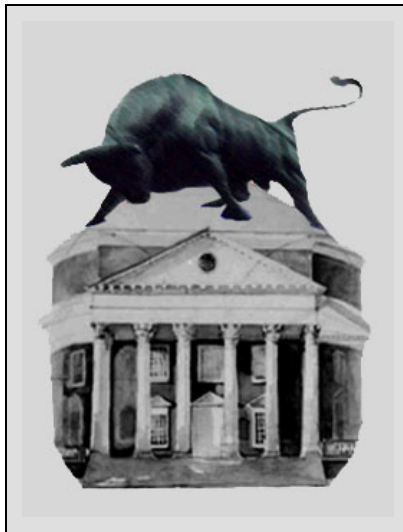


McIntire Investment Institute

At the University of Virginia



Short – Gold Resource Corp. (AMEX: GORO)



Prepared by Nicholas Jones and Ajay Sundar | 3 November 2011

Presentation Outline

Company & Stock Overview

Thesis Points

Catalysts

Risks

Questions

Gold Resource is a Gold and Silver Producer Focused in Mexico

Founded in 1998

- “Earnings are opinion, cash is fact”

Headquartered in Colorado Springs

Currently has 6 Projects

- All in Mexico
- Only 1 commercially producing



The Share Price Has Increased Dramatically in the Last Few Years

2 year stock chart



Stock Summary

Share Price: \$23.44

Market Cap: 1.2 Billion

EPS: -\$0.09

Cash: \$47.58 Million

52 Week Range: 15.06-31.38

Average Volume: 349,545

P/E: N/A

Debt: 0

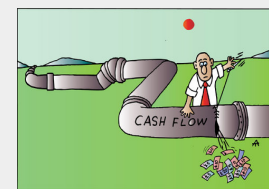


GORO is a Compelling Short

1) Little Production/No Proven Reserves



2) Overvalued



3) Suspect Dividend



4) Poor Management



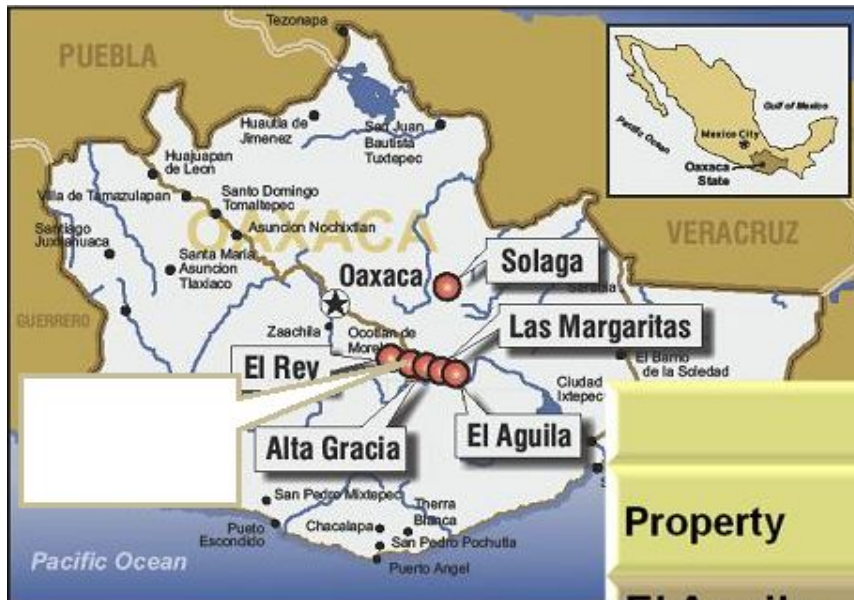
Thesis 1: No Proven Reserves and Little Production

6 Properties – Only 1 Producing

No Proven or Probable Reserves

APEX Silver Passed on El Aguila

All Six Properties Have Been Passed On



Oaxaca Mining Unit			
Property	GORO Interest	Production	Exploration
El Aguila	100%	✓	✓
El Rey	100%		✓
Alta Gracia	100%		✓
Las Margaritas	100%		✓
El Chamizo*	100%		✓
Solaga	100%		✓



