Trickle Research

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

Research Update

GOLD RESOURCE CORPORATION
NYSE American: GORO

Gold Resource Corporation

(NYSE American Stock Symbol - GORO)
http://www.goldresourcecorp.com

Report Date: 08/28/20

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 Allocation Increase (Closing Px: 11/15/18): $3.90

Closing Stock Price at This Update (Closing Px: 08/27/20): $3.99

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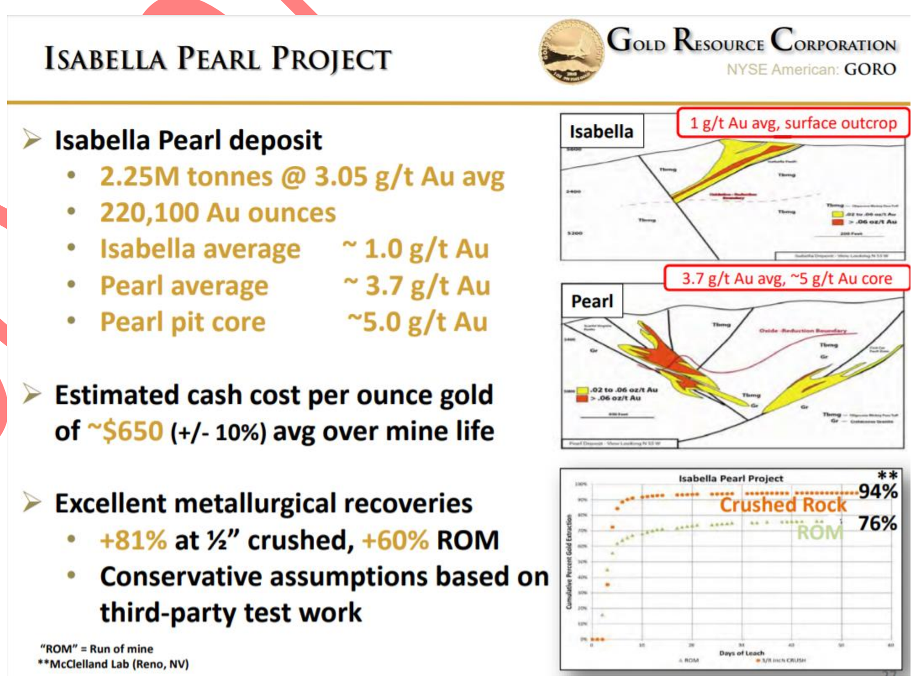
Disclosure: Portions of this report are excerpted from Gold Resource filings, website(s), presentations, or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

After taking a moment to review the 2Q filings, we are providing a quick update on GORO. Recall our last update referenced the rising price of gold and the impact that might have on GORO's results and associated valuation. In the meantime, Covid19 emerged and GORO was forced to cease Mexico operations through portions of Q1 and Q2, and while Nevada did not shut down, we suspect covid protocols probably did not help there either. We would add, the pandemic also negatively impacted base metal prices presumably due to the specter of slower global economic activity. That issue in part led to some extraordinary processing costs in Q1 most notably for zinc, which in retrospect may not have been largely dissimilar to the dynamics that briefly lead to negative oil future prices in mid-April. Recall, the Mexico operation is a polymetallic resource, so its success is tied to various metals prices, perhaps most notably zinc. Regardless, barring a new spike (which we cannot rule out) it looks like both Mexico and Nevada are now both operating at "normal" capacity.

Looking ahead, setting aside the pandemic, in our view the street may not recognize (or perhaps does not believe) some of the stars that may be aligning at GORO. First, while Nevada has been producing since 2H-19, it really has not "hit its stride" in terms of production levels and grades, that we believe it can ultimately achieve. Recognize, the production from Nevada at this point has come from two deposits: the "Isabella" and the "Pearl". Simply put (as we understand it) the Company started Nevada production by stripping the Isabella outcrop because it was easy to access and thus a good place to start. However, at the same time, they have also been stripping the overburden of the Pearl deposit in order to get to the higher and more plentiful grades at depth. As the Company's illustration below notes the Pearl deposit is a higher grade deposit that (not uncharacteristically) improves at depth. As a result, as production increases from Pearl, overall combined grades should increase, along with overall production. Succinctly, increased production combined with increasing grade is a powerful driver to better numbers. Further, higher grades should drive better costs per ounce. Hypothetically, if production costs per ton stay the same, but grades double, that effectively cuts production costs *per ounce* in half. Keep in mind, in Q2, due to their need to move through the lower grade top of Pearl combined with lower grades from Isabella, the Company reported "cash costs" per ounce in excess of $1400 per ounce. However, again referring to the Company's illustration below, they expect to cut those costs in half going forward as grades (and perhaps cut-off disciplines) improve.



