock, par value $0.001, 100,000,000 shares authorized, 44,735,896 issued and 44,654,414 shares outstanding, actual and 56,235,896 issued and 56,154,414 outstanding shares, as adjusted [1]	$ 45	$ 57
Additional paid-in capital	$ 83,358	$ 93,834
Accumulated deficit	$ (77,034)	$ (77,034)
Total stockholders' equity	$ 6,369	$ 16,857
Total capitalization	$ 6,369	$ 16,857

(1) Outstanding shares of common stock as of September 30, 2013 excludes:

- 3,804,580 shares issuable upon the exercise of outstanding stock options with a weighted average exercise price of $1.79 per share;

- 1,182,321 shares of common stock which were reserved for future equity awards that may be granted in the future under our equity incentive plans;

- 1,632,501 shares of common stock reserved for issuance upon the exercise of outstanding warrants, each with a weighted average exercise price of $1.99 per share; and

- the underwriters' over-allotment option.

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UNDERWRITING

Aegis Capital Corp. is acting as the representative of the underwriters of the offering. We have entered into an underwriting agreement, dated December 11 , 2013, with the representative. Subject to the terms and conditions of the underwriting agreement, we have agreed to sell to each underwriter named below and each underwriter named below has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement, the number of shares of common stock listed next to its name in the following table:

Underwriter	Number of Shares
Aegis Capital Corp.	11,500,000
Total	11,500,000

The underwriters are committed to purchase all the shares of common stock offered by us other than those covered by the option to purchase additional shares described below. The obligations of the underwriters may be terminated upon the occurrence of certain events specified in the underwriting agreement. Furthermore, pursuant to the underwriting agreement, the underwriters' obligations are subject to customary conditions, representations and warranties contained in the underwriting agreement, such as receipt by the underwriters of officers' certificates and legal opinions.

We have agreed to indemnify the underwriters against specified liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments the underwriters may be required to make in respect thereof.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions specified in the underwriting agreement. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The underwriters propose to offer the shares offered by us to the public at the public offering price set forth on the cover of this prospectus supplement. In addition, the underwriters may offer some of the shares to other securities dealers at such price less a concession of $0.0318 per share. After the initial offering, the public offering price and concession to dealers may be changed.

We have granted the underwriters an over-allotment option. This option, which is exercisable for up to forty-five (45) days after the date of this prospectus, permits the underwriters to purchase a maximum of 1,725,000 additional shares from us. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price that appears on the cover page of this prospectus supplement, less the underwriting discount. If this option is exercised in full, the total price to the public will be approximately $13,225,000 and the total proceeds to us, before expenses, will be approximately $12,365,375.

Discounts and Commissions. The following table shows the public offering price, underwriting discount and proceeds, before expenses, to us. The information assumes either no exercise or full exercise by the underwriters of their option.

	Per Share	Total Without Option	Total With Option
Public offering price	$ 1.00	$ 11,500,000	$ 13,225,000
Underwriting discount (6.5%)	$ (0.065)	$ (747,500)	$ (859,625)
Proceeds, before expenses, to us	$ 0.935	$ 10,752,500	$ 12,365,375
Non-accountable expense allowance (1%)[1]	$ (0.01)	$ (115,000)	$ (115,000)

(1) The expense allowance of 1% is not payable with respect to the shares sold upon exercise of the underwriters' over-allotment option.

Griffin Securities, Inc. ("Griffin") is acting as a financial advisor in connection with this offering and will be paid fees out of the underwriting commission of up to a maximum of $140,000; provided, however, that Griffin's compensation will be reduced pro rata to the extent the aggregate gross proceeds to us in the offering are less than $10 million (*i.e.*, Griffin shall be entitled to receive 21.54% of the aggregate underwriting discount or spread); provided, further, however, that Griffin's compensation shall be reduced by its pro rata portion (*i.e.,* 21.54%) of the underwriters' reasonably incurred expenses of the offering, including, but not limited to, the reasonable fees and expenses of counsel to the underwriters in an amount not to exceed $10,000. In August 2012, as amended in December 2012, we entered into an agreement with Griffin, terminable by either party upon thirty (30) days prior written notice, pursuant to which Griffin acts as an advisor to us and is paid a monthly fee of $10,000 for such services.

We have paid an expense deposit of $25,000 to the representative, which will be applied against the accountable expenses that will be paid by us to the representative in connection with this offering. The underwriting agreement provides that in the event the offering is terminated, the $25,000 expense deposit paid to the representative will be returned to us to the extent that offering expenses are not actually incurred by the representative.

We have agreed to pay certain of the underwriters' expenses relating to the offering, including (a) all fees incurred in clearing this offering with FINRA; (b) all fees, expenses and disbursements relating to the registration, qualification or exemption of securities offered under the securities laws of such foreign jurisdictions as the underwriters may reasonably designate; (c) the fees and expenses of counsel to the underwriters not to exceed $25,000; (d) $21,775 for the underwriters’ use of Ipreo’s book-building, prospectus tracking and compliance software for this offering; and (e) up to $10,000 of the representative’s actual accountable road show expenses for the offering. The total of any advanced payments will be refundable to the extent not actually incurred in compliance with FINRA Rule 5110(f)(2)(C).

We estimate that the total expenses of the offering payable by us, excluding the underwriting discount and expense reimbursement, will be approximately $100,000.

Discretionary Accounts. The underwriters do not intend to confirm sales of the securities offered hereby to any accounts over which they have discretionary authority.

Lock-Up Agreements. Each of our directors and executive officers, subject to certain exceptions, have agreed with the underwriter not to dispose of or hedge any of our shares of common stock or securities convertible into or exercisable or exchangeable for common stock for ninety (90) days after the date of this prospectus supplement without first obtaining the written consent of Aegis Capital Corp., other than the issuance of common stock pursuant to the valid exercises, vesting or settlements of options, warrants or rights outstanding on the date hereof.

Any of the securities subject to the lock-up agreement may be released in whole or part from the terms thereof only upon the approval of the representative; provided, however, that we must announce any such release through a major news service and such release will only be effective two business days after the publication date of such press release.

Electronic Offer, Sale and Distribution Shares. A prospectus supplement in electronic format may be made available on the websites maintained by one or more of the underwriters or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute prospectus supplements electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations. Other than the prospectus supplement in electronic format, the information on these websites is not part of this prospectus supplement or the registration statement of which this prospectus supplement forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter, and should not be relied upon by investors.

Other Relationships. Certain of the underwriters and their affiliates have provided, and may in the future provide, various investment banking, commercial banking and other financial services for us and our affiliates for which they have received, and may in the future receive, customary fees; however, except as disclosed in this prospectus supplement, we have no present arrangements with any of the underwriters for any further services.

Stabilization. In connection with this offering, the underwriters may engage in stabilizing transactions, overallotment transactions, syndicate covering transactions, penalty bids and purchases to cover positions created by short sales.

- Stabilizing transactions permit bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the shares while the offering is in progress.

- Overallotment transactions involve sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase pursuant to their option to purchase additional shares. In a naked short position, the number of shares involved is greater than the number of shares pursuant to their option to purchase additional shares. The underwriters may close out any short position by exercising their option to purchase additional shares and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of shares in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which they may purchase shares through exercise of their option to purchase additional shares. If the underwriters sell more shares than could be covered by exercise of the option to purchase additional shares and, therefore, have a naked short position, the position can be closed out only by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that after pricing there could be downward pressure on the price of the shares in the open market that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the shares originally sold by that syndicate member are purchased in stabilizing or syndicate covering transactions to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our shares or common stock or preventing or retarding a decline in the market price of our shares or common stock. As a result, the price of our common stock in the open market may be higher than it would otherwise be in the absence of these transactions. Neither we nor the underwriters make any representation or prediction as to the effect that the transactions described above may have on the price of our common stock. These transactions may be effected on the NYSE MKT, in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Passive market making. In connection with this offering, underwriters and selling group members may engage in passive market making transactions in our common stock on the NYSE MKT in accordance with Rule 103 of Regulation M under the Exchange Act, during a period before the commencement of offers or sales of the shares and extending through the completion of the distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However, if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

Offer restrictions outside the United States

Other than in the United States, no action has been taken by us or the underwriters that would permit a public offering of the securities offered by this prospectus supplement in any jurisdiction where action for that purpose is required. The securities offered by this prospectus supplement may not be offered or sold, directly or indirectly, nor may this prospectus supplement or any other offering material or advertisements in connection with the offer and sale of any such securities be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus supplement comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus supplement. This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any securities offered by this prospectus supplement in any jurisdiction in which such an offer or a solicitation is unlawful.

Australia

This prospectus supplement is not a disclosure document under Chapter 6D of the Australian Corporations Act, has not been lodged with the Australian Securities and Investments Commission and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. Accordingly, (i) the offer of the common stock under this prospectus supplement is only made to persons to whom it is lawful to offer the common stock without disclosure under Chapter 6D of the Australian Corporations Act under one or more exemptions set out in section 708 of the Australian Corporations Act, (ii) this prospectus is made available in Australia only to those persons as set forth in clause (i) above, and (iii) the offeree must be sent a notice stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (i) above, and, unless permitted under the Australian Corporations Act, agrees not to sell or offer for sale within Australia any of the common stock sold to the offeree within twelve (12) months after its transfer to the offeree under this prospectus supplement.

China

The information in this document does not constitute a public offer of the common stock, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The common stock may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to “qualified domestic institutional investors.”

European Economic Area-Belgium, Germany, Luxembourg and Netherlands

The information in this document has been prepared on the basis that all offers of common stock will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as implemented in Member States of the European Economic Area (each, a "Relevant Member State"), from the requirement to produce a prospectus for offers of securities.

An offer to the public of common stock has not been made, and may not be made, in a Relevant Member State except pursuant to one of the following exemptions under the Prospectus Directive as implemented in that Relevant Member State:

(a) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during its last fiscal year; (ii) a total balance sheet of more than €43,000,000 (as shown on its last annual unconsolidated or consolidated financial statements) and (iii) an annual net turnover of more than €50,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);

(c) to fewer than 100 natural or legal persons (other than qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive) subject to obtaining the prior consent of the Company or any underwriter for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of common stock shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

France

This document is not being distributed in the context of a public offering of financial securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 et seq. of the General Regulation of the French *Autorité des marchés* *financiers* (“AMF”). The common stock has not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This document and any other offering material relating to the common stock have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France to (i) qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-1 to D.411-3, D. 744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (ii) a restricted number of non-qualified investors (*cercle restreint d'investisseurs*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2° and D.411-4, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the common stock cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

Ireland

The information in this document does not constitute a prospectus under any Irish laws or regulations and this document has not been filed with or approved by any Irish regulatory authority as the information has not been prepared in the context of a public offering of securities in Ireland within the meaning of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 (the “Prospectus Regulations”). The common stock has not been offered or sold, and will not be offered, sold or delivered directly or indirectly in Ireland by way of a public offering, except to (i) qualified investors as defined in Regulation 2(l) of the Prospectus Regulations and (ii) fewer than 100 natural or legal persons who are not qualified investors.

Israel

The common stock offered by this prospectus supplement has not been approved or disapproved by the Israeli Securities Authority, or "ISA," nor has such common stock been registered for sale in Israel. The shares may not be offered or sold, directly or indirectly, to the public in Israel, absent the publication of a prospectus. The ISA has not issued permits, approvals or licenses in connection with the offering or publishing the prospectus supplement; nor has it authenticated the details included herein, confirmed their reliability or completeness, or rendered an opinion as to the quality of the common stock being offered. Any resale in Israel, directly or indirectly, to the public of the common stock offered by this prospectus supplement is subject to restrictions on transferability and must be effected only in compliance with the Israeli securities laws and regulations.

Italy

The offering of the common stock in the Republic of Italy has not been authorized by the Italian Securities and Exchange Commission (*Commissione Nazionale per le Società e la Borsa*, "CONSOB") pursuant to the Italian securities legislation and, accordingly, no offering material relating to the common stock may be distributed in Italy and such securities may not be offered or sold in Italy in a public offer within the meaning of Article 1.1(t) of Legislative Decree No. 58 of 24 February 1998 ("Decree No. 58"), other than:

- to Italian qualified investors, as defined in Article 100 of Decree no. 58 by reference to Article 34-ter of CONSOB Regulation no. 11971 of 14 May 1999 ("Regulation no. 1197l") as amended ("Qualified Investors"); and

- in other circumstances that are exempt from the rules on public offer pursuant to Article 100 of Decree No. 58 and Article 34-ter of Regulation No. 11971 as amended.

Any offer, sale or delivery of the common stock or distribution of any offer document relating to the common stock in Italy (excluding placements where a Qualified Investor solicits an offer from the issuer) under the paragraphs above must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993 (as amended), Decree No. 58, CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws; and

- in compliance with all relevant Italian securities, tax and exchange controls and any other applicable laws.

Any subsequent distribution of the common stock in Italy must be made in compliance with the public offer and prospectus requirement rules provided under Decree No. 58 and the Regulation No. 11971 as amended, unless an exception from those rules applies. Failure to comply with such rules may result in the sale of such common stock being declared null and void and in the liability of the entity transferring the common stock for any damages suffered by the investors.

Japan

The common stock have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (the "FIEL") pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the common stock may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires common stock may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of common stock is conditional upon the execution of an agreement to that effect.

Portugal

This document is not being distributed in the context of a public offer of financial securities (*oferta pública de valores mobiliários*) in Portugal, within the meaning of Article 109 of the Portuguese Securities Code (*Código dos Valores Mobiliários*). The common stock has not been offered or sold and will not be offered or sold, directly or indirectly, to the public in Portugal. This document and any other offering material relating to the common stock have not been, and will not be, submitted to the Portuguese Securities Market Commission (*Comissão do Mercado de Valores Mobiliários*) for approval in Portugal and, accordingly, may not be distributed or caused to distributed, directly or indirectly, to the public in Portugal, other than under circumstances that are deemed not to qualify as a public offer under the Portuguese Securities Code. Such offers, sales and distributions of common stock in Portugal are limited to persons who are "qualified investors" (as defined in the Portuguese Securities Code). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

Sweden

This document has not been, and will not be, registered with or approved by Finansinspektionen (the Swedish Financial Supervisory Authority). Accordingly, this document may not be made available, nor may the common stock be offered for sale in Sweden, other than under circumstances that are deemed not to require a prospectus under the Swedish Financial Instruments Trading Act (1991:980) (Sw. lag (1991:980) *om handel med finansiella instrument*)). Any offering of common stock in Sweden is limited to persons who are "qualified investors" (as defined in the Financial Instruments Trading Act). Only such investors may receive this document and they may not distribute it or the information contained in it to any other person.

Switzerland

The common stock may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the common stock may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering material relating to the common stock have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of common stock will not be supervised by, the Swiss Financial Market Supervisory Authority.

This document is personal to the recipient only and not for general circulation in Switzerland.

United Arab Emirates

Neither this document nor the common stock has been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates or any other governmental authority in the United Arab Emirates, nor has the Company received authorization or licensing from the Central Bank of the United Arab Emirates or any other governmental authority in the United Arab Emirates to market or sell the common stock within the United Arab Emirates. This document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the common stock, including the receipt of applications and/or the allotment or redemption of such shares, may be rendered within the United Arab Emirates by the Company.

No offer or invitation to subscribe for common stock is valid or permitted in the Dubai International Financial Centre.

United Kingdom

Neither the information in this document nor any other document relating to the offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the common stock. This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of FSMA) in the United Kingdom, and the common stock may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received in connection with the issue or sale of the common stock has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"); (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO; or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

LEGAL MATTERS

Parsons Behle & Latimer, Reno, Nevada will pass upon certain legal matters relating to the issuance and sale of the common stock offered hereby on behalf of Synthetic Biologics, Inc. Certain legal matters in connection with this offering will be passed upon for the underwriters by Reed Smith LLP, New York, New York.

EXPERTS

The financial statements as of December 31, 2012 and for the year ended December 31, 2012 incorporated by reference in this prospectus have been so incorporated in reliance on the report of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on authority of said firm as experts in auditing and accounting.

The financial statements as of December 31, 2011 and for the year ended December 31, 2011 incorporated by reference in this prospectus have been so incorporated in reliance on the report of Berman & Company, P.A. an independent registered public accounting firm, incorporated herein by reference, given on authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-3 under the Securities Act, of which this prospectus supplement forms a part. The rules and regulations of the SEC allow us to omit from this prospectus supplement certain information included in the registration statement. For further information about us and the securities we are offering under this prospectus supplement, you should refer to the registration statement and the exhibits and schedules filed with the registration statement. With respect to the statements contained in this prospectus regarding the contents of any agreement or any other document, in each instance, the statement is qualified in all respects by the complete text of the agreement or document, a copy of which has been filed as an exhibit to the registration statement.

We file reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information from the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is *www.sec.gov*.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with it which means that we can disclose important information to you by referring you to those documents instead of having to repeat the information in this prospectus supplement. The information incorporated by reference is considered to be part of this prospectus supplement, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus supplement and the termination of the offering however, we are not incorporating by reference any documents or portions thereof, whether specifically listed below or filed in the future, that are not deemed "filed" with the SEC, or any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or related exhibits furnished pursuant to Item 9.01 of Form 8-K:

Our annual report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on April 16, 2013;

Our quarterly reports on Form 10-Q for the quarters ended March 31, 2013, June 30, 2013 and September 30, 2013 filed with the SEC on May 15, 2013, August 14, 2013 and November 14, 2013, respectively;

Our current reports on Form 8-K filed with the SEC on April 19, 2013, October 15, 2013, October 25, 2013 and December 10, 2013; and

The description of our common stock set forth in our registration statement on Form 8-A12B, filed with the SEC on June 20, 2007 (File No. 000-12584).

You may obtain, free of charge, a copy of any of these documents (other than exhibits to these documents unless the exhibits are specifically incorporated by reference into these documents or referred to in this prospectus supplement) by writing or calling us at the following address and telephone number:

155 Gibbs Street, Ste. 412
Rockville, Maryland 20850

(734) 332-7800

PROSPECTUS

$50,000,000

Common Stock

Warrants

Units

We may offer and sell up to $50 million in the aggregate of the securities identified above from time to time in one or more offerings. This prospectus provides you with a general description of the securities.

Each time we offer and sell securities, we will provide a supplement to this prospectus (which includes, but is not limited to, the sales agreement prospectus) that contains specific information about the offering and the amounts, prices and terms of the securities. The supplement may also add, update or change information contained in this prospectus with respect to that offering. You should carefully read this prospectus and the applicable prospectus supplement before you invest in any of our securities.

We may offer and sell the securities described in this prospectus and any prospectus supplement to or through one or more underwriters, dealers and agents, or directly to purchasers, or through a combination of these methods. If any underwriters, dealers or agents are involved in the sale of any of the securities, their names and any applicable purchase price, fee, commission or discount arrangement between or among them will be set forth, or will be calculable from the information set forth, in the applicable prospectus supplement. See the sections of this prospectus entitled "About this Prospectus" and "Plan of Distribution" for more information. No securities may be sold without delivery of this prospectus and the applicable prospectus supplement describing the method and terms of the offering of such securities.

This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement.

INVESTING IN OUR SECURITIES INVOLVES RISKS. SEE THE “RISK FACTORS” ON PAGE 6 OF THIS PROSPECTUS AND ANY SIMILAR SECTION CONTAINED IN THE APPLICABLE PROSPECTUS SUPPLEMENT CONCERNING FACTORS YOU SHOULD CONSIDER BEFORE INVESTING IN OUR SECURITIES.

Our common stock is listed on the NYSE MKT under the symbol “SYN.” On July 1, 2013, the last reported sale price of our common stock on the NYSE MKT was $1.67 per share.

As of July 2, 2013, the aggregate market value of our outstanding common stock held by non-affiliates was approximately $45,744,673, based on 44,654,414 shares of outstanding common stock, of which approximately 17,262,394 shares are held by affiliates, and a per share price of $1.67 based on the closing sale price of our common stock on July 1, 2013. We have not offered any securities during the past twelve months pursuant to General Instruction I.B.6 of Form S-3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities 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 July 16, 2013

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You should rely only on the information we have provided or incorporated by reference in this prospectus or in any prospectus supplement. We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus or in any prospectus supplement. This prospectus and any prospectus supplement is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. You should assume that the information contained in this prospectus and in any prospectus supplement is accurate only as of their respective dates and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference, regardless of the time of delivery of this prospectus or any prospective supplement or any sale of securities. The registration statement, including the exhibits and the documents incorporated herein by reference, can be read on the Securities and Exchange Commission website or at the Securities and Exchange Commission offices mentioned under the heading “Where You Can Find More Information.”

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission, or the SEC, using a "shelf" registration process. By using a shelf registration statement, we may sell securities from time to time and in one or more offerings up to a total dollar amount of $50 million of securities from time to time as described in this prospectus. Each time that we offer and sell securities, we will provide a prospectus supplement to this prospectus (which term includes, as applicable, the sales agreement prospectus filed with the registration statement of which this prospectus forms a part) that contains specific information about the securities being offered and sold and the specific terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus with respect to that offering. If there is any inconsistency between the information in this prospectus and the applicable prospectus supplement, you should rely on the prospectus supplement. Before purchasing any securities, you should carefully read both this prospectus and the applicable prospectus supplement, together with the additional information described under the heading "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the applicable prospectus supplement to this prospectus is accurate as of the date on its respective cover, and that any information incorporated by reference is accurate only as of the date of the document incorporated by reference, unless we indicate otherwise. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless otherwise stated or the context otherwise requires, references in this prospectus to "Synthetic," the "Company," "we," "our" and "us" refer to Synthetic Biologics, Inc., a Nevada corporation and its consolidated subsidiaries, unless otherwise specified. When we refer to "you," we mean the holders of the applicable series of securities.

PROSPECTUS SUMMARY

The items in the following summary are described in more detail elsewhere in this prospectus and in the documents incorporated by reference herein. This summary provides an overview of selected information and does not contain all the information you should consider before investing in our common stock. Therefore, you should read the entire prospectus and any free writing prospectus that we have authorized for use in connection with this offering carefully, including the "Risk Factors" section and other documents or information included or incorporated by reference in this prospectus before making any investment decision.