GORO's One Producing Mine Was Passed On By Three Other Miners

- APEX Silver
 - Over four years they surveyed the land involving geologic mapping, surface sampling, and a drilling program spanning over 4,000 feet
- Canyon Resources
 - Spent \$500,00 drilling 13,000 feet of hole surveys and passed on the opportunity to acquire 50% of the property for 3.5million
- Heemskirk
 - In 2005 was the largest outside shareholder in GORO and sold its position when they announced they were going to begin commercial production at El Aguila
- “(there was) ore grade mineralization sticking right out of the ground.” – CEO Bill Reid



GORO Has Not Completed Any Drill Tests to Establish Reserves



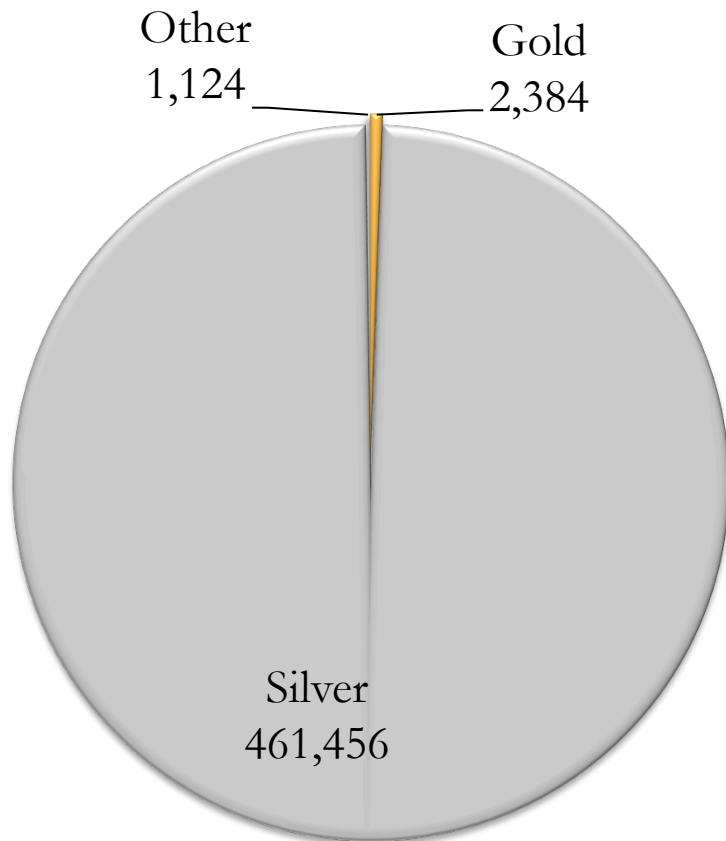
Current estimates and predictions coming from company insiders