The above said, we think our model reflects less aggressive grade improvement at Nevada than some of the other estimates out there. That is not because we do not think the can/will get there, we just do not how long it will take, and we would prefer to understate that than overstate that. Further, we are assuming lower relevant aggregate metal prices in 2021 than in 2H-20. We have no idea where metals price are going, however, we feel comfortable saying the if you believe gold and silver are going to trade at similar or higher prices in 2021 (and perhaps beyond) to those we are seeing today, GORO should be a marked beneficiary of that scenario.

Lastly, as we have alluded to in prior opinions on GORO, we think it is fair to suggest that GORO has typically been more focused on production than development. To be clear, we are not suggesting they have not attempted to develop new resources. The additional of the Nevada unit clearly dispels that view. We just think that they have been less aggressive about developing and building reserves than many of their counterparts in the industry. We will not argue the pros and cons of that approach here, but we do think that it opens them up to the criticism that their future operating cashflows (which presumably drives valuations) are less visible without identified resources. Again, we do not think that is lost on the Company, we just think they have strategically determined that their capital is better spent on things other than proving up deposits that they may not be able to exploit for several years. However, to that end, it is important to recognize that the Company has been quite active in terms of expanding its ownership and development in *and around* Isabella Pearl, including its recent acquisition of the Golden Mile property located in the same Walker Lane Mineral Belt that its other Nevada properties occupy. We think development efforts are accelerating.

To summarize, the Company has suspended production guidance through 2020 as a result of Covid19, but we are comfortable that our model is at least reflecting the correct trend regardless. As an extension, barring a collapse in metals prices or some other production complication(s), we think 2021 is setting up to be a production and earnings breakout for the Company, and 2H-20 results should reflect the front end of that momentum. We will look to coming 3Q and 4Q results to validate that view and we will adjust our allocations and targets appropriately.

Projected Operating Model

Gold Resource Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/20	6/30/20	9/30/20	12/31/20	Fiscal 2020	Fiscal 2021
Consolidated Statements of Operations (000's)						
Sales, net	**$ 28,005**	**$ 21,098**	**$ 44,940**	**$ 47,913**	**$ 141,957**	**$ 199,474**
Mine cost of sales:						
Production costs	$ 20,885	$ 17,642	$ 26,620	$ 27,360	**$ 92,507**	**$ 109,776**
Depreciation and amortization	$ 7,398	$ 5,007	$ 7,910	$ 7,949	**$ 28,264**	**$ 32,197**
Reclamation and remediation	$ 38	$ 30	$ 67	$ 72	**$ 207**	**$ 299**
Total mine cost of sales	**$ 28,321**	**$ 22,679**	**$ 34,597**	**$ 35,381**	**$ 120,978**	**$ 142,272**
Mine gross profit	**$ (316)**	**$ (1,581)**	**$ 10,343**	**$ 12,532**	**$ 20,979**	**$ 57,203**
Costs and expenses:						
General and administrative expenses	$ 2,274	$ 2,197	$ 2,590	$ 2,648	**$ 9,709**	**$ 10,744**
Exploration expenses	$ 1,155	$ 551	$ 527	$ 1,124	**$ 3,357**	**$ 4,945**
Other expense, net	$ 1,513	$ (1,847)	$ 180	$ 192	**$ 37**	**$ 798**
Total costs and expenses	**$ 4,942**	**$ 901**	**$ 3,297**	**$ 3,963**	**$ 13,103**	**$ 16,487**
Income before income taxes	**$ (5,257)**	**$ (2,482)**	**$ 7,046**	**$ 8,569**	**$ 7,876**	**$ 40,716**
Provision for income taxes	**$ (2,137)**	**$ (670)**	**$ 2,227**	**$ 2,635**	**$ 2,055**	**$ 12,342**
Net income	**$ (3,120)**	**$ (1,812)**	**$ 4,819**	**$ 5,934**	**$ 5,821**	**$ 28,374**
Net income per common share:						
Basic	**$ (0.05)**	**$ (0.03)**	**$ 0.07**	**$ 0.08**	**$ 0.08**	**$ 0.40**
Diluted	**$ (0.05)**	**$ (0.03)**	**$ 0.07**	**$ 0.08**	**$ 0.08**	**$ 0.40**
Weighted average shares outstanding:						
Basic	**66,022,202**	**69,985,499**	**70,400,000**	**70,540,800**	**69,237,125**	**70,894,210**
Diluted	**66,022,202**	**69,985,499**	**70,400,000**	**70,540,800**	**69,237,125**	**70,894,210**

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Gold Resource has paid fees to present at an investor conference that Trickle Research co-sponsored.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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.