Our Business

We are a biotechnology company focused on the development of biologics for the prevention and treatment of serious infectious diseases. We are developing an oral enzyme for the prevention of *C. difficile* infections, and a series of monoclonal antibody therapies for the treatment of Pertussis and *Acinetobacter* infections. In addition, we are developing a drug candidate for the treatment of relapsing-remitting multiple sclerosis and cognitive dysfunction in multiple sclerosis, and have partnered the development of a treatment for fibromyalgia.

Product Pipeline:

Summary of Infectious Disease Programs:

- ***Clostridium difficile (C. difficile)* infections:** In November 2012, we acquired a series of oral beta-lactamase enzymes (P1A, P2A and P3A) and related assets targeting the prevention *of C. difficile* infections (CDI), the leading cause of hospital acquired infections (HAI), that generally occurs secondary to treatment with intravenous antibiotics. The acquired assets include a pre-Investigational New Drug (IND) package for P3A (SYN-004), Phase I and Phase II clinical data for P1A, manufacturing processes and data, and a portfolio of issued and pending U.S. and international patents intended to support an IND and Biologic License Application (BLA) with the FDA. Utilizing this portfolio of assets, we intend to develop a proprietary oral beta-lactamase enzyme product candidate, SYN-004, previously known as IPSAT P3A. When co-administered with certain intravenous beta-lactam antibiotics, it is expected that SYN-004 can degrade the antibiotic that is excreted in the gastrointestinal (GI) tract, thus preserving the natural balance of the patient's microflora, and preventing opportunistic infections including CDI. Beta-lactam antibiotics are a mainstay in hospital infection management and include the commonly used penicillin and cephalosporin classes of antibiotics. In 2012, 15 million Americans were administered beta-lactam antibiotics.*

*This information is an estimate derived from the use of information under license from the following IMS Health Incorporated information service: CDM Hospital database for full year 2012. IMS expressly reserves all rights, including rights of copying, distribution and republication.

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- **Pertussis:** In December 2012, in collaboration with Intrexon, we initiated development of a monoclonal antibody (mAb) therapy for the treatment of Pertussis infections, more commonly known as whooping cough. We are developing a mAb therapy, SYN-005, designed to target and neutralize the pertussis toxin, in order to reduce the mortality rate in infants and potentially shorten the duration of chronic cough in afflicted adults. To further the development of this potential therapy for Pertussis, we entered into an agreement with The University of Texas at Austin to license the rights to certain research and pending patents related to pertussis antibodies. According to the World Health Organization, each year, *B. pertussis* infection causes an estimated 300,000 deaths worldwide, primarily among young, unvaccinated infants.

- ***Acinetobacter* infections:** In September 2012, in collaboration with Intrexon, we initiated efforts to develop a mAb therapy for the treatment of *Acinetobacter* infections. Many strains of *Acinetobacter* are multidrug-resistant and pose an increasing global threat to hospitalized patients, wounded military personnel and those affected by natural disasters. A treatment for *Acinetobacter* infections represents a billion dollar market opportunity.

Summary of Multiple Sclerosis Program:

- Trimesta ™ (oral estriol) is being developed as an oral once-daily treatment for relapsing-remitting multiple sclerosis (MS) in women. Patient enrollment is complete in this two-year, randomized, double-blind, placebo-controlled Phase II clinical trial being conducted at 15 centers in the U.S. The primary endpoint is relapse rate at two years, with top-line results expected in 1H 2014. This trial is supported by grants exceeding $8 million, which should be sufficient to fund the trial through completion. Annual worldwide sales of current MS therapies are estimated at $14.1 billion.

- Trimesta ™ is also being developed for the treatment of cognitive dysfunction in female MS patients. This 12-month randomized, double-blind, placebo-controlled Phase II clinical trial is being conducted at the University of California, Los Angeles (UCLA). The primary endpoint is the effect on cognitive function as assessed by Paced Auditory Serial Addition Test (PASAT). Patient enrollment is ongoing. The majority of the costs of this trial are being funded by grants from foundations and charitable organizations, and we have pledged approximately $500,000 to UCLA to partially fund this trial payable over three years. An estimated 50-65% of MS patients are expected to develop disabilities due to cognitive dysfunction and there is currently no approved treatment.

Summary of Fibromyalgia Program:

- Effirma ™ (flupirtine) is being developed for the treatment of fibromyalgia by Meda AB (Meda), a multi-billion dollar international pharmaceutical company. On May 6, 2010, we entered into a sublicense agreement with Meda covering all of our patents' rights on the use of flupirtine for fibromyalgia in the U.S., Canada and Japan. The sublicense agreement provides that all ongoing and future development costs are to borne by Meda and we are entitled to receive certain payments if milestones are achieved and royalties on sales. According to Meda's 2012 Year-End Report filed in February 2013, Meda has received the go-ahead from the FDA to conduct a Phase II proof of concept study for the treatment of fibromyalgia. Meda also announced that the randomized, double-blind, placebo and active-controlled study of patients with fibromyalgia will be conducted at 25 clinics in the U.S. Based on an estimated annual price of $1,200 per fibromyalgia patient, we estimate that the total market potential in the U.S. is $6 billion.

In order to further prioritize our focus, we have elected to discontinue further development of AEN-100 for the treatment of amyotrophic lateral sclerosis. However, we are currently seeking development partners for our zinc-based intellectual property and assets including, AEN-100.

Recent Developments

On December 19, 2012, we entered into a Patent License Agreement (the “License Agreement”) with The University of Texas at Austin (the “University”) for the exclusive license of the right to use, develop, manufacture, market and commercialize certain research and patents related to Pertussis (more commonly known as whooping cough) antibodies developed in the lab of Dr. Jennifer A. Maynard, Assistant Professor of Chemical Engineering. In connection with the License Agreement, we and the University also entered into a Sponsored Research Agreement pursuant to which the University will perform certain research work related to pertussis under the direction of Dr. Jennifer Maynard and we will obtain certain rights to patents and technology developed during the course of such research.

On November 28, 2012, a closing was held for the transaction contemplated by the Asset Purchase Agreement (the "Prev Agreement") we entered into with Prev ABR LLC ("Prev"), pursuant to which we acquired the *C. diff* program assets of Prev, including pre-Investigational New Drug (IND) package, Phase I and Phase II clinical data, manufacturing process data and all issued and pending U.S. and international patents. Pursuant to the Prev Agreement, we paid Prev an initial cash payment of $100,000 upon execution of the Prev Agreement and at closing paid an additional cash payment of $135,000 and issued 625,000 unregistered shares of our common stock to Prev. In addition, upon the achievement of the milestones set forth below, Prev may be entitled to receive additional consideration payable 50% in cash and 50% in our stock, subject to Prev's option to receive the entire payment in shares of our stock, with the exception of the first milestone payments to be paid in cash: (i) upon commencement of an IND; (ii) upon commencement of a Phase I clinical trial; (iii) upon commencement of a Phase II clinical trial; (iv) upon commencement of a Phase III clinical trial; (v) upon Biologic License Application (BLA) filing in the U.S. and for territories outside of the U.S. (as defined in the Prev Agreement); and (vi) upon BLA approval in the U.S. and upon approval in territories outside the-U.S. The future stock issuances are subject to prior approval of the NYSE MKT, LLC. No royalties are payable to Prev under the Prev Agreement. The Prev Agreement also provides that Prev has a right to the return to it of all assets acquired by us under the Prev Agreement if on or prior to the date that is (i) thirty (30) months after the execution of the Prev Agreement, we have not initiated toxicology studies in non-rodent models or (ii) thirty six (36) months have not filed an IND under the program related to the assets and such failure is not due to action or inaction of Prev or breach of its representations or warranties or covenants or if there is a change of control as defined in the Prev Agreement and after such change of control the assets are not further developed; provided however that such thirty (30) and thirty six (36) month periods can be extended by us for an additional twelve (12) months upon payment of a cash milestone payment.

On October 30, 2012, we completed a private placement (the "October 2012 Private Placement") with certain accredited investors, pursuant to which we sold an aggregate of 6,750,000 shares of our common stock at a price per share of $1.60 (the "Common Shares") for aggregate gross proceeds of $10.8 million and net proceeds of $10.1 million. In connection with the October 2012 Private Placement, we filed a registration statement with the SEC which was declared effective on December 20, 2012 for the resale of our common stock owned by certain of the purchasers in the October 2012 Private Placement. In connection with the October 2012 Private Placement, we also entered into an agreement with a certain purchaser that is an affiliate of Intrexon (the "Joinder Agreement") pursuant to which such purchaser agreed to be bound by the terms of and join Intrexon as a party to its registration rights agreement with us entered into in connection with the Second Channel Agreement (the "First Amendment to Registration Rights Agreement") and we registered the shares issued to such purchaser in accordance with the First Amendment to Registration Rights Agreement.

Griffin Securities, Inc. ("Griffin") served as the placement agent for the October 2012 Private Placement. In consideration for services rendered by Griffin in the October 2012 Private Placement, we (i) paid to Griffin cash commissions equal to 6.0% of the gross proceeds received in the October 2012 Private Placement, (ii) issued to Griffin, or its designee, warrants, which are five-year warrants to purchase 635,855 shares of our common stock with an exercise price of $1.60 per share (the "Agent Warrants"); and (iii) reimbursed Griffin for its reasonable actual out-of-pocket expenses incurred in connection with the October 2012 Private Placement, including reasonable legal fees and disbursements. The common stock underlying the Agent Warrants was registered under the registration statement declared effective on December 20, 2012.

On August 6, 2012, we expanded our relationship with Intrexon and entered into a Second Channel Agreement with Intrexon (the “Second Channel Agreement”) that governs an “exclusive channel collaboration” arrangement in which we will use Intrexon’s technology relating to the identification, design and production of human antibodies and DNA vectors for the development and commercialization of a series of monoclonal antibody therapies for the treatment of certain serious infectious diseases (the “Program”). The Second Channel Agreement establishes committees comprised of our and Intrexon representatives that will govern activities related to the Program in the areas of project establishment, chemistry, manufacturing and controls, clinical and regulatory matters, commercialization efforts and intellectual property. On October 16, 2012, a closing was held for the transaction contemplated by the Second Channel Agreement. Pursuant to the terms of a Stock Issuance Agreement with Intrexon (the “Second Stock Purchase Agreement”), we issued 3,552,210 shares of our common stock, $0.001 par value, which issuance is also deemed paid in consideration for the execution and delivery of the Second Channel Agreement, dated August 6, 2012, between ourselves and Intrexon. We registered the shares issued to Intrexon in accordance with the First Amendment to Registration Rights Agreement.

On February 15, 2012, upon stockholder approval, we amended our Articles of Incorporation to change our name to Synthetic Biologics, Inc. Our common stock continues trade on the NYSE MKT (formerly the NYSE Amex and American Stock Exchange), under the symbol “SYN”. Prior to this time and since October 16, 2008, our name was Adeona Pharmaceuticals, Inc. and we traded on the NYSE MKT stock exchange under the symbol “AEN”. We are incorporated in the State of Nevada.

On December 21, 2011, we announced that the Board of Directors had taken several actions to prioritize our focus on our entry into the emerging field of synthetic biology. In connection with the change in business focus on March 8, 2012, we entered into a Membership Interest Purchase Agreement, and certain related agreements, pursuant to which we sold all of our interest in the Adeona Clinical Laboratory (the “Lab”) to Hartlab, LLC, an entity controlled by the Lab’s former owner, in consideration for (i) the immediate assignment of the Lab’s outstanding accounts receivable up through the date of closing, plus (ii) Seven Hundred Thousand Dollars ($700,000) payable pursuant to the terms of a two-year non-recourse promissory note secured by all of the assets of the Lab.

On November 18, 2011, we entered into a Stock Purchase Agreement with Intrexon pursuant to which we issued to Intrexon 3,123,558 shares of our common stock at a purchase price equal to the $0.001 par value of such shares, which issuance was deemed paid in consideration for the execution and delivery of the channel agreement which was entered into on November 18, 2011 and terminated on April 16, 2013. We also agreed to an equity participation right in future securities offerings.

Company Information

Our predecessor, Sheffield Pharmaceuticals, Inc. was incorporated in 1986, and in 2006 engaged in a reverse merger with Pipex Therapeutics, Inc., a Delaware corporation formed in 2001. After the merger, we changed our name to Pipex Pharmaceuticals, Inc., and in October 2008 we changed our name to Adeona Pharmaceuticals, Inc. On October 15, 2009, we reincorporated in the State of Nevada. After reprioritizing our focus on the emerging area of synthetic biologics and entering into our first collaboration with Intrexon, we amended our Articles of Incorporation to change our name to Synthetic Biologics, Inc. on February 15, 2012.

Our principal executive offices are located at 155 Gibbs Street, Suite 412, Rockville, Maryland 20850. We also maintain an administrative and finance office in Ann Arbor, Michigan.

THE OFFERING

We may offer shares of our common stock, warrants to purchase any of such securities, either individually or in combination, and/or units consisting of some or all of such securities for total gross proceeds of up to $50 million, from time to time under this prospectus, together with the applicable prospectus supplement and any related free writing prospectus, at prices and on terms to be determined by market conditions at the time of any offering. Each time we offer a type or series of securities under this prospectus, we will provide a prospectus supplement that will describe the specific amounts, prices and other important terms of the securities being offered. Below is a summary of the securities we may offer under this prospectus (together with the applicable prospectus supplement).

We may sell the securities directly to investors or to or through agents, underwriters or dealers. We, and our agents or underwriters, reserve the right to accept or reject all or part of any proposed purchase of securities. Each prospectus supplement will set forth the names of any underwriters, dealers or agents involved in the sale of securities described in that prospectus supplement and any applicable fee, commission or discount arrangements with them.

RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

You should consider carefully the risks discussed under the section captioned "Risk Factors" contained in our annual report on Form 10-K for the year ended December 31, 2012 and in our subsequent quarterly reports on Form 10-Q, as updated by our subsequent filings under the Securities Exchange Act of 1934, as amended, or the Exchange Act, each of which is incorporated by reference in this prospectus in its entirety, together with other information in this prospectus, and the information and documents incorporated by reference in this prospectus, and any free writing prospectus that we have authorized for use in connection with this offering before you make a decision to invest in our common stock. If any of these events actually occur, our business, operating results, prospects or financial condition could be materially and adversely affected. This could cause the trading price of our common stock to decline and you may lose all or part of your investment.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the documents incorporated by reference in it, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934 as amended, or the Exchange Act. These statements may be made directly in this document or they may be made part of this document by reference to other documents filed with the SEC, which is known as "incorporation by reference." You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "could," "may" or other similar in this prospectus or the documents incorporated by reference.

We caution investors that any forward-looking statements presented in this prospectus or the documents incorporated by reference, or those which we may make orally or in writing from time to time, are based on our beliefs and assumptions, as well as information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- a failure to continue to undertake preclinical development and clinical trials for our product candidates;
- a failure to expand our research activities with Intrexon relating to monoclonal antibodies for infectious diseases;
- a failure of our product candidates to be demonstrably safe and effective;
- a failure to obtain regulatory approval for our products or to comply with ongoing regulatory requirements;
- a lack of acceptance of our product candidates in the marketplace;
- a failure by us to become or remain profitable;
- an inability by us to obtain the capital necessary to fund our research and development activities; and
- a loss of any of our key scientists or management personnel.

This prospectus and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the dates that such statements are made.

For more information on the uncertainty of forward-looking statements, see “Risk Factors” in our Annual Reports on Form 10-K and our Quarterly Reports on Form 10-Q and any applicable prospectus supplement.

USE OF PROCEEDS

We intend to use the net proceeds, if any, from the sales of securities offered by this prospectus for general corporate purposes, which may include, among other things, increasing our working capital and funding research and development, and capital expenditures. In addition, we may use a portion of the net proceeds for licensing or acquiring intellectual property to incorporate into our products and product candidates or our research and development programs. We may also use a portion of the net proceeds to in-license, acquire or invest in complementary businesses or products; however, we have no current commitments or obligations to do so.

The amounts and timing of our actual expenditures will depend on numerous factors, including our development and commercialization efforts, as well as the amount of cash used in our operations. We therefore cannot estimate with certainty the amount of net proceeds to be used for the purposes described above. We may find it necessary or advisable to use the net proceeds for other purposes, and we will have broad discretion in the application of the net proceeds. Pending the uses described above, we plan to invest the net proceeds from this offering in short-term, investment-grade, interest-bearing securities.

DIVIDEND POLICY

We have never paid cash dividends on our common stock. Moreover, we do not anticipate paying periodic cash dividends on our common stock for the foreseeable future. We intend to use all available cash and liquid assets in the operation and growth of our business. Any future determination about the payment of dividends will be made at the discretion of our board of directors and will depend upon our earnings, if any, capital requirements, operating and financial conditions and on such other factors as our board of directors deems relevant.

DESCRIPTION OF CAPITAL STOCK

Authorized Capital

Our authorized capital consists of 100 million shares of common stock, par value $0.001 per share, and 10 million shares of preferred stock, par value $0.001 per share. As of July 2, 2013, 44,654,414 shares of common stock and no shares of preferred stock were outstanding.

Common Stock

We may issue shares of our common stock from time to time. Holders of shares of common stock have the right to cast one vote for each share of common stock in their name on the books of our company, whether represented in person or by proxy, on all matters submitted to a vote of holders of common stock, including election of directors. There is no right to cumulative voting in election of directors. Except where a greater requirement is provided by statute, by our articles of incorporation, or by our bylaws, the presence, in person or by proxy duly authorized, of the one or more holders of a majority of the outstanding shares of our common stock constitutes a quorum for the transaction of business. The vote by the holders of a majority of outstanding shares is required to effect certain fundamental corporate changes such as liquidation, merger, or amendment of our articles of incorporation. Upon our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock.

There are no restrictions in our articles of incorporation or bylaws that prevent us from declaring dividends. We have not declared any dividends, and we do not plan to declare any dividends in the foreseeable future.

Holders of shares of our common stock are not entitled to preemptive or subscription or conversion rights, and no redemption or sinking fund provisions are applicable to our common stock. All outstanding shares of common stock are, and the shares of common stock sold in the offering will when issued be fully paid and non-assessable.

DESCRIPTION OF WARRANTS

Warrants

We may issue warrants for the purchase of common stock. We may issue warrants independently or in combination with common stock. In this prospectus, we have summarized certain general features of the warrants. We urge you, however, to read the applicable prospectus supplement (and any related free writing prospectus that we may authorize to be provided to you) related to the particular series of warrants being offered, as well as any warrant agreements and warrant certificates that contain the terms of the warrants. We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of warrant and/or the warrant agreement and warrant certificate, as applicable, that contain the terms of the particular series of warrants we are offering, and any supplemental agreements, before the issuance of such warrants.

Any warrants issued under this prospectus may be evidenced by warrant certificates. Warrants also may be issued under an applicable warrant agreement that we enter into with a warrant agent. We will indicate the name and address of the warrant agent, if applicable, in the prospectus supplement relating to the particular series of warrants being offered.

The following description, together with the additional information that we include in any applicable prospectus supplement and in any related free writing prospectus that we may authorize to be distributed to you, summarizes the material terms and provisions of the warrants that we may offer under this prospectus, which may be issued in one or more series. While the terms we have summarized below will apply generally to any warrants that we may offer under this prospectus, we will describe the particular terms of any series of warrants in more detail in the applicable prospectus supplement and in any related free writing prospectus that we may authorize to be distributed to you. The following description of warrants will apply to the warrants offered by this prospectus unless we provide otherwise in the applicable prospectus supplement. The applicable prospectus supplement for a particular series of warrants may specify different or additional terms.

We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of warrant and/or the warrant agreement and warrant certificate, as applicable, that contain the terms of the particular series of warrants we are offering, and any supplemental agreements, before the issuance of such warrants.

The summary below and that contained in any prospectus supplement is qualified in its entirety by reference to all of the provisions of the warrant and/or the warrant agreement and warrant certificate, as applicable, applicable to a particular series of debt securities. We urge you to read the applicable prospectus supplements and any related free writing prospectuses related to the warrants that we may offer under this prospectus, as well as the complete warrant and/or the warrant agreement and warrant certificate, as applicable, that contains the terms of the warrants.

General

We will describe in the applicable prospectus supplement the terms of the series of warrants being offered, including:

the offering price and aggregate number of warrants offered;

the currency for which the warrants may be purchased;

if applicable, the number of warrants issued with each such security;

the number of shares of common stock, as the case may be, purchasable upon the exercise of one warrant and the price at which these shares may be purchased upon such exercise;

the effect of any merger, consolidation, sale or other disposition of our business on the warrant agreements and the warrants;

the terms of any rights to redeem or call the warrants;

any provisions for changes to or adjustments in the exercise price or number of securities issuable upon exercise of the warrants;

the dates on which the right to exercise the warrants will commence and expire;

the manner in which the warrant agreements and warrants may be modified;

a discussion of any material or special U.S. federal income tax considerations of holding or exercising the warrants;

the terms of the securities issuable upon exercise of the warrants; and

any other specific terms, preferences, rights or limitations of or restrictions on the warrants.

Before exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including the right to receive dividends, if any, or, payments upon our liquidation, dissolution or winding up or to exercise voting rights, if any:

Exercise of Warrants

Each warrant will entitle the holder to purchase the securities that we specify in the applicable prospectus supplement at the exercise price that we describe in the applicable prospectus supplement. The warrants may be exercised as set forth in the prospectus supplement relating to the warrants offered. Unless we otherwise specify in the applicable prospectus supplement, warrants may be exercised at any time up to the close of business on the expiration date set forth in the prospectus supplement relating to the warrants offered thereby. After the close of business on the expiration date, unexercised warrants will become void.

Upon receipt of payment and the warrant or warrant certificate, as applicable, properly completed and duly executed at the corporate trust office of the warrant agent, if any, or any other office, including ours, indicated in the prospectus supplement, we will, as soon as practicable, issue and deliver the securities purchasable upon such exercise. If less than all of the warrants (or the warrants represented by such warrant certificate) are exercised, a new warrant or a new warrant certificate, as applicable, will be issued for the remaining warrants.

Enforceability of Rights by Holders of Warrants

Each warrant agent, if any, will act solely as our agent under the applicable warrant agreement and will not assume any obligation or relationship of agency or trust with any holder of any warrant. A warrant agent may act as warrant agent for more than one issue of warrants. A warrant agent will have no duty or responsibility in case of any default by us under the applicable warrant agreement or warrant, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a warrant may, without the consent of the related warrant agent or the holder of any other warrant, enforce by appropriate legal action its right to exercise, and receive the securities purchasable upon exercise of, its warrants.

