Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

Initiating Research Coverage

FORTITUDE GOLD CORP.

Fortitude Gold Corp.

(NASDAQ: FTCO)

Report Date: 04/15/21

12- 24 month Price Target: $ 8.75

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 04/14/21): $5.26

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

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

Company Overview

Fortitude Gold Corp. is a Colorado Springs, Colorado based mining company with gold operations located in west central Nevada along the prolific Walker Lane Mineral Belt. The Company was recently formed as a spinoff from another publicly traded mining company called Gold Resource Corp. ("GORO"). The associated assets were spun into Fortitude, which then went public via the filing of an S-1 Registration Statement. The registration statement was effected in mid-December (2020), the spin-off was completed on December 31, 2020 and Fortitude began trading February 19, 2021. On March 5, 2021, the shares were uplisted to the OTCQB.

Trickle Research initiated coverage of Gold Resource Corp. on July 20, 2018. At that time, GORO consisted of two primary units. The first of these was its legacy Mexico operations, which include a handful of both producing and/or development assets. The second of these is a U.S. based asset(s), which GORO generally referred to as the "Nevada Unit". The Nevada Unit, which is today Fortitude, was in development but not in production when we first initiated the GORO coverage. The Nevada Unit commenced gold production in April 2019. Obviously, since the commencement of production in Nevada, Gold Resource Corp. has consolidated the Nevada results but has also provided segment reporting with respect to each of the operating segments. Further, Fortitude's S-1 registration statement has provided additional segmented information. The summation of that reporting has provided us with a framework to create what we think should be reasonable models of the two entities on a standalone basis.

This report represents our research initiation of Fortitude Gold Corp. That noted, while the Nevada Unit came into operation after our initial GORO coverage, we have provided coverage of that portion of the business in subsequent research. As a result, this initiation is perhaps not as extensive as much of our initiating research would normally be since we have spent the past two years following and updating the Nevada Unit/Fortitude Gold via the ongoing GORO research.

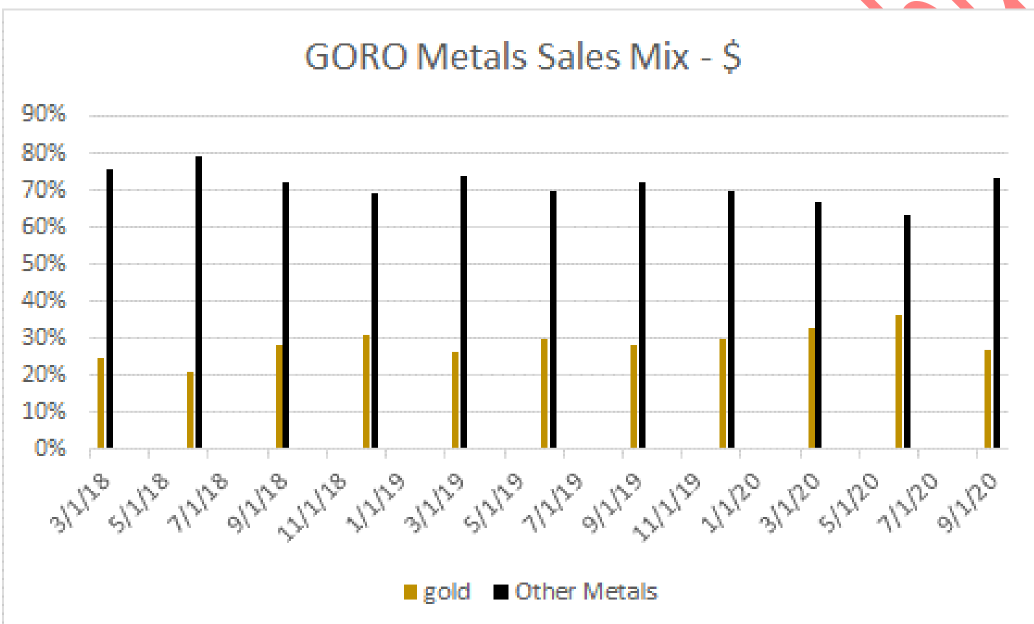
The above said, there are a few high-level items that we think are topical to the Fortitude story that are worth reviewing before we delve into some of the detail.

We were first introduced to Gold Resource *15 years ago*. Shortly thereafter, they presented at one of our conferences (under a prior label). The Company was founded by Bill and David Reid. As we recall, at that time, Bill Reid's son Jason was also with the Company, and Jason ultimately became the CEO of GORO until the recent spin-off. Jason is now the CEO of Fortitude, and Fortitude's Chairman, Bill Conrad was also a director of GORO for the past 15 years. When the Company presented to our subscribers in 2006, they were raising money at $1.20 per share, the market cap of the company was approximately $20 million, and they were still in the development stage, so their revenues were zero. under the Reids'(collective) management, in 2020 GORO marked *"ten years of production with over $1 billion in revenues and $116 million in dividends paid to investors"*. We would add, over the 4½ years following that $1.20 financing, GORO shares would trade over $30. Succinctly, we are fans of proven leadership.

Second, as we noted in our prior GORO research, we have generally felt like the market has discounted the value of GORO's Nevada Unit because it lacks an extensive reserve profile (and ostensibly the valuation bump that P&P reserves sometimes provide). We mention that because that was the same criticism the markets levied against GORO *15 years ago*. Clearly that concern proved to be overstated. While we submit, Fortitude is not "long" on extensive proven reserves, we expect them to add reserves as they go forward.

We also expect overall grades at the current operating unit to improve as well. That said, given our history with Fortitude management, we do not expect their primary focus to be on building reserves, but rather on generating operating cash flow/profits.

Third, as we noted in prior GORO research, we have always felt that GORO suffered from a bit of an "identity crisis". To edify, the Mexico property is a polymetallic resource, which means that it produces a basket of precious metals (gold and silver) as well as a handful of base metals including lead, zinc and copper. Specifically, the gross value of GORO's gold production has made up less than 30% if its total metal production, (zinc has actually been its most prolific contributor):



To be clear, we are not suggesting that being a polymetallic producer is a bad thing. In fact, there have been periods in the not-too-distant-past when base metals prices performed better than gold, and as such their product mix was fortuitous. The problem (in our view) is that their name, ***Gold*** Resource Corp., implies that they are largely a gold producer; a *pure play* if you will, which they are not. We think that is an important investment distinction, as investors look for example, to own gold miners as a part of their hedging strategies. We are comfortable suggesting that while GORO was not a good (gold miner) pure play proxy, **Fortitude is**. In our view, Fortitude will trade in much better correlation to gold (good or bad) and therefore will be a better choice in that regard for investors looking for gold proxies.

Property/Project Overview

Fortitude's assets consist of 5 properties and each of the properties are within the historic Walker Lane district in Mineral County, Nevada.

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-Eureka-Cortez). 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. Despite Nevada's label as the "Silver State", it has historically, produced over 170 million ounces of gold, which makes it one of the world's most prolific gold mining areas.

As noted by www.investingnews.com, *Nevada ranks as the world's third top mining jurisdiction and fifth largest gold producer. The state owes its top dog status to its immense mineral wealth, well-established infrastructure and stable regulatory environment. Transparent, easy-to-navigate regulations and permitting processes, and an attractive tax regime with a low net profits tax and no income tax are all very inviting for the world's gold miners. Global giants Newmont Mining (NYSE:NEM), Barrick Gold (TSX:ABX,NYSE:GOLD) and Kinross Gold (TSX:K,NYSE:KGC) all have producing mines in the state.*

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. More specifically, while the notion of mining in proven areas requires that those areas are not "mined-out", Walker Lane may contain Nevada's most promising future production. To that end, from Investing News:

https://investingnews.com/innspired/walker-lane-gold-trend-nevada/

The Carlin trend may have generated the most heat in the Nevada desert over the past decades when it comes to gold, but most of the best properties are already controlled by majors Newmont, Barrick and Kinross. The high cost of exploring for the often blind and deeper targets that remain on the trend is a big turn off for junior explorers. Today's mineral exploration companies looking for the next big play are *staking claims in one of the state's other prominent gold trends, the Walker Lane, which offers less expensive exploration with the added upside of plenty of blue sky potential in a relatively underexplored landscape with known high-grade potential.*

The north-west trending Walker Lane, one of the largest structural lineaments in Nevada, has played an integral role in the history of the state beginning with the 1859 discovery of the Comstock Lode, representing 8.5 million ounces of gold and about 400 million ounces of silver. The lure of all that wealth led to the gold rush that would eventually build up Nevada's population enough to earn statehood in 1864.

