Trickle Research

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Initiating Research Coverage

GOLD RESOURCE CORPORATION
NYSE American: GORO

Report Date: 07/30/18

12- 24 month Price Target: $8.85

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 07/27/18): $6.49

Gold Resource Corporation

(NYSE American Stock Symbol - GORO)

http://www.goldresourcecorp.com

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

Company History and Overview

Gold Resource Corporation ("GORO") is a gold and silver producer targeting projects that feature low operating costs and high returns on capital. The Company's primary focus is on cash flow, with a priority to return meaningful dividends back to the owners of the Company, its shareholders. The Company has two mining units located in mining friendly jurisdictions of North America. The "Oaxaca Mining Unit" consists of 100% interest in 6 potential high-grade gold and silver properties in the southern state of Oaxaca, Mexico. The "Nevada Mining Unit" consists of 100% interest in four, potential high-grade gold properties in the Walker Lane Mineral Belt in western Nevada, U.S.A.

GORO commenced commercial production in July 2010, via a shallow and small high grade open pit on the project they refer to as "Aguila". They were able to parlay that production into profitability quickly, as their first profitable quarter came in Q1 F2011 (ended March 31, 2011). During that same quarter, the Company initiated production from its underground polymetallic Arista mine. They have produced from both since that time although most of the focus has been underground. Since its first full year of production (2011), GORO has been profitable each year through fiscal 2017, and has distributed consecutive monthly dividends now totaling over $111 million since commercial production started in 2010. While the Company has done an admirable job of maintaining profitability even through some difficult gold markets (we will provide some color on that below), they have also found it difficult to grow production and by extension the underlying valuation of the shares. We will address that below as well.

In our view, some of the Company's inability to grow production has been by design. Succinctly, they are committed in their desire to distribute dividends and they are generally averse to adding debt to the balance sheet or dilution to the share count(s). Obviously, that combination of commitments limits providing required capital for production expansion to (post dividend) organic profit accumulation/retention. However, over the past two-three years, the Company has acquired four properties in Nevada (now collectively referred to as the "Nevada Unit"), which they have been permitting and developing with a goal of getting a portion of the "unit" into production in 2019. Here again, we will provide further color on those plans below, but, from a valuation perspective, we think this represents a growth component that has been absent from the story for some time, and in our view will provide the basis for higher intrinsic valuations in the underlying stock price. While the addition of this production is the basis of our thesis here, we also think there are other elements to the story that may help drive better valuations as well. Those elements are largely (but not solely) predicated on higher metals prices, which we cover in the Industry Overview below.

While we submit, there are some pieces that need to come together for our price targets to come to fruition, we also think the stock may be undervalued at current levels, if overall metals prices are able to average approximate recent levels going forward. That is another way of saying we think the risk/return profile of GORO shares even at current levels are quite attractive.

Project Overview

The map blow provides a good illustration of the properties/projects that they refer to as the *"Oaxaca Mining Unit".*

https://www.livescience.com/43220-subduction-zone-definition.html

Regarding sovereignty, the Company's filings include the following narrative regarding Mexican mining law that is germane to this overview. We would refer you to their filings for additional color on this issue.

Mineral rights in Mexico belong to the Mexican federal government and are administered pursuant to Article 27 of the Mexican Constitution. All of our mining concessions are exploitation concessions, which may be granted or transferred to Mexican citizens and corporations. Our leases or concessions are held by our Mexican subsidiary. Exploitation concessions have a term of 50 years and can be renewed for another 50 years. Concessions grant us the right to explore and exploit all minerals found in the ground. Maintenance of concessions requires the semi-annual payment of mining duties (due in January and July) and the performance of assessment work, on a calendar year basis, with assessment work reports required to be filed in the month of May for the preceding calendar year. The amount of mining duties and annual assessment are set by regulation, may increase over the life of the concession and include periodic adjustments for inflation. Mining concessions are registered at the Public Registry of Mining in Mexico City and in regional offices in Mexico.

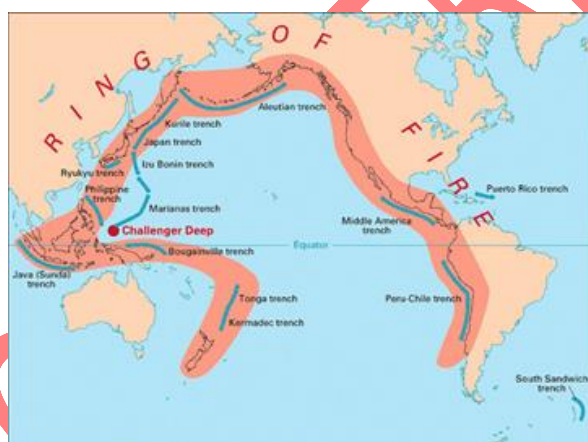
Mexican mining law does not require payment of finder's fees to the government, except for a discovery premium in connection with national mineral reserves, concessions and claims or allotments contracted directly from the Mexican Geological Survey. None of the claims held by DDGM are under such a discovery premium regime.

Surface lands within our Oaxaca Mining Unit are Ejido lands (agrarian cooperative lands granted by the federal government to groups of Campesinos pursuant to Article 27 of the Mexican Constitution *of 1917). Prior to January 1, 1994, Ejidos could not transfer Ejido lands into private ownership. Amendments to Article 27 of the Mexican Constitution in 1994 now allow individual property ownership within Ejidos and allow Ejidos to enter into commercial ventures with individuals or entities, including foreign corporations. We have an agreement with the local San Pedro Totolapam Ejido allowing exploration and exploitation of mineralization at the Aguila Project and some of our surrounding properties.*

Mexican law recognizes mining as a land use generally superior to agriculture. However, the law also recognizes the rights of the Ejidos to compensation in the event mining activity interrupts or discontinues their use of the agricultural lands. Compensation is typically made in the form of a cash payment to the holder of the agricultural rights.

The amount of such compensation is generally related to the perceived value of the agricultural rights as negotiated in the first instance between the Ejidos and the owner of the mineral rights. If the parties are unable to reach agreement on the amount of the compensation, the decision will be referred to the government.

As readers of some of our past resource coverage might recall, we have referenced as a positive attribute, projects that fall within the boundaries of the so-called “Ring of Fire”:



GORO’s Oaxaca Unit falls within a portion of the world called the Pacific Ocean "Subduction Zone” and more specifically, the “Middle America Trench”. To edify, subduction zones are those places where tectonic plates collide, and they are often associated with ore deposition. Further, the infamous “Ring of Fire” hosts many of the world’s volcanoes (thus the moniker) and is the result of tectonic subduction. As an extension, many of the world’s more economic ore bodies are associated with volcanic/magmatic arc rocks and as such the boundaries of the Ring of Fire contain many prolific deposits.

Currently, the Oaxaca Unit consists of the following projects:

- Aguila
- Alta Gracia
- Margaritas
- Chamizo
- Fuego
- Rey

The following narrative provides some brief color on each. As with much of our coverage, a good portion of the overviews below are excerpted from Company filings. Those excerpts are provided verbatim in *italics*.

- **Aguila (Producing)**

The Aguila Project currently comprises 19 mining concessions aggregating 30,215 hectares. The project is in the Sierra Madre del Sur Mountains of southern Mexico in the central part of the State of Oaxaca. The property is located along a major paved highway approximately 120 kilometers southeast of Oaxaca City, the state's capital city. The property is approximately four kilometers due northwest from the village of San Jose de Gracia. We have constructed gravel and paved roads from the village to the mine and processing facility which provides adequate access to the property.