Governing Law

Unless we otherwise specify in the applicable prospectus supplement, the warrants and any warrant agreements will be governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF UNITS

Units

We may issue units consisting of any combination of our common stock and warrants. We will issue each unit so that the holder of the unit is also the holder of each security included in the unit. As a result, the holder of a unit will have the rights and obligations of a holder of each included security. The unit agreement under which a unit is issued may provide that the securities included in the unit may not be held or transferred separately, at any time or at any time before a specified date.

The summary below and that contained in any prospectus supplement is qualified in its entirety by reference to all of the provisions of the unit agreement and/or unit certificate, and depositary arrangements, if applicable. We urge you to read the applicable prospectus supplements and any related free writing prospectuses related to the units that we may offer under this prospectus, as well as the complete unit agreement and/or unit certificate, and depositary arrangements, as applicable, that contain the terms of the units.

We will file as exhibits to the registration statement of which this prospectus is a part, or will incorporate by reference from reports that we file with the SEC, the form of unit agreement and/or unit certificate, and depositary arrangements, as applicable, that contain the terms of the particular series of units we are offering, and any supplemental agreements, before the issuance of such units.

The applicable prospectus supplement, information incorporated by reference or free writing prospectus may describe:

- the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances those securities may be held or transferred separately;
- any provisions for the issuance, payment, settlement, transfer, or exchange of the units or of the securities composing the units;
- whether the units will be issued in fully registered or global form; and
- any other terms of the units.

The applicable provisions described in this section, as well as those described under “Common Stock” and “Warrants” above, will apply to each unit and to each security included in each unit, respectively

PLAN OF DISTRIBUTION

We may sell the securities from time to time pursuant to underwritten public offerings, negotiated transactions, block trades or a combination of these methods or through underwriters or dealers, through agents and/or directly to one or more purchasers. The securities may be distributed from time to time in one or more transactions:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
- at prices related to such prevailing market prices; or
- at negotiated prices.

Each time that we sell securities covered by this prospectus, we will provide a prospectus supplement or supplements that will describe the method of distribution and set forth the terms and conditions of the offering of such securities, including the offering price of the securities and the proceeds to us, if applicable.

Offers to purchase the securities being offered by this prospectus may be solicited directly. Agents may also be designated to solicit offers to purchase the securities from time to time. Any agent involved in the offer or sale of our securities will be identified in a prospectus supplement.

If a dealer is utilized in the sale of the securities being offered by this prospectus, the securities will be sold to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

If an underwriter is utilized in the sale of the securities being offered by this prospectus, an underwriting agreement will be executed with the underwriter at the time of sale and the name of any underwriter will be provided in the prospectus supplement that the underwriter will use to make resales of the securities to the public. In connection with the sale of the securities, we, or the purchasers of securities for whom the underwriter may act as agent, may compensate the underwriter in the form of underwriting discounts or commissions. The underwriter may sell the securities to or through dealers, and those dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for which they may act as agent. Unless otherwise indicated in a prospectus supplement, an agent will be acting on a best efforts basis and a dealer will purchase securities as a principal, and may then resell the securities at varying prices to be determined by the dealer.

Any compensation paid to underwriters, dealers or agents in connection with the offering of the securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers will be provided in the applicable prospectus supplement. Underwriters, dealers and agents participating in the distribution of the securities may be deemed to be underwriters within the meaning of the Securities Act, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. We may enter into agreements to indemnify underwriters, dealers and agents against civil liabilities, including liabilities under the Securities Act, or to contribute to payments they may be required to make in respect thereof and to reimburse those persons for certain expenses.

Any common stock will be listed on the NYSE MKT, but any other securities may or may not be listed on a national securities exchange. To facilitate the offering of securities, certain persons participating in the offering may engage in transactions that stabilize, maintain or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involve the sale by persons participating in the offering of more securities than were sold to them. In these circumstances, these persons would cover such over-allotments or short positions by making purchases in the open market or by exercising their over-allotment option, if any. In addition, these persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities sold by them are repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

If indicated in the applicable prospectus supplement, underwriters or other persons acting as agents may be authorized to solicit offers by institutions or other suitable purchasers to purchase the securities at the public offering price set forth in the prospectus supplement, pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in the prospectus supplement. These purchasers may include, among others, commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions. Delayed delivery contracts will be subject to the condition that the purchase of the securities covered by the delayed delivery contracts will not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject. The underwriters and agents will not have any responsibility with respect to the validity or performance of these contracts.

We may engage in at the market offerings into an existing trading market in accordance with Rule 415(a)(4) under the Securities Act. In addition, we may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement so indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be named in the applicable prospectus supplement (or a post-effective amendment). In addition, we may otherwise loan or pledge securities to a financial institution or other third party that in turn may sell the securities short using this prospectus and an applicable prospectus supplement. Such financial institution or other third party may transfer its economic short position to investors in our securities or in connection with a concurrent offering of other securities.

The specific terms of any lock-up provisions in respect of any given offering will be described in the applicable prospectus supplement.

The underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business for which they receive compensation.

LEGAL MATTERS

Gracin & Marlow, LLP, New York, New York will pass upon certain legal matters relating to the issuance and sale of the warrants and units offered hereby on behalf of Synthetic Biologics, Inc. and Parsons Behle & Latimer, Reno, Nevada will pass upon certain legal matters relating to the issuance and sale of the common stock and the common stock underlying the warrants offered hereby on behalf of Synthetic Biologics, Inc. Additional legal matters may be passed upon for us or any underwriters, dealers or agents, by counsel that we will name in the applicable prospectus supplement.

EXPERTS

The financial statements as of December 31, 2012 and for the year ended December 31, 2012 incorporated by reference in this prospectus have been so incorporated in reliance on the report of BDO USA, LLP, an independent registered public accounting firm, incorporated herein by reference, given on authority of said firm as experts in auditing and accounting.

The financial statements as of December 31, 2011 and for the year ended December 31, 2011 incorporated by reference in this prospectus have been so incorporated in reliance on the report of Berman & Company, P.A. an independent registered public accounting firm, incorporated herein by reference, given on authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the SEC's public reference room located at 100 F Street N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our public filings are also available to the public at the SEC's web site at http://www.sec.gov.

This prospectus is part of a registration statement on Form S-3 that we have filed with the SEC under the Securities Act. This prospectus does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement, as permitted by the rules and regulations of the SEC. You may inspect and copy the registration statement, including exhibits, at the SEC's public reference room or Internet site.

Additional information about Synthetic Biologics. Inc. is contained at our website, www.syntheticbiologics.com. Information on our website is not incorporated by reference into this report. We make available on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as soon as reasonably practicable after those reports are filed with the SEC. The following Corporate Governance documents are also posted on our website: Code of Conduct, Code of Ethics for Financial Management and the Charters for the Audit Committee, Compensation Committee and Nominations Committee of the Board of Directors.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with it which means that we can disclose important information to you by referring you to those documents instead of having to repeat the information in this prospectus. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this prospectus and the termination of the offering, however, we are not incorporating by reference any documents or portions thereof, whether specifically listed below or filed in the future, that are not deemed "filed" with the SEC, or any information furnished pursuant to Items 2.02 or 7.01 of Form 8-K or related exhibits furnished pursuant to Item 9.01 of Form 8-K:

Our annual report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on April 16, 2013;

Our quarterly report on Form 10-Q for the quarter ended March 31, 2013 filed with the SEC on May 15, 2013;

Our current report on Form 8-K filed with the SEC on April 19, 2013, and

The description of our common stock set forth in our registration statement on Form 8-A12B, filed with the SEC on June 20, 2007 (File No. 000-12584).

You may obtain, free of charge, a copy of any of these documents (other than exhibits to these documents unless the exhibits are specifically incorporated by reference into these documents or referred to in this prospectus) by writing or calling us at the following address and telephone number:

155 Gibbs Street, Ste. 412
Rockville, Maryland 20850

(734) 332-7800

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11,500,000 Shares

Common Stock

PROSPECTUS SUPPLEMENT

Aegis Capital Corp

December 11, 2013

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Description

Tonnes

Gold
g/t

Silver
g/t

Precious Metal Gold Equivalent g/t

Gold Ounces

Silver Ounces

Precious Metal Gold Equivalent Ounces

Copper %

Lead %

Zinc %

Arista Mine

Proven

1,987,600

1.87

130

3.64

119,800

8,299,800

232,600

0.3

1.3

3.6

Probable

433,400

1.50

124

3.19

20,800

1,730,600

44,400

0.3

1.1

3.0

Arista Mine Total

2,421,000

1.81

129

3.56

140,600

10,030,400

277,000

0.3

1.3

3.6

Mirador Mine

Proven

59,400

0.71

352

5.49

1,400

672,600

10,500

Probable

20,700

0.65

337

5.23

400

224,900

3,500

Mirador Mine Total

80,100

0.69

348

5.43

1,800

897,500

14,000

Oaxaca Mining Unit Total

2,501,100

1.77

136

3.62

142,400

10,927,900

291,000

Notes to the 2017 P&P reserves:

1. Metal prices used for P&P reserves were $1,222 per ounce of gold, $16.62 per ounce of silver, $2.50 per pound of copper, $0.90 per pound of lead and $1.05 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
2. Precious metal gold equivalent is 73.53:1 using gold and silver only to calculate gold equivalents.
3. A breakeven Net Smelter Return ("NSR") cutoff grade of $80 per tonne was used for estimations of P&P reserves. The term "cutoff grade" means the lowest NSR value considered economic to process.
4. No appreciable amounts of base metals are present in the veins identified to-date at the Mirador Mine at the Alta Gracia project. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for proven and probable reserves at the Mirador Mine using gold and silver only to calculate gold equivalencies.
5. Mining, processing, energy, administrative and smelting/refining costs were based on 2017 actual costs for the Oaxaca Mining Unit.
6. Arista Mine metallurgical recovery assumptions used were 81% for gold, 92% for silver, 73% for copper, 74% for lead and 84% for zinc. Mirador Mine metallurgical recovery assumptions used were 79% for gold and 78% for silver. These recoveries reflect 2017 actual average recoveries for the Aguila and Alta Gracia projects.
7. P&P reserves are diluted and factored for expected mining recovery.
8. Minimum mining width for P&P reserves is 1.5 meters.
9.

Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

Mineralized Material

We use the term "mineralized material" to describe mineralization in our mineral deposits that do not constitute "reserves" under U.S. reporting requirements set forth in Guide 7.

In addition to our P&P reserves, we estimate mineralized material within the definition of Guide 7. Mineralized material does not have demonstrated economic viability. The SEC only permits issuers to report "mineralized material" in tonnage and average grade without reference to contained ounces or quantities of other metals. All of our mineralized material is located at our Oaxaca Mining Unit.

As of December 31, 2018, our estimate of mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Arista Mine	1,843,900	1.59	110	0.3	1.2	3.7
Alta Gracia Project	66,600	0.63	363			
Margaritas Project	26,000	0.51	260			
Oaxaca Mining Unit Total	1,936,500					

Notes to the 2018 mineralized material:

1. Mineralized Material is exclusive of P&P Reserves.

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2. Metal prices used for mineralized material were $1,258 per ounce of gold, $16.62 per ounce of silver, $2.65 per pound of copper, $0.97 per pound of lead and $1.20 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
3. A breakeven Net Smelter Return ("NSR") cutoff grade of $80 per tonne was used for estimations of mineralized material. The term "cutoff grade" means the lowest NSR value considered economic to process.
4. No appreciable amounts of base metals are present in the veins identified to-date at the Alta Gracia project including the Mirador Mine, and the Margaritas project. A breakeven cutoff grade of 1.98 g/t gold-equivalent (AuEq) was used for mineralized material at the Alta Gracia and Margaritas projects using gold and silver only to calculate gold equivalencies at a ratio of 75.69 to 1.
5. Arista Mine metallurgical recovery assumptions used were 80% for gold, 92% for silver, 80% for copper, 78% for lead and 83% for zinc. Alta Gracia and Margaritas projects metallurgical recovery assumptions used were 79% for gold and 78% for silver. These recoveries reflect 2018 actual average recoveries for the Aguila and Alta Gracia projects.
6. Mineralized material is diluted and factored for expected mining recovery.
7. Minimum mining width for mineralized material is 1.5 meters for the Arista Mine and the Alta Gracia and Margaritas projects.
8. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.
9. 100% of the Isabella Pearl project pit contained mineralized material was converted to reserves.

For comparison, at December 31, 2017, our estimate of mineralized material was:

Description	Tonnes	Gold g/t	Silver g/t	Copper %	Lead %	Zinc %
Arista Mine	1,685,800	1.51	104	0.3	1.7	3.7
Alta Gracia Project	47,200	0.66	258			
Margaritas Project	57,900	0.72	276			
Oaxaca Mining Unit Total	1,790,900					

Notes to the 2017 mineralized material:

1. Metal prices used for mineralized material were $1,222 per ounce of gold, $16.62 per ounce of silver, $2.50 per pound of copper, $0.90 per pound of lead and $1.05 per pound of zinc. These prices reflect the three-year trailing average prices for gold, silver, copper, lead and zinc.
2. A breakeven Net Smelter Return ("NSR") cutoff grade of $80 per tonne was used for estimations of mineralized material. The term "cutoff grade" means the lowest NSR value considered economic to process.
3. No appreciable amounts of base metals are present in the veins identified to-date at the Alta Gracia project including the Alta Gracia and Margaritas projects. A breakeven cutoff grade of 2.04 g/t gold-equivalent (AuEq) was used for mineralized material at the Alta Gracia and Margaritas projects using gold and silver only to calculate gold equivalencies.
4. Arista Mine metallurgical recovery assumptions used were 81% for gold, 92% for silver, 73% for copper, 74% for lead and 84% for zinc. Alta Gracia and Margaritas projects metallurgical recovery assumptions used were 74% for

gold and 81% for silver. These recoveries reflect 2017 actual average recoveries for the Aguila and Alta Gracia projects.

5. Mineralized material is diluted and factored for expected mining recovery.
6. Minimum mining width for mineralized material is 1.5 meters.
7. Figures in tables are rounded to reflect estimate precision and small differences generated by rounding are not material to estimates.

Our P&P Reserve and Mineralized Material estimates were prepared by our technical staff under the direction of Fred H. Brown, Senior Resource Geologist, and Barry Devlin, Vice President of Exploration. Mr. Brown graduated with a Bachelor of Science degree in Geology from New Mexico State University in 1987, obtained a Graduate Diploma in Engineering (Mining) in 1997 from the University of the Witwatersrand and a Master of Science in Engineering (Civil) from the University of the Witwatersrand in 2005. He is registered with the Association of Professional Engineers and Geoscientists of British Columbia and as a Professional Geoscientist and the Society for Mining, Metallurgy and Exploration as a Registered Member. Mr. Devlin holds a Bachelor of Science degree with honors in Geology, 1981, and a Masters in Geology, 1987, from the University of British Columbia, Vancouver, Canada. He is also a Professional Geologist registered with the Association of Professional Engineers and Geoscientists of British Columbia.

For a description of the key assumptions, parameters and methods used to estimate Proven and Probable Reserves and Mineralized Material included in this report, as well as data verification procedures and a general discussion of the extent to which the estimates may be affected by any known environmental, permitting, legal, title, taxation, socio-political, marketing or other factors, investors may review the annual reserve report posted on our website (http://www.goldresourcecorp.com.)

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Oaxaca Mining Unit

All of the properties that make up our Oaxaca Mining Unit are located in Oaxaca, Mexico in what is known as the San Jose structural corridor, which runs north 70 degrees west. Our properties comprise 55 continuous kilometers of this structural corridor which spans three historic mining districts in Oaxaca; the map below shows the general location of our properties:

We are granted concessions from the Mexican federal government to explore and mine our properties in Mexico. We hold certain properties directly as the concession holder and lease other properties from a third party. As of December 31, 2018, our Oaxaca Mining Unit encompassed approximately 69,889 hectares (172,700 acres) covered by 25 mining concessions and 5 lease concessions. The annual concession fees are $589,966 and we have made all necessary payments for 2018. Please see Mining Concessions and Regulations in Mexico, below.

Operating Properties

Aguila Project

Background: The Aguila project currently comprises 18 mining concessions aggregating 25,264 hectares.

In 2002, we leased the Aguila, El Aire, and La Tehuana concessions from a third party. The Aguila and El Aire concessions are part of the Aguila project and the La Tehuana concession comprises the Margaritas property. The lease agreement is subject to a 4% net smelter return royalty where production is sold in the form of gold/silver doré and 5%

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for production sold in concentrate form. Subject to meeting 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, which primarily consist of paying the appropriate royalty to the lessor.

In August 2003, we commenced an initial drilling and exploration program at the Aguila project. Through 2018, we have drilled a total of 935 core holes (both surface and underground) equaling 286,424 meters and 166 reverse circulation holes equaling 14,367 meters for a total of 1,101 holes totaling 300,791 meters.

In 2010, we acquired from a third party, at no additional cost, the El Chacal and El Pilon concessions, which are subject to a 2% royalty, but are not subject to the Aguila lease agreement. We filed for and received additional concessions from the Mexican government which are also not part of the concessions leased or acquired from the third party. The mineral concessions making up the Aguila project are located within the San Pedro Totolapam and San Pedro Quiatoni Ejidos.

Location and Access: The Aguila project is located in the Sierra Madre del Sur Mountains of southern Mexico in the central part of the State of Oaxaca. The property is located along a major paved highway approximately 120 kilometers southeast of Oaxaca City, the state's capital city. The property is approximately four kilometers due northwest from the village of San Jose de Gracia. We have constructed gravel and paved roads from the village to the mine and processing facility which provides adequate access to the property.

The climate of the Aguila project area is dry and warm to very warm with most rainfall occurring in June through September and annual precipitation averaging 423.7 mm. The average yearly temperature is 26.6 degrees centigrade. The area is very rocky with arid vegetation. Subsistence farming occurs and the main agricultural crop is agave cactus that is cultivated for the production of mescal.

Geology and Mineralization: The Aguila project is located in the San Jose de Gracia Mining District in Oaxaca. 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.

Historically, we have produced ore from two locations on the Aguila property, the Aguila open pit mine and the Arista underground mine. The Aguila open pit mineralization is considered low sulfidation, epithermal mineralization primarily of gold with some silver and no base metals. The Arista underground mine is considered intermediate epithermal mineralization of gold, silver, copper, lead, and zinc. The host rock in the Arista vein system is primarily andesite.

Facilities: We constructed a processing facility and other infrastructure at the Aguila project for approximately $35 million in 2009, and expanded the processing facility in 2012 and 2013, spending an additional $23 million. The flotation mill expansion, completed at the end of 2013, increased the number of flotation cells, added a second ball mill to allow for additional processing capacity and a Knelson gravity concentrator. In 2014 we completed a doré processing facility. The Aguila processing facility is flexible in its ability to process several types of mineralization. It has a differential flotation section capable of processing polymetallic ore and producing up to three separate concentrate products for sale. The facility also has an agitated leach circuit capable of producing gold and silver doré for sale. Depending on the specific type and characteristics of the ore, the facility has processed sulfide material in its flotation circuit at well above its nominal capacity of 1,500 tonnes of ore per day. The agitated leach circuit can process a nominal 300 tonnes per day.

We obtained water rights from the Mexican government for an amount of water that we believe is sufficient to meet our operating requirements and pump it approximately five kilometers to the site from a permitted well located near the Totolapam River. Power is provided by diesel generators at the site.

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Additional improvements at the site include installation of a second diesel generation power plant and switch gear, paving a three-kilometer section of the road from the mine to the processing facility, construction of a new surface maintenance garage and fuel station, construction of haul roads from the mine site to the processing facility, office space at the processing facility, an assay lab, an exploration office, a tailings impoundment facility and other infrastructure.

In addition to the paste fill plant, the tailings lift, and the power grid project, major construction projects in 2018 consisted of new underground explosive magazines on the second level of the mine, a ventilation upgrade for the Switchback mining zone, and the upgrade of the diesel power generation plant.

Exploration Activities:

Our exploration activities during 2018 mainly focused on underground exploration drilling at the Arista and Switchback vein systems in the Arista Mine. The Switchback drilling program continued to target further expansion and delineation of the multiple high-grade parallel veins for reserve definition, expansion and mine plan optimization. The Switchback strike length has expanded to over 1-kilometer, a more than 375-meter expansion from the beginning of 2018, with results adding to reserve definition, expansion and Arista Mine plan optimization. The Switchback vein system remains open on strike and vertical extent.

Underground drilling during 2018 also continued to expand the new high-grade ore zone in the Arista vein system. Twenty-eight underground diamond drill holes totaling 12,287 meters were completed at the Aguila project during 2018.

Alta Gracia

Background: In August 2009, we acquired claims adjacent to the Margaritas property in the Alta Gracia Mining District by filing concessions known as the David 1, the David 2 and La Herradura, totaling 5,175 hectares.

As of December 31, 2016, proven and probable reserves had been established for the Mirador Underground Mine on our Alta Gracia property. In July 2017, mine development reached the economic ore zone of the Mirador vein and mining began.

Location and Access: The Alta Gracia project is approximately 20 kilometers northeast from the village of San Pedro Totalapam, in the Municipality of San Pedro Totolapam. Access to the project is by a gravel road that departs the paved highway approximately 13 kilometers east of the village of San Pedro Totalapam. The haulage distance by road from Alta Gracia to the Aguila processing facility is approximately 32 kilometers.

Geology and Mineralization: The sedimentary and volcanic units mapped at Alta Gracia are similar to those observed at the Aguila project. The district is dominated by Tertiary-age rhyolite flows and tuffs which are underlain by andesite flows and tuff. Granodiorite and felsic intrusives are observed to outcrop to north and east of the Mirador mine. Known vein occurrences at Alta Gracia are mainly hosted in andesite and rhyolite. The veins currently being mined at Alta Gracia are considered low sulfidation epithermal mineralization with economic values only for gold and silver.

Facilities: During 2016, we received our operating permit for the Mirador Mine. Explosive magazines, located inside the Mirador Mine at the Alicia portal, were also constructed and permitted.

In 2017, two mine portals were developed to provide access to the Mirador vein. Mine site offices and a mobile equipment maintenance shop were established adjacent to the Aguacate portal. Additionally, a diesel power generation plant, compressed air and a mine water pumping station were developed and put into service.

