

GSA-Top10™

The version of *Gold Stock Analyst* newsletter for Individual Investors
 Focused on the GSA Top 10 Stocks • October 15, 2010

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The Real Interest Rate

New investors interested in Gold always fear buying at the top. The negative comments by the know-nothing “talking heads” don’t help. (If they’re such Gold “experts”, where were their “buys” at \$300/oz?). GSA has proven we can make money in any Gold market by focusing on those miners undervalued vs their peers, based on the Market Cap/oz metrics we use.

But the “newbies” often want the comfort of a single indicator to forecast Gold’s future before they climb on board. Our work says the “Real Interest Rate” is best forecaster. This is the risk-free return on money, adjusted for inflation. We find it by subtracting the CPI from the 3 month Treasury yield. When the result is positive, Gold is flat (middle area in chart below).

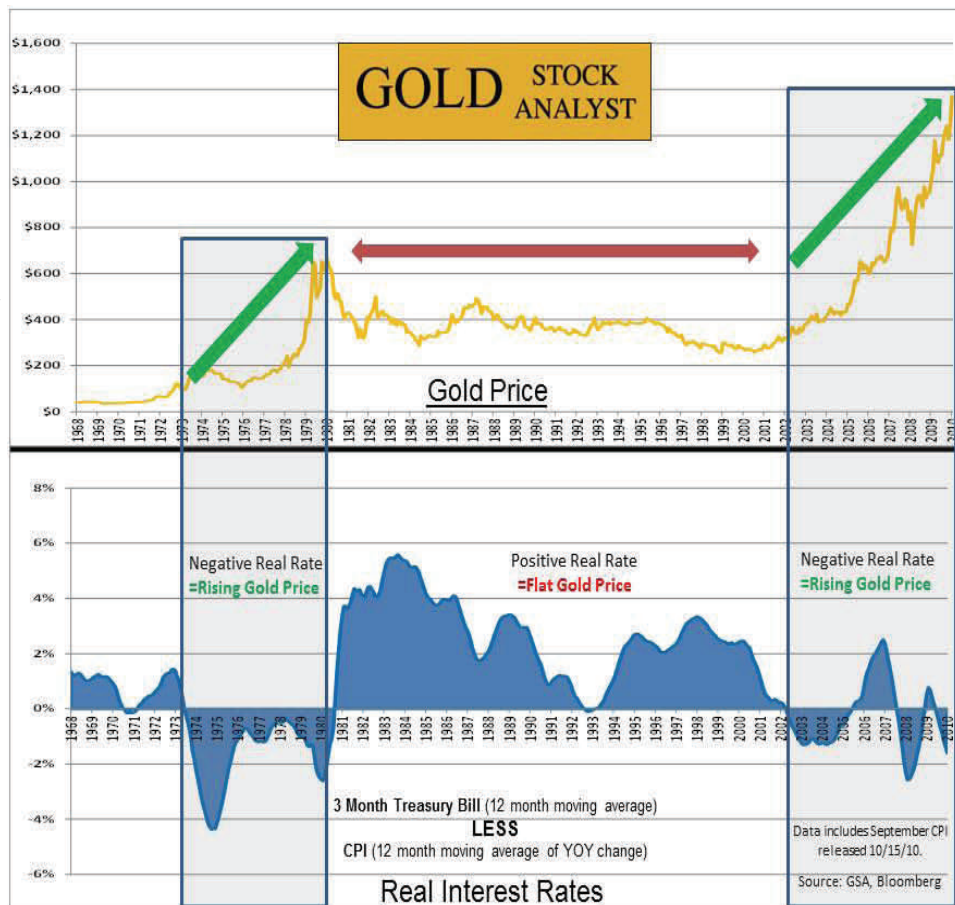
When the result is negative, as the 1970s and 2000s boxes show, Gold price soars. This is because money loses purchasing power in a negative real rate environment and investors seek the protection of “hard assets”.

At the current +1.1% CPI and a typical 0.1% money market yield, \$100 at the start of the year will have only \$99 purchasing power at the end.

We see a negative real rate condition for the next several years as the Fed will be unable to raise interest rates due to the high US unemployment rate.

And even when Fed begins raising rates, if it lags the CPI increases as it did in the 1970s, Gold will still move higher.

Since the talking heads won’t tell you about real interest rates, GSA will keep you informed.