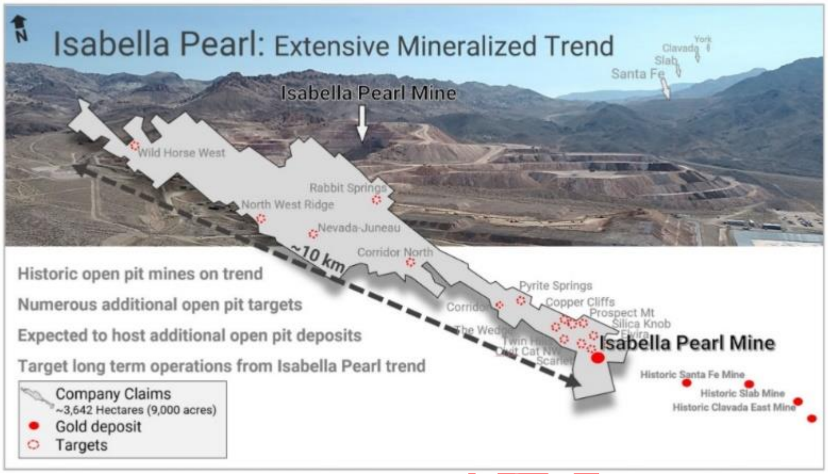
Unlike the Carlin trend, where most mines are producing ore of less than a gram of gold per tonne, Walker Lane stands out with exceptional high-grade assays. In fact, Walker Lane hosts a number of high-grade districts including Tonopah and Goldfield. Also in the region is Kinross' Round Mountain mine, which produced approximately 437,000 ounces of gold equivalent in 2017. The giant gold mine's current reserves plus past production total 29 million ounces of gold. Other prolific mines in the area include Mineral Ridge with 4 million ounces of gold and 6.4 million ounces of silver; and Bullfrog with 3.7 million ounces of gold and 4.6 million ounces of silver.

As we will delineate below, the aforementioned notion of improving grades is part of our thesis with respect to our enthusiasm for Fortitude.

As we noted above, Fortitude's assets consist of 5 properties and each of the properties are within the Walker Lane trend and all are in reasonable proximity to one another:

Below is a brief summary of each project from the Company with some added color of our own:

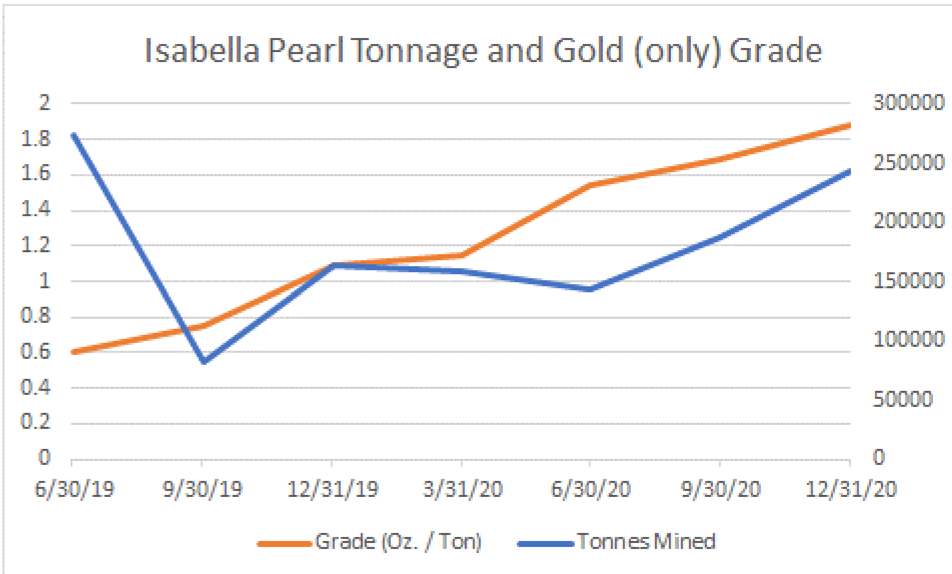
Isabella Pearl



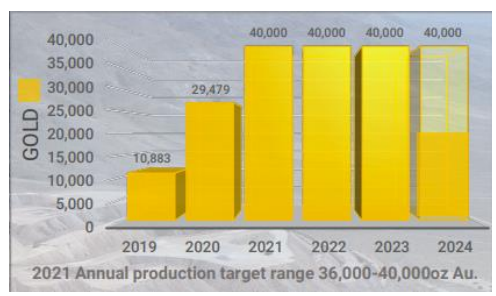
The Isabella Pearl project is located in the Gabbs Valley Range in Mineral County, approximately 150 miles southeast of Reno, Nevada. Access to the project is by a paved road approximately 6 miles north of the town of Luning, Nevada. The project has good connections to the infrastructure of west-central Nevada, with access roads to the project site linking to Nevada state route 361 and U.S. Route 95, the main highway between Reno and Las Vegas, Nevada. The property includes approximately 9,000 acres containing 494 unpatented claims.

GORO/Fortitude purchased a 100% interest in the Isabella Pearl in August 2016. In May 2018, the project was provided the final necessary regulatory permits to begin development and construction. Thereafter, Company collateral notes: *Construction progress in 2018 included the completion of haul roads, office and laboratory buildings, construction of and liner placement on the heap leach pad, the pregnant and barren solution ponds, and connection of the water well. In 2018, we began installation of the Adsorption, Desorption and Recovery (ADR) processing facility, installed our crushing facility and commenced mining and waste removal of the first of several benches of the lower grade Isabella portion of the deposit with its estimated average grade of ~1 g/t gold. We achieved first gold production approximately 10 months after breaking ground on the project. During the second quarter of 2020 our overburden removal reached the first benches in the high-grade Pearl portion of the deposit estimated at ~3.7 g/t average with a ~5.0 g/t gold core deeper.*

To reiterate, we initiated coverage of GORO in July 2018, so they had just received final approvals and were also just starting their development towards production. To be clear, the addition of Isabella Pearl and ultimately the prospect for the project to *more than double* GORO's gold production was a major piece of our enthusiasm for the name at the time. Further, in our view the Company (which recall, at the time was essentially the current management of Fortitude) did a good job of getting Isabella Pearl to production on the schedule they laid out at the time of our initiation. Moreover, we also think the operating progress has also largely gone as planned since production of their first gold dore in late April 2019. That said, as the Company's description above suggests, since the time of the initial production, the Company has anticipated increasing grades at depth as they exposed lower benches of the open pit. That has in fact been the case. As the chart below illustrates and the Company notes, they "*commenced mining and waste removal of the first of several benches of the lower grade Isabella portion of the deposit*" in 2QF19, which reflected considerable mine tonnage but low grades. Since that time, as they have moved to deeper benches, grades have steadily improved. Obviously, capturing higher grades from similar amounts of tonnage are a key component to driving down costs per ounce, and in turn profit per ounce.



We have ***extrapolated*** the data above from GORO filings for Q1 and Q2 of fiscal 2020, the Fortitude S-1 registration statement reflecting 9-month 2020 data and Fortitude's fiscal 2020 10K reflecting cumulative fiscal 2020 results. It is difficult to ascertain exact results due to items such as adjustments in forward numbers. The results are further complicated by the fact that through fiscal 2020, the Company milled considerable tonnage of low-grade stockpiles, which impacted overall grade figures, which is what we are trying to reflect above.



Just to reiterate the note above, this chart is extrapolated from portions of prior filings. That said, we think the chart above and the associated data are telling in terms of improving grades going forward vis-à-vis the production ramp that we think describes much of 2020, especially given the impact of Covid 19 during the period. First, to reiterate, Walker Lane is believed to hold higher grades than Nevada's other two (historically more prolific) trends. Further, Fortitude has noted from the start that they believed grades would improve as they proceeded to benches at lower depths. That appears to be playing out. Succinctly, we expect grades to improve as the Company exploits deeper benches but also because of 2020 production including the milling of low-grade stockpiles.

Given the above, the Company has guided to gold production of 40,000 ounces per year for fiscal 2021, 2022 and 2023, and roughly 20,000 ounces for 2024. That guidance requires some color because we think it embodies some of the valuation challenges inherent in Fortitude shares.