- No Guarantee of due diligence
- Heavy Incentive to fudge data

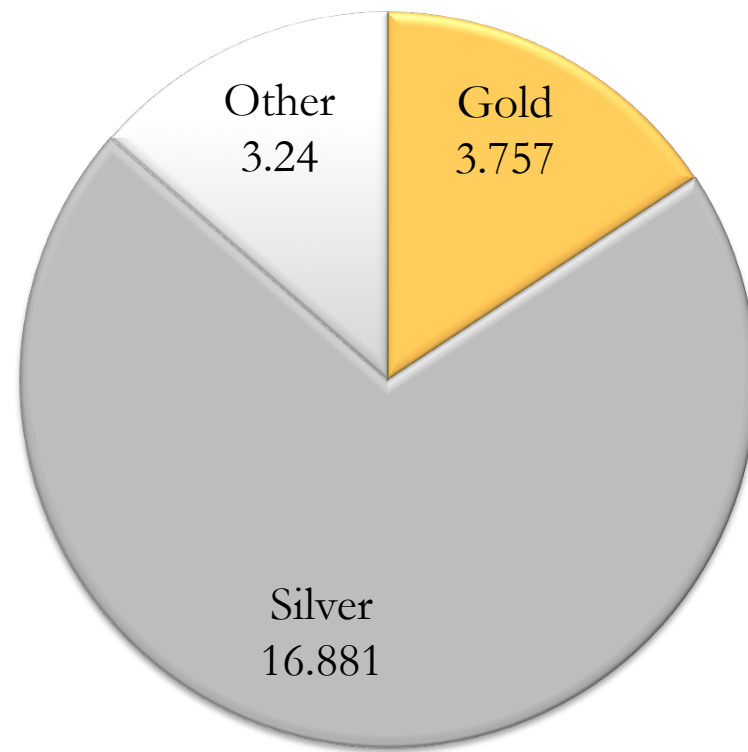
No SEC proven and probable reserves

- Have not even completed a 43-101

Silver-With-A-Bit-Of-Gold Resource



Production By Ounce



Revenue Per Metal In Millions



Thesis 2: Overvalued

Lack of Profitability

High Valuation vs. Competitors

Insider Selling

Negative Cash Flows

Unprofitability

- *“We have incurred substantial losses since our inception and may never be profitable.”*
 - GORO 10-K, 2010
- Have only had two profitable quarters since inception in 1998
- In FY 2008, 2009, & 2010, GORO reported net losses of \$26 million, \$34.1 million, and \$23.1 million, respectively
 - Accumulated deficit of \$92.7 million through Q2 2011
- Additionally, GORO must pay a royalty to the owner of the El Aguila mine from whom it leases the property



High Valuation

- GORO vs. Competitors
 - AuRico (AUQ)
 - Agnico-Eagle (AEM)
 - Gold Corp (GG)

	Price	P/E (ttm)	Price/Sales (ttm)	EPS (ttm)	Dividend Yield
GORO	\$23.45		24.25	-0.09	2.70%
AUQ	\$10.15	23.60	5.64	0.43	N/A
AEM	\$43.73	23.36	4.33	1.87	1.50%
GG	\$50.06	20.37	8.13	2.46	0.80%

- GORO's Current P/E is -50.98



AuRico Gold - Reserves

2010									
Proven & Probable	Tonnes (000's)	Au g/t	Ag g/t	Aueq g/t	Au Ounces (000's)	Ag Ounces (000's)	Aueq Ounces (000's)	2009 (61.75:1)	% Change
Ocampo	69,417	0.56	24	0.94	1,248	52,985	2,106	1,911	10%
El Cubo	3,936	2.59	143	4.90	328	18,038	620	583	6%
El Chanate	70,557	0.66	0	0.66	1,504	0	1,504	n/a	
Total	143,910	0.67	15	0.91	3,080	71,023	4,230	2,494	70%

2010									
Measured & Indicated	Tonnes (000's)	Au g/t	Ag g/t	Aueq g/t	Au Ounces (000's)	Ag Ounces (000's)	Aueq Ounces (000's)	2009 (55.00:1)	% Change
Ocampo	34,959	0.20	9	0.36	228	9,617	403	219	84%
El Cubo	2,753	2.52	72	3.83	223	6,336	339	285	19%
El Chanate	4,600	0.47	0	0.47	69	0	69	n/a	
Orion	1,107	3.66	309	9.28	130	11,007	330	n/a	
Total	43,419	0.47	19	0.82	650	26,960	1,141	504	126%

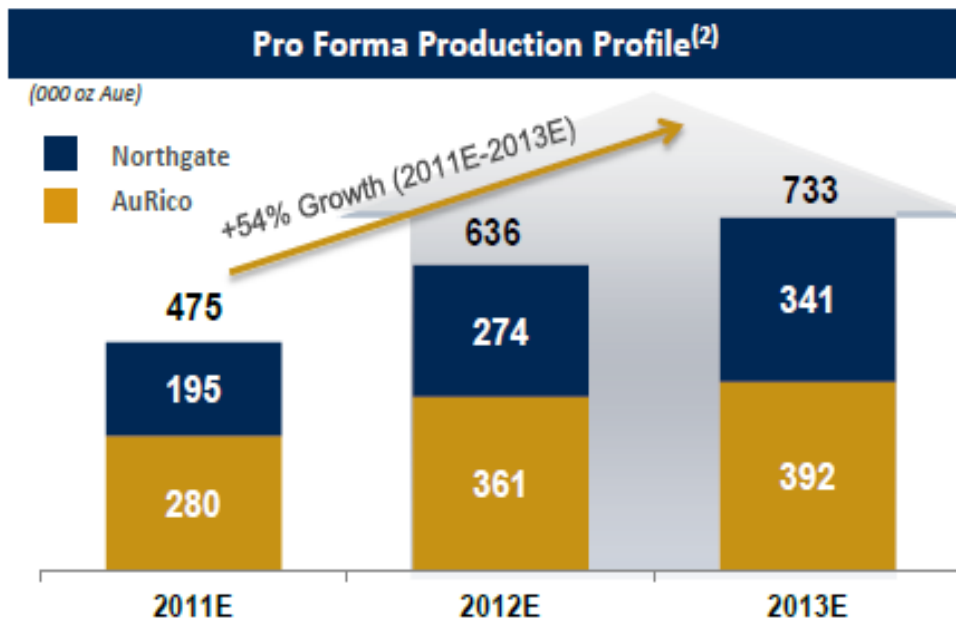
2010									
Inferred	Tonnes (000's)	Au g/t	Ag g/t	Aueq g/t	Au Ounces (000's)	Ag Ounces (000's)	Aueq Ounces (000's)	2009 (55.00:1)	% Change
Ocampo	20,615	1.37	81	2.84	911	53,428	1,883	2,191	-14%
El Cubo	4,045	3.40	175	6.59	443	22,761	857	722	19%
Guadalupe y Calvo	11,800	2.84	120	5.02	1,077	45,600	1,906	1,906	0%
El Chanate	6,100	0.80	0	0.80	157	0	157	n/a	
Orion	181	3.33	95	4.98	19	549	29	n/a	
Total	42,741	1.90	89	3.52	2,607	122,338	4,831	4,819	0%
Total Inventory	230,070	0.86	30	1.38	6,337	220,322	10,203	7,817	31%

