

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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August 25, 2009

Gold Resource Corp. (OTCBB: GORO) – Open Pit Mining Permit Received, Ore Stockpiling Underway, La Arista Vein System Still Expanding

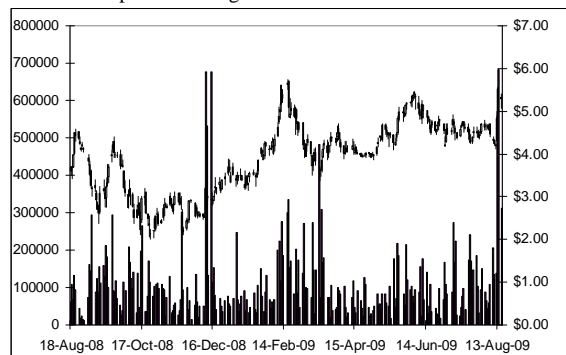
Sector/Industry: Junior Mining

www.goldresourcecorp.com

Market Data (as of August 25, 2009)

| | |
|---------------|------------------------|
| Current Price | \$6.10 |
| Fair Value | \$6.83 |
| Rating* | BUY |
| Risk* | 5 (Highly Spec) |
| 52 Week Range | \$2.00 - \$6.10 |
| Shares O/S | 46.10 mm |
| Market Cap | \$281.18 mm |
| Current Yield | N/A |
| P/E | N/A |
| P/B | 44.31 |
| YoY Return | 44.9% |
| YoY TSXV | -39.2% |

*see back of report for rating and risk definitions



Investment Highlights

- The company has obtained the federal open pit permit to mine the El Aguila project. Ore stockpiling is underway while construction and equipment delivery concludes.
- Drilling has expanded the La Arista vein system along strike and to depth. Highlights include Hole #108042 which intersected 8.6 meters of vein material at a grade of 13.40 g/t Au and 882 g/t Ag.
- Rock chip sampling has identified a new high-grade silver vein nearly 2 km west of the El Aguila open pit.
- We think the company still has the opportunity to increase its resources significantly, and have therefore increased the company's previously stated mineralized deposit estimate of 2.19 million tonnes, by 50% for valuation purposes.

Note:

- An FRC Research Associate has visited GORO's property in the past 12 months; see the back of this report for additional disclosures
- All figures are in US\$ unless otherwise noted

Key Financial Data (FYE Dec 31)

| (US \$) | 2006 | 2007 | 2008 | 2009 (6 Mo) |
|---|-------------|-------------|--------------|--------------|
| Cash and Cash Equivalents | 7,660,258 | 22,007,216 | 3,534,578 | 6,122,813 |
| Working Capital | 7,415,207 | 21,282,704 | 1,984,183 | 5,142,605 |
| Mineral Assets & Property and Equipment | 96,279 | 504,951 | 1,038,829 | 1,194,733 |
| Total Assets | 7,964,118 | 22,557,576 | 4,781,018 | 7,460,091 |
| Net Income (Loss) | (2,686,762) | (8,076,342) | (26,015,203) | (17,438,949) |
| EPS | (0.13) | (0.28) | (0.76) | (0.44) |

Gold Resource Corporation is anticipating 70,000 ounces in the first 12 months of production, beginning in late-2009, at its 100% owned El Aguila property from the El Aguila open pit. Several high-grade veins have been identified nearby which will provide ore starting in year two. The company also holds three other properties within trucking distance of the El Aguila mill site.

El Aguila**El Aguila Open Pit Developments**

The company has obtained a federal open pit mining permit allowing the company to begin developing the El Aguila open pit. With the receipt of the open pit permit, the company has commenced ore stockpiling in anticipation of starting production as soon as possible.

The company was originally targeting production starting in mid-2009, however, delays in permit granting have postponed the production start date to late 2009. **The current stockpiling of ore should shorten the ramp up to production, and cash flow, following initial plant start up.** The company still intends on producing 70,000 ounces of gold from the El Aguila open pit in the first 12 months of production, and maintains a projected cash cost of US\$100 per ounce of gold produced.