To reiterate, we have known Fortitude management for a long time now, and strategically, they have always prioritized production ahead of building a multi-year resource base. There are pros and cons to that approach and the obvious con is that they can only provide guidance in the context of their established reserves (159,600 Au ounces at Dec 2020). That said, adding new reserves is most certainly not lost on management, and they are keenly aware of the importance of developing reserves to the sustainability of the enterprise. That awareness is the basis for their activities in terms of the acquisition and development of the remaining 4 properties in their portfolio. That notion provides a good segue into the discussion of those additional projects. Below is the Company's narrative of each of these properties, as well as some of our assessments therein.

- **Golden Mile**

Golden Mile includes the largest land/claim package of Fortitude's four development/exploration properties, as it is roughly equivalent to Isabella Pearl in that regard. Production records from the 1930's indicate that *"gold along with minor copper and silver being produced from small open pits and shallow underground workings"*. That narrative fits well into our typical affinity for resource deals located in proven districts.

On June 15, 2020, the Company purchased a 100% interest in the Golden Mile property located in Nevada's Walker Lane Mineral Belt. The property covers an area of approximately 10,611 acres consisting of 451 unpatented and 5 patented claims. Located in the Bell Mining District, Mineral County, Nevada, approximately 36 kilometers (22 miles) east of the town of Luning, Nevada. Mineralization at the property is intrusion related, with primary gold and copper mineralization associated with skarn style replacement in carbonate units. Secondary mineralization is associated with structurally controlled stockwork and breccia zones. The "Golden Mile Stock" quartz diorite-granodiorite body is believed to be responsible for the gold-copper skarn mineralization. The stock is only exposed on surface in three small areas because most of its northern extent is covered by Tertiary volcanics. Numerous exploration targets exist. ***In 2021, the Company plans to evaluate the known mineralized zones among a much larger conceptual project plan of multiple open pits along a trend at Golden Mile to the northwest and onto the Mina Gold property****.* ***They are evaluating the potential of at least three pits feeding ore to a strategically located heap leach and process facility****. The conceptualized process plant is being evaluated to take the gold to carbon stage and then haul the carbon for processing at our ADR facility at Isabella Pearl for final doré production. Base line and background studies are being evaluated and budgeted alongside exploration efforts to move this property forward.*

Prior ***third-party*** *drill highlights include the following:*

(Interval, Grade, Distance From Surface)	(Interval, Grade, Distance From Surface)	(Interval, Grade, Distance From Surface)
6.10 m @ 46.53 g/t Au 18.29 meters	10.70 m @ 3.89 g/t Au 41.10 meters	11.90 m @ 1.55 g/t Au 00.30 meters
36.60 m @ 10.26 g/t Au 15.20 meters	13.70 m @ 3.54 g/t Au 00.30 meters	16.80 m @ 1.21 g/t Au 09.10 meters
7.62 m @ 9.34 g/t Au 51.82 meters	08.20 m @ 3.43 g/t Au 00.30 meters	9.20 m @ 1.74 g/t Au 64.00 meters
10.70 m @ 8.76 g/t Au 00.00 meters	7.62 m @ 3.15 g/t Au 62.48 meters	15.20 m @ 1.13 g/t Au 94.50 meters
10.67 m @ 8.35 g/t Au 51.82 meters	11.90 m @ 2.32 g/t Au 00.30 meters	19.81 m @ 1.07 g/t Au 62.48 meters
16.70 m @ 6.04 g/t Au 67.10 meters	18.29 m @ 2.03 g/t Au 00.00 meters	

The drill results referenced in the table above are from third parties that conducted exploration/development work on the property prior to Fortitude's ownership. In that regard, we would add that the property includes valuable data from over*100 historic third-party exploration drill holes.* However, on April 5, 2021, the

Company released results of *their own* drilling program at Golden Mile. Those results included several interesting data points.

Below is an excerpt of that release as well as a table summarizing the drill results:

- *High-grade intercepts included 20.10 meters grading 3.60 grams per tonne (g/t) gold, and 21.21 meters grading 2.77 g/t gold.*
- *Engineering and metallurgical test work evaluating and targeting an open-pit heap leach operation are underway.*
- *The Company's initial drill program included nine confirmation and delineation diamond core holes confirming a portion of the historic drill hole database. In addition, four large-diameter "PQ" (6-inch) diamond core holes were drilled for confirmation and metallurgical testing.*
- *In addition to validating a portion of the historic drill database, we have obtained sufficient material for column leach testing and that material is now at a third-party metallurgical process services company specializing in heap leaching.*
- *The next drill program targets expanding and pulling more mineral into the initial resource and open pit shell design.*

GOLDEN MILE, APRIL 2021
DRILL SUMMARY HIGHLIGHTS

Hole #	Angle deg		From Meters	Interval Meters	Au g/t
GMDD-002	-60		0.61	20.10	3.60
		incl.	8.50	1.52	17.45
		incl.	13.1	3.05	13.00
			37.5	9.14	3.99
		incl.	37.5	5.90	5.89
			51.2	1.52	2.70
			64.9	1.52	0.89
			72.5	3.05	0.42
GMDD-003	-45		0.61	4.57	1.24
		incl.	0.61	3.05	1.62
			70.71	6.10	0.56
		incl.	75.29	1.52	1.07
			85.95	1.52	0.50
			102.72	1.52	0.51
			107.29	1.52	0.39
			121.01	18.29	1.03
		incl.	128.63	4.57	2.81
			143.87	3.05	0.74
		incl.	143.87	1.52	1.18
GMDD-004	-50		5.18	13.72	0.45
			28.04	1.52	2.96
			38.71	1.52	0.71
			46.33	1.52	3.81
			53.95	1.52	0.40
			61.57	4.57	3.10
		incl.	64.62	1.52	8.66
			72.74	1.52	0.56
			89.00	1.52	0.69
			98.15	9.14	1.28
		incl.	102.72	1.52	4.89
			151.49	1.52	1.07
GMDD-005	-45		49.38	4.57	0.36
			64.62	13.72	1.68
		incl.	70.71	1.52	2.47
		incl.	76.81	1.52	6.42
			81.38	7.62	0.45
			101.19	10.67	1.61
		incl.	110.34	1.52	10.00
			122.53	1.52	0.45
GMDD-006	-50		58.83	9.14	1.17
		incl.	60.35	3.05	2.45
			75.59	7.62	0.77
		incl.	80.16	3.05	1.42
			106.07	1.52	0.62
			150.27	1.52	0.45

Hole #	Angle deg		From Meters	Interval Meters	Au g/t
GMDD-007	-45		12.19	10.06	1.73
		incl.	13.72	1.52	2.15
		incl.	16.76	3.05	3.76
			96.01	1.52	0.40
			112.78	1.52	0.68
			118.87	3.05	1.17
		incl.	118.87	1.52	2.05
			134.11	1.52	0.75
GMDD-008	-50		37.19	1.52	0.53
			69.19	1.52	0.98
GMDD-009	-90		1.43	8.63	0.45
		incl.	8.53	1.52	1.73
			20.73	1.52	1.94
			35.97	1.52	0.99
			42.06	1.52	2.32
			141.12	1.52	0.37
GMDD-010	-90		0.00	6.46	0.65
		incl.	3.05	1.52	1.95
			11.25	6.04	1.60
		incl.	14.02	3.26	2.77
			24.38	10.67	1.88
		incl.	28.96	6.10	3.21
			43.46	5.67	0.74
		incl.	43.46	1.34	2.62
			59.44	4.33	1.05
		incl.	60.96	1.52	1.85
			81.38	9.14	2.82
		incl.	81.38	1.52	1.19
		incl.	87.48	3.05	7.71
GMDD-011	-90		91.44	4.57	0.67
		incl.	91.44	1.52	1.12
GMDD-012	-90		8.78	0.52	15.80
			19.32	21.21	2.77
		incl.	19.32	4.45	8.96
		incl.	34.44	1.52	4.16
			82.60	1.52	0.41
			100.89	6.10	0.42
GMDD-013	-90		8.17	7.99	2.11
		incl.	10.06	1.52	4.63
			22.25	1.52	8.77

Assays by ALS, Vancouver, B.C., Canada and Inspectorate America Corp., Sparks, Nevada, USA.
Meters downhole, not true width

The release also notes:

> *"Drilling over 20 meters of 3.60 grams per tonne gold less than one meter below the surface underscores Golden Mile's potential to become an open-pit mine," stated Mr. Jason Reid,*

President and CEO of Fortitude Gold. "We are moving the property forward on numerous fronts towards a potential production decision including a second drill campaign to further delineate an initial Golden Mile resource, ongoing engineering of the open pit design, initiation of metallurgical heap leach test work and we are conducting base line and other studies in preparation for project permit submissions. Having already confirmed the cyanide leachability of this material with initial preliminary test work, column leach tests currently underway are expected to define the mineral's heap leachable characteristics to help engineer the correct process needed to recover the gold. The preferred project design under evaluation is an open-pit heap leach operation taking gold to carbon and then transporting loaded carbon to the nearby Isabella Pearl project's ADR plant for final dore production. While several project due diligence items remain, it is exciting to see the developing potential at Golden Mile and at what could become Fortitude Gold's second open-pit heap leach gold mine."

