

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Initiating Research Coverage



GOLD RESOURCE CORPORATION

NYSE American: GORO

Report Date: 08/07/18

12- 24 month Price Target: \$8.85

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 07/27/18): \$6.49

Closing Stock Price at Update (Closing Px: 08/06/18): \$5.68

Gold Resource Corporation

(NYSE American Stock Symbol - GORO)

<http://www.goldresourcecorp.com>

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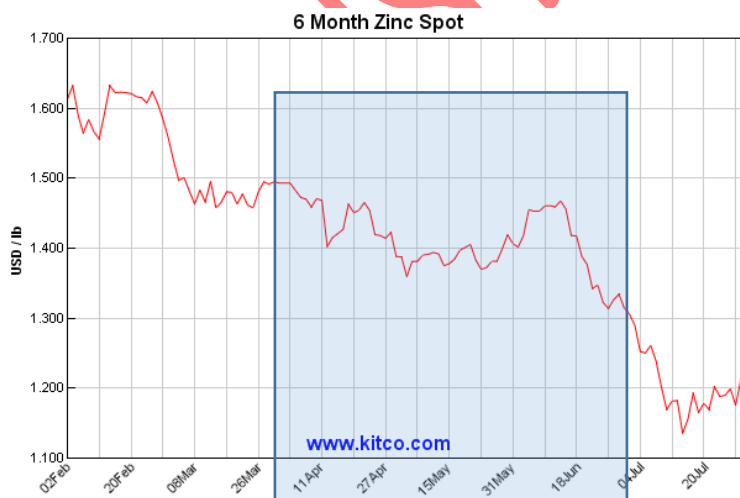
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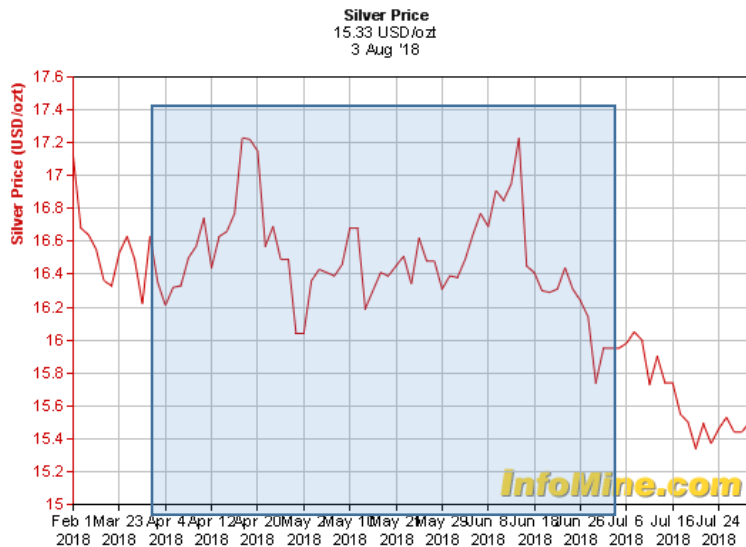
Disclosure: Portions of this report are excerpted from Gold Resource’s filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Recognize, we did not intend to provide a Q2 update because we put the initial coverage out just prior to the earnings release. In retrospect, it probably would have made more sense to let them put out the numbers, but, frankly, our models (and research for that matter) tend to focus on a longer term view, so we didn’t see the 2Q numbers as telling in one way or another in that regard.

On the other hand, we did overstate the quarterly revenues (and by extension the earnings) largely because of an issue that we didn’t anticipate in part because it was more pronounced than we have seen in GORO’s historic numbers. In truth, it is not all that surprising, we just neglected to recognize the potential.

We spoke to some of the timing issues between production versus sales data in the initial coverage although we did not elaborate as clearly as we should have, and to be honest, after further discussing this with the company, the contractual agreements that drive these variances are more complex than we envisioned. Specifically, this complexity including product mix, can create measurable variances in the prices the Company receives for final processed product especially in particular quarters. We have made a few model adjustments to try to better anticipate the impact. We likely make some additional mistakes with that in particular quarters, but we think we have it captured the essence of its impact over the longer term. They also use an adjustment referred to as an “embedded derivative” to reconcile the estimated prices they receive and the between the time they ship concentrate and the time it is actually processed and the price is settled. In short, metals prices experienced significant compression from the start of the quarter through the end of the quarter (see the charts below) and that embedded derivative resulted in a charge of about \$2.3 million, which is actually reflected as a reduction in final revenues (as opposed to an expense per se).