No order of preference

GSA-Top 10 Stocks

10/14/2010

STOCK	US Trading Symbol	US\$ Target ST / LT (6+ Mth / 2+ Yr)	Price 1/2/10 US\$	Price 10/14/10 US\$	Ytd 2010 Vs. 1/2/10 Open
Golden Queen	GQMNF	Reached / \$3.00	\$0.91	\$2.15	136.3%
Goldcorp	GG	\$62.00	\$39.45	\$45.01	14.1%
Minefinders	MFN	\$15 / \$21	\$10.41	\$9.43	-9.4%
Royal Gold	RGLD	\$61 / \$84	\$47.28	\$50.31	6.4%
Silver Wheaton	SLW	Reached / \$40	\$15.09	\$27.84	84.5%
European Gold	EGFDF	Reached / \$17	\$5.76	\$12.33	114.1%
Golden Star	GSS	\$6.25	\$3.10	\$5.28	70.3%
Yamana	AUY	\$13.50 / \$20	\$11.42	\$11.61	1.7%
Gold Resource	GORO	\$36.00	Added @ \$20.65	\$23.35	12.7%
Cash 10%	CASH				—
		Open: 1/2/10 or when added '10	Price when Dropped	Change in 2010 vs dropped price	
Sold from Top in 2010					
Northgate	Sld 10/4/10	3.07	2.90	-0.17	-5.5%
Terrane	Sld 7/15/10	1.28	1.30	0.02	1.6%
		Year to Date	GSA TOP 10:		39.0%
		S&P 500 Index	1115.10	1173.81	5.3%
		XAU Index	168.25	208.36	23.8%
		Gold (Lndn PM)	1096.95	1379.60	25.8%

Add/Drop price used: GSA moves markets, as subscribers know from October's sale of Northgate and buy of Gold Resources. To track performance and be fair to all, we will now use the Volume Weighted Average Price (VWAP) from Bloomberg for the first full day of trading after we've posted the issue that contained the change to our website. For the October issue, the first full trading day was Oct. 4 and the VWAP's were \$20.65 to buy GORO and \$2.90 to sell NXG.

TOP 10 CRITERIA: Undervalued based on current/expected output/reserves and special situations; GSA sees potential to double within the next 2-3 years based on existing projects, without an increase in gold price.

Past performance is no guaranty of future results.

TARGET PRICE TIMING, Short Term (ST) vs Long Term (LT): It's often harder to predict timing than the ultimate target price (especially as unpredictable Gold price has a role in a stock's price action). But, at times something can be identified that should cause Mr Market to bid a stock higher to a ST level, on its way to our LT target. These events could be a permit issues, good drill results, production start, etc. When we expect an occurrence will boost a stock to a ST target, we'll suggest the target and explain how it was derived in the Company's report, or in our Top 10 Comments in Issues and Updates. If our target price is based on Mr Market discovering the value we've found, there's no way to forecast the timing. So while the target could be achieved in the ST, by necessity we have to leave the timing undefined and there's only the one target price.

INVESTING SUGGESTIONS: GSA seeks and identifies undervalued stocks. But this often means we must wait for Mr Market to find the value we've already discovered. Subscribers always want to know "What are the best 1 or 2 to buy now?" That's a question we can't answer as we never know when the Market will recognize value, and why there's a Top 10, not a Top 1 or 2. Buying most, or all, of the Top 10 increases the chances that one in your portfolio will soon "blast off".

RECOMMENDED TRADING RULES:

(All Top 10 are buys, but see #5 below. We will tell you very clearly when to Sell.)

1. **Never, never, never buy just one gold stock.** With \$7 to \$10 internet transactions, we assume subscribers own all Top 10. (Use any on-line broker such as Fidelity, Scottsdale, E-Trade, TD Ameritrade)
2. Scale-in; buy initial amount that allows doubling-up if price drops. Be patient. It can take time for Mr Market to recognize value, but GSA's track record proves he does.
3. Use a mental stop-loss 20% below recent average high to consider if the loss is just trading "noise", or a fundamental change.
4. If a stock has had a good move, take initial investment "off the table" and let profits run.
5. If stock is within 20% of LT Target, wait for pullback before buying or for GSA to raise Target Price.
6. At least once a year, rebalance your portfolio to more equal dollar weighting; prune the big winners, add more to the laggards.

GSA-Top 10 Data

COMPANY	Price 10/14/10 US\$	Div US\$	Shares (mil)	Mkt Cap (\$ mil)	P+P Resrvs (mil oz)	Mkt Cap ÷ Oz P+P	2010 Fest K/oz	2010 Cash @ Cost	2010 Mkt Cap ÷ Fest	2010 Fest OCF \$1380	2010 Mkt ÷ OCF=
European Gold	\$12.33	—	182.3	\$2,248	9.13	\$246	NP @ —	—	—	—	—
Goldcorp	\$45.01	US\$0.18	736.0	\$33,127	53.44	\$620	2,550 @ \$306	\$12,991	\$2,739	12.1X	
Golden Queen	\$2.15	—	94.1	\$202	1.05	\$193	NP @ —	—	—	—	
Golden Star	\$5.28	—	258.1	\$1,363	3.73	\$365	385 @ \$700	\$3,540	\$262	5.2X	
Minefinders	\$9.43	—	65.8	\$620	4.55	\$136	70 @ \$725	\$8,864	\$46	13.5X	
Yamana	\$11.61	US\$0.08	741.0	\$8,603	19.42	\$443	1,100 @ \$100	\$7,821	\$1,408	6.1X	
Gold Resource	\$23.35	US\$0.09	53.0	\$1,238	No P+P	—	70 @ \$200	\$17,679	\$83	15.0X	
Cash	10%	—	—	—	—	—	—	—	—	—	
Industry Totals & Weighted Avgs 9/28/10	—	—	—	\$288 bil	852.4	\$338/oz	41.5 mil @ \$499	\$6946/oz	\$38.3 bil	7.5X	
Royalty Earners:											
Royal Gold	\$50.31	US\$0.36	55.0	\$2,767	—	—	—	—	—	\$137	20.2X
Silver Wheaton	\$27.84	—	343.9	\$9,574	—	—	—	—	—	\$317	30.2X