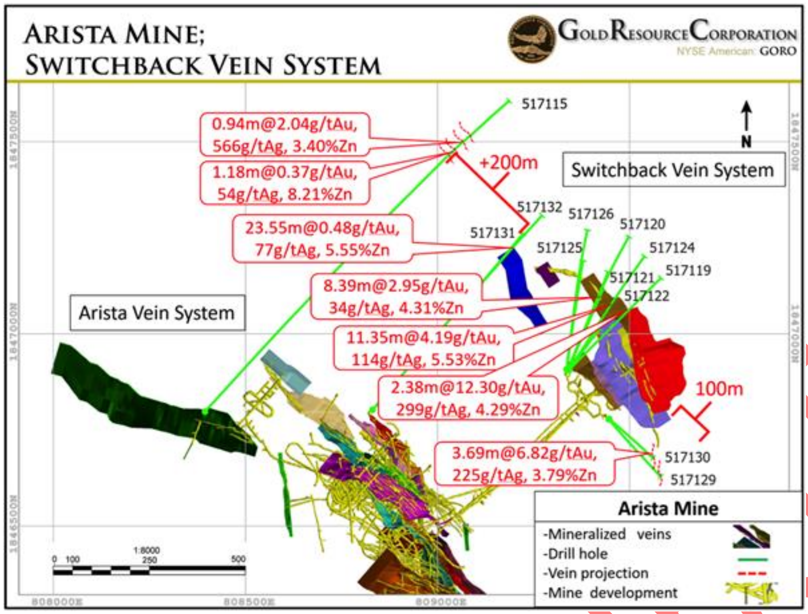
The climate of the Aguila Project area is dry and warm to very warm with most rainfall occurring in June through September and annual precipitation averaging 423.7 mm. The average yearly temperature is 26.6 degrees centigrade. The area is very rocky with arid vegetation. Subsistence farming occurs and the main agricultural crop is agave cactus that is cultivated for the production of mescal.

Multiple volcanic domes of various scales, and probably non-vented intrusive domes, dominate the district geology. These volcanogenic features are imposed on a pre-volcanic basement of sedimentary rocks. Gold and silver mineralization in this district is related to the manifestations of this classic volcanogenic system and is considered epithermal in character.

In 2002, Gold Resource entered into a lease agreement that included what is today their Aguila Project as well as their Margaritas property. Those leases included a 4% NSR. The Company began drilling the property in mid-2003, and as noted above, commenced initial production from a small open pit resource in mid-2010, and underground production in March of the following year. In 2010, the Company acquired some additional concessions that today are part of the Aguila Unit but were not part of the original lease. Through the end of fiscal 2017 the Company has drilled *a total of 907 core holes (both surface and underground) equaling 274,212 meters and 166 reverse circulation holes equaling 14,367 meters for a total of 1,073 holes totaling 288,579 meters*. We will revisit that notion later.

As we noted above, in 2010 GORO commenced production at Aguila initially from the open pit, and shortly thereafter from the Arista underground mine. Since that time, most of the Company's production has come from the underground facilities.

The development and expansion of the Arista Mine has been a primary focus of the Company since 2010 including most of the exploration activities in 2017. As a result of those efforts, the mine now continues to produce from the legacy Arista Vein System but is also expanding production from the Switchback Vein System. As the illustration below suggests, the Switchback development notes considerable cumulative mineral promise. We expect to see continued reporting/narrative from the Company regarding that new system and its respective contributions:



GORO initially constructed the Aguila mill and associate infrastructure in 2009 and expanded the capacity in 2012-2013. As the Company notes, *the flotation mill expansion increased the number of flotation cells, added a second ball mill to allow for additional processing capacity and a Knelson gravity concentrator. In 2014 we completed a doré processing facility. The Aguila processing facility is flexible in its ability to process several types of mineralization. It has a differential flotation section capable of processing polymetallic ore and producing up to three separate concentrate products for sale. The facility also has an agitated leach circuit capable of producing gold and silver doré for sale. Depending on the specific type and characteristics of the ore, the facility can process sulfide material in its flotation circuit at a nominal 1,500 tonnes of ore per day. The agitated leach circuit can process a nominal 300 tonnes per day.*

The above narrative regarding the mill is worth analyzing.

First, recognize that they have provided "flexibility" to the mill with multiple circuits to process the variety of ores they are now producing. As the Company's filings reflect, they currently produce gold and silver, but also fair amounts of base metals (copper, lead and zinc). The Company's production mix (one metal to the other) and the resulting sale prices of those metals individually, is not insignificant, and as such is worth understanding. For example, as the Q1F18 10Q notes, "*Net sales of $32.2 million for the first quarter of 2018 increased by $7.8 million, or 32%, when compared to the same period in 2017. The increase was primarily a result of higher volume and prices for base metals and higher sales prices for gold. For the three months ended March 31, 2018, average realized prices for gold and base metals increased from the same period in 2017 as follows: gold by 10% to $1,342 per ounce, copper by 22% to $7,156 per tonne, lead by 9% to $2,573 per tonne, and zinc by 34% to $3,805 per tonne. During the same period, the average metal price for silver decreased by 4% from 2017 prices".*

Correspondingly, for Q1F18 the Company actually produced slightly lower amounts of both gold and silver than in the comparable period of 2017. Moreover, they *actually sold* significantly fewer ounces of each. Specifically, in 2018 they sold 5,563 ounces of gold versus 7,133 ounces in 2017, and they sold 381,366 ounces of silver versus 420,236 ounces respectively. Clearly, while their revenue contributions from gold and silver were measurably lower for the quarter on a YoY comparative basis, their revenues actually increased by 32%. Again, that was partially a function of price increases for the base metals (copper, zinc and lead) that they produced alongside the precious metal production. However, it was also impacted by much higher relative production of these base metals, for example, for Q1F18, they produced 74% more copper, 75% more lead and 81% more zinc than they did in the same period of 2017.

To be clear, the narrative from the Company's Q1F18 filing suggests that *"during the (Q1F18) period, gold and silver grades for the Arista Mine decreased by 29% and 43%, respectively, from the same period in 2017, as a function of the particular areas of the mine we are extracting, specifically mining the deepest mineralization at the Switchback vein system. In the future, we plan to mine upwards towards higher-grade areas of the vein system. Offsetting the lower precious metal grades and recoveries was higher mill throughput, which contributed to a higher overall base metal production*". They continue, *"ore grades in the Arista Mine vary depending on the mining locations and mining techniques being utilized during a particular quarter or quarters. Our gold recoveries in the first quarter of 2018 at the Arista Mine decreased by 11% as a result of a change in the metallurgical response of the mill feed in the quarter. The different response is related in part to Switchback ore characteristics. We are actively working on a response to this change and expect to return to previous gold recovery levels in the future*.

To translate the above, we think some of the changing ore profiles at depth in the Switchback vein (higher base metals/lower precious metals) created some recovery challenges at the mill. It sounds like they are learning from some of those challenges, which we suspect will improve recoveries going forward. However, they also noted that they intend to mine the upper levels of the Switchback, which may swing the ratio back towards more precious metal tonnage. The point is, despite the nuances to the quarter (higher base metal tonnage/lower precious metal tonnage and lower gold recoveries) they experienced one of the better quarters in their history. Granted some of that was aided by higher base metal prices, but it looks to us like they did a good job of negotiating the nuances.