- AuRico has completed feasibility studies and has shown significant reserves available for mining



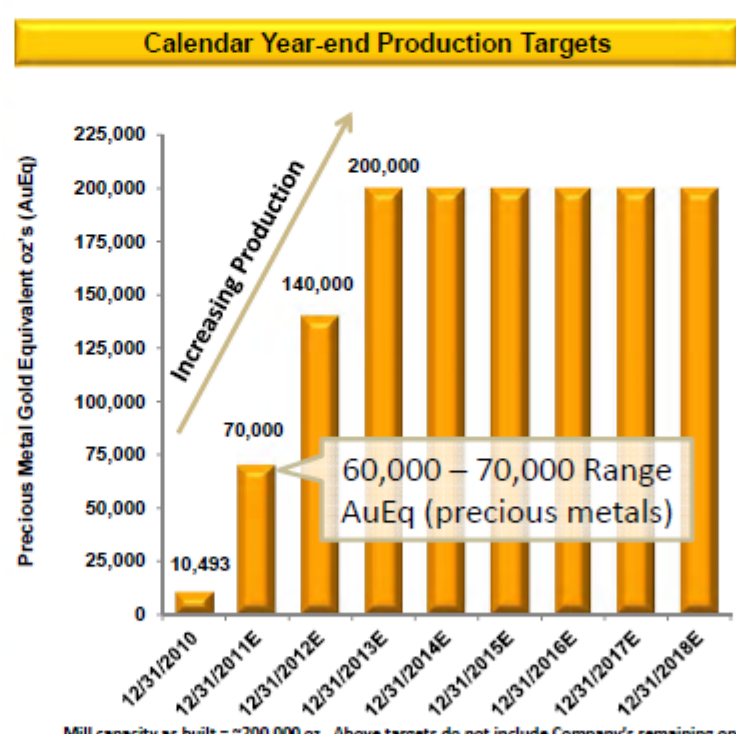
AuRico Gold vs. GORO - Production

- AuRico Projections



- 2011 Estimates: Midpoint of management projections
- 2012 – 2013 Estimates: Based on analyst consensus

- GORO Projections



- Based on internal projections only

Insider Selling is a Red Flag

- Despite reassurances about management's confidence in the company and GORO stock, insiders have been selling the stock recently