High grade ore from the Mirador Mine, primarily silver, is transported by contracted haul trucks to and processed at our agitated leach plant at the Aguila processing facility, with final product being doré.

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Exploration Activities: The 2018 Alta Gracia surface drill campaign tested several target areas focusing primarily on the Independencia and Victoria veins, located southwest of the Mirador Mine, both considered as potential expansion areas. A new, wide, high-grade silver ore shoot was discovered within the Independencia vein with significant potential to expand production at Alta Gracia. In 2018, we completed 20 surface exploration diamond drill holes totaling 4,279 meters at Alta Gracia. To-date, a total of 161 surface diamond drill holes totaling 35,900 meters have been completed at Alta Gracia. Surface and underground geological mapping and sampling along with detailed topographic surveying also continued in the historic mining areas at Alta Gracia. The new information was used for estimation of additional reserves and mineralized material and to guide follow-up drilling planned in 2019.

Please see Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional information concerning our mining operations at the Aguila project.

Exploration Properties

Margaritas Property

The Margaritas property is made up of the La Tehuana concession. It is comprised of approximately 925 hectares located along our 55-kilometer mineralized trend and adjacent to the Aguila project

In 2018, we continued to review results from previous surface drilling, surveying, detailed geological mapping and rock chip channel sampling for the Margaritas property. Additional rock chip channel sampling of historic workings and expansion of the soil and rock geochemical program was also carried out in the Trenes mineralized zone. This program expanded upon the geochemical program conducted at Trenes during 2014 and 2015. A follow-up surface diamond drilling program is planned for Trenes in 2019. Trenes is located approximately 10-kilometers northwest of the Arista Mine along our 55-kilometer mineralized trend.

Chamizo Property

In June 2011, we staked mineral claims between the Rey property and Alta Gracia property along a trend and acquired an exploration concession from the Mexican government of approximately 26,386 hectares referred to as Chamizo. In March 2013, we acquired a property known as Cerro Colorado from Almaden Minerals, Ltd. consisting of approximately 1,860 hectares. The Cerro Colorado property is surrounded by our Chamizo concession and we include it as part of the Chamizo property. Any future production from the Cerro Colorado concession is subject to a 2% net smelter return royalty in favor of Almaden.

Because of the close proximity of Chamizo to Alta Gracia, exploration activity began on this property during late 2011 and to date has included geochemical sampling and drilling of eight shallow core holes for a total of 1,327 meters. We completed the acceptable minimum amount of work required to maintain the claims during 2018 and target the same amount of work in 2019.

Fuego Property

In March 2013, we acquired the Fuego property from Almaden Minerals Ltd. subject to a 2% net smelter return royalty. The Fuego property consists of approximately 2,554 hectares and is located south of our Alta Gracia and Chamizo properties. In 2013, Fuego was included in the property-wide airborne geophysical survey. Geologic mapping and surface sampling were conducted on the Fuego property from 2013 through 2018 to allow us to meet the acceptable minimum amount of work required to maintain the claims. We do not anticipate any significant exploration activities at El Fuego in 2019. However, we plan to conduct the acceptable minimum amount of work required to maintain the claims.

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Rey Property

The Rey property consists of concessions on the far northwest end of our 55-kilometer mineralized corridor in the State of Oaxaca known as Rey, El Virrey, La Reyna and El Marquez. The Rey property consists of 2,774 hectares. We acquired the Rey concession from a third party and it is subject to a 2% net smelter return royalty payable to them on a portion of the claims. We obtained the remaining concessions by staking claims and filing for concessions with the Mexican government.

The Rey property is located approximately 64.4 kilometers by road from the Aguila project. There is no plant or equipment on the Rey property. If exploration is successful, any mining would probably require an underground mine where mineralized material could be trucked to the Aguila processing facility for processing. To date, we have drilled 48 core holes for a total of 5,273 meters at the Rey property. Early in 2012, we completed a small amount of work to finish refurbishing and extending an existing shaft on the property to permit underground exploratory drilling. We ceased work at the Rey property during 2012, following a request to obtain additional approvals from local community agencies. In 2019, we plan to continue working with the local agencies and anticipate resolving the matter, but we have no assurance that we will be able to resume our exploration activities in the near term. If the matter is resolved, we plan to conduct follow-up drilling and exploration based on the drilling done in 2007 and 2008. We do not anticipate any significant exploration activities at Rey in 2019. However, we plan to conduct the acceptable minimum amount of work required to maintain the claims.

Mining Concessions and Regulations in Mexico

Mineral rights in Mexico belong to the Mexican federal government and are administered pursuant to Article 27 of the Mexican Constitution. All of our mining concessions are exploitation concessions, which may be granted or transferred to Mexican citizens and corporations. Our leases or concessions are held by our Mexican subsidiary. Exploitation concessions have a term of 50 years and can be renewed for another 50 years. Concessions grant us 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, may increase over the life of the concession and include periodic adjustments for inflation.

Mexican mining law does not require payment of finder’s fees to the government, except for a discovery premium in connection with national mineral reserves, concessions and claims or allotments contracted directly from the Mexican Geological Survey. None of the claims held by DDGM are under such a discovery premium regime.

Ejido Lands and Surface Right Acquisitions in Mexico

Surface lands within our Oaxaca Mining Unit 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 Aguila project and some of our surrounding properties.

Mexican law recognizes mining as a land use generally superior to agriculture. 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 can be referred to the government.

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

Nevada Mining Unit

In Nevada, we are the owner of four properties totaling 930 unpatented mining claims covering approximately 18,320 acres, subject to the paramount title of the United States of America, under the administration of the Bureau of Land Management ("BLM"). Under the Mining Law of 1872, which governs the location of unpatented mining claims on federal lands, the owner (locator) has the right to explore, develop, and mine minerals on unpatented mining claims without payments of production royalties to the U.S. government, subject to the surface management regulation of the BLM. Currently, annual claim maintenance fees are the only federal payments related to unpatented mining claims. Annual maintenance fees of $155,720 were paid during 2018.

In addition to the unpatented claims, we also own 17 patented mining claims covering approximately 274 acres and an additional 200 acres of fee lands in Mineral County, Nevada. The patented claims and fee lands are subject to payment of annual property taxes made to the county where they are located. Annual property taxes on our patented claims and fee lands have been paid through June 30, 2019.

Our properties in Nevada are located in the Walker Lane Mineral Belt which is known for its significant and high-grade gold and silver production. Activities at our properties in Nevada range from exploration at East Camp Douglas and County Line to mineral delineation phase at Mina Gold to development at Isabella Pearl. We believe that our Nevada properties have excellent potential for additional discoveries of both bulk tonnage replacement-type and bonanza-grade vein-type gold deposits, similar to other gold deposits historically mined in the Paradise Peak, Borealis, Bodie, Tonopah, and Goldfield districts.

Our primary focus is to discover, delineate and advance potential open pit heap leach gold operations at our Nevada Mining Unit and commence production as soon as possible. We believe that our Nevada properties are highly prospective based on their geology, surface samples, drill results, and close proximity to past and current high-grade gold and silver producing mines. We also target equipment sharing synergies whereby we may move equipment from one

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project to the next due to their close proximity (approximately 20 miles or less) to each other. The map below shows the general location of our properties within Nevada:

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Exploration Properties

Mina Gold

In August of 2016, we purchased 100% interest in the Mina Gold property located in Nevada's Walker Lane Mineral Belt. The property has the potential to be a future open pit heap leach gold operation. Mina Gold reported a historic third-party estimate of mineralized material totaling 1,606,000 tonnes grading 1.88 g/t gold. The property covers an area of approximately 825 acres consisting of 43 unpatented claims and 5 patented claims. During 2018, we completed an 11-hole reverse circulation drilling program totaling 885 meters on the Mina Gold property. This drilling targeted expansion along strike and to depth known surface high-grade gold mineralization on our patented claims. In 2019, we will review results from previous surface drilling to guide follow-up drilling planned and other exploration activities for Mina Gold.

East Camp Douglas

In January 2017, we purchased 100% interest in the East Camp Douglas gold property located in Nevada's Walker Lane Mineral Belt. The property covers an area of approximately 5,300 acres consisting of 277 unpatented claims, 12 patented claims and additional fee lands in Mineral County, Nevada. Precious metal epithermal mineralization at East Camp Douglas occurs as both widespread high sulfidation alteration areas and low sulfidation veins. Modern exploration by several mining and exploration companies has established modest gold resource potential in five separate areas on the property, with over 3,000 meters of drill core and a large exploration database. We believe this large property has numerous untested gold targets with open pit heap leach potential warranting an extensive exploration program. During 2018, we continued to review historical geological, exploration and mining data on the East Camp Douglas property. Additional exploration activities included examinations and surveying of the historic mine workings and drill collars in the historic Cerro Duro mining area together with surface geological and alteration mapping. In 2019, we plan to evaluate the resource potential of the historic Cerro Duro mining area using extensive historical drilling and sample data available as well as identifying targets for our first drilling program on the gold-bearing silicified volcanic rocks further to the south in the area we call the "lithocap".

County Line

In March 2018, we purchased 100% interest in the County Line property. The property is located close to our other Nevada properties in central Nevada's Walker Lane Mineral Belt in Mineral and Nye counties. In addition, we staked additional unpatented claims around the property to strengthen the land position and exploration potential. The total land package is 2,320 acres consisting of 116 unpatented lode mining claims and 6 unpatented placer mining claims. During 2018, we reviewed historical geological, exploration and mining data along with conducting surface mapping and rock chip sampling at County Line in preparation for a future initial surface drilling program.

Development Property

Isabella Pearl

Background: In August 2016, we purchased 100% interest in the Isabella Pearl project which covers an area of approximately 9,000 acres consisting of 494 unpatented claims. After acquiring Isabella Pearl, we drilled several holes in the deposit for further mineral delineation and additional metallurgical testing. This included 4 holes totaling 735 meters of core drilling and 82 meters in 6 holes of reverse circulation drilling. We also drilled a 400-meter deep water well to supply the project's future water needs for gold production. In April 2018, we released our maiden Proven and Probable mineral reserve for the Isabella Pearl project totaling 192,600 gold ounces at an average grade of 2.22 g/t. We are targeting the production of gold doré from an open pit heap leach operation and we expect gold recoveries of approximately 81% for crushed ore and 60% for the run-of-mine ("ROM") ore. Our goal is to advance the project into production in mid-2019, subject to construction timing.

Location and Access: The Isabella Pearl project is located in the Gabbs Valley Range in Mineral County, approximately 240 kilometers (150 miles) southeast of Reno, Nevada. Access to the project is by a paved road approximately 10-kilometer (6 miles) north of the town of Luning, Nevada. The project has good connections to the infrastructure of west-central Nevada, with access roads to the project site linking to Nevada state route 361 and U.S. Route 95, the main highway between Reno and Las Vegas.

Geology and Mineralization: The Isabella Pearl project is located in the central portion of the Walker Lane Mineral Belt, a major northwest-trending zone on the western border of Nevada characterized by a series of closely spaced dextral strike-slip faults that were active throughout much of the middle to late Cenozoic. Volcanic rocks of middle Tertiary age cover much of the property and include intermediate lava flows and ignimbrite ash-flow sheets. The volcanic rocks unconformably overlie Mesozoic strata including Triassic and Jurassic sedimentary units and Cretaceous and Jurassic igneous units. Within the regional Walker Lane tectonic setting, several major fault zones trend through the property and are dominated by various splays and offset branches that host the gold mineralization in the area.

The gold-silver mineralized zones mainly include the Isabella, Pearl, and Civit Cat deposits, collectively referred to as the Isabella Pearl deposit. Alteration and mineral assemblages at Isabella Pearl, including widespread argillic alteration and generally abundant alunite, indicate the deposits belong to the high-sulfidation class of epithermal mineral deposits. Potassium-Argon age determinations indicate the mineralization is about 19 Ma, some 7 to 10 million years younger than the age of the host rocks. This early Miocene age conforms to the age of other high-sulfidation epithermal precious-metal deposits in the Walker Lane (e.g., Goldfield and Paradise Peak).

Facilities: We were granted a positive Record of Decision (“ROD”) from the BLM on the Environmental Assessment (“EA”) for the Isabella Pearl project in May 2018. This final permit, along with approval from the Company’s Board of Directors, allowed us to move the project forward into development and construction. Construction progress in 2018 included the completion of haul roads, office and laboratory buildings, construction of and liner placement on the heap leach pad, the pregnant and barren solution ponds, and connection of the water well. We began installation of the ADR processing facility during the fourth quarter of 2018 with completion expected in 2019. Additionally, during the fourth quarter of 2018, we installed our crushing facility and commenced mining and waste removal of the first several benches of the open pit mine.

Exploration Activities: In 2018, we completed a 36-hole, 3,005-meter reverse circulation drilling program targeted to explore and expand mineral reserves at the Isabella Pearl project. Surface geological and alteration mapping and rock chip surface sampling continued on the new high-grade gold area located on the northeast side of the Isabella Pearl deposit as well as a target to the northwest. These areas are targeted for surface drilling in the future.

2019 Exploration

In 2019, we anticipate spending approximately $5 million for exploration activities for both the Oaxaca and Nevada Mining Units. Exploration expenditures may be modified depending on exploration results, metal market conditions and available capital.

Office Facilities

We constructed an administrative office building adjacent to the Aguila processing facility and a mine office adjacent to the Arista Mine portal as part of the Aguila project. We also lease office space in Oaxaca City, Oaxaca consisting of approximately 3,000 square feet. The lease commenced in 2012 and continues for ten years. In 2014, we sold the building that serves as our executive and administrative headquarters in Colorado Springs, Colorado and have leased back a portion under a renewable one-year lease. We also lease an office in Denver, Colorado consisting of approximately 2,500 square feet, which we renewed through February 2022.

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Glossary

The following terms used in this report shall have the following meanings:

ADR	An absorption, desorption and refining (“ADR”) facility which recovers gold from the leached pregnant solution.
Andesite:	An extrusive igneous, volcanic rock, of intermediate composition, with aphanitic to porphyritic texture characteristic of subduction zones, such as the western margin of South America.
Concentrate:	A product from a mineral processing facility such as gravity separation or flotation in which the valuable constituents have been upgraded and unwanted gangue materials rejected as waste.
Doré:	Composite gold and silver bullion usually consisting of approximately 90% precious metals that will be further refined to separate pure metals.
Drift:	A horizontal tunnel generally driven within or alongside an orebody and aligned parallel to the long dimension of the ore.
Epithermal:	Used to describe gold deposits found on or just below the surface close to vents or volcanoes, formed at low temperature and pressure.
Exploration:	Prospecting, sampling, mapping, diamond-drilling and other work involved in locating the presence of economic deposits and establishing their nature, shape and grade.
Grade:	The concentration of an element of interest expressed as relative mass units (percentage, ounces per ton, grams per tonne (“g/t”), etc.).
Hectare:	Another metric unit of measurement, for surface area. One hectare equals 1/200th of a square kilometer, 10,000 square meters, or 2.47 acres. A hectare is approximately the size of a soccer field.
Long-hole Stoping:	Mining method which uses holes drilled by a production drill to a predetermined pattern by a mining engineer. Long-hole stoping is a highly selective and productive method of mining and can cater for varying ore thicknesses and dips (0 - 90 degree). Blasted rock is designed to fall into a supported drawpoint or removed with remote control LHD (load, haul, dump machine).
Heap Leaching:	Consists of stacking crushed or run-of-mine ore on impermeable pads, where a weak cyanide solution is applied to the surface of the heap to dissolve the gold. The gold-bearing solution is then collected

	and pumped to process facilities to remove the gold by collection on carbon.
Mineralized Material:	Minerals or any mass of host rock in which minerals of potential commercial value occur.

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Net Smelter Return ("NSR"):	The net revenue that the owner of a mining property receives from the sale of the mine's metal products less transportation and refining costs. As a royalty it refers to the fraction of net smelter return that a mine operator is obligated to pay the owner of the royalty agreement.
Mineral Deposit:	Rocks that contain economic amounts of minerals in them and that are expected to be profitably mined.
Patented Claim:	A mining claim for which the U.S. Federal Government has passed its title to the claimant, making it private land. A person may mine and remove minerals from a mining claim without a mineral patent. However, a mineral patent gives the owner exclusive title to the locatable minerals and in most cases, grants title to the surface.
Tonne:	A metric ton. One tonne equals 1000 kg. It is equal to approximately 2,204.62 pounds.
Unpatented Claim:	A particular parcel of U.S. Federal land, valuable or believed to be valuable for a specific mineral deposit or deposits. It is a parcel for which an individual has asserted a right of possession. The right is restricted to the extraction and development of a mineral deposit.
Volcanogenic:	Of volcanic origin.
Volcanic domes:	These are mounds that form when viscous lava is erupted slowly and piles up over the vent, rather than moving away as lava flow. The sides of most domes are very steep and typically are mantled with unstable rock debris formed during or shortly after dome emplacement. Most domes are composed of silica-rich lava which may contain enough pressurized gas to cause explosions during dome extrusion.

ITEM 3. LEGAL PROCEEDINGS

Not applicable. There were no legal proceedings at December 31, 2018.

ITEM 4. MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Annual Report.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES

Market Information

Our common stock trades on the New York Stock Exchange American ("NYSE American") under the symbol "GORO".

On February 25, 2019, the high and low market prices of our common stock on the NYSE American were $5.08 and $4.84 respectively, and we had approximately 200 holders of record.

Securities Authorized for Issuance Under Equity Compensation Plans

On April 14, 2016, our Board of Directors approved the Gold Resource Corporation 2016 Equity Incentive Plan (the "Plan"). The Plan was approved to, among other things, (i) supersede the Gold Resource Corporation Amended and Restated Non-Qualified Stock Option and Stock Grant Plan and (ii) provide for the grant of options, stock appreciation rights, restricted stock, restricted stock units, stock grants, stock units, performance shares, performance share units, and performance cash. These actions were approved by the shareholders of the Company on June 15, 2016.

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of December 31, 2018:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)

Equity compensation plans approved by security holders:	5,482,589	$ 7.87	3,716,165

Purchases of Equity Securities by the Company

In September 2011, our Board of Directors authorized a share repurchase of up to $20.0 million with no pre-established end date. During 2018 and 2017, we did not repurchase any shares of Gold Resource Corporation common stock on the open market, and approximately $14.0 million remains available in the share repurchase program as of December 31, 2018.

Performance Graph

The following performance graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference in such filing.

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The following graph compares the performance of our common stock with the performance of the NYSE American Composite Index and the S&P TSX Global Gold Fund, assuming reinvestment of dividends on December 31 of each year indicated. The graph assumes $100 invested at the per share closing price in Gold Resource Corporation and each of the indices on December 31, 2013.

Transfer Agent

Computershare Investor Services, Inc. is the transfer agent for our common stock. The principal office of Computershare is located at 8742 Lucent Boulevard, Suite 225, Highlands Ranch, Colorado 80129 and its telephone number is (303) 262-0600.

Dividend Policy

Since our inception, one of management's primary goals has been to make cash dividend distributions to shareholders. Since commercial production began at the Aguila project in July 2010, we have returned over $111 million to our shareholders in consecutive monthly dividends. Regular dividends should not be considered a prediction or guarantee of future dividends.

Our monthly dividend is one-sixth cent per share per month or $0.02 per share per year. The instituted dividend may be modified or discontinued at any time and the declaration of any special dividend is determined at the discretion of our Board of Directors, depending on variables such as, but not limited to, operating cash flow, mine construction requirements and strategies, other construction projects, spot gold and silver prices, taxation, government royalties and general market conditions. At the present time, we are not a party to any agreement that would limit our ability to pay dividends.

Physical Dividend Program

In 2012, we launched a physical dividend program pursuant to which our shareholders have the option to convert the cash dividends that we pay into physical gold and silver bullion. As part of our overall strategy to diversify our treasury and to facilitate this program, we may periodically purchase gold and silver bullion. In order for a shareholder to convert their cash dividend into physical gold and/or silver, the shareholder must opt-in to the physical dividend program and request the conversion of their cash dividend, or portion thereof, into physical gold and/or silver. For those shareholders who elect to convert their cash dividend into gold and/or silver bullion, the gold and silver will be delivered in the form of gold or silver Gold Resource Corporation one-ounce bullion rounds. No action is required by any shareholder who elects not to participate in the physical metals program. For those shareholders who wish to convert any portion of their cash dividend into gold and/or silver bullion, the process is summarized as follows:

- Shareholders must register and hold their Gold Resource Corporation common shares in their name directly with our transfer agent, Computershare Investor Services, and not through a brokerage house or other intermediary held in a "street name". This is a requirement so that we can locate and validate the shareholder's position in our common stock.
- Shareholders must set up an individual account with Gold Bullion International ("GBI"), 1325 Avenue of the Americas, 7th Floor, Suite 0703-2, New York, NY 10019. GBI facilitates the cash to gold and silver conversion.
- Shareholders then direct their cash dividend check issued by Computershare to be electronically deposited to the shareholder's GBI account for the option to have it, or any portion thereof that denominates into a one-ounce gold or silver bullion round. The election to convert all or any portion of the shareholder's cash dividend into bullion is governed by an agreement between the shareholder and GBI.
- Shareholders with accounts at GBI who wish to change their current gold, silver or cash allocations for their cash dividend must do so by midnight Eastern Time on the date preceding the monthly dividend record date. We issue a press release with details of each dividend declaration, and the dividend record and payment dates.
- On the dividend record date, the number of bullion ounces to be converted and distributed to the shareholder's individual account on the dividend payment date is calculated as the dollar value of that portion of the cash dividend the shareholder elected to convert to bullion, divided by the London Bullion Market PM gold fix plus gold bullion minting cost factors on the record date or the London Bullion Market silver fix plus silver bullion minting cost factors on the record date.

Only whole ounces of gold and silver bullion are credited to a shareholder's individual account on the dividend payment date. The cash value attributable to fractional ounces will remain in the shareholder's individual account as cash until such time as future dividends provide the shareholder with sufficient cash to convert to whole ounces of gold or silver based on the London PM gold fix and silver fix on a future dividend record date, and based on the shareholder's self-directed gold, silver or cash allocations in effect at that time. The shareholder may also choose to move their cash out of their GBI account. Shareholders cannot move cash into their GBI account for conversion into gold and silver. Only the shareholder's cash dividend sent from Computershare is eligible for conversion.