GSA-TOP 10 is the version of Gold Stock Analyst designed for Individual Investors, and focuses solely on the Top 10 stocks recommended by GSA-Pro, the Professional Investor version of Gold Stock Analyst.

GSA-Top10 is web-posted the 15th of the month, or the first business day after. Subscribers are sent a notice we have posted to the website, <http://www.GoldStockAnalyst.com>; they then log-in using their self-determined password to access current & past Monthly Issues. Any time there is a change in the Top 10 or important news, subscribers are sent a Special Alert.

GSA's 20 page User Guide is helpful in understanding our analysis methods, techniques, and abbreviations; it's posted on our website: <http://www.GoldStockAnalyst.com>.

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COMPANIES DO NOT PAY FOR COVERAGE. Selection for coverage is entirely determined by GSA's staff and based in part on: 1) Stock trades in North America; 2) Current gold production and/or a published independent feasibility study showing a deposit to be economic; 3) Current or potential 100K+ oz/yr production. All rights reserved and protected (© 1994-2010) under US Copyright Law. Reproduction of any portion is not permitted without specific permission.

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Top 10 at Denver Gold Forum - Sept 19-22, 2010

Below are GSA's comments on the 8 presentations by GSA Top 10. Follow links for video & slide show. Go here to print slides: <http://www.gowebcasting.com/conferences/2010/09/20/denver-gold-forum/day/1>

Not attending was Golden Queen. Gold Resources had a table in the Emerging Producers session.

Minefinders: Presentation and exciting potl at La Virginia expl property was overshadowed by 9/28 announcement that repairs to the torn liner in Phase 1 leach pad will not be complete until mid-4Q10. Ore from the 45% of pad that's affected is being moved to the Phase 2 pad already being loaded. While no oz are lost, we're cutting our 2010 fcst to 70K Au Eqv oz at an increased \$725 cash/oz. With higher grades on Phase 2 pad, we see 135K at \$500 cash/oz for 2011. MFN is likely "dead money" until repairs complete, but we don't expect much on-going price weakness due to Co's ~4.5 mil P+P.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/20/minefinders-corporation-ltd/play/stream/855>

European Goldfields: Focused on imminent issue of constr permits at 3 mine sites with total 10 mil oz P+P. At Certej, where will prod 160K oz/yr from \$190 mil capex, there's project debt for \$135 mil and additional \$40 mil grants expected. The Greece permit will blanket-cover mining on all its 317 sqkm property, incl 2 props seen as look-alikes to Olympias and Skouries. At the latter, Co expects a term sheet soon for \$300+ mil debt. Skouries' economics have not been updated to the Market since feasib done years ago at \$450 Au/\$1.10 Cu. *At current prices, the project will cash flow \$550 mil/yr and it alone has a \$3.2 bil NAV (at 5% discount rate) vs EGU's total Mkt Cap of \$2.0 bil.* Mngt has been buying shrs in Mkt around \$10 and thinks once permits issue, takeover bids will come.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/21/european-goldfields/play/stream/881>

Northgate: Discussed expl success at three of it's mines: Young-Davidson's recently discovered West zone, to the west of the fault previously thought to close off Y-D mnrliz; recent hole returned the property's best ever, 262' of 0.11 oz/t. At Stawell, Co found the faulted offset of an area that prior-produced 2 mil oz Au, called "Northgate Gift." At Kemess-North, drilling continues to confirm hi-grades with potl 100K oz/yr and 50 mil lbs/yr Cu. With an existing Mill and enough tailings storage in K-South pit, Co thinks an Asian smelter would pay the ~\$200 mil development capex to get the Copper.