In addition to product mix (and perhaps in conjunction with it) it looks to us like the Company bumped up against mill capacity in Q1F18. The following Company excerpt provides some color on that as well:

During the quarter ended March 31, 2018, we processed a total 1,636 ore tonnes per day compared to 1,206 ore tonnes processed per day for the same period in 2017, representing an increase of 36%. During the quarter, the agitated leach plant was ore feed from both the Aguila Open Pit and the Mirador Mine representing 6% of combined milled tonnage. Gold and silver production in the form of doré represented an additional 5% and 6% of gold and silver production, respectively. Going forward, we expect to optimize the production and milling schedules between the Aguila Open Pit and Mirador Mine.

Keep in mind, their sulfide mill flotation capacity is stated at 1,500 tonnes per day, while the agitated leach circuit adds an additional 300 tonnes per day. We believe the 1636 tonnes per day processed in Q1F18 was the most tonnage they have processed in a single quarter, and we also think (again) that some of that was driven by the mix of ore they mined and our sense is that the quarter may have provided some valuable insights into their milling processes that may provide them some flexibility going forward with respect to stockpiling, processing and recovering various mixes of ores perhaps depending on respective prevailing metals prices.

To summarize Aguila is the cornerstone of the Company at this point, and it has been since the GORO's inception. While we will delineate below that we expect other projects to begin playing a larger role in the Company's success, we also believe that Aguila will remain a considerable part of the whole and its potential remains open ended.

- **Alta Gracia (Mirador Mine in Production)**

While we noted above that most of the production to date has come from Aguila, Alta Garcia has contributed over the past few quarters via the Mirador Mine, although to date much of that contribution has been in the form of development ore. Our expectation is that we will see added and growing production from the Mirador as we move forward, and we think grades could improve significantly as tonnage moves towards more targeted (non-developmental) mining. Also keep in mind they built this mine by bootstrapping it with cash flow from operations as opposed to diluting shareholders to fund development. Below is some color from the Company.

In August 2009, the Company *acquired claims adjacent to the Margaritas property in the Alta Gracia Mining District by filing concessions known as the David 1, the David 2 and La Herradura, totaling 5,175 hectares.*

As of December 31, 2016, proven and probable reserves had been established for the Mirador Underground Mine on our Alta Gracia property. In July 2017, mine development reached the economic ore zone of the Mirador vein and mining began. A total of 6,350 tonnes were extracted from the Mirador Mine, trucked to, and processed at our Aguila processing facility in 2017.

The Alta Gracia Project is approximately 20 kilometers northeast from the village of San Pedro Totalapam, in the Municipality of San Pedro Totolapam. Access to the project is by a gravel road that departs the paved highway approximately 13 kilometers east of the village of San Pedro Totalapam. The haulage distance by road from Alta Gracia to the Aguila processing facility is approximately 32 kilometers.

The sedimentary and volcanic units mapped at Alta Gracia are similar to those observed at the Aguila project. During 2016, we received our operational permit for the Mirador Mine. Explosive magazines, located inside the Mirador Mine at the Alicia portal, were also constructed and permitted. In 2017, two mine portals were developed to provide access to the Mirador vein. Mine site offices and a mobile equipment maintenance shop was established adjacent to the Aguacate portal at the lower 1470 level. Additionally, a diesel power generation plant, compressed air and a mine water pumping station were developed and became operational. High grade silver ore from the Mirador Mine is transported by contracted haul trucks to and processed at our agitated leach plant at the Aguila processing facility, with final product being doré.

In 2017, we completed 44 surface exploration diamond drill holes totaling 9,936 meters. These holes mainly targeted extensions of ore shoots on known veins, such as Huaje and Victoria, that were historically mined on a small-scale. Surface and underground geological mapping and sampling along with detailed topographic surveying also continued in the historic mining areas at Alta Gracia. The new information was used for estimation of additional ore and mineralized material and to guide follow-up drilling planned for Alta Gracia in 2018.

- **Margaritas Property (Exploration)**

The Margaritas property is made up of the La Tehuana concession. We leased this concession from a third party in October 2002. The terms of this agreement are discussed under "Aguila Project" above. It is comprised of approximately 925 hectares located along our 55-kilometer mineralized trend and adjacent to the Aguila Project

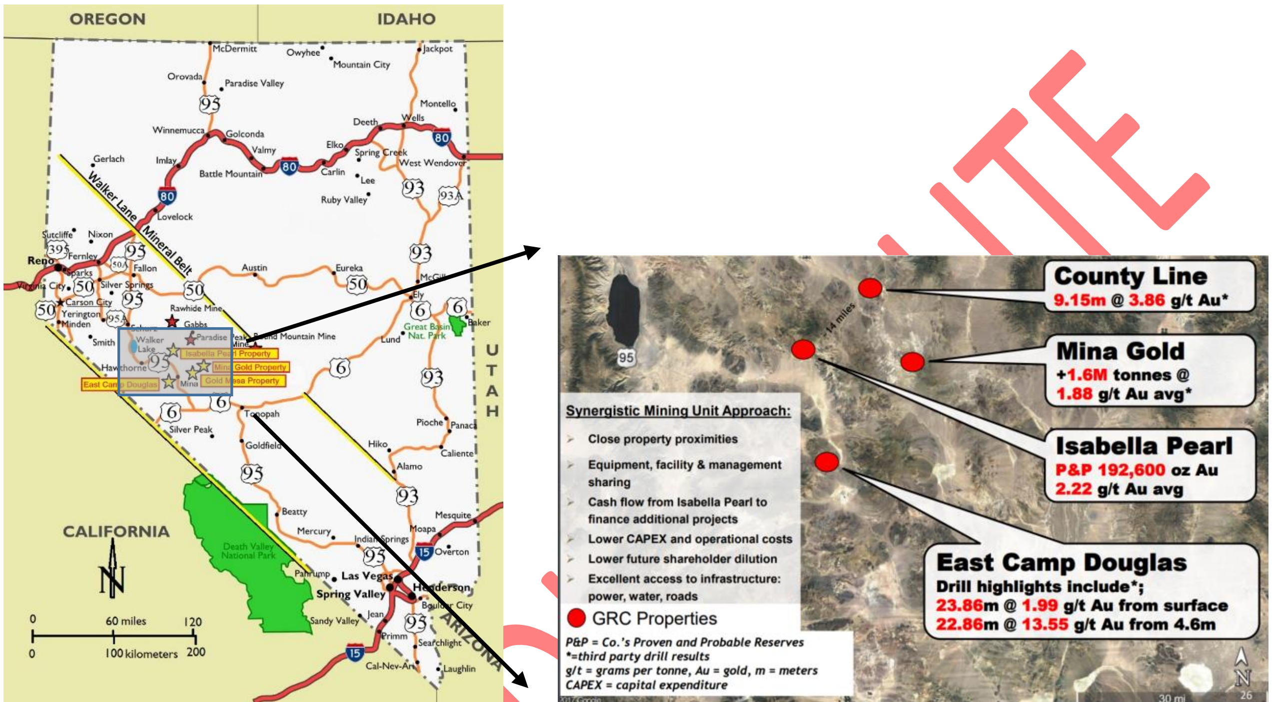
In 2017, results from previous surface drilling, surveying, detailed geological mapping and rock chip channel sampling were analyzed for the Margaritas property. Additional rock chip channel sampling of historic workings was also carried out in the Trenes mineralized zone. A follow-up surface diamond drilling program is targeted for Trenes in 2018. Trenes is located approximately 10-kilometers northwest of the Arista Mine along our 55-kilometer mineralized trend.