We encourage shareholders who have questions concerning the physical dividend program to contact our investor relations department at (303) 320-7708.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data sets forth our summary historical financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014. This information was derived from our audited consolidated financial statements for each year. Our selected historical financial data is qualified in its entirety by, and should be read in conjunction with, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the notes thereto included elsewhere in this report.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(In thousands, except per share amounts)				
Sales, net	$ 115,308	$ 110,156	$ 83,227	$ 92,701	$ 115,405
Mine gross profit	33,690	42,115	22,433	30,323	50,871
Net income	9,288	4,150	4,387	3,062	15,036
Net income per common share:					
Basic and diluted	0.16	0.07	0.08	0.06	0.28
Cash dividends declared	0.02	0.02	0.03	0.11	0.12

	As of December 31,				
	2018	2017	2016	2015	2014
	(In thousands)				
Total Assets	$ 150,331	$ 132,923	$ 118,443	$ 106,499	$ 105,983
Long-term obligations	5,507	5,809	2,425	2,815	3,827

Please see the consolidated financial statements included in this Form 10-K under Item 8 for additional information.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information, the following discussion contains forward-looking statements that are subject to risks and uncertainties. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. Our actual future results or actions may differ materially from these forward-looking statements for many reasons, including but not limited to the risks described in “Risk Factors” and elsewhere in this annual report and other reports filed by us with the SEC. Our discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and related notes included in this report and with the understanding that our actual future results may be materially different from what we currently expect.

Introduction

The following discussion summarizes our results of operations for three fiscal years ended December 31, 2018, 2017 and 2016 and our financial condition at December 31, 2018 and 2017, with a particular emphasis on the year ended December 31, 2018.

The discussion also presents certain non-GAAP financial measures that are important to management in its evaluation of our operating results and which are used by management to compare our performance with what we perceive to be peer group mining companies, and are relied on as part of management’s decision-making process. Management believes these measures may also be important to investors in evaluating our performance. For a detailed description of each of the non-GAAP financial measures, please see the discussion under Non-GAAP Measures.

In our financial statements, we report the sale of precious and base metals as revenue and we periodically review our revenue streams to ensure that this treatment remains appropriate. We consider precious metals to be the long-term primary driver of our economic decisions and believe that base metals are secondary products.

Precious metal gold equivalent is determined by taking gold ounces produced or sold, plus silver ounces produced or sold converted to precious metal gold equivalent ounces using the gold to silver average realized price ratio for the period.

Highlights for the year ended December 31, 2018 are summarized below and discussed further in our Management's Discussion and Analysis.

Highlights

- Achieved eighth consecutive year of profitability;
- Achieved 2018 gold production guidance range with 26,838 ounces;
- Achieved 2018 silver production guidance range with 1.67 million ounces;
- $115.3 million net sales, an increase of 5%;
- $9.3 million net income or $0.16 per share;
- $84 total cash costs (after by-product credits) per precious metal gold equivalent ounce sold;
- $655 total all-in sustaining cost per precious metal gold equivalent ounce sold;
- Obtained necessary permits to construct and operate Isabella Pearl project;
- $15.4 million of internally generated cash flow deployed to build the Isabella Pearl project;
- $15 million recent equity raise to fund Isabella Pearl project completion, of which $4.3 million was in 2018;
- Working capital of $13.5 million;
- Commenced Isabella Pearl construction and completed heap leach pad;
- Commenced Isabella Pearl mining, crushing, and ore placement on the heap leach pad;
- $1.1 million distributed in shareholder dividends, totaling over $111 million since 2010.

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Overview

We are a mining company which pursues gold and silver projects that are expected to achieve both low operating costs and high returns on capital. We have two mining units, the Oaxaca Mining Unit located in Oaxaca, Mexico and the Nevada Mining Unit located in Nevada, USA. Our Oaxaca Mining Unit consists of six properties and includes mineral production primarily from the Arista underground mine and to a lesser extent the Aguila Open Pit mine, both of which are located at the Aguila project. We also produce from the Mirador underground mine at the Alta Gracia project. All three mines supply ore to our processing facilities located at the Aguila project. We produce doré, and metal concentrates which contain precious metals of gold and silver and base metals of copper, lead and zinc. Our Nevada Mining Unit consists of four properties and includes the Isabella Pearl project which is currently in construction and targeting production in mid-2019. The Isabella Pearl project mineralization is predominantly gold with some silver. We plan to produce doré from this project.

Results of Operations—Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Oaxaca Mining Unit

Sales, net

Metal sales of $115.3 million for the year ended December 31, 2018 increased by $5.1 million, or 5% when compared to the same period in 2017. The increase in our 2018 sales is primarily attributable to an increase in base metal sales volumes. Base metal sales volume in 2018 increased over 2017 volumes as follows: copper by 43%, lead by 37%, and zinc by 23%. The increase in base metal sales volumes was partially offset by the declining silver, lead, and zinc prices and lower gold and silver volumes in 2018. For the year ended December 31, 2018, average realized prices for silver, lead, and zinc decreased from the same period in 2017 as follows: silver by 8%, lead by 11%, and zinc by 7%.

During 2018, we sold 22,886 gold ounces and 1,529,951 silver ounces at a total cash cost per precious metal gold equivalent ounce after by-product credits, of $84. During the three months ended December 31, 2018, we sold 6,142 gold ounces and 285,859 silver ounces at a total cash cost per gold equivalent ounce after by-product credits, of $42. Please see Non-GAAP Measures below for additional information concerning the cash cost per ounce measures.

Production

Our 2018 full year production of 26,838 gold ounces and 1,672,034 silver ounces achieved our targeted ranges for the year. Our 2018 production outlook was 27,000 gold ounces and 1,700,000 silver ounces plus or minus 10%.

On a precious metal gold equivalent basis, our mill production totaled 11,705 ounces and 47,622 ounces for the fourth quarter and year ended December 31, 2018, respectively. Please see the Production and Sales Statistics tables below for additional information regarding our mineral production statistics.

For the year ended December 31, 2018, gold and silver production of 26,838 ounces and 1,672,034 ounces decreased 5% and 6%, respectively, from the same period in 2017. The decrease in production of gold and silver was the result of lower grades from our Arista Mine as a function of the particular areas being mined during the year.

During 2018, the Arista Mine accounted for 92% of the production tonnage followed by the Aguila open pit and Mirador Mine with 6% and 2%, respectively. Looking forward into 2019, we plan to increase production stoping of the Switchback vein system, continue mining at a lesser rate in the Arista vein system, increase production at the Mirador Mine, and to a lesser extent the Aguila open pit.

For the three months ended December 31, 2018, production totaled 7,974 ounces of gold and 330,605 ounces of silver, a decrease of 13% and 40%, respectively, from the same period in 2017 as a result of expected lower grades at the

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lower levels of our Switchback vein system. The grades of gold and silver in the fourth quarter of 2018 as compared to 2017 decreased 36% and 59%, respectively, due to a high-grade mining area in 2017 which accounted for 70% of the gold and silver production in the fourth quarter of 2017. The lower precious metal production was partially offset by the historically high average milled tonnage of 1,885 tonnes per day or 36% increase when compared to the same period in 2017. The additional mill throughput resulted from mining efficiencies gained by producing from multiple work faces of the Arista and Switchback vein systems.

Gold and silver ore grades vary depending on the areas of the Arista Mine being worked at any given time. We have seen an expected decrease of precious metal grades and an increase in base metal grades as we mined deeper in the deposit over the last 8 years. The fluctuation in grades with depth is a function of the metal gradation in the epithermal vein system. Higher precious metal and lower base metal grades are present in the upper part of an epithermal system and the reverse, higher base metal and lower precious metal grades, in the lower part of an epithermal system. During 2018, we drifted 500 meters from deep in the Arista vein system over to the lowest known mineralized area of the Switchback vein system. As we increase mining operations in this particular area of the Switchback vein system, we are currently in an area and at a depth with high base metal grades and lower precious metal grades. We intend to mine on strike, and more importantly, upward at Switchback and expect an increase in precious metal grades and decrease in base metal grades over the coming years. This is not only evidenced by our drill results in the upper levels of the Switchback vein system but our experience with the gradation at the Arista vein system having mined down on it for over 8 years now. We expect lower precious metal and higher base metal grades in 2019 as a function of where we are currently mining. Over the coming years, as we focus more on the Switchback vein system as our primary source of ore in the Arista mine, we expect the trend in metal grades to reverse as we mine upward at Switchback into higher precious metal areas and lower base metal areas. During 2018, both the Arista and Switchback high-grade veins were expanded with our exploration drilling.

During the three and twelve months ended December 31, 2018, we processed ore through the flotation circuit at a rate of 1,885 and 1,764 ore tonnes per day, respectively, compared to 1,385 and 1,306 ore tonnes per day for the same periods in 2017. The agitated leach plant was commissioned in the fourth quarter of 2017 reaching the initial stated goal of 150 dry metric tonnes throughput per day. We had targeted 100 tonnes per day from the Mirador Mine in 2018 but operational challenges, including bad ground and additional development, limited average monthly mill production to just over 1,250 tonnes per month from the Mirador Mine. We are targeting approximately 100 tonnes per day from the Mirador Mine in 2019, including developing into and mining from new areas where drilling has indicated higher silver grades. Achieving this processing rate in the future is dependent upon our ability to develop the mine to a point where ore extraction can consistently achieve target capacity while meeting grade and dilution parameters.

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Production and Sales Statistics

The following Production Statistics table summarizes certain information about our Oaxaca Mining Unit operations for the periods indicated:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Arista Mine				
Milled				
Tonnes Milled	149,494	117,490	560,191	400,748
Grade				
Average Gold Grade (g/t)	1.82	2.86	1.69	2.40
Average Silver Grade (g/t)	65	157	95	145
Average Copper Grade (%)	0.35	0.39	0.37	0.38
Average Lead Grade (%)	1.72	2.03	1.66	1.75
Average Zinc Grade (%)	4.45	4.95	4.29	4.85
Aguila Open Pit Mine				
Milled				
Tonnes Milled	10,705	-	36,435	42,079
Grade				
Average Gold Grade (g/t)	2.02	-	2.08	1.52
Average Silver Grade (g/t)	38	-	41	34
Mirador Mine				
Milled				
Tonnes Milled	3,800	3,019	15,044	6,350
Grade				
Average Gold Grade (g/t)	1.52	1.36	1.43	1.22
Average Silver Grade (g/t)	222	126	174	113
Combined				
Tonnes milled	163,999	120,509	611,670	449,177
Tonnes Milled per Day (1)	1,885	1,385	1,764	1,306
Metal production (before payable metal deductions) (2)				
Gold (ozs.)	7,974	9,209	26,838	28,117
Silver (ozs.)	330,605	555,550	1,672,034	1,773,263
Copper (tonnes)	446	337	1,652	1,141
Lead (tonnes)	2,006	1,782	7,280	5,365
Zinc (tonnes)	5,572	4,854	19,808	16,301
Precious metal gold equivalent ounces produced (mill production) (2)				
Gold Ounces	7,974	9,209	26,838	28,117
Gold Equivalent Ounces from Silver	3,731	7,210	20,784	23,933

Total Precious Metal Gold Equivalent Ounces	11,705	16,419	47,622	52,050

(1) Based on actual days the mill operated during the period.
(2) The difference between what we report as "ounces/tonnes produced" and "payable ounces/tonnes sold" is attributable to the difference between the quantities of metals contained in the concentrates we produce versus the portion of those metals actually paid for by our customers according to the terms of our sales contracts. Differences can also arise from inventory changes incidental to shipping schedules, or variances in ore grades which impact the amount of metals contained in concentrates produced and sold.

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The following Sales Statistics table summarizes certain information about our combined Oaxaca Mining Unit operations for the periods indicated:

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Metal sold				
Gold (ozs.)	6,142	7,700	22,886	25,221
Silver (ozs.)	285,859	508,133	1,529,951	1,630,003
Copper (tonnes)	420	297	1,521	1,066
Lead (tonnes)	1,892	1,633	6,754	4,932
Zinc (tonnes)	4,596	3,607	16,123	13,059
Average metal prices realized (1)				
Gold ($ per oz.)	1,214	1,279	1,259	1,267
Silver ($ per oz.)	13.70	16.60	15.65	17.10
Copper ($ per tonne)	5,871	7,164	6,345	6,354
Lead ($ per tonne)	1,741	2,531	2,119	2,371
Zinc ($ per tonne)	2,448	3,524	2,770	2,993
Precious metal gold equivalent ounces sold				
Gold Ounces	6,142	7,700	22,886	25,221
Gold Equivalent Ounces from Silver	3,226	6,594	19,018	22,003
Total Precious Metal Gold Equivalent Ounces	9,368	14,294	41,904	47,224
Total cash cost before by-product credits per precious metal gold equivalent ounce sold (2)	$ 1,858	$ 1,157	$ 1,722	$ 1,294
Total cash cost after by-product credits per precious metal gold equivalent ounce sold (2) (3)	$ 42	$ (170)	$ 84	$ 75
Total all-in sustaining cost per precious metal gold equivalent ounce sold (2)	$ 426	$ 253	$ 655	$ 590

(1) Average metal prices realized vary from the market metal prices due to final settlement adjustments from our provisional invoices when they are settled. Our average metal prices realized will therefore differ from the market average metal prices in most cases.
(2) For a reconciliation of this non-GAAP measure to total mine cost of sales, which is the most comparable U.S. GAAP measure, please see Non-GAAP Measures.
(3) Total cash cost after by-product credits are significantly affected by base metals sales during the periods presented.

Nevada Mining Unit

Isabella Pearl Project

During the fourth quarter of 2018, we began mining, crushing, and placing overliner ore as well as ROM material on the leach pad.

2019 Production Targets

Precious metal production targets for 2019 at our Oaxaca Mining Unit include 27,000 gold ounces, and 1,700,000 silver ounces, with a plus or minus range of 10% of each metal. In addition, significant base metal production of copper, lead, and zinc is expected.

While we target gold production from our Nevada Mining Unit mid-2019, we have not yet provided a 2019 production outlook due to uncertainty in mine commissioning, optimization and ramp up. Our first 12 months of Isabella Pearl production is targeted to be approximately 29,000 gold ounces, with a plus or minus range of 10%.

Consolidated Results of Operations

Mine gross profit. For the year ended December 31, 2018, mine gross profit and mine gross profit percent totaled $33.7 million and 29% compared to $42.1 million and 38% for the same period in 2017. The decrease in mine gross profit and mine gross profit percent during 2018 primarily resulted from lower precious metal sales volumes, lower metal prices, and an increase in production costs due to higher throughput in 2018 as compared to 2017.

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General and administrative expenses. For the year ended December 31, 2018, general and administrative expenses totaled $9.3 million, compared to $8.1 million for the same period of 2017. The $1.2 million increase in 2018, compared to 2017 is primarily due to increased legal fees and stock based compensation.

Exploration expenses. For the year ended December 31, 2018, property exploration expenses totaled $4.7 million as compared to $4.3 million for the same period of 2017. The increase of $0.4 million was the result of increased drilling at our Aguila project in Mexico and Gold Mesa property in Nevada.

Other expense (income), net. For the year ended December 31, 2018, we recorded other expense of $3.1 million compared to other expense of $1.2 million during the same period of 2017. The $1.9 million increase in 2018 compared to the same period in 2017 was due to the allowance for doubtful accounts receivable resulting from the bankruptcy filing of one of our customers, our mark-to-market losses on our gold and silver bullion/rounds due to the declining prices in 2018, and exchange rate fluctuation between the U.S. Dollar and Mexican Peso. Please see Note 17 to the Consolidated Financial Statements for additional information.

Provision for income taxes. For the year ended December 31, 2018, income tax expense decreased to $7.3 million from $24.3 million from the same period in 2017. The decrease in tax expense is mostly due to the U.S. Tax Act which resulted in higher non-cash tax expenses, tax rate reduction from 35% to 21%, and a one-time tax on foreign unremitted earning in 2017. Additionally, significantly lower changes in deferred tax assets and a decrease in pre-tax income in 2018 contributed to the decrease in tax expense from 2017. Please see Note 5 in Item 8. Financial Statements and Supplementary Data for additional information.

Results of Operations – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Mine gross profit. For the year ended December 31, 2017, mine gross profit and mine gross profit percent totaled $42.1 million and 38% compared to $22.4 million and 27% for the same period in 2016. The increase in mine gross profit and mine gross profit percent during 2017 was primarily driven by higher sales volumes, lower treatment and refining costs, and higher base metal prices during 2017 as compared to 2016.

General and administrative expenses. For the year ended December 31, 2017, general and administrative expenses totaled $8.1 million, compared to $9.5 million for the same period of 2016. The $1.4 million decrease in 2017, compared to 2016 is primarily due to decreased IT support fees and employee compensation expenses.

Exploration expenses. For the year ended December 31, 2017, property exploration expenses totaled $4.3 million which is consistent with exploration expense of $4.3 million for the same period of 2016.

Other expense (income), net. For the year ended December 31, 2017, we recorded other expense of $1.2 million compared to other income of $0.6 million during the same period of 2016. The $1.8 million change in 2017 compared to the same period in 2016 was due to foreign currency losses in 2017 as a result of the Mexican Peso strengthening against the US dollar during the year. Also contributing to the change was one-time income from insurance reimbursements and from the sale of investments in 2016. No such items occurred in 2017.

Provision for income taxes. For the year ended December 31, 2017, income tax expense increased to $24.3 million from $4.8 million for the same period in 2016. The increase in taxes is mostly due to significant changes to U.S. tax legislation which did not result in any cash payments and the Company does not expect any future cash implication. Additionally, increases in pre-tax income, utilization of foreign tax credits, and Mexico fixed assets indexation also contributed to the increase in tax expense. Please see Note 5 in Item 8. Financial Statements and Supplementary Data for additional information.

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Non-GAAP Measures

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

For financial reporting purposes, we report the sale of base metals as part of our revenue. Revenue generated from the sale of base metals in our concentrates is considered a by-product of our gold and silver production for the purpose of our total cash cost/credit after by-product credits. We periodically review our revenues to ensure that our reporting of primary products and by-products is appropriate. Because we consider copper, lead and zinc to be by-products of our precious metal production, the value of these metals continues to be applied as a reduction to total cash costs in our calculation of total cash cost/credit after by-product credits per precious metal gold equivalent ounce sold. Likewise, we believe the identification of copper, lead and zinc as by-product credits is appropriate because of their lower individual economic value compared to gold and silver and due to the fact that gold and silver are the primary products we intend to produce. In addition, we do not receive sufficient revenue from any single by-product base metal to warrant classification of such as a co-product.

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

Total cash cost before by-product credits includes all direct and indirect production costs related to our production of metals (including mining, milling and other plant facility costs, smelter treatment and refining charges, royalties, and site general and administrative costs) less stock-based compensation allocated to production costs plus treatment and refining costs.

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

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

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

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Reconciliations to U.S. GAAP

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
Total cash cost (credit) after by-product credits	$ 400	$ (2,440)	$ 3,540	$ 3,545
Treatment and refining charges	(1,243)	(2,763)	(5,565)	(7,760)
By-product credits	17,009	18,972	68,625	57,552
Depreciation and amortization	4,029	4,283	14,616	14,554
Reclamation and remediation	(49)	(50)	330	51
Share-based compensation allocated to production costs	29	33	72	99
Total mine cost of sales	$ 20,175	$ 18,035	$ 81,618	$ 68,041

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
	(in thousands, except ounces sold and cost per precious metal gold equivalent ounce sold)			
Total cash cost before by-product credits (1)	$ 17,409	$ 16,532	$ 72,165	$ 61,097
By-product credits (2)	(17,009)	(18,972)	(68,625)	(57,552)
Total cash cost (credit) after by-product credits	400	(2,440)	3,540	3,545
Sustaining capital expenditures	2,530	5,247	20,640	21,155
Sustaining general and administrative expenses	1,070	793	3,302	3,160
Total all-in sustaining cost	4,000	3,600	27,482	27,860
Precious metal gold equivalent ounces sold (3)	9,368	14,294	41,904	47,224
Total cash cost before by-product credits per precious metal gold equivalent ounce sold	$ 1,858	$ 1,157	$ 1,722	$ 1,294
By-product credits per precious metal gold equivalent ounce sold	(1,816)	(1,327)	(1,638)	(1,219)

Total cash cost (credit) after by-product credits per precious metal gold equivalent ounce sold	42	(170)	84	75
Other sustaining expenditures per precious metal gold equivalent ounce sold	384	423	571	515
Total all-in sustaining cost per precious metal gold equivalent ounce sold	$ 426	$ 253	$ 655	$ 590

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

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

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
	(in thousands)			
By-product credits by dollar value:				
Copper sales	$ 2,465	$ 2,128	$ 9,651	$ 6,774
Lead sales	3,294	4,134	14,312	11,699
Zinc sales	11,250	12,710	44,662	39,079
Total sales from by-products	$ 17,009	$ 18,972	$ 68,625	$ 57,552

	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
By-product credits per precious metal gold equivalent ounce sold:				
Copper sales	$ 263	$ 149	$ 230	$ 143
Lead sales	352	289	342	248
Zinc sales	1,201	889	1,066	828
Total by-product credits per precious metal gold ounces sold	$ 1,816	$ 1,327	$ 1,638	$ 1,219

Liquidity and Capital Resources

As of December 31, 2018, we had working capital of $13.5 million, consisting of current assets of $31.1 million and current liabilities of $17.6 million. This represents a decrease of $14.0 million from the working capital balance of $27.5 million at December 31, 2017. Our working capital balance fluctuates as we use cash to fund our operations, exploration, mine development, income taxes and our dividends.

Cash and cash equivalents as of December 31, 2018 decreased to $7.8 million from $22.4 million as of December 31, 2017, a net decrease in cash of $14.6 million. The decrease is primarily due to cash spent on the construction and development of our Isabella Pearl project and capital projects at our Oaxaca Mining Unit.

Net cash provided by operating activities for the year ended December 31, 2018 was $22.3 million compared to $35.6 million during the same period in 2017, a decrease of $13.3 million. The decrease is primarily due to lower pretax income and higher tax payments in 2018.

Net cash used in investing activities for the year ended December 31, 2018 was $40.1 million compared to $25.7 million during the same period in 2017. The increase in investing activities is primarily attributable to increased mine development, critical capital projects at our Aguila project including approximately $9.6 million for the tailings dam, power grid, and paste fill plant projects and $15.4 million for the development of our Isabella Pearl project.