9/29 NXG said will issue \$150 mil convert bonds instead of project debt for Y-D due banks' requiring hedging. The bonds convert at \$4.08 for 12% dilution and pay 3.5% coupon. **NXG is dropped from**

Top 10; more on Page 5

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/21/northgate-minerals-corporation/play/stream/1082>

Silver Wheaton: Focused on its spectacular growth to today's \$9+ bil Mkt Cap, dwarfing Royal Gold and Franco NV (combined!) and Coeur + Hecla + Pan Am + Silver Std combined! While SLW has done \$1.6 bil in financings to generate its growth to 40 mil oz in 2013, the Market has rewarded Co with almost 5X greater share appreciation. As we have been pointing out, there is no better way to play Silver.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/21/silver-wheaton/play/stream/893>

Royal Gold: Discussed how 2010 is transformational year, spending \$1.3 bil for: 1) Andacollo now generating ~40K Au oz/yr at ZERO cost (\$52 mil/yr, ~\$1/shr at \$1,300 Au. 2) Internatl Royalty, potl \$30 mil/yr if Ni returns to \$15 and strike settles. 3) Pasqua-Lama, 5.23% NSR on 80% of Au prod, \$41 mil at \$1300 Au in 2013. 4) Mt Milligan, 65K Au oz/yr at \$400 beginning 2013; at \$1300 Au, is ~\$58 mil/yr. The 4 projects total \$181 mil/yr (\$3.29/shr), plus ~30 other producing royals.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/21/royal-gold-inc/play/stream/897>

Golden Star: Focused on opportunities on its 1600 sqkm on Ashanti Trend to incr prod beyond curr ~400K/yr, incl ~45K/yr from tailings reprocess, ~85K/yr at Prestea South, ~50K/yr from Prestea UG.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/21/golden-star-resources-ltd/play/stream>

Yamana: Told how self-financed prod increases from ~1.1 mil oz in '10 to 1.5 mil in '13 and on to 1.7 mil oz/yr. Mr Market apparently liked story as stock has increased to \$11.50. Chair Marrone bot 40K shrs in Market at just under \$10 mid-August.

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/22/yamana-gold-inc/play/stream/1128>

Goldcorp: Waiting for Penasquito! On-track for 130K t/d 1Q11, followed by other projs for 4.0 mil oz in 2014 (incl Andean)

<http://www.gowebcasting.com/events/denver-gold-group/2010/09/22/goldcorp/play/stream/1136>

From October GSA-Pro: Changes in Top 10

Target Price: Silver Wheaton: We've been carrying our royalty estimate for 2013 based on an \$18/oz Silver price. Less the \$4/oz SLW pays miners, the net royalty is \$14/oz. But, Silver's been on a tear and now at \$21+/oz, SLW's margin is up to \$17/oz. On the 40 mil oz that's in the pipeline for 2013, the \$17 margin will earn Co \$680 mil in royalty income. Royalty stocks typically sell on a 20X multiple which yields a \$13.6 bil Market Cap. On SLW's 343 mil shrs outstanding, this translates to \$39.65/shr and we'll round up to a **new target of \$40.00**.

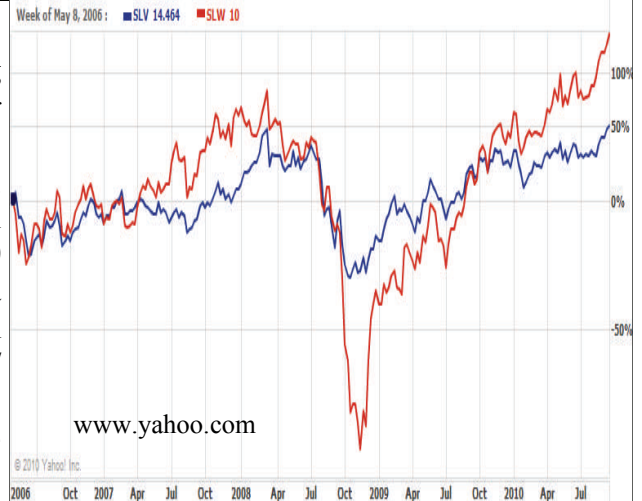
Before 2013 we expect SLW to begin paying a dividend. Not only will this bring new investors (such as pension funds) that cannot own "barren" (non-dividend paying) assets and it will "kill" the ETF. Already far out-performing SLV (see chart), why would anyone own it when SLW begins to yield an income?

Added to Top 10: Gold Resources: Report in GSA-Pro and the rationale for Top 10 now replaced by new report beginning page 8 herein.

Sell: Northgate: We had good profits from late 2008's under \$1.00 to over \$3.00 in 2009. But 2010 has seen NXG price flat, in part due 9/09 sale of 34 mil shrs at C\$2.92 and flat/falling prod until 2012.

We were prepared to ride it out due Co's low valuation, takeover potential (by NGD?), and Mngt saying would finance constr of Young-Davidson mine w/project debt and cash flow.

But Co said 9/29 instead of bank debt, would sell \$135 mil debt that converts \$4.08, just a 20% premium over 9/28 close. It was the straw that broke our back, so we said **Sell!** Later Co increased deal size twice to final \$170 mil (and 41.7 mil shrs). The strong demand verified that was a great deal for bond buyers, and thus lousy for shareholders.



Quantitative Easing II

Seems baked in the cake soon after Nov 2 elections in US (Fed next meets Nov 3). Only question is the amount, with estimates ranging from \$500 bil to \$1.5 trillion. Commentators question the wisdom of such a move given the already low US interest rates and huge excess bank reserves. How could a few tenths lower interest rate stimulate borrowing by those unwilling to do so at current rates, they wonder?