Recognizing that each of the Company's four current non-producing assets has some level of exploration and/or added development done on each, we think Golden Mile is the most likely of the four to be brought to production the soonest. That said, deciding if/when to take one of these into production will most certainly be a function of the results of additional work to figure out which, if any, has the best overall resource potential.

We would add one further point with respect to the current work being done at Golden Mile.

Table 10.4 Significant Results 2018-2019 Drilling at Isabella Pearl

HoleID		From	To	Interval	Au	HoleID		From	To	Interval	Au
		m	m	m	g/t			m	m	m	g/t
IPRC-023		68.58	76.20	7.62	4.740	IPRC-089		115.82	179.83	64.01	2.994
	inc.	71.63	73.15	1.52	9.850		inc.	120.40	135.64	15.24	8.823
IPRC-056		6.10	25.91	19.81	0.590	IPRC-090		96.01	179.83	83.82	8.574
	inc.	18.29	21.34	3.05	1.388		inc.	99.06	123.44	24.38	22.826
IPRC-059		0.00	16.76	16.76	0.591	IPRC-091		79.25	92.96	13.72	1.257
	inc.	9.14	12.19	3.05	1.642		inc.	83.82	85.34	1.52	3.997
IPRC-060		0.00	18.29	18.29	0.550			126.49	152.40	25.91	18.042
	inc.	12.19	15.24	3.05	1.138		inc.	129.54	135.64	6.10	28.588
IPRC-063		0.00	24.38	24.38	0.592		inc.	140.21	141.73	1.52	30.900
	inc.	1.52	4.57	3.05	1.773			152.40	179.83	27.43	4.402
IPRC-064		0.00	22.86	22.86	1.033		inc.	152.40	160.02	7.62	9.873
	inc.	3.05	7.62	4.57	2.021	IPRC-097		44.20	53.34	9.14	0.892
IPRC-067		0.00	15.24	15.24	0.591	IPRC-113		21.34	27.43	6.10	1.390
	inc.	7.62	10.67	3.05	1.128		inc.	21.34	24.38	3.05	2.273
IPRC-075		41.15	47.24	6.10	2.701			38.10	60.96	22.86	0.761
	inc.	42.67	44.20	1.52	6.422	IPRC-117		22.86	35.05	12.19	0.756
IPRC-087		30.48	45.72	15.24	0.586		inc.	27.43	30.48	3.05	1.715
	inc.	35.05	36.58	1.52	2.744	IPRC-118		1.52	25.91	24.38	1.027
		71.63	76.20	4.57	4.760		inc.	15.24	19.81	4.57	4.101
	inc.	74.68	76.20	1.52	6.030	IPRC-119		0.00	9.14	9.14	0.826
IPRC-088		79.25	96.01	16.76	1.490		inc.	3.05	6.10	3.05	1.468
	inc.	83.82	86.87	3.05	2.188	IPRC-128		156.97	173.74	16.76	1.870
	inc.	89.92	91.44	1.52	2.668		inc.	166.12	170.69	4.57	5.427
		146.30	179.83	33.53	4.656	IPRC-147		25.91	45.72	19.81	1.187
	inc.	155.45	163.07	7.62	11.718		inc.	36.58	41.15	4.57	3.609

https://www.sec.gov/Archives/edgar/data/1828377/000110465920115718/tm2033284d2_ex99-2.htm

The table above references the 2018-2019 drill results from Isabella Pearl. Recall, the project was put into production not too long after these were drilled and evaluated. Our point here is to illustrate the notion that these drill results are not markedly dissimilar to those from the Golden Mile table presented previously. Granted, that is a general statement, and obviously, any decision to put Golden Mile into production will be based on many more data points. That said, we think the recent announcement referenced above suggests that the development and evaluation of at least some of those data points is well underway. Succinctly, we think it is entirely possible that a *decision* to put Golden Mile into production could be a 2021 event, and if that proves to be the case, we think that would represent a valuation catalyst in the story.

- **East Camp Douglas**

In January 2017, we purchased a 100% interest in the East Camp Douglas gold property located in Nevada's Walker Lane Mineral Belt. The property covers an area of approximately 5,600 acres consisting of 289 unpatented claims, 16 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. We continued our review of historical geological, exploration and mining data on the East Camp Douglas property during 2019. Field exploration activities included surface geologic mapping, rock chip sampling and collection of samples for spectral analysis in the vicinity of workings of the historic Kernick, Sunset, and Triumph mine areas. We also commenced initial 3D-modeling for the historic mine areas. These historic mines and the lithocap area continue to be evaluated for surface drilling in the future. We initiated our first drill program to begin testing the very large lithocap area near the south end of the property during the third quarter of 2020.

Third party drill highlights include the following:

(Interval, Grade, Distance From Surface)	(Interval, Grade, Distance From Surface)
22.86 m @ 13.55 g/t Au 4.6 meters	23.86 m @ 1.99 g/t Au surface
4.57 m @ 4.39 g/t Au	18.80 m @ 1.91 g/t Au
13.72 m @ 2.88 g/t Au 13 meters	27.40 m @ 1.62 g/t Au
7.62 m @ 2.86 g/t Au 3 meters	4.57 m @ 1.39 g/t Au
18.29 m @ 2.42 g/t Au	15.24 m @ 1.25 g/t Au 47 meters
6.10 m @ 2.00 g/t Au	9.10 m @ 1.00 g/t Au surface

We would add, Management has noted that they believe East Camp Douglas has "home run potential" and we expect the Company to commit exploration resources to it in the current year.

- **Mina Gold**

In August of 2016, we 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 a 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 1,200 acres consisting of 61 unpatented claims and 5 patented claims. During 2018, we completed an 11-hole reverse circulation drilling program totaling 885 meters on the Mina Gold property. This drilling targeted expansion along strike and to depth known surface high-grade gold mineralization on our patented claims. In 2019, we reviewed results from previous surface drilling to guide follow-up drilling planned and other exploration activities for Mina Gold. During 2019, we expanded our land position at Mina Gold by leasing an additional 18 unpatented lode mining claims. These claims will be evaluated along with our other claims at the Mina Gold property in preparation for future surface drilling programs.

Drill highlights include the following:

(Interval, Grade, Distance From Surface)	
15.24 m @ 3.34 g/t Au surface	
12.19 m @ 2.98 g/t Au 6.1 m	
19.81 m @ 1.47 g/t Au 3.1 m	

- **County Line**

In March 2018, we purchased a 100% interest in the County Line property. The property is located close 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 2,400 acres consisting of 116 unpatented lode mining claims and 6 unpatented placer mining claims. During 2018, we reviewed historical geological, exploration and mining data along with conducting surface mapping and rock chip sampling at County Line in preparation for a future initial surface drilling program.

Drill highlights include the following:

(Interval, Grade, Distance From Surface)	
9.15m @ 3.86 g/t Au surface	
7.62m @ 3.03 g/t Au surface	
15.24m @ 1.26 g/t Au surface	

Lastly, the Company obviously acquired these properties with the expectation that they might provide an added resource, and ultimately, production base. However, we think it is important to point out that we think there is also an expectation that Isabella Pearl still has additional potential for long term production as well. In the aggregate, we think exploration milestones will provide a basis for stepped up valuations in 2021 and 2022 and they have multiple shots on goal to that end.