On April 3, 2018, we entered into an At-The-Market Offering Agreement (the “ATM Agreement”) with an investment banking firm (“Agent”) pursuant to which the Agent agreed to act as our sales agent with respect to the offer and sale from time to time of our common stock having an aggregate gross sales price of up to $75.0 million. The ATM Agreement will remain in full force and effect until the earlier of April 3, 2021, or the date that the ATM Agreement is terminated in accordance with the terms therein

Net cash provided by financing activities for the year ended December 31, 2018 was $3.5 million compared to a use of cash of $1.4 million in 2017. The change in cash provided by financing activities was primarily the result of the sale of 1,131,755 shares of our common stock under the ATM Agreement for net proceeds of $4.3 million, and $1.3 million of proceeds from the exercise of stock options.

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We believe that our liquidity and capital resources are adequate to fund our operations and corporate activities for the foreseeable future. As of February 25, 2019, we have sold a total of 3,668,885 shares under the ATM Agreement for total net proceeds of $15.1 million, after deducting commissions and fees. While we reserve the ability to further utilize the ATM Agreement if we choose, we believe the amount raised to date is adequate to finish construction of the Isabella Pearl project.

Off-Balance Sheet Arrangements

We have the following off-balance sheet arrangements: operating leases (as discussed in Note 12 to the Consolidated Financial Statements), equipment purchase obligations, and $9.2 million of outstanding reclamation bonds.

Contractual Obligations

The following table represents a summary of our contractual obligations at December 31, 2018, except short-term purchase order commitments arising in the ordinary course of business:

	Payments due by Period					
	Total	2019	2020	2021	2022	2023 and Thereafter
	(in thousands)					
Loan payable	$ 2,143	$ 765	$ 797	$ 581	$ -	$ -
Capital lease obligation	1,243	412	436	395	-	-
Interest on loan payable	125	74	42	9	-	-
Interest on capital lease obligation	103	58	35	10	-	-
Operating lease obligations	259	113	74	72	-	-
Contract Mining Agreement(1)	30,911	16,146	14,765	-	-	-
Equipment purchase obligations	2,491	2,491	-	-	-	-
	$ 37,275	$ 20,059	$ 16,149	$ 1,067	$ -	$ -

(1) We signed a 24-month Contract Mining Agreement with a contract miner on November 14, 2018 relating to mining activities at our Isabella Pearl project. We will be paying the contract miner operational costs in the normal course of business. These costs represent the remaining future minimum payments for the Contract Mining Agreement over the initial 24 months of the agreement. The future minimum payments are determined by rates within the Contract Mining Agreement, estimated tonnes moved and bank cubic yards for drilling and blasting.

Accounting Developments

For a discussion of Recently Adopted Accounting Pronouncements and Recently Issued Accounting Pronouncements, please see Note 1 in Item 8. Financial Statements and Supplementary Data.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities and contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. As a result, management is required to routinely make judgments and estimates about the effects of matters that are inherently uncertain. Actual results may differ from these estimates under different conditions or assumptions. The following discussion pertains to accounting estimates management believes are most critical to the presentation of our financial position and results of operations that require management's most difficult, subjective or complex judgments.

Future Metals Prices

Metals prices are key components in estimates that determine the valuation of some of our significant assets and liabilities, including properties, plant and equipment, deferred tax assets, and certain accounts receivable. Metals prices are also an important component in the estimation of reserves. As shown above in Item 1. – Business, metals prices have historically been volatile. Silver demand arises from investment demand, particularly in exchange-traded funds, industrial demand, and consumer demand. Gold demand arises primarily from investment and consumer demand. Investment demand for silver and gold can be influenced by several factors, including: the value of the U.S. dollar and other currencies, changing U.S. budget deficits, widening availability of exchange-traded funds, interest rate levels, the health of credit markets, and inflationary expectations.

Proven and Probable Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at three-year trailing averages. Our assessment of reserves occurs at least annually, and we may utilize external audits in the future. Reserves are a key component in the valuation of our property, equipment and mine development and related depreciation rates.

Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare estimated future cash flows to current asset values in an effort to ensure that carrying values are reported appropriately. Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals or that we will do so at a profitable level.

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 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.

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.

Depreciation and Amortization

Capitalized costs are depreciated or amortized using the straight-line method or unit-of-production (“UOP”) method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets or the useful life of the individual assets. Significant judgment is involved in the determination of the estimated life of the assets. Our estimates for reserves are a key component in determining our UOP rates. Our estimates of proven and probable ore reserves may change, possibly in the near term, resulting in changes to depreciation, depletion and amortization rates in future reporting periods. Productive lives range from 1 to 10 years, but do not exceed the useful life of the individual asset.

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Please see Note 1 in Item 8. Financial Statements and Supplementary Data for depreciation rates of major asset categories.

Impairment of Long-Lived Assets

We evaluate the carrying value of long-lived assets to be held and used, using a fair-value based approach when events and circumstances indicate that the related carrying amount of our assets may not be recoverable. The economic environment and commodity prices may be considered as impairment indicators for the purposes of these impairment assessments. In accordance with U.S. GAAP, the carrying value of a long-lived asset or asset group is considered impaired when the anticipated undiscounted cash flows from such asset or asset group is less than its carrying value. In that event, a loss will be recorded in our consolidated statements of operations based on the difference between book value and the estimated fair value of the asset or asset group computed using discounted estimated future cash flows, or the application of an expected fair value technique in the absence of an observable market price. Future cash flows include estimates of recoverable quantities to be produced from estimated proven and probable mineral reserves, commodity prices (considering current and historical prices, price trends and related factors), production quantities, production costs, and capital expenditures, all based on life-of-mine plans and projections. In estimating future cash flows, assets are grouped at the lowest level for which identifiable cash flows exist that are largely independent of cash flows from other asset groups. It is possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold and other commodity prices, production levels and costs and capital are each subject to significant risks and uncertainties.

Asset Retirement Obligation/Reclamation and Remediation Costs

Our mining and exploration activities are subject to various laws and regulations, including legal and contractual obligations to reclaim, remediate, or otherwise restore properties at the time the property is removed from service. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs that we will incur to complete the work required to comply with existing laws and regulations. Actual costs may differ from the amounts estimated. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and remediation costs. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required.

Stock-based Compensation

We account for stock-based employee compensation plans under the fair value recognition and measurement provisions in accordance with applicable accounting standards, which require all stock-based payments to employees, including grants of stock options and restricted stock units ("RSUs"), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis over the period during which the employee is required to perform service in exchange for the award.

Stock-based compensation expense is recorded net of estimated forfeitures in our consolidated statements of operations and as such is recorded for only those stock-based awards that we expect to vest. We estimate the forfeiture rate based on historical forfeitures of equity awards and adjust the rate to reflect changes in facts and circumstances, if any. We will revise our estimated forfeiture rate if actual forfeitures differ from our initial estimates.

Income Taxes

In preparing our consolidated financial statements, we estimate the actual amount of taxes currently payable or receivable as well as deferred tax assets and liabilities attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Changes in deferred tax assets and liabilities generally

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have a direct impact on earnings in the period of the changes. Mining taxes represent federal and state taxes levied on mining operations. As the mining taxes are calculated as a percentage of mining profits, we classify them as income taxes. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements.

Each period, we evaluate the likelihood of whether or not some portion or all of each deferred tax asset will be realized and provide a valuation allowance for those deferred tax assets for which it is more likely than not that the related benefits will not be realized. When evaluating our valuation allowance, we consider historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives. Levels of future taxable income are affected by, among other things, market gold and silver prices, production costs, quantities of proven and probable reserves, interest rates, federal and local legislation, and foreign currency exchange rates. If we determine that all or a portion of the deferred tax assets will not be realized, a valuation allowance will be recorded with a charge to income tax expense. Conversely, if we determine that we will ultimately be able to realize all or a portion of the related benefits for which a valuation allowance has been provided, all or a portion of the related valuation allowance will be reduced with a credit to income tax expense.

In addition, the calculation of income tax expense involves significant management estimation and judgment involving a number of assumptions. In determining these amounts, management interprets tax legislation in each of the jurisdictions in which we operate and makes estimates of the expected timing of the reversal of future tax assets and liabilities. We also make assumptions about future earnings, tax planning strategies and the extent to which potential future tax benefits will be used. We are also subject to assessments by various taxation authorities which may interpret tax legislation differently, which could affect the final amount or the timing of tax payments.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Commodity Price Risk

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

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

Foreign Currency Risk

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

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

Provisional Sales Contract Risk

We enter into concentrate sales contracts which, in general, provide for a provisional payment to us based upon provisional assays and prices. The provisionally priced sales contracts contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of concentrates determined at the quoted metal prices at the time of shipment. The embedded derivative, which does not qualify for hedge accounting, is adjusted to market through revenue each period prior to settlement. Changes in the prices of metals between the shipment and final settlement date will result in adjustments to revenues related to the sales of concentrate previously recorded upon shipment. Please see Note 14 in Item 8. Financial Statements and Supplementary Data for additional information.

Interest Rate Risk

Our outstanding debt consists of equipment loans and leased equipment classified as capital leases. As the debt is at fixed rates, we consider our interest rate risk exposure to be insignificant at this time.

Equity Price Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements:

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Gold Resource Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet as of December 31, 2018 and the related consolidated statement of operations, shareholders' equity, and cash flows for the year ended December 31, 2018 and the related notes (collectively referred to as the "financial statements") of Gold Resource Corporation (the "Company"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations, and its cash flows of the Company for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the COSO framework.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded

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as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company’s auditor since 2016.

/s/ Plante & Moran, PLLC

Denver, Colorado

February 26, 2019

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Report of Independent Public Accounting Firm

To the Shareholders and Board of Directors of

Gold Resource Corporation

Colorado Springs, Colorado

OPINIONS ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheet of Gold Resource Corporation (the “Company”) as of December 31, 2017, and the related consolidated statements of operations, shareholders’ equity, and cash flows, for each year in the two year period ended December 31, 2017, and the related notes and schedules (collectively referred to as the “financial statements”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each year in the two year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINIONS

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

/s/ EKS&H LLLP

March 8, 2018

Denver, Colorado

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GOLD RESOURCE CORPORATION

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,762	$ 22,390
Gold and silver rounds/bullion	3,637	3,812
Accounts receivable, net	1,744	2,884
Inventories, net	14,342	11,636
Prepaid Taxes	1,126	-
Prepaid expenses and other current assets	2,450	1,767
Total current assets	31,061	42,489
Property, plant and mine development, net	111,242	82,599
Deferred tax assets, net	7,372	6,854
Other non-current assets	656	981
Total assets	$ 150,331	$ 132,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,429	$ 6,904
Loans payable, current	765	568
Capital leases, current	412	382
Income taxes payable, net	-	1,944
Mining royalty taxes payable, net	1,926	2,359
Accrued expenses and other current liabilities	2,030	2,851
Total current liabilities	17,562	15,008
Reclamation and remediation liabilities	3,298	2,946
Loans payable, long-term	1,378	1,645
Capital leases, long-term	831	1,218
Total liabilities	23,069	20,817
Shareholders' equity:		
Common stock - $0.001 par value, 100,000,000 shares authorized: 58,850,431 and 56,916,484 shares outstanding at December 31, 2018 and 2017, respectively	69	57
Additional paid-in capital	121,592	114,584
Retained earnings	12,656	4,520
Treasury stock at cost, 336,398 shares	(5,884)	(5,884)
Accumulated other comprehensive loss	(1,171)	(1,171)
Total shareholders' equity	127,262	112,106

Total liabilities and shareholders' equity	$ 150,331	$ 132,923

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

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GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended December 31, 2018, 2017 and 2016

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

	2018	2017	2016
Sales, net	$ 115,308	$ 110,156	$ 83,227
Mine cost of sales:			
Production costs	66,672	53,436	48,460
Depreciation and amortization	14,616	14,554	12,169
Reclamation and remediation	330	51	165
Total mine cost of sales	81,618	68,041	60,794
Mine gross profit	33,690	42,115	22,433
Costs and expenses:			
General and administrative expenses	9,325	8,122	9,533
Exploration expenses	4,703	4,349	4,314
Other expense (income), net	3,111	1,166	(560)
Total costs and expenses	17,139	13,637	13,287
Income before income taxes	16,551	28,478	9,146
Provision for income taxes	7,263	24,328	4,759
Net income	$ 9,288	$ 4,150	$ 4,387
Net income per common share:			
Basic and diluted	$ 0.16	0.07	0.08
Weighted average shares outstanding:			
Basic	57,534,830	56,854,670	55,140,237
Diluted	58,369,666	57,594,993	55,725,206

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

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GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

for the years ended December 31, 2018, 2017 and 2016

(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, 2015	54,603,104	$ 55	$ 96,766	$ (948)	$ (5,884)	$ (1,171)	$ 88,818
Stock options exercised	169,999	-	391	-	-	-	391
Share-based compensation	-	-	1,240	-	-	-	1,240
Dividends declared	-	-	(271)	(1,399)	-	-	(1,670)
Acquisitions	2,130,169	2	13,908	-	-	-	13,910
Net income	-	-	-	4,387	-	-	4,387
Balance, December 31, 2016	56,903,272	$ 57	$ 112,034	$ 2,040	$ (5,884)	$ (1,171)	$ 107,076
Adjustment to beginning retained earnings as a result of adoption of ASU 2016-16	-	-	-	(533)	-	-	(533)
Stock-based compensation	-	-	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			1,497	-	-	-	1,497
Net stock options exercised	712,271	1	1,203	-	-	-	1,204

Common stock issued for vested restricted stock units	89,921	-	-	-	-	-	-
Dividends declared	-	-	-	(1,152)	-	-	(1,152)
Issuance of stock, net of issuance costs	1,131,755	11	4,308	-	-	-	4,319
Net income	-	-	-	9,288	-	-	9,288
Balance, December 31, 2018	59,186,829	$ 69	$ 121,592	$ 12,656	$ (5,884)	$ (1,171)	$ 127,262

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

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GOLD RESOURCE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2018, 2017 and 2016

(U.S. dollars in thousands)

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 9,288	$ 4,150	$ 4,387
Adjustments to reconcile net income to net cash from operating activities:			
Deferred income taxes	(501)	14,991	(1,555)
Depreciation and amortization	15,169	14,998	12,588
Stock-based compensation	1,497	1,192	1,240
Other operating adjustments	2,535	1,285	298
Changes in operating assets and liabilities:			
Accounts receivable	(220)	(2,254)	(309)
Inventories	(2,820)	(2,797)	(738)
Prepaid expenses and other current assets	(417)	(448)	793
Other noncurrent assets	130	(7)	79
Accounts payable and other accrued liabilities	1,489	1,636	(3,579)
Mining royalty and income taxes payable, net	(3,894)	2,887	4,695
Net cash provided by operating activities	22,256	35,633	17,899
Cash flows from investing activities:			
Capital expenditures	(40,076)	(25,432)	(15,140)
Proceeds from the sale of equity investments	-	-	749
Other investing activities	6	(257)	(302)
Net cash used in investing activities	(40,070)	(25,689)	(14,693)
Cash flows from financing activities:			
Proceeds from the exercise of stock options	1,261	-	391
Dividends paid	(1,149)	(1,137)	(1,670)
Repayment of loans	(596)	(184)	-
Repayment of capital leases	(383)	(73)	(606)
Proceeds from sale of stock, net of issuance costs	4,319	-	-
Net cash provided by (used in) financing activities	3,452	(1,394)	(1,885)
Effect of exchange rate changes on cash and cash equivalents	(266)	(326)	23
Net (decrease) increase in cash and cash equivalents	(14,628)	8,224	1,344
Cash and cash equivalents at beginning of period	22,390	14,166	12,822

Cash and cash equivalents at end of period	$ 7,762	$ 22,390	$ 14,166
Supplemental Cash Flow Information			
Interest expense paid	$ 177	$ 65	$ 13
Income and mining taxes paid	$ 7,068	$ 3,102	$ 256
Non-cash investing activities:			
Increase (decrease) in accrued capital expenditures	$ 3,302	$ 1,041	$ (2,868)
Change in estimate for asset retirement cost	$ 271	$ 366	(21)
Equipment purchased through loan payable	$ 526	$ 2,397	$ -
Equipment purchased under capital leases	$ 26	$ 1,686	$ 300
Common stock issued for the acquisition of mineral rights	$ -	$ 1,300	$ 13,910

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

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GOLD RESOURCE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018, 2017 and 2016

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Gold Resource Corporation (the “Company”) was organized under the laws of the State of Colorado on August 24, 1998. The Company is a producer of metal concentrates that contain gold, silver, copper, lead and zinc, and doré containing gold and silver at the Aguila and Alta Gracia projects in the southern state of Oaxaca, Mexico (“Oaxaca Mining Unit”). The Aguila project includes the Arista underground mine and processing facility, which are currently in operation. The Alta Gracia project includes the Mirador underground mine which began operations in 2017. The Company also performs exploration and development work on our portfolio of precious metal properties in Nevada, United States of America (“Nevada Mining Unit”) and continues to evaluate other properties for possible acquisition.

Significant Accounting Policies

Basis of Presentation

The consolidated financial statements included herein are expressed in United States dollars, and conform to United States generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the accounts of the Company, its Mexican subsidiary, Don David Gold Mexico S.A. de C.V. (“Don David Gold Mexico”) and its wholly-owned United States subsidiaries GRC Nevada Inc. and Walker Lane Minerals Corp. (“Walker Lane”). Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management routinely makes judgments and estimates about the effects of matters that are inherently uncertain and bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Reclassifications

Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. The reclassifications had no material effect on the Company’s results of operations or financial condition.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with a remaining maturity of three months or less when purchased and are carried at cost.

Gold and Silver Rounds/Bullion

From time to time, the Company may purchase gold and silver bullion on the open market in order to diversify its treasury and provide an option for shareholders to convert their dividends into bullion. The purchased gold and silver bullion is carried at quoted market value prices based on the daily London P.M. fix as of the balance sheet date. The Company considers bullion a highly-liquid investment.

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Accounts Receivable, net

Accounts receivable consists of trade receivables, which are recorded net of allowance for doubtful accounts, from the sale of doré and metals concentrates, as well an embedded derivative based on mark-to-market adjustments for outstanding provisional invoices based on metal forward prices. Please see Note 14 and Note 19 for additional information related to the embedded derivative. As of December 31, 2018 and 2017, our allowance for doubtful accounts was $1.4 million and nil, respectively.

Inventories

The major inventory categories are set forth below:

Stockpile Inventories: Stockpile inventories represent ore that has been mined and is available for further processing. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, an estimate of the contained metals (based on assay data) and the estimated metallurgical recovery rates. Costs are allocated to stockpiles based on relative values of material stockpiled and processed using current mining costs incurred, including applicable overhead, depreciation and amortization relating to mining operations. Material is removed at each stockpile's average cost per tonne. Stockpiles are carried at the lower of average cost or net realizable value. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. The current portion of stockpiles is determined based on the expected amounts to be processed within the next 12 months. Stockpiles not expected to be processed within the next 12 months are classified as long term. As of December 31, 2018, all stockpiles were classified as current.

Concentrate Inventories: Concentrates inventories include metal concentrates located either at the Company's facilities or in transit to its customer's port. Inventories consist of copper, lead and zinc metal concentrates, which also contain gold and silver mineralization. Concentrate inventories are carried at the lower of cost of production or net realizable value based on current metals prices.

Doré Inventory: Doré includes gold and silver doré bars held at the Company's facility. Doré inventories are carried at the lower of cost of production or net realizable value based on current metals prices.

Leach Pad: Ore on leach pad represents ore that has been mined and placed on the leach pad where a solution is applied to the surface of the heap to dissolve the gold or silver. Costs are added to ore on leach pads based on current mining costs, including applicable depreciation and amortization relating to mining operations. Costs are removed from ore on leach pads as ounces are recovered based on the average cost per estimated recoverable ounce of gold or silver on the leach pad.

Estimates of recoverable ore on the leach pad are calculated from the quantities of ore placed on the leach pad (measured tonnes added to the leach pad), the grade of ore placed on the leach pad (based on assay data) and a recovery

percentage (based on ore type).

Although the quantities of recoverable ore placed on the leach pad are reconciled by comparing the grades of ore placed on pads to the quantities of metal actually recovered (metallurgical balancing), the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and estimates are refined based on actual results over time. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis.

Materials and Supplies Inventories: Materials and supplies inventories consist of chemical reagents, parts, fuels and other materials and supplies. Cost includes applicable taxes and freight. Materials and supplies inventory is carried at lower of average cost or net realizable value.

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Write-downs of inventory are charged to expense.

IVA Taxes Receivable and Payable

In Mexico, value added ("IVA") taxes are assessed on purchases of materials and services and sales of products. Businesses are generally entitled to recover the taxes they have paid related to purchases of materials and services, either as a refund or as a credit against future taxes payable. Likewise, businesses owe IVA taxes as the business sells a product and collects IVA taxes from its customers.

Amounts recorded as IVA taxes in the consolidated financial statements represent the net estimated IVA tax receivable or payable, since there is a legal right of offset of IVA taxes.

Property, Plant and Mine Development

Land and Mineral Rights: The costs of acquiring land and mineral rights are considered tangible assets. Administrative and holding costs to maintain an exploration property are expensed as incurred. If a mineable mineral deposit is discovered, such capitalized costs are amortized when production begins using the units of production ("UOP") method. If no mineable mineral deposit is discovered or such rights are otherwise determined to have diminished value, such costs are expensed in the period in which the determination is made.

Mine Development: The costs include engineering and metallurgical studies, drilling and other related costs to delineate an ore body, the building of access ways, shafts, lateral access, drifts, ramps and other infrastructure. Costs incurred before mineralization is classified as proven and probable reserves are expensed and classified as exploration expenses. Capitalization of mine development project costs, that meet the definition of an asset, begins once mineralization is classified as proven and probable reserves.

Drilling costs incurred during the production phase for operational ore control are allocated to inventory costs and then included as a component of production costs. All other drilling and related costs are expensed as incurred.

Mine development costs are amortized using the UOP method based on estimated recoverable ounces in proven and probable reserves.

Property and Equipment: All items of property and equipment are carried at cost. Normal maintenance and repairs are expensed as incurred while expenditures for major maintenance and improvements are capitalized. Gains or losses on disposition are recognized in other expense (income).

Construction in Progress: Expenditures for new facilities or equipment are capitalized and recorded at cost. Once completed and ready for its intended use, the asset is transferred to property and equipment to be depreciated or amortized.