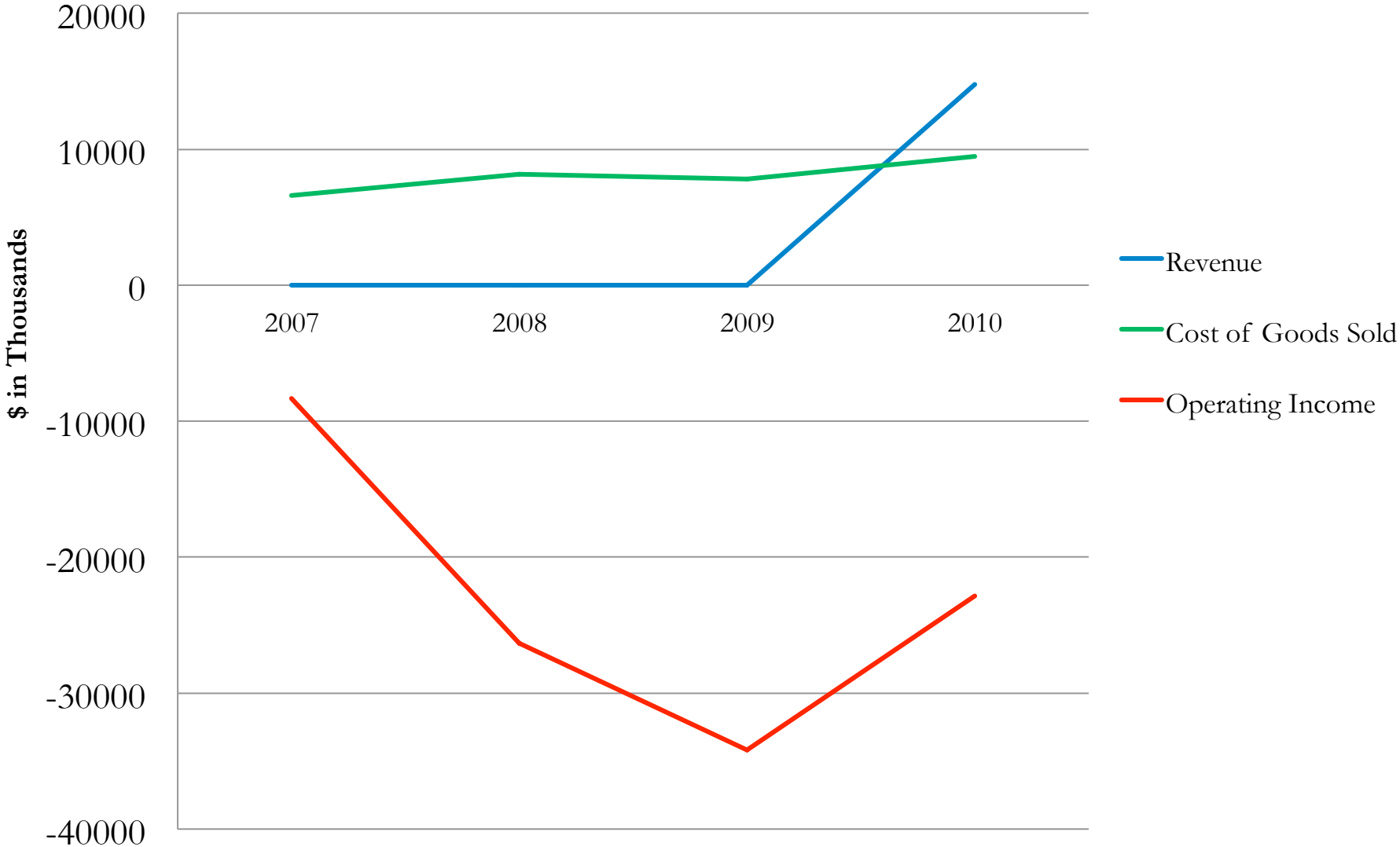
Net Share Purchase Activity		
Insider Purchases - Last 6 Months		
	Shares	Trans
Purchases	N/A	0
Sales	377,831	14
Net Shares Purchased (Sold)	(377,831)	14
Total Insider Shares Held	6.62M	N/A
% Net Shares Purchased (Sold)	(5.4%)	N/A

- Confirms a lack of confidence in the stock
 - Largest shareholder passed on the opportunity to buy more shares at \$16/share

Negative Cash Flows Have Been Covered by Manufactured Margins

- SEC filings reveal that GORO had a total Net Loss of about \$23 million for 2010
 - Revenue: \$14.75 million
 - Operating Costs and Expenses: \$32.64 million
- However, for 2010, GORO reported Mine Gross Profit of about \$9.8 million.
 - Ignores operating expenses
 - Basis for dividend

Gold Resource Corp's Cash Flows



Thesis 3: Suspect Dividend

Affordability of Current Dividend

Dividend Financing

Gimmick Dividend

At First Glance, Dividend Payment Makes GORO Attractive

- GORO is currently paying a 5¢ dividend (60¢ annually)
 - 2.70% Yield
- Despite a net loss and negative cash flows in 2010, GORO instituted a dividend
 - Based on metric of Mine Gross Profit
 - Misinforms investors about profitability of company