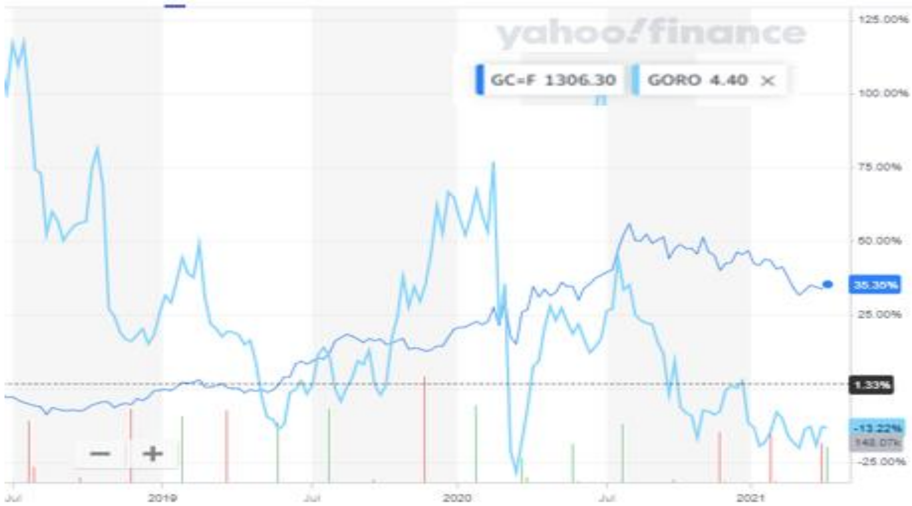
Industry Overview

As we noted above, while the purpose of this report is to initiate our coverage of Fortitude Gold, it is still by some measure, an extension of the Gold Resource coverage we initiated in late July 2018. In that initiation, we spent some time in the Industry Overview laying out a case for higher gold prices. To revisit the logic, we noted the following in that document:

> *…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 to help insulate them from periods of low gold prices, so they are positioned to take advantage of rising gold prices when they transpire.*

As it turned out, that view proved prescient. From the time of our initiation ★ global debt (the red line above) has exploded, and gold prices have followed:

What was not so prescient, was the price of GORO shares in the face of those rising gold prices. The chart below reflects both the price of gold (**dark blue**) and the price of GORO (**light blue**) from the time around our initiation through the present. Keep in mind, the GORO/Fortitude split occurred at 12/31/20, so the chart lacks the value of the spun-off Fortitude. That said, our thesis that higher gold prices would translate into higher GORO share prices clearly did not materialize:

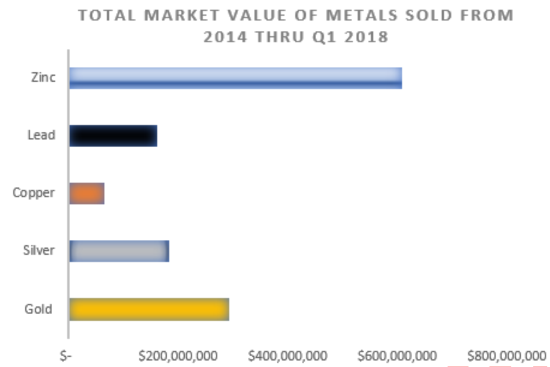


On the other hand, while gold prices did in fact rise from the time of our initiation of GORO….

… zinc prices were under considerable pressure.

[Zinc PRICE Today | Zinc Spot Price Chart | Live Price of Zinc per Ounce | Markets Insider (businessinsider.com)]

Some may recall that because of the sharp decline in zinc prices, GORO experienced some draconian processing charges for their zinc, which had markedly negative operating impact on GORO. To reiterate a point we alluded to above, that was particularly challenging for GORO, because despite its "gold resource" moniker, leading up to the time of our initiation of GORO, the Company's zinc contribution was measurably larger than its gold contribution.

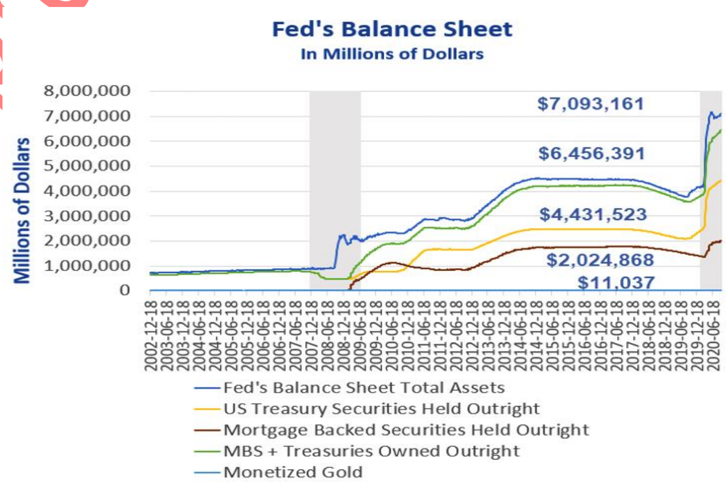


Specifically, as the gold and zinc price charts above indicate, *from the time of our GORO initiation* through the first of April (2021), gold prices have risen by approximately 31.5%, while zinc prices have fallen by 8.4%. That leads us to a handful of observations regarding Fortitude and why we like it here.

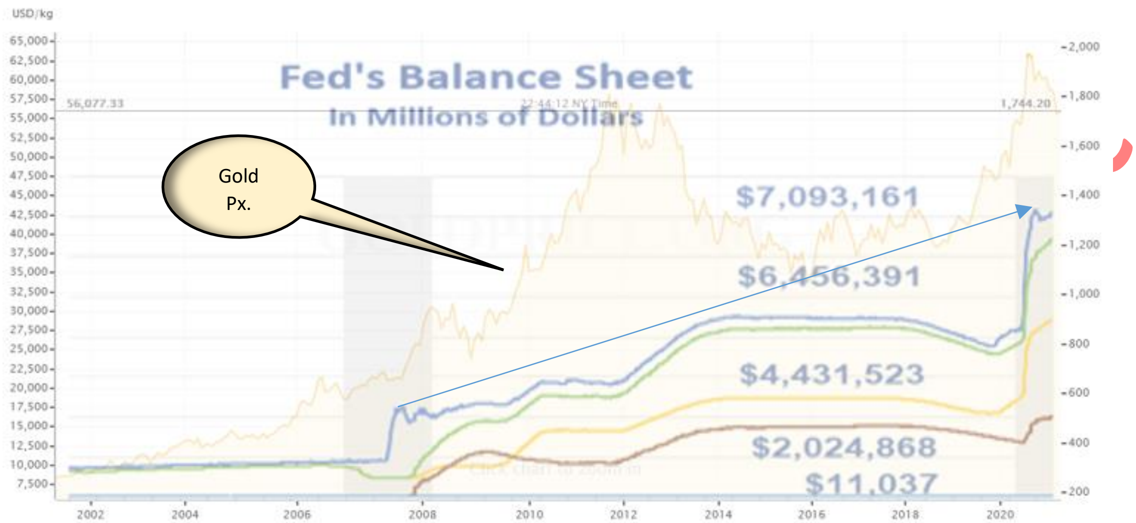
First, unlike Gold Resource, Fortitude Gold is a pure gold play. That is, it will derive the vast share of its revenues from gold production/sales, with minor credits of silver. Consequently, Fortitude's fortunes are likely to follow the path of gold. While we submit, that is a thesis we forwarded with GORO as well (and it proved somewhat otherwise), we are confident suggesting that Fortitude should represent a much more correlated proxy for gold prices. Obviously, that may prove good or bad depending on gold prices, however, we think that posture may attract particular (gold) investors that GORO perhaps could not.

Having established that Fortitude is a bona fide gold story, the question becomes where does gold go from here? We do not pretend to know the answer to that, but we have some topical observations in that regard.