They miss the point! QE2 will be Bernanke finally flying the helicopter to scare business and consumers into buying today to avoid tomorrow's higher prices due to inflation from increased use of "the printing press."

From page 5 of Bernanke's 11/21/02 speech: "By increasing the number of US dollars in circulation... the US government can also reduce the value of a dollar in terms of goods and services, which is the equivalent to raising the prices in dollars of those goods and services ...under a paper money system, a determined government can always generate higher spending and hence positive inflation."

Read the full speech here: <http://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021121/default.htm>



Golden Queen

BB: **GQMN**F

DIV —

RECENT **2.15**

ASSETS	6/30/10	
Cash+Eqvs	\$	8.4
Other		0.4
P,P&E		0.2
TOTAL		9.0
LIABS		
Current		-
LT Debt		-
Other		0.2
EQTY: Com	8.8	
# Shrs Com		94.1 mil
# Shrs F Dil		99.8 mil
Prod	Au Oz	Ag Oz
No production likely before 2013		



Golden Queen owns the now fully permitted Soledad Mountain project in the Mojave Desert northeast of Los Angeles. Co now works on updating its 2007 feasib study as prelude to financing development.

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Soledad Mtn Project

Mountain top

Mining will be by a series of Open Pits, 1-5 on diagram, where the stripping of next will backfill the last to comply with CA's backfill law. Processing is via Heap Leach with High Pressure Grinding used as the final crushing stage to ready the ore for cyanide fluids.

SITE	Loc	Own	AuP+P	AgP+P	AuOthr	AgOthr	Notes: P+P at \$600/oz Au, \$8.00/oz Ag
Soledad	CA	100%	1.05 mil	19 mil	1.62 mil	29 mil	•Plans 14K t/day OP-HL running 24/7 for 350 days/yr for 11+ years

Soledad Mountain: Mined in 1930s and repermited in 1990s but never developed due \$300/oz gold price then. With Gold's uptick in early 2000s, Co spent last 6 years overcoming CA's backfill law, redoing Environmental Impact Study, and got site repermited mid-2010.

Co now updates Dec-07 feasib study as prelude to raising money to build or establish site's current value to sell. With approx 50% held by Clay family, Sprott, and hedge funds, GSA thinks a sale most likely. Gammon holds 7.5 mil shrs/wts (7.5%) from mid-10 purchase, and New Gold's nearby Mesquite mine could run Soledad w/same management. We're holding for an offer above \$3.00. **GSA Top 10.**

What's Golden Queen Worth?

Thanks to a Bank of Montreal Study released April-10 we have historical benchmarks for how other miners value the ounces of an acquisition target, as a percentage of Spot Gold and the development stage of the project, at the time the bid was announced (see box).

Gammon's acquis of Capital Gold, announced Oct 1, 2010 is a good size comparison to Soledad, except that Capital's producing mine, El Chanate, is in Sonora Mexico, 50 miles from US/Mex border and amidst the drug wars. While we know of no incidents, it may account for the lower price than the BMO study would suggest (and the resulting stockholder lawsuits). GSA calculates Gammon is paying 60% of Spot vs the normal 98% of Spot for a producing miner found in the BMO study.

Fortunately GQM is in California. We examine two scenarios: First, we look at the existing Dec-07 feasib study using the study's average 64% of Spot (\$1,350) paid for feasib stage sites and 75% recovery seen from conventional crushing before leaching. This yields a target price of \$3.33/share.

Second, GQM is now updating the Dec-07 study (due Nov 1). We're guessing P+P will increase 20% due signif higher Au/Ag prices and we're told Co plans using High Pressure Grinding (HPG) as it adds 10% to recoveries. While used w/SAG mills, HPG is unproven for Heap Leaching. This second scenario sees a \$4.85 target, but we think a buyer is unlikely give credit for higher recovery until it's been proven.

Until the updated feasib study is issued, we'll stay with our \$3.00 target.

BMO 2009 Study of average adjusted price paid/oz in acquis of a Gold site or miner:
In Production: 98% of spot
In Construction: 84% of spot
Feasib Complete: 64% spot