The three remaining (Mexico) exploration projects below are all in reasonable proximity to the above properties. We do not expect any of these projects to make measurable contributions to either production or reserve calculations in the foreseeable future.

- **Chamizo Property (Exploration)**
- **Fuego Property (Exploration)**
- **Rey Property (Exploration)**
- **Nevada Mining Unit (Production expected in 2019)**

The Nevada Mining Unit currently consists of four properties all located in West central Nevada in a mineral zone referred to as the Walker Lane Mining District and are all in reasonable proximity to one another. These properties are as follows:

- Isabella Pearl
- Mina Gold property
- East Camp Douglas property
- County Line property:



According to the U.S. Geological Survey, *"the Walker Lane structural zone in the western Great Basin contains numerous Miocene gold-silver (Au-Ag) deposits, several of which are world-class or uncommonly high-grade. These magmatic-hydrothermal deposits formed during continuous subduction-related magmatism but represent markedly different styles of mineralization"*. More specifically, the Walker Lane trend is the "oldest" of the three prolific Nevada trends (including the Carlin and the Battle Mountain). As the USGS suggests, Walker Lane is known for its relatively high(er) grades. Perhaps its most famous inclusion is the Comstock Load and its historic "Big Bonanza" ore body. Between 1873 and 1882 the operations in and around the Comstock Load and throughout Walker Lane were believed to have produced half of the nation's entire silver output. As we have noted many times in our resource based coverage, we think projects located in historically proven trends may provide lower risk profiles than other "greenfield" projects. We find that topical to the prospects of GORO's Nevada unit.

The Company's Nevada Unit owns or controls approximately 1,000 unpatented claims representing over 20,000 acres, as well as a small number of patented claims and corresponding acreage. The unpatented claims and therefore the preponderance of the Company's Nevada assets reside on Federal lands under the direction of the U.S. Department of Interior's Bureau of Land Management ("BLM"). To edify, as the Company's filings note, *"under the Mining Law of 1872, which governs the location of unpatented mining claims on federal lands, the owner (locator) has the right to explore, develop, and mine minerals on unpatented mining claims without payments of production royalties to the U.S. government, subject to the surface management regulation of the BLM"*. As a result, the Company's ability to develop these assets is dependent on permitting and other associated approvals from federal authorities. To that end, we would submit that while mining on federal lands has its drawbacks (permitting and approvals) it may also have some advantages (no production royalties), so by extension, the granting of those approvals can represent a milestone for a junior mining company like GORO. As we will delineate further below, the Company recently received BLM approval for their Isabella Pearl project (the first in the Nevada holdings), which we think may explain some of the recent strength in the stock. On the other hand, we also think that process has taken longer than the Company had hoped as they effectively had no way to impact the timeline of the BLM's process. In any event, they are currently preparing the property for production. Below is a bit more color on the Isabella as well as the other Nevada Holdings excerpted from company filings.

- **Isabella Pearl** (In Development for 2019 production)

The Isabella Pearl Gold Project ("IPG") is the Company's flagship property in its Nevada Mining Unit. The Company purchased the property in 2016, has been developing it towards production since that time. Construction on the project started June 18, 2018, and the Company expects to commence production in 2019. We should get some better defined production dates as we move forward. That production will include a standard open pit/heap leach approach, which is congruent with much of the areas historic production. The property includes approximately 9,000 acres containing 494 unpatented claims.

The current mine plan at IPG includes a proven and probable reserves of just under 200,000 ounces of gold, which the Company anticipates recovering about 75% of (153,000 ounces) or around 40,000 ounces per year over 4 years of production. To reiterate the point, that would more than double the current annual gold production of between 25,000 and 30,000 ounces per year.

According to Company filings, *"an average cash cost of $650 per ounce (plus or minus 10%) is estimated over the initial four-year mine life with annual costs projected to decline year-over-year as higher grades are mined and strip ratios decrease. The Company anticipates adding to the Project's reserves with future exploration drilling. It has identified two new exploration targets within the existing permitted mine plan, Scarlet and Civit Cat North, along with numerous exploration targets outside of the mine plan along its claims covering over six miles of structural trend to the north-west. This important structural trend was home to four historic open pits within 14 miles to the south-east that produced approximately 300,000 gold ounces at the historic Santa Fe open pit alone. The Company's exploration team believes, in addition to the four historic open pits and the Isabella Pearl deposit all along trend, the Company has locked up exciting prospective ground to potentially add additional open pits and longevity to Company operations.*

Clearly, the Company believes it can initiate and execute production from IPG over the next four years, but ultimately, they believe they can extend the mine life well beyond that horizon and can utilize initial capex infrastructure over that extended period as well. The addition of IPG production and the prospects that we think this historic district provides for longer term resource recovery as well, is the basis for our enthusiasm for GORO.

Of the stated $30M CAPEX for IPG, $10M has already been allocated via cash and equipment financing leaving ~$20M CAPEX remaining. The Company has earmarked $10M of its existing cash reserves for the project and targets to fund the remaining $10M by future operational cash flow if possible. Similar to its Alta Gracia Project it bootstrapped into production with cashflow, the Company is trying to place IPG into production with its cashflow as well. The Company has stated it continues to evaluate equity and or debt to finish the project if needed. The efforts of management to increase production while sustaining little to no dilution could act as a strong catalyst to the share price as the market rerates the Company. The target of over a 100% increase to its gold production profile while sustaining little to no dilution is rare for the mining industry known for serially diluting shareholders.

- **Mina Gold** (Exploration Property)

In August of 2016, the Company purchased 100% interest in the Mina Gold property located in Nevada's Walker Lane Mineral Belt. The property has the potential to be a future open pit heap leach gold operation. Mina Gold *reported an historic third-party estimate of mineralized material totaling 1,606,000 tonnes grading 1.88 g/t gold. The property covers an area of approximately 825 acres consisting of 43 unpatented claims and 5 patented claims.*

During the first quarter of 2018, we prepared a surface drilling program targeting expansion to depth of known surface high-grade gold mineralization on our patented claims. This reverse circulation drilling program commenced in April.

- **East Camp Douglas** (Exploration Property)

In January 2017, we purchased 100% interest in the East Camp Douglas gold property located in Nevada's Walker Lane Mineral Belt. The property covers an area of approximately 5,300 acres consisting of 277 unpatented claims, 12 patented claims and additional fee lands in Mineral County, Nevada. Precious metal epithermal mineralization at East Camp Douglas occurs as both widespread high sulfidation alteration areas and low sulfidation veins. Modern exploration by several mining and exploration companies has established modest gold resource potential in five separate areas on the property, with over 3,000 meters of drill core and a large exploration database. We believe this large property has numerous untested gold targets with open pit heap leach potential warranting an extensive exploration program. During 2017, historical geological, exploration and mining data on the East Camp Douglas property was reviewed and reconnaissance geological mapping and rock chip sampling was carried out on several prospects. A systematic rock chip sampling program covering a more than one square kilometer area of gold-bearing silicified volcanic rocks was also completed. In 2018, we continue to evaluate the resource potential of the old mining areas using extensive historical drilling and sample data available as well as identifying targets for our first drilling program on the gold-bearing silicified volcanic rocks called the "lithocap".