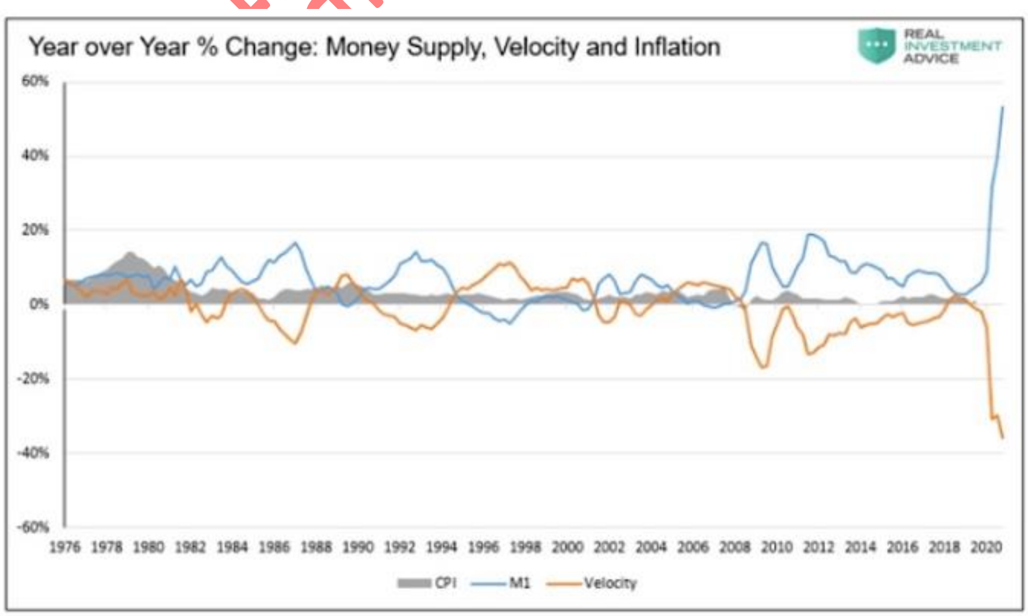
Over the past few years, the argument for gold has largely centered on the rapid expansion of the U.S. Fed and other central bank balance sheets. Recall, that expansion started with the financial crisis in 2007, and continued through much of the following decade.



In retrospect, we think the inference has been that central bank policy would ultimately be inflationary. While that did not materialize, if we lay gold prices on top of the above Fed balance sheet expansion, it appears that gold prices (in yellow below) have largely responded in kind with that growth:



That said, as the chart(s) above also illustrates, inasmuch as the Fed began to unwind some of that balance sheet expansion at the end of 2018 and through 2019, the pandemic has led to an even more acute increase in Fed expansion. Moreover, pandemic related expansion has also resulted in unprecedented growth in the money supply, even well beyond the levels seen through the financial crisis. However, what is perhaps less intuitive than Fed expansion leading to marked increases in the money supply is the corresponding *decrease* in money velocity:

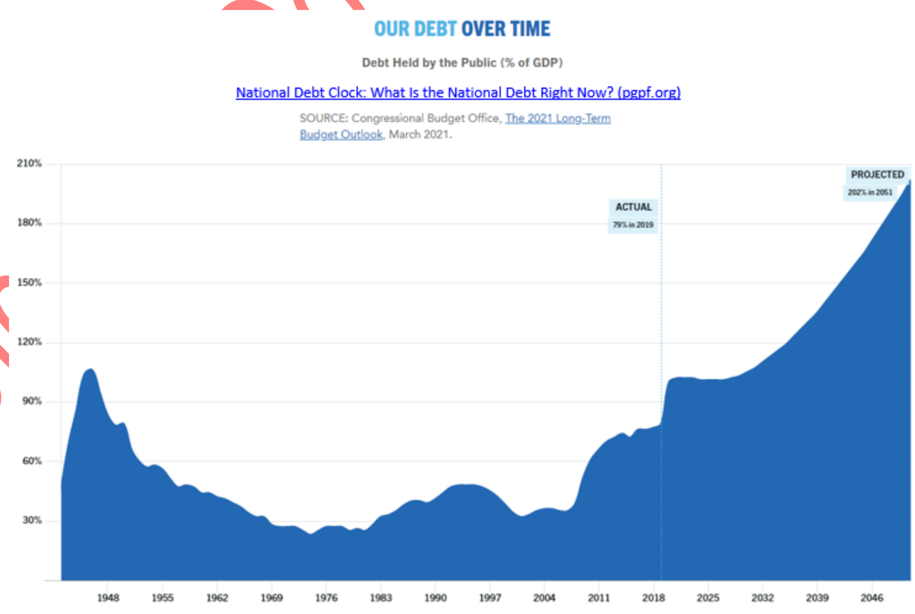


To be sure, at least since the start of the pandemic, in the face of rapid money supply growth, velocity has declined sharply. To put that into perspective, we think it is fair to say that the general view is that expansion in the money supply should lead to inflation. However, if it is offset with declining velocity, that may not be the case. That is, if we expand the money supply, but we keep it in a suitcase where no one can spend it (ie: no velocity) it likely will not be inflationary. Succinctly, we think that notion might be telling with respect to the current "inflation" in financial assets, but again, if the case for higher gold prices is built on the assumption of money supply expansion, sustained low velocity could mitigate that assumption.

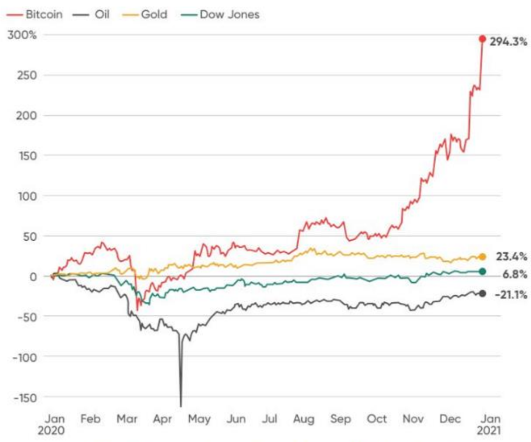
The above said, here is how we see gold and ostensibly by extension, Fortitude.

In the aggregate, gold has performed better than many asset classes since the Fed and other central banks began expanding their balance sheets in 2007 and for the most part never stopped, or at least never unwound. The simple assessment of that is probably the assumption we alluded to above regarding the impact of the Fed's approach on inflation. The problem is, despite theory to the contrary, the Consumer Price Index has remained stubbornly subdued despite that expansion, and that has many smart people scratching their heads. That being the case, as we said, gold has managed to perform well despite weak inflation.

On the other hand, there may be some other explanations for gold's rise that do fit the typical gold narrative. For instance, the uncertainties of things like the financial crisis and/or the pandemic support gold's posture as a "safe haven". Moreover, we have seen many historic asset class corelations break down as central bank liquidity has provided the tide to raise all boats, moving many assets almost simultaneously to new highs. From that perspective, gold has not been the exception.



We think it is fair to suggest that gold's posture as an inflation hedge has historically played a major role in its pricing. We also submit that despite massive monetary and now fiscal stimulus, the inflation consensus by many in that "business" remains relatively benign. To be clear, some recent inflation data appear to be pointing higher, but despite those readings, many (including the Fed) continue to see inflationary pressure as modest and likely transitory for the foreseeable future. That is not the sort of outlook that suggests higher gold prices. That said, we think it is hard to ignore the rate at which both monetary and fiscal policy are being accelerated and not be concerned about how all of this might end. As we illustrated above, the recent surge in the money supply is extraordinary, and while corresponding velocity has been equally extraordinary in the other direction, if that part of the equation should change, we have a hard time seeing how that will not result in more inflation. In our view, the sheer unprecedented nature of government's efforts to flood the economy with cash and to continue to accumulate increasingly larger deficits should give investors pause. While we certainly hope we are overstating this, in our view, the risk of catastrophic economic malaise is increasing, **and should in turn support the prudence of hedges like gold**. That brings us to a final point.



Gold vs Bitcoin: complete comparison at the start of 2021 (capital.com)

To be honest, it is hard for us to believe we are even talking about cryptocurrency in a write up addressing gold, but here we are. As most are aware, the advance of Bitcoin prices over the past 6 months has been breathtaking. What is perhaps even more extraordinary is the building consensus that Bitcoin is likely to be much higher in the future than lower. Moreover, that consensus is beginning to be shaped and/or at least supported by established financial and other industrial players, at least some of whom we think it is fair to say, would not have imagined being on this bandwagon even a year ago. The financial markets have been a perplexing and volatile place over the past few years, and Bitcoin might be the poster child of that notion.

As it pertains to gold, Bitcoin has, at least from the perspective of some, emerged as a potential substitute. To be sure, there are some similarities. Certainly, each stand as a potential "store of value" alternative to traditional currencies. Moreover, apparently unlike government currencies, each presumably has a finite supply. In the case of Bitcoin, that number is something around 22 million units, while with gold, we are not sure of the exact amount that remains in the earth's crust, but it is most certainly finite. Further both are "mined" daily, adding to the dilution of each, although relatively speaking the way each is "mined" could not be more dissimilar. That by the way is not the only **dis**similarity between Bitcoin and gold.