Depreciation and Amortization: Capitalized costs are depreciated or amortized using the straight-line or UOP method at rates sufficient to depreciate such costs over the shorter of estimated productive lives of such assets or the useful life of the individual assets. The estimates for mineral reserves are a key component in determining the UOP depreciation rates. The estimates of reserves may change, possibly in the near term, resulting in changes to depreciation and amortization rates in future reporting periods. The following are the estimated economic lives of depreciable assets:

	Range of Lives
Asset retirement costs	UOP
Furniture, computer and office equipment	3 to 10 years
Light vehicles and other mobile equipment	4 years
Machinery and equipment	UOP to 4 years
Mill facilities and related infrastructure	UOP
Mine development	UOP

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Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Asset impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. If an impairment is indicated, a determination is made whether an impairment has occurred and any impairment losses are measured as the excess of carrying value over the total discounted estimated future cash flows, or the application of an expected fair value technique in the absence of an observable market price and are charged to expense on the Company's consolidated statements of operations. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups.

Existing reserves and other mineralized material are included when estimating the fair value in determining whether the assets are impaired. The Company's estimates of future cash flows are based on numerous assumptions including expected gold and other commodity prices, production levels, capital requirements and estimated salvage values. It is possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold and other commodity prices, production levels and costs and capital requirements are each subject to significant risks and uncertainties.

Treasury Stock

Treasury stock represents shares of the Company's common stock which have been repurchased on the open market at the prevailing market price at the time of purchase and have not been cancelled. Treasury stock is shown at cost as a separate component of equity.

Revenue Recognition

The Company recognizes revenue from doré and concentrate sales.

Concentrate sales: 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 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.

Doré sales: 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.

Production Costs

Production costs include labor and benefits, royalties, concentrate and doré shipping costs, mining subcontractors, fuel and lubricants, legal and professional fees related to mine operations, stock-based compensation attributable to mine workers, materials and supplies, repairs and maintenance, explosives, housing and food, insurance, reagents, travel, medical services, security equipment, office rent, tools and other costs that support mining operations.

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Exploration Costs

Exploration costs are charged to expense as incurred. Costs to identify new mineral resources and to evaluate potential resources are considered exploration costs.

Stock-Based Compensation

The Company accounts for stock-based compensation under the fair value recognition and measurement provisions of U.S. GAAP. Those provisions require all stock-based payments, including grants of stock options and restricted stock units ("RSUs"), to be measured based on the grant date fair value of the awards, with the resulting expense generally recognized on a straight-line basis in the consolidated statements of operations over the period during which services are performed in exchange for the award. The majority of the awards are earned over a service period of three years. The Company's estimates may be impacted by certain variables including, but not limited to, stock price volatility, employee stock option exercise behaviors, additional stock option grants, and estimates of forfeitures.

Reclamation and Remediation Costs

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and remediation costs. Reclamation obligations are based in part on when the spending for an existing environmental disturbance will occur. The Company reviews, at least on an annual basis, the reclamation obligation at each mine.

Prior to 2014, the Company had been recognizing only reclamation and remediation obligations and all associated asset retirement costs were written off due to the exploration stage status of the Company. In 2014, the Company became a production stage company and therefore capitalized asset retirement costs and recorded an asset retirement obligation. Please see Note 9 for additional information.

Accounting for reclamation and remediation obligations requires management to make estimates unique to each mining operation of the future costs expected to be incurred to complete the reclamation and remediation work required to comply with existing laws and regulations. Actual costs incurred in future periods could differ from amounts estimated. Additionally, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required. Any such increases in future costs could materially impact the amounts charged to operations for reclamation and remediation.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is presented in the consolidated statements of changes in shareholders' equity. Accumulated other comprehensive loss is composed of foreign currency translation adjustment effects related to the historical adjustment when the functional currency was the Mexican peso for our Mexico subsidiary. This loss will remain on our consolidated balance sheet until the sale or dissolution of our Mexico subsidiary.

Income and Mining Royalty Taxes

Income taxes are computed using the asset and liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes and the effect of net operating loss and foreign tax credit carry-forwards using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax assets are evaluated to determine if it is more likely than not that they will be realized. Please see Note 5 for additional information.

Net Income Per Share

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Basic earnings per share is calculated based on the weighted average number of common shares outstanding for the period. Diluted income per share reflects the dilution that could occur if potentially dilutive securities, as determined using the treasury stock method, are converted into common stock. Potentially dilutive securities are excluded from the calculation when their inclusion would be anti-dilutive, such as periods when a net loss is reported or when the exercise price of the instrument exceeds the average fair market value.

Foreign Currency

The functional currency for all of the Company's subsidiaries is the United States dollar ("U.S. dollar").

Concentration of Credit Risk

The Company has considered and assessed the credit risk resulting from its concentrate sales and doré sales arrangements with its customers. In the event that the Company's relationships with its customers are interrupted for any reason, the Company believes that it would be able to locate another entity to purchase its metals concentrates and doré bars; however, any interruption could temporarily disrupt the Company's sale of its products and adversely affect operating results.

The Company's Aguila and Alta Gracia projects, which are located in the State of Oaxaca, Mexico, accounted for 100% of the Company's total sales for the years ended December 31, 2018, 2017 and 2016.

Some of the Company's operating cash balances are maintained in accounts that currently exceed federally insured limits. The Company believes that the financial strength of the depositing institutions mitigates the underlying risk of loss. To date, these concentrations of credit risk have not had a significant impact on the Company's financial position or results of operations.

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 2 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 5 for additional information.

Recently Issued Accounting Standards Updates

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 is finalizing its assessment of the new guidance and the impact it will have on its consolidated financial statements and disclosures. The Company will adopt certain practical expedients that allows us to not reassess:

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(1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The Company will adopt this guidance at the adoption date of January 1, 2019, using the transition method that allows for the initial application of Topic 842 as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company does not expect to recognize a material adjustment to retained earnings upon adoption. The Company is additionally assessing the impact of Topic 842 on its internal controls over financial reporting.

The Company determines if an arrangement is a lease at inception. The Company leases equipment under operating and capital leases. The Company leases its office locations under operating leases. The Company's current capital lease obligations consist of equipment. The capital leases addressed in Note 11 to the consolidated financial statements are expected to be accounted for as finance leases upon adoption of Topic 842, and the Company does not expect any significant changes to the accounting for such leases upon adoption. Under Topic 842, operating leases result in the recognition of right-of-use ("ROU") assets and lease liabilities on the balance sheet. ROU assets represent the Company's right to use the leased asset for the lease term and lease liabilities represent the Company's obligation to make lease payments. Under Topic 842, operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, upon adoption of Topic 842, the Company will use its estimated incremental borrowing rate at the commencement date to determine the present value of lease payments. The operating lease ROU assets will also include any lease payments made and exclude lease incentives. The lease terms may include options to extend or terminate the lease that are reasonably certain to be exercised. Lease expense under Topic 842 will be recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, and the Company expects to account for the lease and non-lease components as separate components under Topic 842.

The adoption of Topic 842 will have a material impact on Company's Consolidated Balance Sheet due to the recognition of the ROU assets and lease liabilities. The adoption of Topic 842 is not expected to have a material impact on the Company's Consolidated Statement of Operations or the Company's Consolidated Cash Flow Statement. Because of the transition method the Company will use to adopt Topic 842, Topic 842 will not be applied to periods prior to adoption and the adoption of Topic 842 will have no impact on the Company's previously reported results. The future minimum lease payments for the Company's operating leases as of December 31, 2018 are discussed in Note 12 to the Consolidated Financial Statements. Upon adoption of Topic 842, the Company expects to recognize operating lease ROU assets and lease liabilities of approximately $13.8 million which reflects the present value of future lease payments. After the adoption of Topic 842, the Company will first report the operating lease ROU assets and lease liabilities as of March 31, 2019.

The components of the Company's future lease payments are discussed in Note 12 to the Consolidated Financial Statements. The capital leases addressed in Note 11 are expected to be accounted for as finance leases upon adoption of Topic 842, and the Company does not expect any significant changes to the accounting for such leases upon adoption.

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 or services from non-employees. ASU 2018-07 specifies that Topic 718 applies to all share-based payment transactions in which the grantor acquires goods or 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 does not expect the adoption of this guidance to have material impact on its consolidated financial statements.

Accounting Standards Update No. 2018-09—Codification Improvements (“ASU 2018-09”). In July 2018, the FASB issued new guidance which makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification (“ASC’). The transition and effective date guidance is based on

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the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company does not expect the adoption of this guidance to have material impact on its consolidated financial statements.

2. Revenue

The following table presents the Company's net sales disaggregated by source:

	Year ended December 31,		
	2018	2017	2016
	(in thousands)		
Doré sales, net			
Gold	$ 6,250	$ 6,270	$ 11,384
Silver	1,348	159	139
Less: Refining charges	(118)	(63)	(105)
Total doré sales, net	7,480	6,366	11,418
Concentrate sales			
Gold	22,750	25,526	20,490
Silver	22,972	27,567	28,803
Copper	9,919	6,646	4,697
Lead	15,100	11,568	7,225
Zinc	46,743	38,281	25,424
Less: Treatment and refining charges	(5,447)	(7,697)	(16,186)
Total concentrate sales, net	112,037	101,891	70,453
Realized/unrealized embedded derivative (loss)/gain, net	(4,209)	1,899	1,356
Total sales, net	$ 115,308	$ 110,156	$ 83,227

3. Gold and Silver Rounds/Bullion

The Company periodically purchases gold and silver bullion on the open market for investment purposes and to use in its dividend exchange program under which shareholders may exchange their cash dividends for minted gold and silver rounds. During the year ended December 31, 2018 and 2017, the Company purchased nil ounces and 215.85

ounces, respectively, of gold bullion and nil ounces and 90 ounces, respectively, of silver bullion.

At December 31, 2018 and 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	1,888	$ 1,279	$ 2,415	1,905	$ 1,291	$ 2,459
Silver	79,864	$ 15.30	1,222	80,224	$ 16.87	1,353
Total holdings			$ 3,637			$ 3,812

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4. Current Inventories

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

	2018	2017
	(in thousands)	
Stockpiles - underground mine	$ 2,365	$ 1,450
Stockpiles - open pit mine	414	101
Leach pad	376	-
Concentrates	1,231	1,973
Doré	1,289	394
Subtotal - product inventory	5,675	3,918
Materials and supplies (1)	8,667	7,718
Total	$ 14,342	$ 11,636

(1) Net of reserve for obsolescence of $857 and $743, respectively.

5. Income Taxes

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 U.S. Securities and Exchange Commission’s Staff Accounting Bulletin (“SAB”) 118 allows a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. The Company has not revised any of the 2017 provisional estimates under SAB No. 118 and ASU No 2018-05 and has filed its U.S. income tax return for the year ended December 31, 2017.

Gold Resource Corporation and its U.S. subsidiaries file a consolidated U.S. tax return and the Company’s foreign subsidiary files in Mexico. For financial reporting purposes, net income before income taxes includes the following components:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
U.S. Operations	$ (9,378)	$ (8,142)	$ (7,001)

Foreign Operations, Mexico	25,929	36,620	16,147
Total income before income taxes	$ 16,551	$ 28,478	$ 9,146

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The Company's income tax expense from continuing operations consists of the following:

	Years ended December 31,		
	2018	2017	2016
	(in thousands)		
Current taxes:			
Federal	$ -	$ 9	$ 353
State	-	-	-
Foreign	7,763	9,327	5,961
Total current taxes	$ 7,763	$ 9,336	$ 6,314
Deferred taxes:			
Federal	$ (1,692)	$ 4,923	$ (1,715)
State	-	-	-
Foreign	1,192	10,069	160
Total deferred taxes	$ (500)	$ 14,992	$ (1,555)
Total income tax provision	$ 7,263	$ 24,328	$ 4,759

The provision for income taxes for the years ended December 31, 2018, 2017 and 2016, differs from the amount of income tax determined by applying the applicable United States statutory federal income tax rate to pre-tax income from operations as a result of the following differences:

	Years Ended December 31,		
	2018	2017	2016
	(in thousands)		
Tax at statutory rates	$ 3,476	$ 9,967	$ 3,110
Foreign rate differential	2,161	(1,780)	(617)
Dividends, net of foreign tax credits	-	-	795
One-time tax on foreign unremitted earnings (Tax Act)	-	4,627	
Changes in deferred tax assets	(189)	6,239	(625)
Mexico mining tax	1,777	2,816	1,270
U.S. Tax rate reduction from 35% to 21% (Tax Act)	-	2,671	-
Other	38	(212)	826
Tax provision	$ 7,263	$ 24,328	$ 4,759

The following table sets forth deferred tax assets and liabilities:

	At December 31, 2018	At December 31, 2017
	(in thousands)	
Non-current deferred tax assets:		
Tax loss carryforward - U.S.	$ 3,862	$ 1,450
Property and equipment	-	1,935
Share-based compensation	4,339	4,622
Foreign tax credits	4,448	4,185
Other	3,572	2,284
Total deferred tax assets	16,221	14,476
Valuation allowance	(7,318)	(6,720)
Deferred tax assets after valuation allowance	$ 8,903	$ 7,756
Deferred tax liability – Property and equipment	(1,531)	(902)
Net deferred tax asset	$ 7,372	$ 6,854

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Mexico Mining Taxation

Mining entities in Mexico are subject to two mining duties, in addition to the 30% Mexico corporate income tax: (i) a “special” mining duty of 7.5% of taxable income as defined under Mexican tax law (also referred to as “mining royalty tax”) on extracting activities performed by concession holders and (ii) the “extraordinary” mining duty of 0.5% on the gross revenue from the sale of gold, silver and platinum. The mining royalty tax is generally applicable to earnings before income tax, depreciation, depletion, amortization, and interest. In calculating the mining royalty tax, there are no deductions related to depreciable costs from operational fixed assets, but exploration and prospecting depreciable costs are deductible when incurred. Both duties are tax deductible for income tax purposes. As a result, our effective tax rate applicable to the Company’s Mexican operations is substantially higher than Mexico statutory rate.

The Company periodically transfers funds from its Mexican wholly-owned subsidiary to the U.S. in the form of dividends. Mexico requires a 10% withholding tax on dividends on all post-2013 earnings. Dividends from earnings generated prior to 2014 were exempted from the new dividend withholding tax. The Company began distributing post-2013 earnings from Mexico in 2018. According to the existing U.S. – Mexico tax treaty, the dividend withholding tax between these countries is limited to 5% if certain requirements are met. The Company determined that it had met such requirements and paid a 5% withholding tax on dividends received from Mexico in 2018 in the amount of $0.4 million.

Other Tax Disclosures

The Company evaluates the evidence available to determine whether a valuation allowance is required on the deferred tax assets. The Company determined that the deferred tax assets related to the foreign tax credits, the state net operating loss carry forwards, and other state related deferred tax assets were not "more likely than not" to be realized and a full valuation allowance was recorded as of December 31, 2018.

As a result of the adoption of ASU 2016-09 in 2017, excess tax benefits and tax deficiencies will be prospectively classified to the statement of operations instead of additional paid-in capital. Upon adoption, the Company recorded a $4.2 million deferred tax asset related to previously unrecognized foreign tax credits but placed a valuation allowance against the full amount of the deferred tax asset due to the Company’s assessment of the realizability of these foreign tax credits. Thus, no net impact to the financial statements was generated as a result of adoption of ASU 2016-09.

During the year ended December 31, 2017, the Company revised its temporary book and tax differences in the basis of its Isabella Pearl property, included in its Walker Lane Minerals Corp. acquisition which resulted in a $4.2 million increase in deferred tax assets, net, and a corresponding decrease in property, plant and mine development.

At December 31, 2018, the Company has Federal loss carry-forwards of $11 million, with no expiration date, and foreign tax credits of $4.4 million that expire between 2023 and 2028. The state of Colorado tax loss carry-forwards and the foreign tax credits have a full valuation allowance in place as of December 31, 2018.

As of both December 31, 2018 and 2017, the Company believes that it has no uncertain tax positions. If the Company were to determine there was an uncertain tax position, the Company would recognize the liability and related interest and penalties within income tax expense.

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6. Prepaid Expenses and Other Current Assets

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

	2018	2017
	(in thousands)	
Advances to suppliers	$ 289	$ 163
Prepaid insurance	1,179	869
Vendor deposits	236	501
IVA taxes receivable, net	538	-
Other current assets	208	234
Total	$ 2,450	$ 1,767

7. Property, Plant and Mine Development, net

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

	2018	2017
	(in thousands)	
Asset retirement costs	$ 1,240	$ 1,079
Construction-in-progress (1)	34,335	10,838
Furniture and office equipment	1,861	1,664
Land	242	242
Light vehicles and other mobile equipment	2,508	2,211
Machinery and equipment	27,485	22,916
Mill facilities and infrastructure	11,712	10,075
Mineral interests and mineral rights	17,958	17,658
Mine development	69,487	56,957
Software and licenses	1,659	1,678
Subtotal (2) (3)	168,487	125,318
Accumulated depreciation and amortization	(57,245)	(42,719)
Total	$ 111,242	$ 82,599

(1) Nevada construction-in-progress costs of $21.6 million and $7.4 million at December 31, 2018 and December 31, 2017, respectively. Mexico construction-in-progress of $12.7 million and $3.4 million at December 31, 2018 and December 31, 2017, respectively.

(2) Includes $1.6 million of assets recorded under capital leases at December 31, 2018 and December 31, 2017. Please see Note 11 for additional information.
(3) Includes accrued capital expenditures of $4.3 million and $1.0 at December 31, 2018 and 2017, respectively.

The Company recorded depreciation and amortization expense for years ended December 31, 2018, 2017 and 2016 of $15.2 million, $15.0 million and $12.6 million, respectively.

8. Accrued Expenses and Other Current Liabilities

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

	2018	2017
	(in thousands)	
Accrued insurance	$ 364	$ 662
Accrued royalty payments	1,432	1,805
Dividends payable	98	95
IVA taxes payable, net	-	274
Other payables	136	15
Total	$ 2,030	$ 2,851

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9. Reclamation and Remediation

The following table presents the changes in the Company's reclamation and remediation obligations for the years ended December 31, 2018 and 2017:

	2018	2017
	(in thousands)	
Reclamation liabilities – balance at beginning of period	$ 2,005	$ 1,907
Changes in estimate	-	10
Foreign currency exchange loss	4	88
Reclamation liabilities – balance at end of period	2,009	2,005
Asset retirement obligation – balance at beginning of period	941	518
Changes in estimate	271	366
Accretion expense	78	35
Foreign currency exchange loss	(1)	22
Asset retirement obligation – balance at end of period	1,289	941
Total period end balance	$ 3,298	$ 2,946

The Company's reclamation liabilities and asset retirement obligation of $2.5 million for its Arista and Alta Gracia projects as of December 31, 2018 and 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 December 31, 2018, the Company recorded an asset retirement obligation of $0.8 million, using a credit adjusted risk-free rate of 8%, related to the Isabella Pearl project.

10. Loans Payable

The Company has financed certain equipment purchases. The loans bear annual interest at rates ranging from 3% to 4.48%, are collateralized by the equipment, and require monthly principal and interest payments of $0.07 million. As of December 31, 2018, there is an outstanding balance of $2.1 million which approximates fair value of the loans. Scheduled minimum repayments are $0.8 million in 2019, $0.8 million in 2020, and $0.5 million in 2021. One of the loan agreements is subject to a prepayment penalty, ranging from 1% to 2% of the outstanding loan balance at time of full repayment, depending on the time of repayment.

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11. Capital Leases

The Company has capital lease agreements for certain equipment. The leases bear annual imputed interest of 1.58% to 5.95% and require monthly principal, interest, and sales tax payments of $0.04 million. Scheduled minimum annual payments as of December 31, 2018 are as follows (in thousands):

Year Ending December 31:	
2019	$ 470
2020	470
2021	406
2022	-
Total minimum obligations	1,346
Interest portion	(103)
Present value of net minimum payments	1,243
Less: current portion	(412)
Non-current portion	$ 831

As noted above in Note 1, the Company will adopt a new lease accounting standard on January 1, 2019. Upon adoption of the new standard, the capital leases above are expected to be accounted for as finance leases. The Company does not expect any significant changes to the accounting upon this change in classification.

12. Commitments and Contingencies

Operating leases

The Company signed a 24-month Contract Mining Agreement with a contract miner on November 14, 2018 relating to mining activities at the Isabella Pearl project. Under the terms of the Contract Mining Agreement, the contract miner is required to provide all required labor, material and equipment (excluding fuel and ammonium nitrate) to complete all necessary drilling, blasting, loading, hauling and related activities for the mining of the Isabella Pearl project. Payment by the Company to the contract miner is primarily based on unit prices for bank cubic meters and tonnes. The Contract Mining Agreement contains a lease related to mining equipment as well as other non-lease elements. The lease contained in the Contract Mining Agreement is an operating lease and accounted for as such. Expected future minimum payments, including both the future minimum lease payments and the other non-lease element payments for the Contract Mining Agreement over the term of the agreement are included in the table below. The expected future minimum payments are determined by rates within the Contract Mining Agreement, estimated tonnes moved and bank cubic meters for drilling and blasting. The Company was charged $1.4 million under the Contract Mining Agreement during 2018.

The Company 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.

As discussed in Note 1 to the Consolidated Financial Statements (see "New Accounting Pronouncements-Leases"), the Company will adopt a new lease accounting standard on January 1, 2019. Upon adoption of the new standard, the Company’s operating leases will result in lease assets and lease liabilities being recognized on the consolidated balance sheet.

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Future minimum lease payments under operating leases are as follows:

	Payments due by Period					
	Total	2019	2020	2021	2022	2023 and Thereafter
	(in thousands)					
Operating leases	$ 31,170	$ 16,259	$ 14,839	$ 72	$ -	$ -

Other Commitments

As of December 31, 2018, the Company has equipment purchase commitments aggregating approximately $2.5 million.

13. Shareholders' Equity

The Company declared and paid dividends of $1.1 million, or $0.02 per share during each of the years ended December 31, 2018 and 2017. During the year ended December 31, 2016, the Company declared and paid dividends of $1.7 million or $0.03 per share.