We note that stockpiling and initial pit development could be delayed by the ongoing rainy season which peaks in September - coinciding with the Atlantic hurricane season. Loss of mineralization or saturation of the ore is not anticipated though as it is quite competent with minimal clay content. **We are still confident the company will begin production before the end of 2009.**

The following are updated construction photos provided by the company:



(Source: Gold Resource Corp.)



(Source: Gold Resource Corp.)



(Source: Gold Resource Corp.)



Equipment installation

7-9-09

(Source: Gold Resource Corp.)



GRC: Mill Construction

Installing copper, lead, zinc concentrate filters

7-9-09

(Source: Gold Resource Corp.)

Exploration Update

While the company has been focusing on completing construction and achieving cash flows, they have maintained minimal exploration with a single drill operating and small scale chip sampling. **We believe this is a prudent decision as the company will have cash and the ability to focus on exploration after production from El Aguila is underway.** Despite the minimal efforts, exploration has been successful; the Arista vein was further expanded along strike and at depth, and a new high grade silver vein was identified on the property.

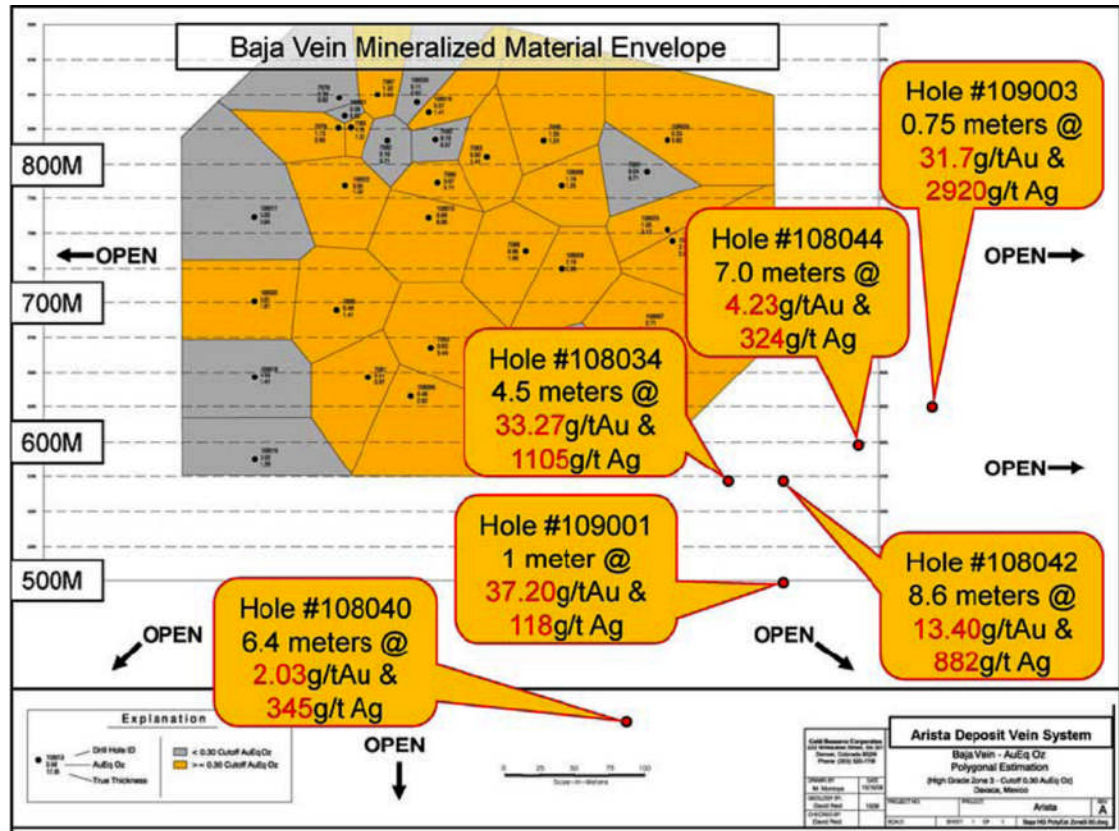
Arista Veins

As noted above, the Baja vein within the La Arista vein system was intercepted by several diamond drill holes expanding the vein both to depth, and along strike to the southeast. The most significant holes are #109003 and #108040, as both of them indicate expansion of the known mineralization. Hole #109003 expands the vein an additional 85 meters to the southeast, while hole #108040 shows the vein remains open to depth.

Key assay results include:

- **Hole #109003: 0.75 meters at 31.7 g/t Au and 2920 g/t Ag**
- **Hole #108040: 6.4meters at 2.03 g/t Au and 345 g/t Ag**
- **Hole #108042: 8.6 meters at 13.40 g/t Au and 882 g/t Ag**

We believe the reader should not be concerned about the short width of hole #109003 as pinching and swelling is a common feature in open-space-fill quartz veins. **Management believes the recent results signify further potential for the company to potentially double the previously stated mineralized material estimate of 1.6 million gold equivalent ounces. We are confident that the company can significantly increase its resources. For valuation purposes, we have increased the company's previously stated mineralized material estimate of 2.19 million tonnes by 50%.**



(Source: Gold Resource Corp.)