Inasmuch as Bitcoin and gold may both be perceived as alternatives to government backed currencies, it is reasonable to accept that some might view Bitcoin as the new substitute for gold. We are not sure we agree with that view. Rather, we think that Bitcoin may simply be *another substitute* for fiat currency. Oddly enough, Bitcoin's "fiat" nature may *contribute* to its perceived value. That is, if we are going to rely on fiat money anyway (government issued currency) why not rely on one that at least has a limit to the amount that can be issued, and presumably by extension has a better inflation profile? Obviously, the answer is more complex than the question implies, but that does not mean the question is not valid…especially given the rate at which governments around the world have chosen to print new money and dilute their monetary bases.

Of course, the glaring difference between Bitcoin and gold is their forms. Obviously, gold's physical nature stands in stark contrast to Bitcoin's "virtual" nature and, in our view that difference is exactly why one may never be a true substitute for the other. Further, it seems to us Bitcoin may be on a path towards becoming a *better* medium of exchange, than perhaps a store of value. Granted, the more successful it becomes at the first, the more successful it will likely become at the second as well. However, currently, the stark volatility of Bitcoin is not particularly conducive to it being a "store of value" (unless it continues to go up forever). However, as a medium of exchange, its "libertarian" and virtual profile could prove to be a more seamless, international, and transactionally cheaper alternative than legacy currencies. Succinctly, while we understand some of the narrative suggesting that some investors may be replacing gold with Bitcoin as a hedge against inflation, legacy currencies etc., gold has been a safe haven and a trusted store of value *for centuries*. In our opinion, Bitcoin's ultimate trajectory, one way or the other, will not measurably change that over time.

<u>Operating Overview</u>

Given that Fortitude just started trading as a standalone entity, modeling/projecting the operation of the enterprise includes some holes. Gold Resource's reporting did a good job of segmenting the Nevada Unit (Fortitude) in terms of production and metal sales. The expense line items lacked the same detail, but Fortitudes S-1 filing and subsequent 10K filing have provided additional color. That said, we will start with the top of the operating statement and hit a few of the main points as we work our way down.

Like most miners, Fortitude's revenues will be driven my several variables. Our model estimates that the Company will mine approximately 200,000 tonnes per quarter. That number will differ from quarter to quarter and while our sense is that it is more likely to be higher than lower, we will make appropriate adjustments as we move forward. Looking back, that number is a bit difficult to assess from the historic results from the production start in 2Q 2019. In short 2019 production numbers were impacted by the startup and initial removal of overburden from the pit, while 2020 numbers were stymied by the pandemic. That said, barring another shock of some sort, we think 2021 should provide more normalized/consistent production results. As the Company noted on the call, they have considerable flexibility with respect to production, and as we understand it, they have determined that levels in this range are appropriate given the current reserve profile.

One of the more salient variables for any miner is grade. As we noted above, grades at Isabella have consistently increased, some of which was related to the start-up and overburden issues we noted, but also because of anticipated higher grades as benches proceed to lower (higher grade) depths. Here again, we expect grades to normalize as we move forward, but grades are always a wild card in mining projects. We will pay particular attention to this metric, but until proven wrong, we are modeling grades in the 2 – 2.5 grams/tonne range. We would add, their resource estimates suggest better grades than our model is reflecting.

Metallurgy is another wild card for the industry. Frankly, we think metallurgy is one of the more important yet misunderstood elements of many mining projects. The Company indicates recovery rates of *"~81% at ½" crushed material"*. They also noted on the call that crushing ore as opposed to using run of mine profiles has improved yields to levels that justify the cost of crushing, so they intend to utilize that approach going forward. Our model reflects recoveries in that (crushed) range, and we suspect that number should remain relatively consistent although we have seen instances where it did not so we will watch this as well.

Lastly, the most visible variable for miners is of course, metal prices. In Fortitude's case, that means gold and to a much lesser extent silver. *Our current model* reflects static forward gold prices in the range of current prices ($1750). We believe these prices support our current price target, however, recognize that part of our thesis here is that in our view, forward gold prices are likely to be higher rather than lower than current levels. Clearly, that variable will likely play a considerable role in the value of Fortitude going forward.

Production Costs - The Company's most recent presentation notes expected *"average cash costs of ~$650 (+/- 10%) per ounce over mine life"*. The Company provided some color on this on their yearend call as well. As we alluded to above, the process of preparing and further developing the pit creates a considerable amount of waste material that needs to be relocated from the operating section of the project. As the picture of the pit on page 6 above illustrates, the volume of that material is greater at the initial depths of the pit, and generally declines as they proceed to lower depths. In short, the removal of that waste is an expensive undertaking, but that expense declines as waste volumes decline. On the call, the Company noted that they expect to haul 7.5 million tonnes of waste material in 2021, 2.5 million tonnes in 2022 and 1 million tonnes in 2023. The Company has referenced that its cash costs (essentially its production costs per ounce) started in the $1100+ range and have trended to around $900 but to reiterate, should ultimately average out to *~$650 (+/- 10%) per ounce over mine life"*. Again, the decline of that average cost is associated with the removal of the waste/burden noted above, as well as with assumed better grades at depth. Recognize, the decline of those costs over time creates some markedly favorable operating leverage going forward.

General and Administrative Expenses - Currently, Fortitude's G&A is a function of a service agreement with Gold Resource, that was part of the spin-off. In essence, it appears that the service agreement contemplated that the two enterprises could share some G&A functions until they either decided it was no longer tenable, and/or Fortitude was able to develop its own internal infrastructure. For 2020 the G&A line item totaled roughly $3 million, and it amounts to identifiable costs that Gold Resource passes on to Fortitude under the agreement. Having (generally) addressed the service agreement with GORO management and after looking over Fortitude's recent C-level hires, our sense is that the service agreement is not likely to remain in place for much longer. That said, Fortitude management has guided to G&A levels of around $5 million annually. Obviously, that is a bigger number than that which has been incurred under the service agreement but that is also to be expected. Clearly, Fortitude will incur additional costs associated with its new public posture, which includes a variety of costs. We think there are also some added costs associated with the general ramp/acceleration of the business. More specifically, the Company noted on the call that they have also issued shares to some of the new C-level and associated employees, but also to some of the employees on the ground and directly related to the mining operations. We thought that was a positive approach by the way. Our model assumes a quarterly accrual of that non-cash stock compensation, and is embedded in G&A. As an aside, we think G&A for Q1, which is effectively its first public quarter, will include some extraordinary charges, but we submit they could certainly be more (or even less) than we are estimating since we have no clear guidance on that number.

Exploration Expenses – The Company's yearend call guided for 2021 exploration costs of around $5 million. Given some of the endeavors we described above regarding Golden Mile, East Camp Douglas and additional work at Isabella Pearl, we think that looks like a reasonable (and well spent) outlay. We do not have a good sense of the calendar of these expenses, so we have assumed that to be equally spread over the year. From a practical standpoint, there are likely limits to how fast they can deploy the current exploration plan, however we believe their exploration endeavors for the current year and likely the next, (driven by a desire to identify new resources and get them to production) will be robust and accelerated to the extent possible.

Management Overview

Jason Reid
CEO / President / Director

Jason Reid is an experienced mining industry executive serving as CEO, President and Director of Fortitude Gold Corporation (FGC). FGC was spun out of Gold Resource Corporation (GRC) (NYSE American: GORO) where Jason previously served for over 14 years including CEO, President and Director positions. Jason joined GRC in 2006 when it was a private Company and helped take it public with a self-underwritten IPO. Jason was part of a management team that took GRC from an exploration stage company, to a development stage company, to a gold and silver dividend paying metal producer. Under his *tenure as CEO & President, GRC achieved over a decade of production, generated over $1 billion in revenue, ten consecutive years of profitability, and returned over $115 million in dividends to shareholders. At GRC, he also co-created and initiated the first known cash to physical gold and silver dividend program whereby shareholders could take delivery of precious metals. As an entrepreneur prior to GRC, Jason was the founder and president of two successful businesses he ran for 13 years. He holds a Bachelor of Science degree from Fort Lewis College.*

Bill Conrad
Board Chairman

Bill M Conrad serves as Chairman of Fortitude Gold Corporation. He previously served on the Board of Directors of Gold Resource Corporation (NYSE American: GORO) for 15 years, where he held several positions including Lead Independent Director, Audit Committee Chairman, Compensation Committee Chairman, Nominating and Governance Committee Chairman as well as the Chairman of the Board of Directors from 2014 to 2021.