Dividend Financing

- There have been Ponzi scheme accusations against GORO
 - Using proceeds from stock sales to new investors to finance dividend payments
 - In 2010, sold new shares of stock to raise capital
 - From this new source of capital, a sum of cash very close to total dividend payments disappeared from GORO's accounts

Gimmick Dividend

- President Jason Reid announced that within a few months, GORO will begin making dividend payments in bullion instead of cash
 - “Many investors would rather hold physical gold or silver rather than fiat currencies that will continue to be debased” – Jason Reid
- Impractical:
 - At a price of \$20.84 with the current yield, an investor would need to hold \$58,838 in GORO stock to receive a 1-oz. gold coin annually



Thesis 4: Poor Management

Bad Track Records/Inexperienced

Hiring StarShenkein to Audit

Stock Promoter Ian Cassel

All of GORO's Executives Come From One Family



Bill Reid

- Co-founded US Gold Corporation in 1977
- UXG traded at less than \$1, spiked to \$10 as soon as he left and now trades around \$5



David Reid

- Co-founded US Gold Corporation in 1977
- UXG traded at less than \$1, spiked to \$10 as soon as he left and now trades around \$5



Jason Reid

- Son of Bill Reid
- Adds no value to the company

StarShenkein Was Found to Have 10 Deficiencies by the PCAOB

- January of 2011 PCAOB flagged 5/7 audits for 10 inadequacies
 - Including: failure to perform sufficient procedures relating to the **testing of revenue**
- Paul Oberman is currently their hourly CFO
- “Have you considered or do you think it would be appropriate to review your auditors?”
 - “Yeah, we've consider that, at this point where we're fine...”
 - Bill Reid (CEO) Q2 2011 Conference Call

Gold Resource Corp Paid Ian Cassel To Loudly Promote Their Stock

- Ian Cassel hired right out of college to promote their stock (seekingalpha, online blogs, etc)
 - Promotes small cap business that compensate him including frauds such as EGMI
 - 30,000 shares of GORO stock in compensation
- Cassel's formula's came out to share price of \$22
 - Same formulas with more recent projections come out to \$10
 - After the run up to \$20 Cassel said the stock should be viewed as too pricey for people that missed the initial run up



GORO Keeps Dragging Investors Along with Promises

- Announced start up year to be 2007 with CAPEX payback in 6months – 20 million in Costs
 - Start up year ended up being 2010 at 50mil in costs
 - CAPEX return was still 6 months, not achieved to date
- 2010 – First dividend financed via stock issue announced
- 2011 – Gimmick gold coin dividend announced
 - Production estimates not made because of “10inch of rain in 3 hours”

VAR: Competitors

- Gold Resource's competitors do not view the company as a threat
 - AuRico Investor Relations: “I have never heard of them at all, actually.”
 - GoldCorp Investor Relations: “I’ve never even heard of the company.”

Catalysts

1. Continued failure to meet production estimates

2. Disappointing 43-101 results

- Proving that the insiders estimates are way too optimistic

3. Decreasing gold and silver prices

- Any existing reserves become economically infeasible to mine
- Future Price agreement with Trafigura Group

Catalysts

4. Changes in currency value

5. Changes in regulation by Mexican government

- Increased Environmental Regulation
- The passing of introduced legislation that would impose a royalty on production

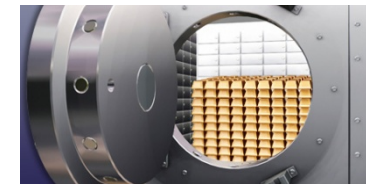
6. Social and political unrest in Oaxaca, where all properties are located

- State capital experienced social and political unrest in 2006
- Similar activities could temporarily shut down production

Risks

1. Existing reserves prove to be large

- GORO turns out to actually be well positioned
- GORO's properties have optimistic test results



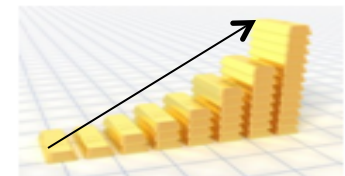
2. Dividend payment increases

- Dividend yield rises



3. Increasing gold and silver prices

- Reserves become cheaper to mine
- Increases operating margins



Recommendation

- Initiate a short position of 1.5%

Questions?