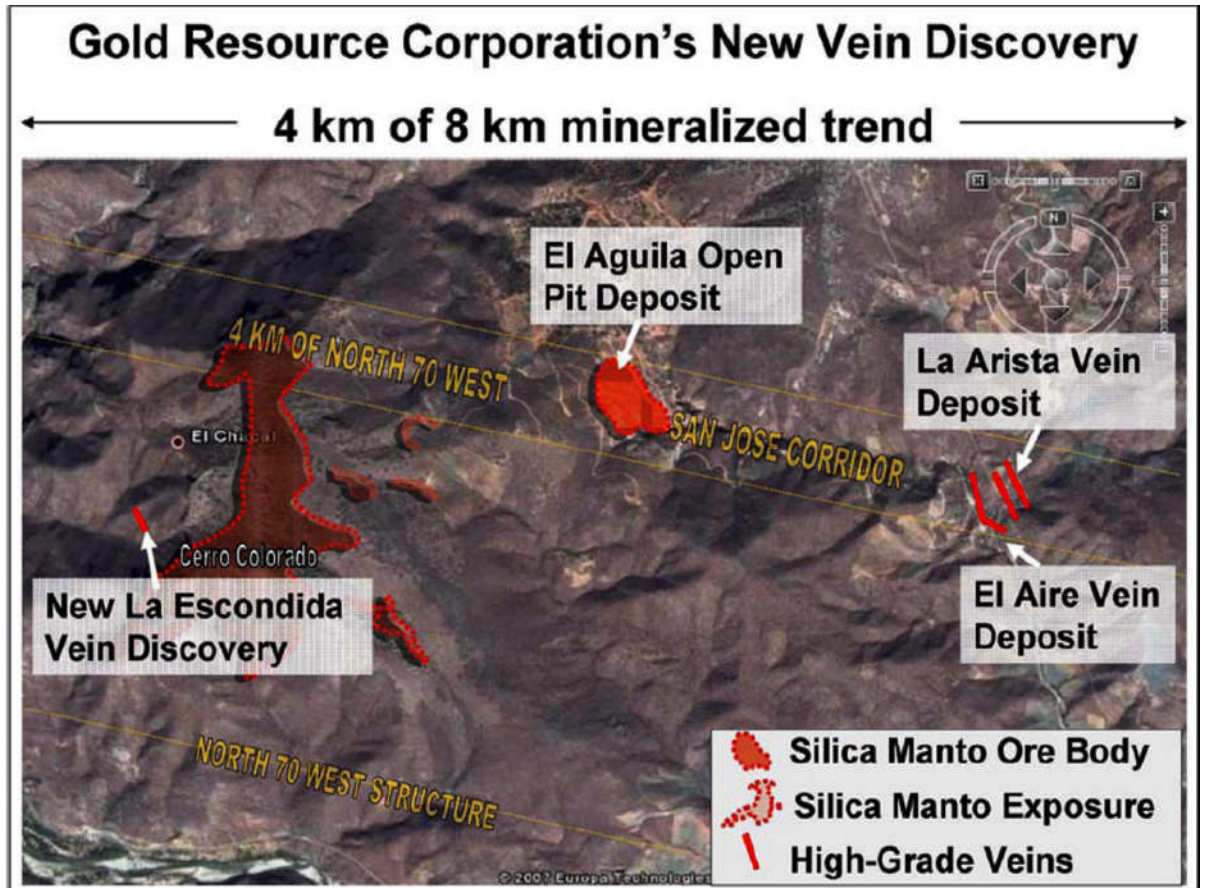
New High Grade Silver Discovery

Channel sampling completed near a recently discovered historic adit located nearly two kilometers west of the El Aguila open pit has identified a new high grade silver vein. Channel samples were approximately one meter in width, highlight assays include:

- **Sample 3620: 0.71 g/t Au, 1890 g/t Ag**
- **Sample 3628: 2.05 g/t Au, 3730 g/t Ag**
- **Sample 3634: 1.50 g/t Au, 1370 g/t Ag**

Collectively, the 22 channel samples taken from the newly named La Escondida vein averaged 0.38 g/t Au and 736.9 g/t Ag.

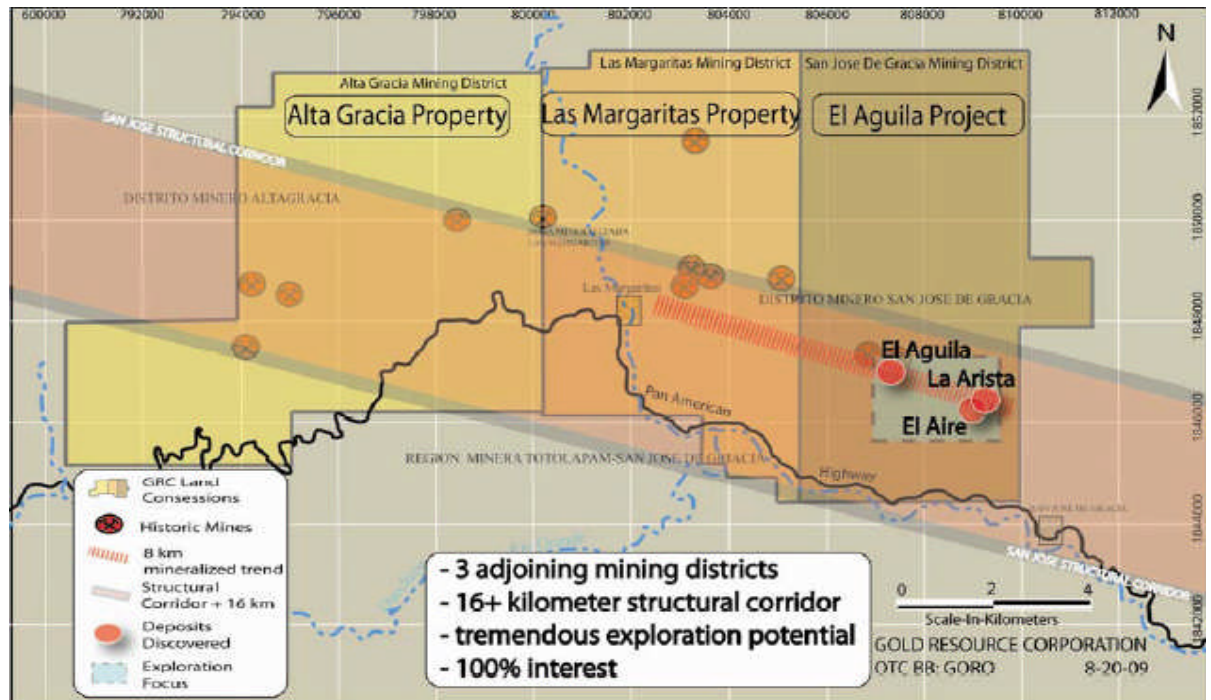
The La Escondida discovery is also significant for the company as it builds on the geological model proposed for the company. Observing the figure below, the reader may notice that the known mineralized zones surround what is interpreted to be a volcanic dome south of the El Aguila open pit. This dome is suspected as the possible source of hydrothermal fluids that has led to the local concentration of orebodies in the area. The Cerro Colorado mountain to the east of El Aguila, and adjacent to the recent discovery, is believed to be a major part of the dome structure. The implication of the model being that further exploration may expose additional orebodies along the southern edge of the structure.