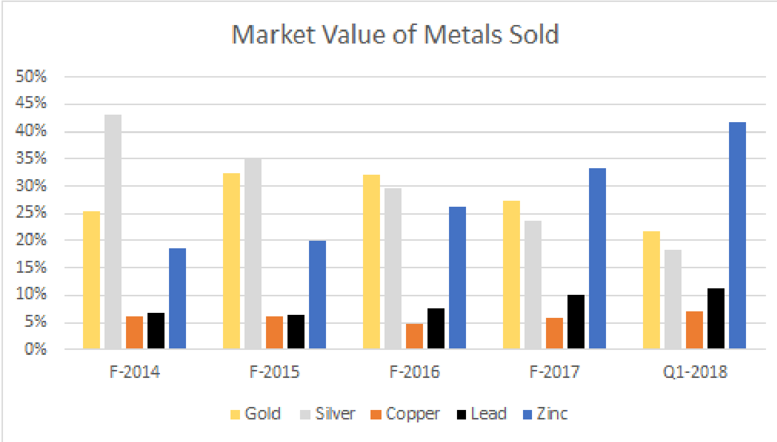
- **County Line** (Exploration Property)

On March 12, 2018, we purchased the County Line property for cash of $0.3 million. The property is located in close proximity to our other Nevada properties in central Nevada's Walker Lane Mineral Belt in Mineral and Nye counties. In addition, we staked additional unpatented claims around the property to strengthen the land position and exploration potential. The total land package is 2,320 acres consisting of 116 unpatented lode mining claims and one unpatented placer mining claim. Review of historical geological, exploration and mining data along with initial field investigations are currently underway at the County Line property targeting a future initial surface drilling program.

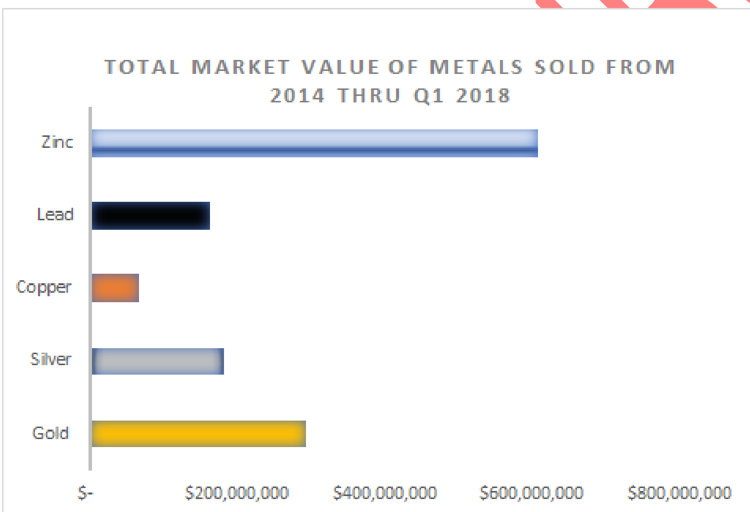
<u>Operating Overview</u>

As with most resource deals, GORO's operating model has a few salient points that can have considerable impact on performance. Obviously, the most notable of those is probably mineral/commodity prices, but there are others as well. In addition, coming production from the Nevada unit will have a substantial impact. We will start at the top of the operating statement and go down the list and cover a few of the more germane line items as we see them both in terms of where GORO has been, as well as where we are modeling them to end up.

While the name may imply that GORO is a gold play, over the years the company has generated the majority of their revenue from silver and other "credit" base metals most notably zinc.

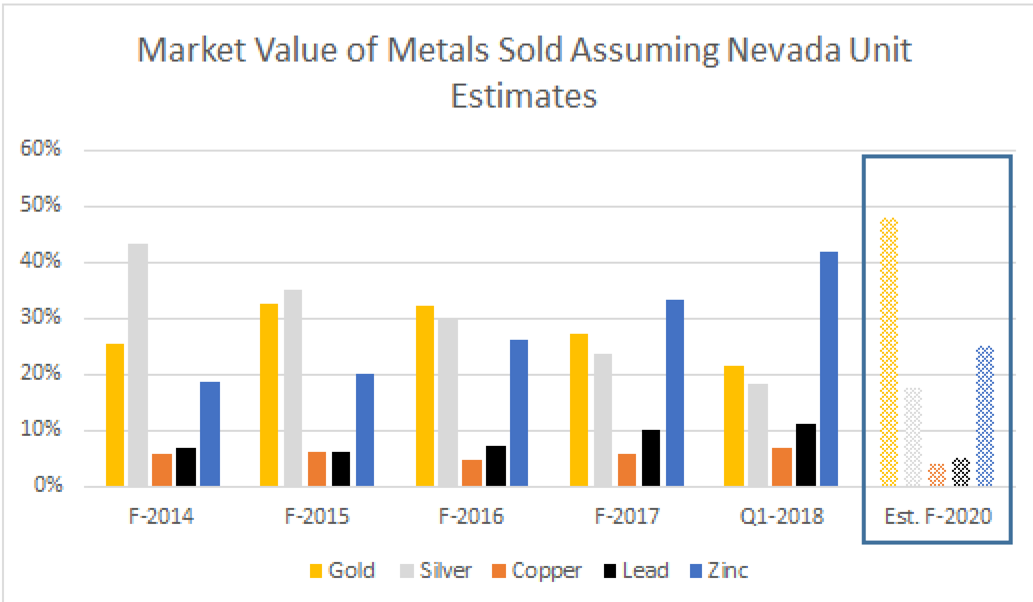


In fact, over the past few years, the aggregate contribution from gold sales has represented about 22% of total metals sales:



Recognize that precious metals prices (gold and silver) are not always correlated with other commodity prices (copper, lead and zinc). The diversity of the product mix and the variability of the underlying prices one period to the next can have a measurable impact on revenues. For example, in Q1-18 the Company reported relatively low comparative gold production, but considerable lead and zinc production during a period where the two latter metals were trading at higher levels than they have in a few years. Obviously, product mix and prevailing commodity pricing are germane to the Company's performance one period to the next. That may become more topical as they expand production into some of their more recent systems. For example, with the Switchback Vein at Arista we know that Q1 was dominated by the greater mix of base metals. Without delving too far into the mining minutia, there will be periods where they have to mine through larger sections of base metals to get to better precious metal veins, which will create comparative product mix variability. Moreover, that change in the product mix will impact recoveries at the mill because the flotation processes must be modified to account for those product changes. We believe recoveries will improve as they improve the mill processes to deal with mix variability.

In the bigger picture, in our opinion the product mix (while quite beneficial in times like Q1 where base metal prices were rising) has potentially impacted the overall valuation of the stock because, as the name implies, Gold Resources has positioned itself as a gold play, but the reality is that the market is not likely valuing it as such because its overall production is dominated by non-gold metals. Inasmuch as the new production at Nevada will provide a considerable leg up in overall production, what it will provide to overall gold production may prove even more telling. (By the way, that could be positive or negative given prevailing and expected gold price at given points in time). As an example, the chart below reflects our estimates for fiscal 2020 assuming the Company is able to produce gold in Nevada at the rate they are projecting (roughly 40,000 for fiscal 2020).



To put the above estimates into perspective, our model projects 2020 revenues to be between 50% to 60% higher than fiscal 2017 on estimated overall blended mineral prices of around 10% - 15% lower than fiscal 2017 prices. Clearly higher (or lower) metals prices will impact those comparisons.

We would add, because of timing of concentrate deliveries and associated accounting, the Company does not always sell everything it produces in a quarter (and in some quarters may sell more than it produces). That nuance, although "washed out" over time, can impact quarterly revenue recognition results. We will attempt to provide color to that issue in subsequent earnings updates.

