

## A real cash-cow from Mexico

Interview with Bill Reid - CEO (Gold Resource Corp.)

**Q** Hello Mr. Reid! Gold Resource was a great success story over the past years, given the fact that GORO went public only 3 years ago at \$1 US, now around 8 Dollars! The more I'm glad to have you today giving me that interview.

**A** Thank you Jan for inviting me. Gold Resource Corporation was engineered from day one to create shareholder value using our 30+ years of experience in finding and building mines. We will soon emerge in the elite class of low cost gold producers. I believe it is our approach to the business of mining that can maximize shareholder value. We focus on the financial performance aspects of a mining project. Any project we undertake must be able to repay the capital to put that project into production in one year or less. This keeps us focused on developing high-grade, low cost mines. Couple this with our disciplined capital structure, creating the greatest value with the fewest shares outstanding, and you have the potential to create exceptional value. We look forward to the market rerating Gold Resource as we emerge as a low cost gold producer.

**Q** Well, as always I would like to start with your background. Please give us some information about your previous experience with mining companies and your

responsibilities there.

**A** My brother David and I are both geologists by training. We founded our first mining company, U.S. Gold Corporation, in 1977 and ran it for 28 years. Most companies don't last 28 years but more importantly we



Source: Gold Resource Corp.

put 6 mines into production, all in the U.S.

**Q** Lets stay with U.S. Gold a bit longer because this is run by well known Rob McEwen today but there is not much known about the time before him. How did the company work until 2005?

**A** As I mentioned, with U.S. Gold we put six mines into production, two in Colorado, three in Nevada and one in California. We had sold all but one, our Tonkin Springs mine on the famous Cortez Gold Trend in Nevada when in 2005 we sold controlling interest to one of the most suc-

cessful mining men of our era, Rob McEwen. This freed us up to focus our attention on Gold Resource Corporation.

**Q** Interesting, so you and your brother David were the founders of U.S. Gold Corp. and you ran it successfully. But at the same time Gold Resource (founded in 1998) already existed and got the first 3 projects El Aguila, El Aire and Las Margaritas. What happened that you decided in 2005 to quit US Gold and to focus on Gold Resource?

**A** Even though Gold Resource was founded in 1998, it really did not become active till 2001. U.S. Gold was a shareholder in Gold Resource Corporation. U.S. Gold was focused in the U.S. and Gold Resource was focused in Mexico. As part of our severance payments due to David and me from U.S. Gold, we were offered the shares owned by U.S. Gold in Gold Resource Corporation. We liked this property and believed in its potential and gladly took the offer. We have focused on Gold Resource ever since.

**Q** Well, Mexico is one the largest mining nations in the world and the second biggest silver producer but the state of Oaxaca in southern Mexico is not very much known for big deposits. Why did you move in 2002 exactly there, knowing that the famous mining states are

Zacatecas and Durango?

**A** We have our own approach to the mining business. Most companies never find a mine, El Aguila will be our seventh. Oaxaca actually has, historically one of the highest grade gold mines in Mexico so there was precedent. Our El Aguila Project has many exciting aspects. We have world class grades with which nobody can argue and we are developing a world class geologic setting extending over a 16 kilometers trend in which we have a 100% ownership. We believe this could become the "Carlin Trend" of Mexico. Equally as exciting is that this system is only 10-15 million years old. It is a younger system than most deposits in northern Mexico which are 20-30 million years old. Had 5 million more years of erosion taken place I believe our deposits in Oaxaca would have been discovered and mined by the Spaniards or Mexicans long ago.

**?** When and after what results did you realize that El Aguila would be your key project?

**A** We were impressed right from the beginning. Surface rock chip samples were taken over 8 kilometers with the highest 115 samples averaging approximately 0.40 ounces of gold per tonne. That is ore grade mineralization sticking right out of the ground. This told us we had to be dealing with a large and robust mineralizing system. We discovered our open pit deposit, which we are presently mining, with our very first drill hole. We

went on to drill our best hole in this deposit which yielded 55 grams gold/tonne and 700 grams silver/tonne over 4 meters. We knew we had something special after this discovery. And, we felt we had only just scratched the surface of this high-grade system.

**?** Please tell us a bit more about the characteristics of the property (size, mineralization, topography), the local infrastructure and the historic mining.

**A** What is amazing is that our deposits are only 2 to 3 kilometers off the PanAmerican Highway. So access and infrastructure are great. The Federal power grid and a year round river are along the highway. Although there was some minimal mining on a small scale after the Mexican Revolution, not much had been done. We have already discovered three epithermal deposits. Epithermal deposits, as a geologic type, are some of the most sought after and highest grade deposits in the world. We are very excited about the geologic system and what we have found already.

**?** So that was quite a new mining district that you have established and even the infrastructure is well developed! Nevertheless, the normal way would have been to drill off a resource and to establish minable reserves before deciding to build a mine. Why did you choose a different way and what makes you confident that your model will work?

**A** Having put six mines into production we did not feel the need to have some engineering firm or other entity tell us if we had a mine or not. We completed a scoping study early on in the project primarily to make sure we could recover the metals. Metallurgical recoveries are over 90% with simple, standard processes. Infrastructure is only 2 kilometers away and if you can't make money with these grades you should not be in the business. We have world class high-grade mineralization with low costs and high margins, as opposed to a large tonnage low grade deposit with high capital costs where if your numbers are off a little bit a project's success



could be in jeopardy.