On April 3, 2018, the Company entered into an At-The-Market Offering Agreement (the "ATM Agreement") with an investment banking firm ("Agent") pursuant to which the Agent agreed to act as the Company's sales agent with respect to the offer and sale from time to time of the Company's common stock having an aggregate gross sales price of up to $75.0 million (the "Shares"). The ATM Agreement will remain in full force and effect until the earlier of April 3, 2021, or the date that the ATM Agreement is terminated in accordance with the terms therein. An aggregate of 1,131,755 shares of the Company's common stock were sold in the ATM Agreement during the year ended December 31, 2018, for net proceeds to the Company, after deducting the Agent's commissions and other expenses, of $4.3 million.

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

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

During the year ended December 31, 2016, the Company issued 130,169 shares of common stock as partial consideration for mineral rights at the Mina Gold property. At the time of issuance, the shares were valued at $6.53 per share, for an aggregate value of $0.9 million.

During the year ended December 31, 2016, the Company issued 2,000,000 shares of common stock as partial consideration for its acquisition of Walker Lane and its Isabella Pearl project.

In 2011, the Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to $20.0 million of its common stock from time to time in market transactions. There is no pre-determined end date associated with the share repurchase program. During 2018, 2017 and 2016, the Company did not repurchase any additional shares of common stock.

14. Embedded Derivatives

Concentrate sales contracts contain embedded derivatives due to the provisional pricing terms for unsettled shipments. At the end of each reporting period, the Company records an adjustment to accounts receivable and revenue to reflect the mark-to-market adjustments for outstanding provisional invoices based on metal forward prices. Please see Note 19 for additional information.

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The following table summarizes the Company's unsettled sales contracts at December 31, 2018, with the quantities of metals under contract subject to final pricing occurring through February 2019:

	Gold (ounces)	Silver (ounces)	Copper (tonnes)	Lead (tonnes)	Zinc (tonnes)
Under contract	7,791	357,361	558	2,500	6,095
Average forward price (per ounce or tonne)	$ 1,225	$ 14.46	$ 6,164	$ 2,001	$ 2,539

15. Employee Benefits

Effective October 2012, the Company adopted a profit sharing plan (the "Plan") which covers all U.S. employees. The Plan meets the requirements of a qualified retirement plan pursuant to the provisions of Section 401(k) of the Internal Revenue Code. The Plan provides eligible employees the opportunity to make tax deferred contributions to a retirement trust account up to 45% of their qualified wages, subject to the IRS annual maximums. Any matching contribution by the Company on behalf of the employee is immediately vested; the matching contribution expense amounted to $0.1 million in 2018, $0.1 million in 2017 and $0.1 million in 2016. The unfunded matching contribution obligation was nil for the year ended December 31, 2018.

16. 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 provides for the issuance of five 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.

A total of 505,500 options with a term of 10 years were granted during the year ended December 31, 2018, of which 26,300 vested immediately and the remainder vest over a three-year period. A total of 120,002 RSUs were granted during the year ended December 31, 2018, of which 14,804 vest within six months and the remainder vest over a three- year period.

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Stock Options

A summary of stock option activity under the Incentive Plan for the years ended December 31, 2018 and 2017 is presented below:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (thousands)
Outstanding as of December 31, 2016	6,049,001	$ 7.48	5.36	$ 3,963
Granted	416,000	4.08	-	
Exercised	(25,000)	2.30	-	
Expired	(195,000)	8.99	-	
Forfeited	-	-	-	
Outstanding as of December 31, 2017	6,245,001	$ 7.23	4.68	$ 4,040
Granted	505,500	5.41	-	
Exercised	(1,412,926)	3.13	-	
Expired	(73)	4.60	-	
Forfeited	(77,667)	3.44	-	
Outstanding as of December 31, 2018	5,259,835	$ 8.21	4.82	$ 1,396
Vested and exercisable as of December 31, 2018	4,375,629	$ 8.91	3.98	$ 1,289

The weighted-average fair value of options per share granted during the years ended December 31, 2018, 2017, and 2016 was $3.04, $2.25 and $1.96, respectively. The total intrinsic value of options exercised during the years ended December 31, 2018, 2017, and 2016, was $2.6 million , $0.1 million and $0.6 million, respectively. The total fair value of options vested during the years ended December 31, 2018, 2017 and 2016 was $0.9 million, $0.8 million and $1.3 million, respectively.

During the year ended December 31, 2018, stock options to purchase an aggregate of 1,412,926 shares of the Company's common stock were exercised. Of that amount, 945,000 of the options were exercised on a net exercise basis, resulting in 244,345 shares being delivered. The remaining 467,926 options were exercised for cash proceeds of $1.3 million. During the years ended December 31, 2017 and 2016, the Company received nil and $0.4 million, respectively, in cash proceeds from stock option exercises.

The following table summarizes information about stock options outstanding at December 31, 2018:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price (per share)	Number of Options	Weighted Average Exercise Price (per share)
\$0.00 - \$6.25	2,734,335	5.14	\$ 3.59	2,079,329	\$ 3.47
\$6.25 -\$12.50	1,065,500	4.89	\$ 8.30	836,300	\$ 8.69
\$12.50 - \$18.75	1,340,000	3.77	\$ 16.46	1,340,000	\$ 16.46
\$18.75 - \$25.00	120,000	3.68	\$ 20.51	120,000	\$ 20.51
	5,259,835	4.82	\$ 8.21	4,375,629	\$ 8.91

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The assumptions used to determine the value of stock-based awards under the Black-Scholes method are summarized below:

	Year ended December 31,					
	2018		2017		2016	
Risk-free interest rate	2.72	%	1.94	%	0.87	%
Dividend yield	0.40	%	0.53	%	0.46	%
Expected volatility	67.11	%	67.70	%	62.74	%
Expected life in years	5		5		5	

Restricted Stock Units

A summary of RSU activity under the Incentive Plan for the years ended December 31, 2018 and 2017 is presented below:

	Shares	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (thousands)
Nonvested as of December 31, 2016	181,738	$ -	1.82	$ 791
Granted	105,945	-	-	-
Vested	(78,400)	-	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Nonvested as of December 31, 2017	209,283	$ -	1.91	$ 920
Granted	120,002	-	-	-
Vested	(89,921)	-	-	-
Expired	-	-	-	-
Forfeited	(16,610)	-	-	-
Nonvested as of December 31, 2018	222,754	$ -	1.77	$ 891

The weighted-average fair value per share of RSUs granted during the years ended December 31, 2018 and 2017, and 2016 was $6.89, $4.11 and $4.60, respectively. The total intrinsic value of RSUs vested during the years ended December 31, 2018, 2017, and 2016 was $0.5 million, $0.3 million and nil, respectively.

Stock-Based Compensation Expense

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

	Year ended December 31,		
	2018	2017	2016
	(in thousands)		
Stock options	$ 993	$ 829	$ 1,036
Restricted stock units	504	363	204
Total	$ 1,497	$ 1,192	$ 1,240

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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:

	Year ended December 31,		
	2018	2017	2016
	(in thousands)		
Production costs	$ 72	$ 99	$ 186
General and administrative expenses	1,295	1,029	1,040
Exploration expense	130	64	14
Total	$ 1,497	$ 1,192	$ 1,240

The estimated unrecognized stock-based compensation expense from unvested options and RSUs as of December 31, 2018 was approximately $1.9. million and $0.9 million, respectively, and is expected to be recognized over the remaining vesting periods of up to three years.

17. Other Expense (Income), Net

During the years ended December 31, 2018, 2017 and 2016, other expense (income) consisted of the following:

	Year ended December 31,		
	2018	2017	2016
	(in thousands)		
Unrealized currency exchange loss (gain)	$ 230	$ 983	$ (267)
Realized currency exchange loss (gain)	707	(457)	(261)
Unrealized loss (gain) from gold and silver rounds/bullion, net (1)	134	(493)	(411)
Loss (gain) on investments, net (1) (2)	195	-	(348)
Loss on disposal of fixed assets	389	474	578
Gain on insurance reimbursement	-	-	(620)
Increase in reserve for inventory obsolescence	114	106	545
Increase in allowance for doubtful accounts receivable	1,360	-	-
Other (income) expense	(18)	553	224
Total	$ 3,111	$ 1,166	$ (560)

(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.

(2)

During 2018, the Company wrote off its equity investment and recognized a loss of $195. During 2016, the Company sold its current investment in equity and realized a gain of $348. For additional information regarding our fair value measurements and investments, please see Note 19.

18. Net Income per Common Share

Basic income per common share is calculated based on the weighted average number of shares of common stock outstanding for the period. Diluted income 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 stock 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 3.6 million, 3.1 million, and 2.8 million shares of common stock at weighted average exercise prices of $10.44, $11.26, and $12.39 were outstanding as of December 31, 2018, 2017, and 2016, respectively, but were not included in the computation of diluted weighted average common shares outstanding, as the exercise price of the options exceeded the average price of the Company's common stock during those periods, and therefore were anti-dilutive.

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

	Year ended December 31,		
	2018	2017	2016
Net income (in thousands)	$ 9,288	$ 4,150	$ 4,387
Basic weighted average shares of common stock outstanding	57,534,830	56,854,670	55,140,237
Dilutive effect of share-based awards	834,836	740,323	584,969
Diluted weighted average common shares outstanding	58,369,666	57,594,993	55,725,206
Net income per share:			
Basic and diluted	$ 0.16	$ 0.07	$ 0.08

19. Fair Value Measurement

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

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

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

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

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

	2018	2017	Input Hierarchy Level
	(in thousands)		
Cash and cash equivalents:			
Bank deposits	$ 7,762	$ 22,390	Level 1
Gold and silver rounds/bullion	3,637	3,812	Level 1
Accounts receivable, net:			
Receivables from provisional concentrate sales	1,744	2,884	Level 2
	$ 13,143	$ 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 3 for additional information. During the year ended December 31, 2018, the Company became aware of adverse events that affected the fair value of its non-current investment in equity securities of $0.2 million and as such, adjusted the investment to nil as of December 31, 2018.

Trade accounts receivable include amounts due to the Company for deliveries of concentrates and doré sold to customers, net of allowance for doubtful accounts of $1.4 million. 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 December 31, 2018 and 2017, the Company had an unrealized loss of $0.1 million and an unrealized gain of $0.4 million, respectively,

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included in its accounts receivable on the accompanying Consolidated Balance Sheets related to mark-to-market adjustments. 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 consolidated statements of operations as shown in the following (in thousands):

	Year ended December 31, 2018	2017	2016	Statement of Operations Classification
Realized/unrealized derivative (loss) gain, net	$ (4,209)	$ 1,899	$ 1,356	Sales, net
Gold and silver rounds/bullion (loss) gain	$ (148)	$ 282	$ 411	Other expense, net
Investment (loss) gain	$ (195)	$ -	$ 351	Other expense, net

Realized/Unrealized Derivatives, net

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

	Gold	Silver	Copper	Lead	Zinc	Total
Year ended December 31, 2018						
Realized loss	$ (191)	$ (374)	$ (268)	$ (788)	$ (2,081)	$ (3,702)
Unrealized gain (loss)	222	272	(162)	(39)	(800)	(507)
Total realized/unrealized derivatives, net	$ 31	$ (102)	$ (430)	$ (827)	$ (2,881)	$ (4,209)

	Gold	Silver	Copper	Lead	Zinc	Total
Year ended December 31, 2017						
Realized gain (loss)	$ 154	$ 151	$ 128	$ 131	$ 798	$ 1,362
Unrealized (loss) gain	(93)	(183)	64	72	677	537
Total realized/unrealized derivatives, net	$ 61	$ (32)	$ 192	$ 203	$ 1,475	$ 1,899

	Gold	Silver	Copper	Lead	Zinc	Total
Year ended December 31, 2016						
Realized gain (loss)	$ 72	$ 330	$ (78)	$ 127	$ 432	$ 883

Unrealized gain	38	159	125	84	67	473
Total realized/unrealized derivatives, net	$ 110	$ 489	$ 47	$ 211	$ 499	$ 1,356

20. Supplementary Cash Flow Information

During the years ended December 31, 2018, 2017, and 2016, other operating adjustments and write-downs within the net cash provided by operations on the statement of cash flows consisted of the following:

	2018	2017	2016
	(in thousands)		
Unrealized loss (gain) on gold and silver rounds/bullion	$ 134	$ (493)	$ (411)
Unrealized foreign currency exchange loss (gain)	230	983	(267)
Loss (gain) on investments	195	-	(348)
Loss on disposition of fixed assets	389	474	578
Decrease in reserve for inventory obsolescence	114	106	545
Change in allowance for doubtful accounts receivable	1,360	-	-
Other	113	215	201
Total other operating adjustments	$ 2,535	$ 1,285	$ 298

21. 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

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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
Year ended December 31, 2018				
Revenue	$ 115,308	$ -	$ -	$ 115,308
Exploration expense	2,217	2,314	172	4,703
Net income (loss)	20,631	(2,585)	(8,758)	9,288
Capital expenditures (1)	24,039	20,133	29	44,201
	Mexico	Nevada	Corporate and Other	Consolidated
Year ended December 31, 2017				
Revenue	$ 110,156	$ -	$ -	$ 110,156
Exploration expense	1,288	2,916	145	4,349
Net income (loss)	20,379	(2,423)	(13,806)	4,150
Capital expenditures (2)	21,760	10,087	9	31,856
	Mexico	Nevada	Corporate and Other	Consolidated
Year ended December 31, 2016				
Revenue	$ 83,227	$ -	$ -	$ 83,227
Exploration expense	1,992	2,057	265	4,314
Net income (loss)	14,705	(1,292)	(9,026)	4,387
Capital expenditures (3)	12,356	13,956	170	26,482

(1) Includes an increase in accrued capital expenditures of $3,302 and non-cash additions of $823; consolidated capital expenditures on a cash basis were $40,470.
(2) Includes an increase in accrued capital expenditures of $1,041 and non-cash additions of $5,383; consolidated capital expenditures on a cash basis were $25,432.
(3) Includes a decrease in accrued capital expenditures of $2,868 and non-cash additions of $14,210; consolidated capital expenditures on a cash basis were $15,140.

Total asset balances, excluding intercompany balances at December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
	(in thousands)	
Mexico	$ 91,590	$ 87,739

Nevada	46,677	25,741
Corporate and Other	12,064	19,443
Consolidated	$ 150,331	$ 132,923

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22. Quarterly Financial Data (Unaudited)

The following represents selected information from the unaudited quarterly consolidated statements of operations for the years ended December 31, 2018 and 2017:

	2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per common share data)			
Sales, net	$ 32,151	$ 30,768	$ 24,258	$ 28,131
Mine gross profit	$ 12,920	$ 9,521	$ 3,293	$ 7,956
Net income (loss)	$ 5,457	$ 3,754	$ (781)	$ 858
Net income (loss) per common share:				
Basic	$ 0.10	$ 0.07	$ (0.01)	$ 0.01
Diluted	$ 0.09	$ 0.06	$ (0.01)	$ 0.01
Weighted average shares outstanding:				
Basic	57,120,077	57,315,472	57,642,966	58,049,972
Diluted	57,911,299	58,314,123	57,642,966	58,571,874

	2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per common share data)			
Sales, net	$ 24,336	$ 21,391	$ 31,122	$ 33,307
Mine gross profit	$ 10,416	$ 5,226	$ 11,201	$ 15,272
Net income (loss)	$ 4,376	$ 864	$ 4,581	$ (5,671)
Net income (loss) per common share:				
Basic and diluted	$ 0.08	$ 0.02	$ 0.08	$ (0.11)
Weighted average shares outstanding:				
Basic	56,796,751	56,839,823	56,888,115	56,892,583
Diluted	57,991,663	57,375,938	57,455,805	57,452,314

During the fourth quarter of the year ended December 31, 2017, the Company made adjustments to provision for income taxes which had a significant effect on the full year's results. Please see Note 5 for more information.

23. Subsequent Events

Subsequent to December 31, 2018, the Company sold 2,537,130 shares under its ATM agreement for net proceeds of $10.8 million.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective October 1, 2018, EKS&H LLLP ("EKS&H"), our independent registered public accounting firm combined with Plante & Moran PLLC ("Plante Moran"). As a result of this transaction, on October 1, 2018, EKS&H resigned as the independent registered public accounting firm for the Company. Concurrent with such resignation, the Company's audit committee approved the engagement of Plante Moran as the new independent registered public accounting firm for the Company. The audit reports of EKS&H on our consolidated financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. During the fiscal years ended December 31, 2017 and 2016, and in the interim period up to October 31, 2018, there were no (1) disagreements between us and EKS&H on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference thereto in their reports on the consolidated financial statements for such years, or (2) "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

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During the fiscal years ended December 31, 2017 and 2016, and in the interim period up to October 1, 2018, we have not consulted with Plante Moran regarding either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements, and no written report or oral advice was provided by Plante Moran to us that was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue; or (2) any matter that was the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and related instructions) or a “reportable event” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that we file under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from management, have evaluated the effectiveness of disclosure controls and procedures as of December 31, 2018. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control-Integrated Framework (2013). Based on this assessment, management concluded that our internal control over financial reporting as of December 31, 2018, was effective.

Plante Moran PLLC, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an opinion on the effectiveness of our internal control over financial reporting which is included as part of Item 8. Financial Statements and Supplementary Data.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item is incorporated by reference from the information to be contained in our Proxy Statement for the 2019 Annual Meeting of Shareholders ("2019 Proxy Statement") expected to be filed within 120 days after the end of our fiscal year ended December 31, 2018.

Item 11. Executive Compensation

The information required by this item is incorporated by reference from the information to be contained in our 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference from the information to be contained in our 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference from the information to be contained in our 2019 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference from the information to be contained in our 2019 Proxy Statement.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The following exhibits are filed with or incorporated by referenced in this report:

Item No.	Description
3.1	Articles of Incorporation of the Company as filed with the Colorado Secretary of State on August 24, 1998 (incorporated by reference from our registration statement on Form SB-2 filed on October 28, 2005, Exhibit 3.1, File No. 333-129321).
3.1.1	Articles of Amendment to the Articles of Incorporation as filed with the Colorado Secretary of State on September 16, 2005 (incorporated by reference from our registration statement on Form SB-2 filed on October 28, 2005, Exhibit 3.1.1, File No. 333-129321).
3.1.2	Articles of Amendment to the Articles of Incorporation as filed with the Colorado Secretary of State on November 8, 2010 (incorporated by reference from our quarterly report on Form 10-Q filed on November 10, 2010, Exhibit 3.1, File No. 001-34857).
3.2	Amended and Restated Bylaws of the Company dated August 9, 2010 (incorporated by reference from our current report on Form 8-K filed on August 12, 2010, Exhibit 3.2, File No. 333-129321).
3.2.1	Amendment dated March 25, 2013 to Amended and Restated Bylaws of the Company dated August 9, 2010 (incorporated by reference from our current report on Form 8-K filed on March 27, 2013, Exhibit 3.2, File No. 001-34857).
10.1	Exploitation and Exploration Agreement between the Company and Jose Perez Reynoso dated October 14, 2002 (incorporated by reference from our registration statement on Form SB-2 filed on October 28, 2005, Exhibit 10.1, File No. 333-129321).
10.2	Mining Exploration and Exploitation Agreement between Don David Gold, S.A. de C.V. and Jose Perez Reynoso effective November 21, 2002 (incorporated by reference from our quarterly report on Form 10-Q filed on August 9, 2012, Exhibit 10.15, File No. 001-34857).
10.3	Amendment to Mining Exploration and Exploitation Agreement between Don David Gold Mexico, S.A. de C.V. and Jose Perez Reynoso effective August 3, 2012 (incorporated by reference from our quarterly report on Form 10-Q filed on August 9, 2012, Exhibit 10.17, File No. 001-34857).
10.4	

Gold Resource Corporation 2016 Equity Incentive Plan (incorporated by reference from our registration statement on Form S-8 filed on December 7, 2016, Exhibit 4.1, File No. 333-214958).

10.5 Form of Stock Option Agreement (incorporated by reference from our annual report on Form 10-K filed February 28, 2018, Exhibit 10.5, File No. 001-34857).

10.6 Form of RSU Agreement (incorporated by reference from our annual report on Form 10-K filed February 28, 2018, Exhibit 10.6, File No. 001-34857).

10.7 Office Lease between Don David Gold Mexico, S.A. de C.V. and Immobilaria & Construcciones Stipa S.A. de C.V. effective January 1, 2012 (incorporated by reference from our annual report on Form 10-K filed March 18, 2013, Exhibit 10.28, File No. 001-34857).

10.8 Office Lease between the Company and Lincoln ASB Colorado Center LLC effective November 1, 2012 (incorporated by reference from our annual report on Form 10-K filed March 18, 2013, Exhibit 10.29, File No. 001-34857).

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10.9	Form of Executive Employment Agreement between the Company and its executive officers including its Principal Executive Officer and Principal Financial Officer (incorporated by reference from our current report on Form 8-K filed on December 29, 2017, Exhibit 10.1, File No. 001-34857).
10.10	Form of Indemnification Agreement between the Company and its directors and officers (incorporated by reference from our current report on Form 8-K filed on December 18, 2013, Exhibit 10.1, File No. 001-34857).
10.11	Policy for Recoupment of Executive Compensation (incorporated by reference from our annual report on Form 10-K filed on March 8, 2018, Exhibit 10.14, File No. 001-34857).
10.12*	Amendment No. 2 to Office Lease between the Company and Lincoln ASB Colorado Center LLC dated January 24, 2019.
21*	Subsidiaries of the Company.
23.1*	Consent of Plante & Moran PLLC, Independent Registered Public Accounting Firm.
23.2*	Consent of EKS&H, LLLP, Independent Registered Public Accounting Firm.
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for John A. Labate.
32*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Jason D. Reid and John A. Labate.
95*	Mine Safety Disclosures.
101*	The following financial statements from the Annual Report on Form 10-K for the year ended December 31, 2018 are furnished herewith, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

* filed herewith

ITEM 16. 10-K SUMMARY

None.

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SIGNATURES

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

		GOLD RESOURCE CORPORATION
Date:	February 26, 2019	/s/ Jason D. Reid By: Jason D. Reid, Chief Executive Officer, President and Director

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ Jason D. Reid Jason D. Reid	Chief Executive Officer, President and Director (Principal Executive Officer)	February 26, 2019
/s/ John A. Labate John A. Labate	Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2019
/s/ Bill M. Conrad Bill M. Conrad	Chairman of the Board of Directors	February 26, 2019
/s/ Alex G. Morrison Alex Morrison	Director	February 26, 2019
/s/ Gary C. Huber Gary C. Huber	Director	February 26, 2019