

Trickle Research

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



Research Update



GOLD RESOURCE CORPORATION

NYSE American: GORO

Report Date: 02/25/20

12- 24 month Price Target: \$7.35

Allocation: 5

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

Closing Stock Price at This Update (Closing Px: 11/15/18): \$3.90

Gold Resource Corporation

(NYSE American Stock Symbol - GORO)

<http://www.goldresourcecorp.com>

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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.

Given the recent rise in gold prices, we thought it might make sense to update GORO in the context of that datapoint. Perhaps it goes without saying, but while some may invest in a gold company either defensively and/or as part of a diversification strategy, we suspect there are certainly others who do so because they believe for one reason or another that gold prices are likely to rise. As we have noted in our prior Gold Resource coverage, despite the name, GORO is not what we would view as a gold “pure play”. That is, while their primary production targets are gold, they produce several credit metals that collectively make up a larger share of their revenues than gold. These include silver, zinc, lead and copper. However, since the launch of their Isabella Pearl operations in Nevada (2Q-19), they have become closer to a “pure play” than before by virtue of the project being largely a gold producer. That said, we thought it might be helpful for us to provide some metrics around what changing gold prices might mean to GORO’s valuation.

As noted on the prior page, we are currently carrying a price target of \$7.35 for GORO shares. However, recognize, that price target was based on forward gold prices of about \$1,450-\$1,475 per ounce. On the other hand, *that was also derived from higher base metal prices as well*. In that regard, we have generally modeled base metal prices as largely correlated with gold prices. However, *since our initial coverage, we have seen gold and silver prices rise, and base metal prices for zinc, copper and lead fall*. That by the way is not necessarily surprising given some of the prevailing economic and geopolitical dynamics. As a result, we have reconstructed some of our pricing models to mitigate some of the correlation we assumed, which *for now*, is probably closer to reality. Put another way, we are assuming higher gold and silver prices and lower base metal prices than our original models reflected.

The above noted, gold and silver prices have risen *quite drastically* from prevailing prices at the time of our initiation, and they seem to be sticking at prices that are certainly higher than our original assessments. Granted, we are not lost on the notion that gold/silver prices can change quickly, but at some point, we must start imputing better prices if these trends continue to hold. For purposes of our targets, we are not ready to start assuming higher forward prices just yet, but we thought we could provide some parameters that might help delineated how those assessments would impact our associated targets. So, all other things remaining equal (production levels, costs, base metal prices, grades, recoveries etc.) we estimate that each \$50 increase in forward gold prices (per ounce) would lead to around \$.50-\$.60 of additional price target in our model. Obviously, if we assumed (current) \$1,650 gold, we would have a higher target on the stock.

Aside from metals prices, there is another element to the story that the Company shed some light on in the last call and may evolve into better visibility as we move forward here, especially as the Nevada operations work through the initial benches of the open pit. That is, we would expect (and we think it is fair to say the Company would generally concur) that as they progress further into the pit, grades should increase and perhaps markedly so and likely beyond our forward assumptions. Grade increases could provide upside catalysts to our assessments. Further, they have provided some color lately on additional exploration/development endeavors in Nevada. Recall, they have provided production guidance out to a four-year mine life in Nevada. However, we think it is reasonable to suggest that they plan on producing in Nevada beyond 4 years. Additional information regarding the exploration and development of other contiguous Nevada claims that would effectively extend the project life should prove quite positive. Succinctly, beyond the obvious of higher gold/silver prices, we think there are other emerging variables that could drive higher valuations for GORO shares. We will provide a new operating model once we see the year end results.

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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.