We are projecting higher than historic production costs (relative to sales) in our post-Nevada production model. Some of that is related to the lower commodity prices we are assuming but also what looks to us like higher anticipated production costs at Nevada than at Oaxaca. That conclusion was gleaned from Company guidance in Nevada production costs and other associated data points. Clearly, those will require revision as production becomes a reality, but we think we have used reasonable assumptions given the Company's guidance and associated drilling information.

The only other line item that we think requires some color is taxation. The 2017 financials were substantially impacted by a tax charge of $24 million versus pre-tax profit of $28 million. That anomaly was largely related to adjustments related to the new US tax reforms. Going forward, we expect the Company to reflect taxes of about 38% on the Mexico side and 21% on the US side. They will need to begin segmenting U.S. vs. Mexican operations for tax purposes.

The Company uses various approaches to foreign exchange issues and we don't anticipate those being particularly material. However, that issue may become more complex as Nevada comes online.

While this is an operating section, its probably worth covering a few capital issues. Succinctly, the Company is attempting to provide the necessary capital to Nevada from internal organic sources. There is some chance that they may need to procure some additional outside capital, which could impact share counts. We don't expect that to be significant given the Company's track record of keeping dilution to a minimum and the fact is has grown organically since 2010.

Industry Overview

Unlike some of our industry overviews, the mining and/or gold production industry does not require much color for most readers. On the other hand, as we illustrated above in the operating section, Gold Resource has historically produced a handful of metals in varying but measurable amounts and on a consistent basis. In that regard, to reiterate a point we touched on above, the precious metals portions of their production (gold and silver) can often experience some divergent commodity pricing from the base metals portion of the business (copper, lead and zinc). In fact, even gold and silver have diverged in the past for a variety of reasons. As a result, while prevailing commodity prices are perhaps the biggest industry related component to the story, it is probably worth addressing some of the things that may cause them to diverge over time or perhaps put another way, the things that drive them in the first place. To that end we will start with the base metals.

Base metals such as copper, lead and zinc have enjoyed robust price improvement since late 2015. We think it is fair to say that much of that increase was/is likely related to the improvement in the global economy and the corresponding inference of increased demand associated with that growth.

While it probably goes without saying, commodity prices like copper, lead and zinc will always be subject to economic activity. On the other hand, we have seen events in the past that have perhaps impacted global changes in the supply and demand curves of these metals. For example, many suggest that the growth of electric cars may ultimately change the dynamics of copper as these technologies create new demand for the metal. Again, while we suspect these prices to continue to be dominated by economic activity around the globe (which by the way will also be impacted by things like trade wars and associate tariffs) there is also some support for the notion that several of these metals are going through some typical "reversion to the mean" and as such may have some additional room to the upside associated with that phenomenon, or at least future price in or around recent levels.

From another perspective, it is important to recognize that much like the production at Oaxaca, a considerable amount of the production of some of these metals occurs as a byproduct of other production. As we noted above, while Gold Resource positions itself as a gold miner, those efforts create oversized amounts of other base metals. From that view, from a global perspective, one could envision where for example, increases in the price of gold and by extension presumably the corresponding increase in gold production could ultimately lead to greater supply of resulting base/credit metal. In that case, increases in the demand/production of gold could potentially lead to greater supply (and lower prices) for base metals. As we noted above, GORO's revenue equation should become more heavily weighted towards gold once the Nevada Unit comes on line, the *marginal* impact of that scenario will depend on these prevailing metals prices. That is another way of saying that while we anticipate GORO becoming a more pronounced "gold play" the production of these base metals will still have a measurable impact on their success as we saw in Q1F18.

With the above in mind, we noted that Gold Resource has positioned itself first and foremost as a gold producer, and we believe their intent is to enhance that position within the constraints of their desired capital structure. We think the entrees into Nevada are a clear message in that regard. We think that message is also clear from the Company's presentations as well as in our conversations with them. Succinctly, the Company holds the fundamental view that the U.S. and the world for that matter has monetized an ultimately untenable level of debt. (Those are our words by the way not theirs, but we think it's a generally accurate statement). As such, much like many gold bulls, their sense is that at some point the excess of fiat currencies and government debt will lead to an increase in inflation and/or a flight to hard currencies, which will create (another) bull market in gold. Their basic strategy around that notion has been to maintain a low risk capital structure (no debt) and a low cost structure (the base metal credits discussed above) to help insulate them from periods of low gold prices, so they are positioned to take advantage of rising gold prices when they transpire.

To the above point, we are not going to provide an argument about where we think gold prices are going vis-à-vis extreme monetary policy by central banks. We have our own views of that which frankly come much closer to the Company's view than not. However, we concede that those who do not see paths to higher gold prices, and/or do not view the drivers to that end as a measurable risk to their portfolios, may not view GORO as we do. On the other hand, we think their unleveraged approach coupled with what should be an expanding exposure to gold makes the company an attractive choice as a hedge against some of the draconian scenarios that may to be unfolding. As an example, the Institute of International Finance just reported that in Q1F18 global debt expanded by $8 billion to a staggering $247 trillion, or 318% of total worldwide GDP (versus about 248% is 2003). We are not suggesting that is a recipe for certain disaster, but its topical just the same. In our view, investors need to consider the implications that negative macro elements might have on their wealth as well as potential opportunities to mitigate them.

Management

- ***Jason Reid: CEO, President & Director***

Jason Reid was appointed Company CEO October 1, 2013 and also serves as Company President and as a director. Jason Reid was appointed President of the Company in July 2010 and also served as Vice President of Corporate Development from January 2008 to July 2010. He was named to the Board of Directors in 2010. Jason has been with the Company since it was a private Company and helped take it public in Sept of 2006 with its self-underwritten "IPO". Jason was part of a management team that took Gold Resource Corporation from an exploration stage company, to a development stage company, and finally to the gold and silver dividend paying producer that Gold Resource Corporation is today. Prior to joining the Company Jason was the founder and president of two successful businesses he ran for 13 years. Jason holds a Bachelor of Science degree (1997) in Anthropology/Archeology from Fort Lewis College, Durango, Colorado.

- ***Rick Irvine: Chief Operating Officer***

Rick is a Mining Engineer with 22 years of industry experience spanning Canada, Mexico, Central and South America. Rick has contributed to the start-up of three new mining operations in Bolivia, Argentina and Mexico.

He holds a BSc in Geology from the University of New Brunswick and a BSc. in Mining Engineering from Queen's University, Kingston, Ontario, Canada.

- ***John Labate: Chief Financial Officer***

Mr. Labate is a seasoned executive with over thirty years of financial management and accounting experience. From August 2008 to February 2012, he served as Senior Vice President and Chief Financial Officer of Golden Star Resources Ltd., a gold mining company with securities listed on the NYSE American and TSX. Prior to that, from March 2004 to August 2008 he was Vice President and Chief Financial Officer for Constellation Copper Corporation, a copper mining company with securities formerly traded on the TSX. Prior to March 2004, Mr. Labate held senior financial management positions in mining and technology companies, including chief financial officer positions at Crown Resources Corporation and Applied Optical Technologies. Mr. Labate received a bachelor's degree in Accounting from San Diego State University.

- ***Barry Devlin: Vice President of Exploration***

Mr. Devlin has 30+ years of professional experience in managerial phases of exploration and mine geology. He has participated in the discovery, acquisition and development of numerous mineral deposits including extensive experience in epithermal gold-silver (high and low sulfidation) systems and porphyry copper gold skarns. Prior to joining the Company, Mr. Devlin was Endeavour Silver Corporation's Vice President Exploration. He holds a BS degree with honors in Geology, 1981, and a Masters in Geology, 1987, from the University of British Columbia, Vancouver, Canada.