	GRS Bid for Capital Gold	GQM: On Dec-07 Feasib (\$600 Au, \$8.00 Ag)	New GQM Feasib, Oct-10? (\$1,000 Au, \$16.00 Ag?)
P+P Reserves	1.50 mil oz	1.05 mil oz	If P+P up 20%: 1.26 mil oz
Total Mnrliz oz	1.73 mil	2.67 mil oz	
Shares out; fully diluted	64.4 mil	99.8	99.8 mil
Spot Gold Price	\$1,307/oz (9/30/10; b/4 purch announced)	\$1,350/oz	\$1,350/oz
% Spot Paid, based on deal terms	60% = \$780/oz (60% backed into from \$4.57/shr deal price)	Feasib+Permits, not financed = 64% of spot = \$864/oz	64% X \$1,350 = \$864
Life of Mine Cash/oz	\$455 (incl 4% NSR)	\$320/oz (net 75K/yr Ag by-prod at \$16/oz)	\$320/oz
Avail to pay/Recov oz	\$780- \$455 = \$325/oz	\$864 - \$320 = \$544/oz	\$864 - \$320 = \$544/oz
Est P+P Recovered:	55% = 0.83 mil	75% x 1.05mil = 0.79 mil (conventional grinding)	85% x 1.26 mil = 1.07 mil (high pressure grinding)
Total Bid Value	\$270 mil (\$325 x .83)	\$430 mil (0.79 x \$544)	\$582 mil (1.07 x \$544)
- mine constr capex	—	-\$58 mil	-\$58 mil
- on-going capex \$50/ per recovered oz	-\$41 mil	-\$45 mil	-\$45 mil
Bal Sheet adjusts	+\$46 mil for new sites 8/10 +\$9 mil cash +\$10 mil opts/wts exer	+\$6 mil opts/wts exer	+\$6 mil opts/wts exer
Adjusted Bid Total:	\$294 mil	\$430 - \$58 - \$45 +6 = \$333 mil	\$582 - \$58 - \$45 +\$6 = \$485 mil
Divide by total shrs = Target Price	\$294 ÷ 64.4 mil = \$4.57 (Actual deal price)	÷ 100 mil shrs = \$3.33	÷ 100 mil shrs = \$4.85

Gold Resource AMEX: GORO DIV \$0.03/mon RECENT 23.35

ASSETS	6/30/10
Cash	\$ 61.0(2)
AR+Invntry	3.0
Other	11.9
Net PP&E	2.2
TOTAL	78.1(2)
LIABS	
Curr Liabs	1.7
Curr LTD	-
LT Debt	-
Other	2.1
EQTY:	74.4(2)
# Shrs Com	53.0 mil(2)
# Shrs F Dil	56.8 mil(1)



Prod	AuEqv Oz	Cash/Oz
Tot 09	Commercial Production Began 7/1/10	
1Q10		
2Q10		
3Q10		
4Q10		
Tot 10		

FIN NOTES: (1) incl 3.8 mil opts at ~\$2.49 (2) incl 3.5 mil shrs pvt placement 9/10 at \$16 for \$55.6 mil. 9/30/10: Hochschildowned 14.6 mil shrs, Tocqueville Asset Mngt 4.9 mil shrs.

Gold Resource has multiple high grade properties in southern Mexico and a unique business philosophy. Co plans to return roughly 1/3 of cash flow to investors, pay 1/3 in taxes and keep remaining 1/3 for expenses and fund growth. Co has paid 3¢ for each of last three months.

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SITE	Loc	Ownd	Facility	AuEst	AgEst	Fcst10	Fcst11	Fcst12	Fcst13	Notes: *Au Eqv calc at 65Ag = 1Au
El Aguila: Open Pit	Mex	100%	Mill	80K	1 mil	35K	35K	—	—	•El Aguila is OP portion of deposit & Mill name
La Arista: UndrGrnd				619K	48 mil	—	55K	155K	200K	•La Arista is UG portion of deposit
Total			Au Eqv	*1.36 mil		35K*	90K*	155K*	200K*	
Cash Flow at \$ 1,200 Au						\$42mil	\$108mil	\$186mil	\$240mil	•By-prods=\$0 cash/oz
1/3 Cash Flow For Dividends						\$14mil	\$36mil	\$61mil	\$80mil	
Div on 53 mil shrs						\$0.26	\$0.68	\$1.15	\$1.51	

Othr sites

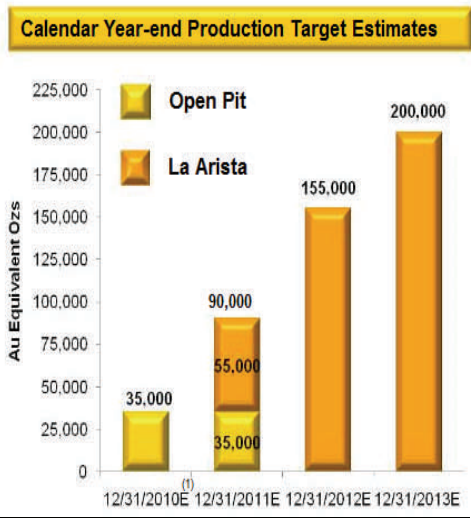
- Las Margar • 5 former mined sites on trend with El Aguila
- El Rey • 40 miles to El Aguila mill; multiple 1+ oz/t drill intercepts = potl shallow UG mine; drilling end-10

MINES: GORO has 100% interest 3 adjoining districts with 16 km mnrlized corridor with multiple UG zones mined by locals in past. (see graphic lower right)