Alta Gracia Acquisition

The company has filed additional land concessions on the San Jose structural corridor adjacent to the 100% owned Las Margaritas property and along trend with the El Aguila property. The company's projects now include approximately 16 km of contiguous claims along the mineralized San Jose corridor (see image below).

The acquisition of the Alta Gracia property has two distinct positives for the company. First, high grade mineralization is known to exist on both El Aguila and Las Margaritas, a trend that is likely to continue to the adjacent Alta Gracia property. Second, any mineable deposits discovered on Alta Gracia will be within short trucking distance to the company's milling facilities at El Aguila.



(Source: Gold Resource Corp.)

Financials

At the end of Q2 2009 (quarter ended June 2009), Gold Resources had \$6.12 million and \$5.14 million in cash and working capital, respectively. In the first six months of 2009, the company reported a net loss of \$17.44 million (EPS: -\$0.44), compared to \$8.96 million (EPS: -\$0.26) in the same period in 2008. We estimate the company had a burn rate (cash spent on operating and investing activities) of \$2.57 million per month in the first six months of 2009, versus \$1.97 million per month in FY2008 (12 months). The table below shows the company's cash and liquidity position at the end of Q2 2009.

| (US \$) | 2006 | 2007 | 2008 | 2009 (6 Mo) |
|--|-----------|------------|-------------|-------------|
| Working Capital | 7,415,207 | 21,282,704 | 1,984,183 | 5,142,605 |
| Current Ratio | 17.44 | 28.70 | 2.13 | 5.62 |
| LT Debts/ Assets | - | - | - | - |
| Burn Rate/Month (incl exploration costs) | (154,652) | (613,754) | (1,971,970) | (2,566,961) |
| Cash from financing activities | 9,339,900 | 21,712,000 | 5,191,000 | 17,990,000 |

Stock Options and Warrants: At the end of June 2009, the company had 3.77 million stock options outstanding, with exercise prices between \$0.25 and \$4.06, and maturity periods between 4.5 and 9.8 years. The company does not have any warrants outstanding.

Recent Financings: The company recently raised \$20 million, whereby Hochschild Mining (LSE: HOC) purchased 5 million restricted shares at \$4.00 per share with no warrants (\$5 million closed on June 30, 2009, and \$15 million closed on July 20, 2009). Hochschild's total holding in GORO is currently about 24%.

Conclusion: We believe the company will not have to raise additional capital, as its future exploration budget could be funded by cash flows from the Aguilá project once it commences production by the end of 2009.