- ***Greg Patterson: Vice President Corporate Development***

Greg Patterson is VP Corporate Development, a position he has held since October 2013. Since joining the Company in 2010, Greg has managed investor relations and participated in overall corporate strategy. Prior to joining the Company, Greg spent 15 years in marketing and territory sales management for two manufacturers of precision laboratory instruments. Greg holds a Bachelor's degree in Environmental Biology (1991) from the University of Colorado.

- ***Jessica Browne: Vice President Legal Affairs, General Counsel and Corporate Secretary***

Jessica Browne is Vice President Legal Affairs, General Counsel and Corporate Secretary. Since joining the company in June 2011, she has been responsible for overseeing its legal and regulatory matters. Prior to working as in-house legal counsel, Jessica spent nearly ten years in private law practice in the Denver area, focusing on mergers and acquisitions, general corporate and securities law. Jessica received a Masters of Science Degree in Taxation Law from the University of Denver in 2005, a Juris Doctor from the University of Colorado School of Law in 2001 and a Bachelor of Science in Business Administration summa cum laude in 1997 from the University of Texas Dallas.

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- ***Bill Conrad: Chairman of the Board***

Bill M. Conrad currently serves as Chairman of Gold Resource Corporation. Mr. Conrad has held executive management positions with several public companies during the past 15 years, including Wyoming Oil & Minerals, Inc., New Frontier Energy, Inc., Gold Capital Corporation, Wall Street Racing Stables, Inc., Consolidated Capital of NA, Inc. and Synergy Resources, Inc. Mr. Conrad's duties with these companies primarily *focused in the areas of financial management and corporate development. Mr. Conrad is currently a Director of PetroShare Corp., a Colorado based development stage oil and gas exploration company.*

- ***Dr. Gary Huber: Director***

Dr. Huber is an experienced mining executive bringing over 35 years of diversified natural resource experience to the Board. He holds a Ph. D from the Colorado School of Mines. His past industry experience includes: president and CEO of Neutron Energy Inc., a private uranium development company, founder, CFO, and director of Canyon Resources Corp, a public exploration and mining company which operated 3 precious metal mines in the Western United States, president and director of CR Minerals Corporation, an industrial minerals mining and processing subsidiary of Canyon Resources, director of Capital Gold Corp., a public precious metal mining company operating in Mexico (which was merged into Gammon Gold) and manager of IRC Capital Group, an investment arm of International Royalty Corporation. He was also formerly a director of the Denver Gold Group, chairman of the Society of Economic Geologists' Investment and Audit Committees and chairman of the Audit Committee of the Society of Mining, Metallurgy and Exploration. He is a Utah registered Professional Geologist. Dr. Huber is currently a Director of UR-Energy, a junior uranium mining company.

- ***Alex Morrison: Director***

Mr. Morrison is a Chartered Professional Accountant with 30 years of mining industry experience. Mr. Morrison has held senior executive positions at a number of mining companies, including Vice President and Chief Financial Officer of Franco Nevada Corporation (2007 to 2010). Mr. Morrison held increasingly senior positions at Newmont Mining Corporation, including Vice President, Operations Services and Vice-President, Information Technology (2002 to 2007). Prior to that, Mr. Morrison was Vice President and Chief Financial Officer of NovaGold Resources Inc., Vice President and Controller of Homestake Mining Company and held senior financial positions at Phelps Dodge Corporation and Stillwater Mining Company. Mr. Morrison began his career with PricewaterhouseCoopers LLP after obtaining his Bachelor of Arts in Business Administration from Trinity Western University. Mr. Morrison currently sits on the Board of Directors of Detour Gold Corporation, Taseko Mines Ltd. And Gold Standard Ventures.

Risks and Caveats

In and of itself, mining involves a host of environmental risks and other hazard related risks that are inherent to the business.

To date all of the Company's production has originated in Mexico. While the Company has gone to great lengths to be good corporate citizens to the community they operate in, and we think that has provided them with favorable footing with respect to the Mexican government(s), providing mining operations in foreign nations involves clear sovereign risks. In Mexico specifically, a new leftist government was recently elected, and while we don't think that means anything in particular to GORO, it certainly seems more likely to be potentially problematic than for example the election of a more business friendly government. Again, from what we can tell, GORO has established itself as a good corporate citizen in Mexico, however, these sovereign issues remain a risk to the story, and those risks could include more regulation, higher taxation and any host of other negative variables.

As we covered above the degree to which Gold Resource succeeds is largely a function of metals prices, and they have no control over those data points. Lower metals prices will have a measurably negative impact on the Company's performance.

We also discussed product mix above. As the Company expands into new structures (the Switchback for example) they may encounter varying degrees of mineralization grade that may impact product mix (more zinc than gold) or even lower overall grades in general. Mineral grades are a major component to our model and their operating results. Furthermore, as we also pointed out and we experienced in Q1-F18, those varying mixes and grades add some complexities to the recovery process and may ultimately lead to lower than historic recovery rates going forward. Lower recoveries are also a risk to their performance. Given that Nevada will involve an entirely new property and associated learning curves, despite their best efforts to identify reserves, they may encounter less mineralization and/or achieve lower recoveries than they anticipate. They have provided guidance in that regard of + or - 10% their estimate. Actual recoveries are a risk to the story.

The Company's Nevada operations involve almost entirely unpatented claims and as such are subject to the jurisdiction of the BLM. All other things being equal, we would rather see them operating on patented claims they own rather than unpatented claims they do not that are thus subject to federal jurisdiction.

Gold Resource has positioned itself as a gold producer, but as we noted above, it is not a "pure play" in that regard. We tend to believe that has impacted its valuation in the past, and while gold production should increase as a percentage of the whole, it will likely still not be viewed as a "pure play".

Unlike many resource plays, Gold Resource has always been more focused on spending capital on production rather than on building reserves. As a result, it does not get much credit toward valuation for "proven and probable" reserves like other mining counterparts might. As an example, at Isabella, they have identified a resource that will provide about a four year mine life. In our experience, many other projects rely on reserves that support considerably longer mine lives, and therefore provide presumed longer term visibility with respect to potential future production. We have modeled production from Nevada well beyond four years under the assumption that additional discoveries beyond what the current mine plan and resource estimates suggest. If that proves inaccurate and all other things remain the same, our model and price targets will prove overstated.

These are just a few of the more obvious risks we see, but there are almost certainly others we have missed or perhaps are not even foreseeable at this point.

Valuation and Summary

As a matter of full disclosure, we first encountered Gold Resources in 2006 wherein they attended a subscriber/investor conference we hosted (under a prior label called EdgeWater Research). At that time, they had no production as they were just developing their Mexico property(s). They were marketing a $1.00 private placement at the time of that event. Over the next four years, the stock would trade to something around $30.00 per share. This remains one of the more prolific performances of the dozens of companies that have presented at our conferences over the past 16 years or so. Some things you just don't forget.