Though we knew we had an exceptional situation and moved forward based on that belief, we now have independent, third party validation by bringing in, as an investor, Hochschild Mining plc. Not many juniors would be successful opening there exploration properties or projects up to a major mining company like we did. Hochschild sent in teams of geologists, engineers, metallurgists and many other disciplines to complete their due diligence. Hochschild's subsequent investment totalling \$38 million dollars speaks to third party validation of our properties potential and our potential operations.

**Q** So with Hochschild supporting your view of a large mineralized system at El Aguila, give us some examples of your best drill holes and the potential gold and silver resource of El Aguila.

**A** We drilled out enough mineralization, satisfactorily for us, to justify our first five years of operation. We are now closing in with subsequent drilling on the second five years of operation.

And from a land position standpoint and a geologic system standpoint we have only just begun. As a U.S. company, we must refer to our mineralization as mineralized material, as we do not have SEC proven and probable reserves. Our mineralized material would be similar to Canadian resources.

We have numerous high-grade holes but as an example Hole 108034, which is helping define our second five years of production, is 4.5 meters of 33.27 g/t gold, 1105 g/t silver, 2.53% copper, 5.88% lead and 7.53% zinc.

**Q** Those are indeed great grades but let's come to the production. GORO intends to start producing Gold by the end of 2009, following the production decision early 2007. What production numbers do you expect in the following years and over what mine life?

**A** We are targeting 70,000 ounces of gold our first year of production. Initially we will be floating the gold and silver ore and selling concentrates as this can be accomplished quicker.

We will then make a switch and produce dore bullion for sale when that circuit of the plant is complete. In the second year we are targeting 120,000 ounces of precious metal gold equivalent production building up to approximately 200,000 ounces of precious metal gold equivalent production in the third year. This production will be flotation concentrates where the base metal values pay for the cash operating costs.

**Q** Makes sense to me and should enable an early cashflow. You have significant silver and base metals credits. Do you have an estimates for the average cash costs and cashflow for 2010 and 2011, assuming that you achieve those numbers above?

**A** We try to make it very simple. After year one, the base metal revenues pay for all cash operating costs so our cash flow would equal the gold price times the gold equivalent production. You have to insert what you think the gold price will be.

**Q** That looks like a cash machine to me that will enable the company to fund any further expenditures from cashflow, right?

**A** Yes. Our business plan is to build the company with cash flow, not continued equity sales. And, we are targeting 1/3 of the cash flow to be distributed back to the owners of the company in the form of dividends.

**Q** Sounds very good and for investors with a more conservative



approach the dividend will be a good buying argument.

**A** There are no guarantees but that is our business plan and with management being one of the largest shareholders we certainly have the desire to pay that potential dividend. This is the difference between "owner" management and "care-taker" management. Care-taker management would never consider paying that much back to the owners of the company.

**?** Currently the mine is being built. How much will you have spent at the end and will you need a further share placement to finance it?

**A** We are very pleased that we will have built the mill and infrastructure for approximately \$30 million. And, pursuant to our approach to the mining business we expect this to be paid back in less than one year. I cannot comment one way or the other if we will need additional funding at some point. Because of our agreement with Hochschild they will have first right to any additional funding. They presently own 24% of Gold Resource.

**?** You spent the money very wisely and with a minimum of dilution. But let's stay with Hochschild for a second because this is a well know mining conglomerate in Peru. How did you get together and what do you expect from them in the long run?

**A** We decided for several rea-

sons about a year ago to look for a strategic alliance partner. Hochschild fit the bill and were willing to move forward with us as shareholders. We are very pleased with Hochschild. They have been very supportive, have assisted us in many ways and we like them. They are expert underground vein miners and we have had a good dialog on how to proceed with several aspects of our underground mine design and development program. They are a 24% shareholder and we hope they buy in the market to become a 40% shareholder.

**?** Mr. Reid, we are close to the end. Above we mentioned that you have other projects in Oaxaca. Can you give us a short summary and what potential they might offer?

**A** We have five properties in Oaxaca that all have high-grade potential and can be trucked to the mill we are building. Our El Rey property for instance is about 50 miles away but we have drilled a gold vein that is running about an ounce per tonne. Two of our best holes assayed 1 meter of 132 g/t gold or about 4.26 ounces per tonne and another with 5 meters of 45.2 g/t gold or 1.45 ounces per tonne. This concept of multiple mines feeding a strategically located mill is a concept that we have successfully applied before. We see it working very well in Oaxaca.

**?** Are you looking for other projects in Mexico and if yes, in which states ?

**A** I have learned from my years of experience that to be successful you must stay focused. We are at present focused on our El Aguila Project. I also know that the cash flow from one mine is the catalyst to find and build the next. So there will be the time very soon that we will move forward to find our next mine. And, we like Mexico and its potential is great.

**?** Finally, what are your thoughts about the general economic developments in the coming years and about the gold prices?

**A** Well, I believe everyone should have an exposure to gold and quality gold mining stocks. As world governments, and specifically the U.S., print more and more of their fiat paper money that paper will become worth less and less. Gold will become more valuable in paper currency terms as this happens. The U.S. is printing money at a rate unheard of in its history. If all it took was for a country to put ink on paper, call it money and print more and more of it to become prosperous, then every country in the world would be prosperous. Let me put it another way, I am glad to be in the gold mining business.

Gold Resource Corp.		
<b>Quote</b>	7.94 USD	OTC BB
<b>Quote</b>	5.01 EUR	Frankfurt
<b>MaCap</b>	326.3 Mio. USD	
<b>WKN</b>	A0L CTL	Frankfurt
<b>ISIN</b>	US38068T1051	
<b>Symbol</b>	GORO	OTC BB
<b>Symbol</b>	GIH	Frankfurt
<b>Website</b>	www.goldresourcecorp.com	