Valuation

Since we believe the company will be able to increase its previously stated resource estimate by at least 50% (which we think is a conservative estimate based on our evaluation of the recent drilling results), we have valued the company based on an increased resource estimate of 3.28 million tonnes, compared to 2.19 million tonnes in our previous report. In addition, we have lowered our discount rate from 12.84% to 11.35%, as the company is approaching production. **As shown in the table below, our revised DCF model gave a fair value estimate of \$304.52 million or \$6.30 per share, compared to \$276.10 million or \$6.83 per share in our previous report.** Note, the decrease in our per share valuation is primarily due to a significant increase in our estimate of the number of diluted shares from 40.41 million to 48.21 million (primarily because of the recently completed private placement).

| DCF Valuation Summary | Revised | Previous |
|--------------------------------|----------------------|----------------------|
| Ownership | 100% | 100% |
| Mineral Resources (in tonnes) | 3,280,500 | 2,187,000 |
| Throughput (tpy) | 385,000 from 2013+ | 385,000 from 2012+ |
| Production Commencement | End of 2009 | Mid 2009 |
| Gold Grade (gpt) | 5.92 | 5.92 |
| Silver Grade (gpt) | 403 | 403 |
| Copper Grade (%) | 0.45% | 0.45% |
| Lead Grade (%) | 1.56% | 1.56% |
| Zinc Grade (%) | 5.05% | 5.05% |
| Recovery Gold Equivalent (oz.) | 1,758,254 | 1,278,935 |
| Mine Life (years) | 11 | 8 |
| Long-term Gold Price (\$/oz) | 600 | 600 |
| Long-term Silver Price (\$/oz) | 11 | 11 |
| Long-term Copper Price (\$/lb) | 2.03 | 2.03 |
| Long-term Lead Price (\$/lb) | 0.60 | 0.6 |
| Long-term Zink Price (\$/lb) | 0.75 | 0.75 |
| Remaining Capital Costs | \$5,408,577 | \$8,000,000 |
| Operating costs (\$/tonne) | \$68 | \$68 |
| Discount rate | 11.35% | 12.84% |
| Net Present Value | \$289,515,446 | \$259,537,157 |
| Working Capital net Debts | \$15,008,683 | \$16,561,381 |
| Net Asset Value | \$304,524,129 | \$276,098,538 |
| No. of Shares (Diluted) | 48,312,658 | 40,414,223 |
| Fair Value per Share | \$6.30 | \$6.83 |

Sensitivity: The following table shows the sensitivity of our DCF model to changes in long term gold and silver prices (our long-term forecasts are \$600/oz gold and \$11/oz silver).

| Gold/Silver Prices | 5 | 7 | 9 | 11 | 13 | 15 |
|---------------------------|----------|----------|----------|---------------|-----------|-----------|
| 500 | \$4.60 | \$5.03 | \$5.45 | \$5.88 | \$6.30 | \$6.73 |
| 600 | \$5.02 | \$5.45 | \$5.87 | \$6.30 | \$6.72 | \$7.15 |
| 700 | \$5.44 | \$5.87 | \$6.29 | \$6.72 | \$7.14 | \$7.57 |
| 800 | \$5.86 | \$6.29 | \$6.71 | \$7.14 | \$7.56 | \$7.99 |
| 900 | \$6.28 | \$6.71 | \$7.13 | \$7.56 | \$7.99 | \$8.41 |
| 1000 | \$6.71 | \$7.13 | \$7.56 | \$7.98 | \$8.41 | \$8.83 |

Conclusions & Rating

We believe the company has done an excellent job in developing its El Aguila project. In addition, we believe the company can significantly increase its current in-house resource estimate. Therefore, we maintain our BUY rating on the company and fair value estimate at \$6.83 per share. Since the company has yet to achieve production, we continue to rate the company a RISK of 5 (Highly Speculative).

Risks The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The company has no proven or probable reserves and is basing production on in-house calculated mineralized material estimates which are at the confidence level of “resources” in NI 43-101 terms.
- The company may be dependent upon receipt of additional working capital and cash flow from production in order to fund their business plan.
- Long term ability to remain profitable is dependent upon the company’s ability to identify, explore and develop additional properties.
- While Mexico is generally perceived as an excellent mining jurisdiction, the company is subject to all risks associated with operating in a foreign country with the potential for civil or political unrest.

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (69%), HOLD (11%), SELL (4%), SUSPEND (16%).

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