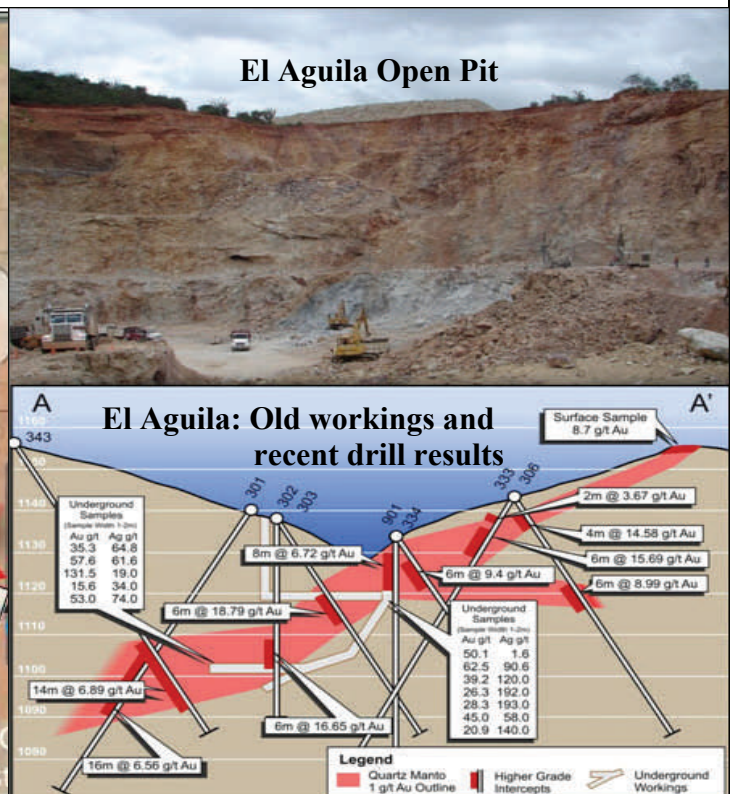
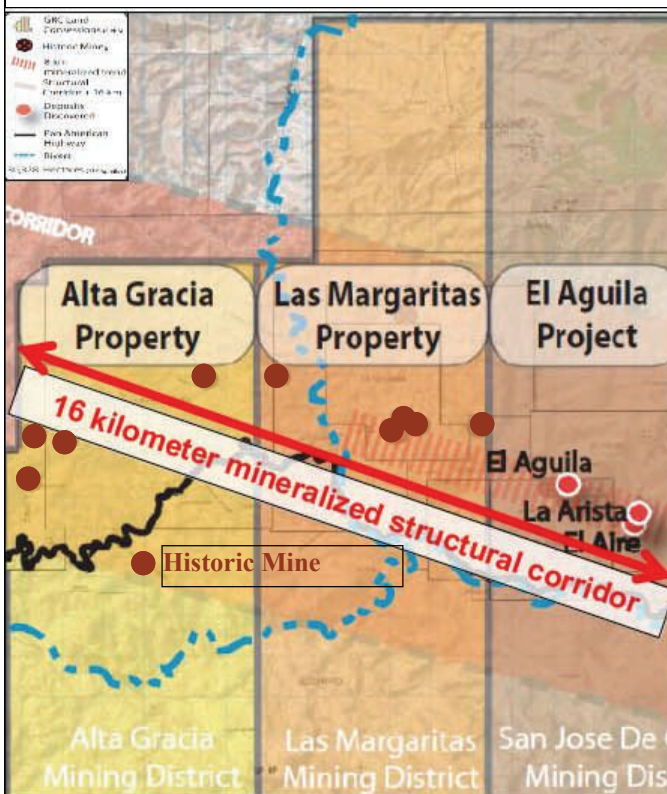
EL AGULIA: Co's initial Open Pit (see lower right picture and graphic). Mine producing Gold and Silver at ~3K/month Au Eqv from Co's 800 t/day Mill that expands to 1,200 t/day in mid-2011 as Underground production is forecast beginning from La Arista mine.

Formerly mined by locals via small US ramps and adits, Co turns workings into OP to capture all the economic ore and use the barren waste to build dam for Mill tailings. Co ests 70K oz prod in 12 months thru mid-11 from 300K tonnes grading 0.24 oz Au and 2.0 oz Ag/ton at ~\$200 cash/oz.

Much of pit's ore has now been mined and stockpiled to feed Mill while prod transitions to La Arista mine 2 km away.