Our estimates were also a bit aggressive in terms of some of the recovery and grade numbers, which also impacted our results a bit. Recall, part of our thinking (in line with the Company’s narrative) is that their current work on Switchback is yielding higher base metal resources than precious metals as they work their way to upper portions of the resource where they expect that ratio to flip. We submit, we don’t know the trajectory of that transition so we are guessing on that, but again, we are not sure that is highly germane to the big picture here.

The above noted, we were a bit taken back by the compression in the stock following the quarterly announcement. It certainly had nothing to do with the results vis-a-vis *our* coverage projections since our subscribers are the only ones who saw those estimates, and the initiating coverage wasn’t out long enough for anyone to digest it anyway. But clearly, someone was disappointed with the numbers, but we are not sure why. We submit, the general compression in the metals prices could certainly give people some pause, but the drop in the stock clearly coincided with the earnings release. Again, we have not particular explanation for that. Frankly, we are inclined to raise our allocation on the stock’s compression, but we will hang around a bit and see what happens next before we start making changes. While it goes without saying, our initiating thesis has not changed, and we remain bullish on GORO.

We have made a few changes to the initiating model in the context of some of the issues raised above, but again, our overall view of the Company remains intact.

Projected Operating Model

Gold Resource Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/18</u>	<u>6/30/18</u>	<u>9/30/18</u>	<u>12/31/18</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>
Consolidated Statements of Operations (000's)						
Sales, net	\$ 32,151	\$ 30,768	\$ 31,118	\$ 30,748	\$ 124,784	\$ 147,825
Mine cost of sales:						
Production costs	\$ 15,535	\$ 17,579	\$ 17,344	\$ 17,286	\$ 67,744	\$ 84,241
Depreciation and amortization	\$ 3,493	\$ 3,579	\$ 3,691	\$ 3,768	\$ 14,531	\$ 15,073
Reclamation and remediation	\$ 203	\$ 89	\$ 47	\$ 46	\$ 385	\$ 222
Total mine cost of sales	\$ 19,231	\$ 21,247	\$ 21,082	\$ 21,100	\$ 82,660	\$ 99,535
Mine gross profit	\$ 12,920	\$ 9,521	\$ 10,036	\$ 9,648	\$ 42,124	\$ 48,290
Costs and expenses:						
General and administrative expenses	\$ 2,354	\$ 2,225	\$ 2,372	\$ 2,415	\$ 9,366	\$ 10,156
Exploration expenses	\$ 1,185	\$ 1,251	\$ 1,231	\$ 1,245	\$ 4,911	\$ 5,504
Other expense, net	\$ 278	\$ 510	\$ 250	\$ 250	\$ 1,288	\$ 475
Total costs and expenses	\$ 3,817	\$ 3,986	\$ 3,853	\$ 3,910	\$ 15,566	\$ 16,136
Income before income taxes	\$ 9,103	\$ 5,535	\$ 6,183	\$ 5,738	\$ 26,559	\$ 32,154
Provision for income taxes	\$ 3,646	\$ 1,781	\$ 2,350	\$ 2,181	\$ 9,957	\$ 10,706
Net income	\$ 5,457	\$ 3,754	\$ 3,833	\$ 3,558	\$ 16,602	\$ 21,448
Net income per common share:						
Basic	\$ 0.10	\$ 0.07	\$ 0.07	\$ 0.06	\$ 0.29	\$ 0.37
Diluted	\$ 0.09	\$ 0.06	\$ 0.07	\$ 0.06	\$ 0.29	\$ 0.37
Weighted average shares outstanding:						
Basic	57,120,077	57,315,472	57,315,472	57,315,472	57,266,623	57,315,472
Diluted	57,911,299	58,314,123	58,314,123	58,314,123	58,213,417	58,314,123

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.