Like many of the stocks we follow over time, we tend to keep many of them on our radar screens long after we first get involved with them and they ultimately trade to levels that move them out of our "undiscovered" mantra. GORO fits into that category. To be honest, part of our ongoing interest stemmed/stems from the fact that we always had an affinity for the founders/management one of whom, Jason Reid, is the CEO today. Part of that "affinity" was related to the fact that they largely did what they said they were going to do, but at the time, they also had the courage, insight, foresight, good-luck, whatever one wants to call it… to buck what is generally the more typical path for small resources companies. That is, from the start, at least as we recall, the Company focused on (read: spent their money) getting the project into production rather than the more typical approach of developing a 43-101 compliant reserve, and then trying to raise additional money to then get *that* into production or sell it to a larger player. Understand, we are not taking issue with those who choose the more conventional path, we have covered plenty of those as well, however, their approach is part of the reason they have essentially the same capitalization table they have had for over a decade which includes a balance sheet that is largely void of debt. In essence, they took the critical path, bootstrapped it together and got to production. Again, one can view that as genius and hard work, or just dumb luck, but that is what they did. By the way, that approach did not come without detractors. As we recall, there were some who thought the whole thing (in part because of the absence of a bona fide resource estimate) was an elaborate scam. A billion dollars' worth of production and $111+ million in dividends later, some clearly underestimated the opportunity and/or management's intentions and perseverance.

Along the same lines, if we understand it right, the Company did not develop its first standard reserve estimate until 2014 and as we write this we think it's fair to say that production remains a greater priority to the Company in terms of allocating (organic) resources than exploration and development aimed at accumulating calculable reserves under industry standards. As we noted above, the new Isabella project has an identified reserve that will support a relatively short 4 year mine plan. To edify, part of the justification to that is related to the relatively low $30 million capex requirements at Isabella (compared to the cost of starting many greenfield gold projects) and the fact they intend to provide all/most of that capex from internal sources. Put another way, they are not relying on other investors' capital, so they don't really need to make anyone other than themselves comfortable with the economics of the project. The point is, unlike many resource deals, we don't expect GORO's valuation to be determined by its resource estimates into the foreseeable future.

The above said, when we first heard the story, like management, we were more focused on their production goals than their resource estimates, and we feel the same way about the story today. Again, don't misunderstand, we are fully aware of the potential pitfalls of that approach in terms of (projected) longer term production, however, we have seen them execute on this strategy before and we think they're capable of doing so again. In essence we think they have done the same exploration legwork they did in Mexico which led to expanded production and likely was the same legwork they would have done had they been preparing a 43-101. Again, we have built our DCF model around ongoing production in Nevada beyond the resources they have specifically identified and at a similar rate they have estimated for the identified resource so readers should keep that in mind.

Given the focus on production versus proving up resources, we have taken our typical DCF/NPV approach to valuing the Company. That is, we have built our model and resulting price targets around the notion of ongoing but "flat" production in Mexico and corresponding flat production in Nevada at rates assumed by the Company's 4 year plan, but well into the future. To reiterate, recognize that to the degree that Nevada production proves less robust than their estimates and/or they are unable to identify similar recoverable reserves beyond the plan, our model/targets will most certainly prove aggressive.

Using the above methodology, as well as the prior mentioned forward metals price assumptions, on a straight NPV/DCF basis we think an appropriate 12-24 month target is approximately $8.85 per share or about a 37% premium to the current stock price. In support of the notion, our model suggests that 24 months from now, a $8.85 price would correspond to an Enterprise Value/EBITDA of about 7, which represents a considerable discount to the industry average, which we believe to be closer to 9. If we were to apply that industry average multiple to those estimates, we would arrive at a price target closer to $11, which would be a 70% premium to the current stock price. Frankly, we used an NPV discount rate that we believe to be higher than their likely cost of capital to account for some of the risks to the model we identified above. Incidentally, using that lower discount rate would also get us to something closer to an $11 target as well. To translate, we think we can defend our price target through these metrics, and we also think it gives us some room to make some upward adjustments to targets as we see some additional (presumably positive) data points regarding Nevada production and expanding reserve calculations.

With the above in mind, recall, while the "first half" of our thesis here is that we think Gold Resource is undervalued on the face (in the context of our assumptions), we think it holds considerable valuation leverage given higher gold price scenarios. For instance, while the model assumes static gold prices of $1240 going forward, roughly, we think each incremental $100 increase in gold prices should add approximately an additional $1.00 in price target. That metric gets incrementally better at higher assumed prices as additional gold price increases essentially drop to the bottom line. To translate, we think the Company represents an attractive return from the prevailing stock price if gold (and other credit metals) stay around current levels, but also provides marked leverage at higher commodity pricing.

To summarize, we have followed this story for a long time now. We have watched the Company and the stock negotiate the gambit from poor to at least improved metals markets, and they have managed to maintain a profitable profile throughout. Part of that success has been related to a relatively measured/cautious approach (growth based on organic resources as opposed to more share issuances and/or added debt). Granted, that approach has muted growth, but we know the Company is preparing a new project (Nevada) that will address some of the growth critiques that have likely impacted the valuation over the past few years. We think that provides a clear catalyst, and our sense is that it is likely the impetus for the recent move in the stock. We have taken longer to write this report than we had planned, but we hope those of you who saw the Company at our April conference were paying attention.

We are initiating coverage of Gold Resource with an allocation of 4 and a 12-24 month price target of $8.85 That target represents a 37% premium to the stock's closing price prior to the initiation, while also providing what we view as effective hedges typically provided by gold producers. We will review our price target and allocation assessments as new datapoints are available.

Projected Operating Model

Projected Operating Model By Trickle Research LLC	(actual) 3/31/18	(estimate) 6/30/18	(estimate) 9/30/18	(estimate) 12/31/18	(estimate) Fiscal 2018	(estimate) Fiscal 2019
Consolidated Statements of Operations (000's)						
Sales, net	$ 32,151	$ 35,890	$ 32,083	$ 29,558	$ 129,683	$ 151,382
Mine cost of sales:						
Production costs	$ 15,535	$ 18,138	$ 17,388	$ 16,763	$ 67,823	$ 84,808
Depreciation and amortization	$ 3,493	$ 3,499	$ 3,691	$ 3,768	$ 14,451	$ 15,073
Reclamation and remediation	$ 203	$ 54	$ 48	$ 44	$ 349	$ 227
Total mine cost of sales	$ 19,231	$ 21,690	$ 21,127	$ 20,575	$ 82,623	$ 100,108
Mine gross profit	$ 12,920	$ 14,200	$ 10,956	$ 8,983	$ 47,060	$ 51,274
Costs and expenses:						
General and administrative expenses	$ 2,354	$ 2,418	$ 2,392	$ 2,391	$ 9,555	$ 10,228
Exploration expenses	$ 1,185	$ 1,286	$ 1,436	$ 1,283	$ 5,190	$ 5,591
Other expense, net	$ 278	$ 250	$ 250	$ 250	$ 1,028	$ 475
Total costs and expenses	$ 3,817	$ 3,954	$ 4,077	$ 3,924	$ 15,773	$ 16,293
Income before income taxes	$ 9,103	$ 10,246	$ 6,879	$ 5,059	$ 31,287	$ 34,981
Provision for income taxes	$ 3,646	$ 3,894	$ 2,614	$ 1,922	$ 12,076	$ 11,640
Net income	$ 5,457	$ 6,353	$ 4,265	$ 3,136	$ 19,211	$ 23,341
Net income per common share:						
Basic	$ 0.10	$ 0.11	$ 0.07	$ 0.05	$ 0.34	$ 0.41
Diluted	$ 0.09	$ 0.11	$ 0.07	$ 0.05	$ 0.33	$ 0.40
Weighted average shares outstanding:						
Basic	57,120,077	57,120,077	57,120,077	57,120,077	57,120,077	57,120,077
Diluted	57,911,299	57,911,299	57,911,299	57,911,299	57,911,299	57,911,299

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

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.