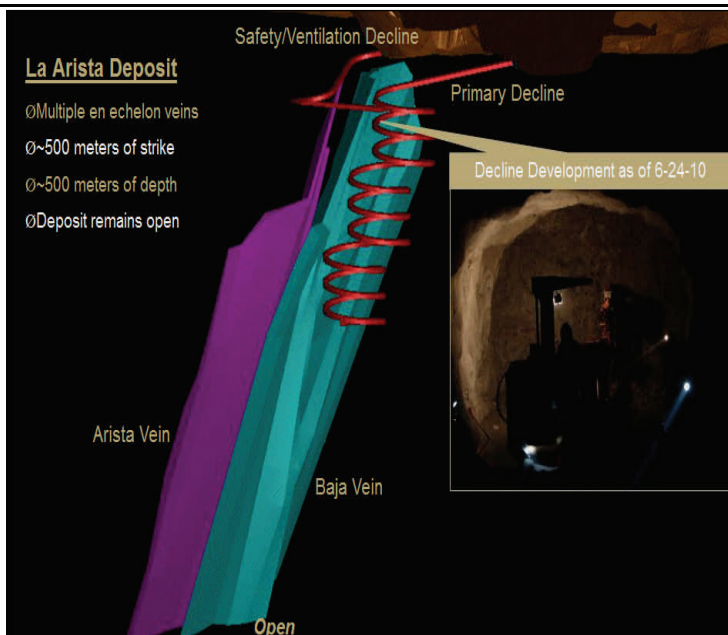
LA ARISTA: Dual parallel veins, Arista and Baja. Co now ramping into and will ultimately mine both to the 500 meter depth mnrliz has been identified to date by drilling; further expl to 1,000 meters planned.



La Arista’s mnrliz is defined by much of Co’s 240,000’ of drilling to date. This work sees 3.0 mil tonnes of polymetallic ore grading 0.21 oz Au + 16.2 oz Ag/ton for a rich 0.46 Au Eqv oz/ton at a 65-1 ratio.

The mine’s by-prods of Cu/Pb/Zn generate a gross revenues of \$243.80/ton at current prices (before recovery losses and smelting charges) to support Co’s fest of producing AuEqv oz at \$0.00 cash/oz. See table.

	Grade	Lbs/tonne	Price	Total
Copper	0.60%	13.2	\$3.50	\$46.20
Lead	2.24%	49.3	\$1.00	\$49.30
Zinc	6.75%	148.5	\$1.00	\$148.30
Total By-prod revs/tonne				\$243.80



Mining will be by simple corkscrew ramp UG (see graphic) with horizontal adits/stope offshoots for production. Given the rich ore, hauling 1,200 t/day ore to feed Mill should present no problem in meeting Co’s 200K oz/yr goal for 2013. Unknown are the ground conditions, but if more difficult than forecast the ore’s rich grade allows for extra support expense.

ANALYSIS: GSA normally wouldn’t cover GORO due no independent feasibility study. But, knowing Reid family’s mine building history (Dee, Victor/Cripple Creek, Hayden Hill, etc) we accept explanation that feasib study takes several years, costs much, and after 240K’ of drilling, would simply prove the obvious: El Aguila is economic. And now Co is in production due help and \$65 mil from Hochschild (owning ~27%, HOC is London-traded w/\$2.4 bil mkt cap, has 5 UG Au/Ag mines in So Amer) and Tocqueville Asset Mngt (~8%). Co declared comm’l prod 7/1/10 and currently produces at ~3K Au Eqv oz/month rate from the Open Pit.

The big question to GSA and Mr Mkt is “Can GORO meets its plans?” The answer depends on having enough ore to feed the Mill and justify the on-going dividend payments. Co ests 3 mil tonnes of mnrliz, which is 6+ years of Mill feed at curr 440K t/yr rate, w/signif exploration upside. But this is an internal estimate not yet confirmed by a “competent person” 43-101 mnrliz estimate (due mid-11). Until then, we’ll rely on HOC’s multiple cash injections as verification of Mngt’s estimates.

Sept’s \$56 mil share sale will fund: 1) \$12 mil drilling and increasing the drill rigs on site from 2 to 4. A portion of the drill dollars will support a 43-101 mnrliz statement by mid-2011 and enable Co to get more Canadian shareholders, research coverage, and perhaps a Toronto stock listing. 2) \$30 mil will expand Mill from 1,200 t/day to 1,800 t/day and Co says increase prod to 300K Au Eqv oz/yr in 2014.

With current by-prod prices yielding Au Eqv oz at a \$0 net cash cost/oz, Co plans to dividend out 1/3 cash flow and has made 3 monthly payments of \$0.03, which calcs to annual \$0.36/shr. On Co’s 2011 production fest and \$1,200 Au, 1/3 of cash flow calcs to div of \$0.68. Dividend paying Gold stocks typically trade at prices that yield 0.5% to 1.0%. But, given Co’s “newness” and current total mnrliz uncertainty, GSA believes Co will trade at 2% to 3% yield; our est \$0.68 div (see Page 9 table) in ‘11 calcs to a stock price of \$23 to \$34; on an estimated \$1.15 div in 2012, GORO would range between \$38 and \$57.

There’s more uncertainty than we like, especially as Co has called each dividend “special” as production has just begun and 3¢/month is not a formal policy. Nonetheless, we’re comfortable with the long term goal of dividending out 1/3 of cash flow, which if all goes to plan would see a \$1.51 dividend in 2013.

GORO is **GSA Top 10 w/initial target of \$36** based on our estimated high price for 2011 and the low end of the range we see for 2012.