Over the past 35 years, Mr. Conrad has served as an executive officer and director of numerous private and publicly traded companies. In 1990, Mr. Conrad cofounded MCM Capital Management, Inc., a private management consulting firm which assisted private and public companies with management, financial needs, mergers, acquisitions, public and private markets, and funding and finance sources. Mr. Conrad also served as a Director of Synergy Resources Corp. (NYSE American: SYRG & SRCI) from 2008 until 2017, an oil and gas company operating in the DJ Basin of Colorado. Mr. Conrad was a member of the Audit Committee, member of the Nominating Committee and Chairman of the compensation committee during his tenure at SYRG.

Mr. Conrad's expertise is primarily focused in the areas of financial management, accounting principles, financial statements and corporate development.

John Labate
Chief Financial Officer

Mr. Labate is an experienced mining industry executive with over thirty-five years of financial management and accounting experience. His extensive experience includes previously serving as CFO for Gold Resource Corporation, Golden Star Resources Ltd., Constellation Copper Corporation and Crown Resources Corporation.

Barry Devlin
Vice President Exploration

Mr. Devlin is an experienced mining industry executive with over thirty-nine years of exploration experience. He previously held positions at companies including Gold Resource Corporation, Endeavor Silver Corporation and Hecla Mining Company. 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. He has worked in a variety of geologic environments in the USA, Canada, Mexico, Argentina, Bolivia, Chile, Guyana, Peru and Venezuela and has established a solid track record in generative exploration programs. He holds a BS degree with honors *in Geology, 1981, and a Masters in Geology, 1987, from the University of British Columbia, Vancouver, Canada. His professional memberships include; Registered Professional Geologist (P. Geol.), British Columbia, Fellow of the Geological Association of Canada and Society of Economic Geologists. He has several publications concerning epithermal systems.*

Greg Patterson
Vice President Corporate Development / IR

Mr. Patterson is an experienced mining industry executive with over a decade of industry experience as Corporate Development and Investor Relations. He previously served as Vice President of Corporate Development with Gold Resource Corporation (GRC). At GRC, he co-created and initiated the first known cash to physical gold and silver dividend program whereby shareholders could take delivery of precious metals. Prior to Gold Resource Corporation he spent fifteen years in marketing and territory sales management for two manufacturers of precision laboratory instruments. He holds a Bachelor's degree in Environmental Biology from the University of Colorado.

Risks and Caveats

As we elaborated above Fortitude is a pure gold play. While we believe the Company has a favorable cost profile, its fortunes will be tied to the price of gold. Inasmuch as we have attempted to lay out a case for higher gold prices, that may or may not be the reality going forward. Lower gold prices would be adverse to the Company's success.

The Company's current reserve profile reflects enough resource to support the recovery of approximately 40,000 ounces of gold per year for the next 3.5 years. From an industry perspective, that is a relatively short runway. To be clear, we have argued that Fortitude's management has historically deployed a "production first" strategy. That is, to our recollection, they have never sought to spend exploration dollars to prove resources that guarantee production *several years out*. We could debate the pros and cons of that approach ad nauseum, but *it is their approach*, and in our view, it has served them well over the years. That said, we recognize that it is not without potential peril. Succinctly, our model assumes that they are going to find additional resource and put them into production. Specifically, our projections of future production include lower grade assumptions (which may or may not prove to be the case), but again our model and associated targets assume production from **yet to be discovered resources** well beyond the middle of 2024. If we are wrong about that assumption, our targets will almost certainly prove to be overstated. The Company's need to identify new resources and put them into production is one of the major risks in the story.

As an extension to the identification of new resources, mining projects are subject to many environmental laws and standards. That notion carries risks associated with environmental damage the Company may create (and may be responsible for fixing) as well as procuring the permits to explore and produce the properties in the first place. To that end, we think it is fair to say that the current administration is certainly less mining friendly than the last. We submit, the Company has noted that some of their current exploration and ostensibly most potentially imminent production targets involve patented claims. These are essentially claims they own instead of lease which effectively makes them private ground. Generally, patented claims are subject to fewer restrictions than unpatented claims, which typically amount to mineral rights leased from the federal government. To reiterate, as we understand it, much of the current exploration/development focus involves patented claims and the permitting required is generally through the state of Nevada rather than through federal agencies like the Bureau of Land Management (BLM). That should make things easier. However, the Company's land package involves a preponderance of unpatented claims and as such, from the "10,000-foot view", we believe the current administration's environmental posture will make domestic mining exploration, development and production more time consuming, more costly and generally more difficult. That's could provide future challenges for Fortitude.

We have argued and to this point the Company has demonstrated, that its resource grades are likely to improve as they reach deeper levels of Isabella Pearl. Again, grades can make or break mining projects. If our (their) grade assumptions prove to be overstated, that will have a commensurately negative impact on the Company's results as well as our targets based on the same.

The Company relies on the guidance of a *small* handful of individuals. The departure of one or more of these individuals could have a negative impact on the Company.

Fortitude's shares are relatively thinly traded and as such are subject to considerable price volatility. In that regard they may not be suitable to many investors. Further, junior mining companies and many small companies in general often rely on the capital markets to execute their plans, which makes the illiquid nature of the shares an even more acute risk. Small companies often experience marked dilution of their shares when they must access the equity markets for capital. While we believe that Fortitude is relatively well capitalized for the foreseeable future, the risk that they may need to dilute shareholders in the future at unfavorable valuations remains topical.

These are just some of the more visible risks associated with Fortitude Gold. There are likely others that we may have missed and/or are less apparent at the current time.

Summary and Conclusion

To refresh, we are initiating coverage of Fortitude Gold, but this coverage is also an extension of at least a portion of original coverage of Gold Resource, which spun Fortitude into a separate entity, which then went public through an S-1 filing. From that perspective, while Foritude Gold might be new in terms of form, on various levels, we have followed this for some time now.

Secondly, while we are microcap generalists, we have analyzed and covered several mining issuers through the past 3 decades. That along with some other experiences has provided us with a general checklist of things we like to see in a mining project. That list includes things like attractive grades along with attractive associated costs, operations in a proven district with mining friendly oversight, current profitable production with reasonable visibility and future added resource potential, access to capital or better yet working capital to support the business plan, and management that has "been there and done that" to name a few. Fortitude checks all those boxes. We would add, Fortitude ended the year with $27.8 million in cash and $42 million of working capital so they are well positioned to internally fund the current plan.

In this report we featured Fortitude's posture as a gold "pure play", but that is a notion that we carried with us from the original Gold Resource coverage. That is, through the Gold Resource research, we noted that in our view Gold Resource's name presented some investment challenges in that it *was not* a pure gold play. To translate, we think Fortitude should have an easier time attracting the attention of gold investors than Gold Resource.

As we noted in the Risks and Caveats section above, Fortitude's lack of identified reserves is a topical risk. In short, if they do not identify more resources that they can put into production they may have a lot of spare time on their hands beyond mid-2024. As we suggested, that is not lost on management, however for as long as we have known management (15 years), unlike many junior miners, it has *never been* their primary focus. In fact, as we recall, when they were in the pre-production stages of the flagship Mexico project, many of the Company's naysayers went as far as to say the Company was a "scam" because of its minimal proven and probable resource profile. They started production in Mexico in 2010 and have been producing from that project ever since.

While again, building reserves has never been management's focus, paying dividends has. Anyone who has read much of Gold Resource's filings or other collateral is probably aware that *GORO "has distributed consecutive monthly dividends since commercial production totaling over $116 million as of January 2021".* Recall, Fortitude's management was Gold Resource's management over nearly all that dividend history, so it is not surprising that one of the first major policies they instituted at Fortitude was a $.24 per share annual dividend. That represents a dividend rate of just under 5% based on the current Fortitude share price. The Company's most recent presentation has suggested that potential annual dividends closer to $.60 per share (11%+) are "aggressive" but conceivable. We would add, along with attracting gold investors, management believes that their dividend policy could ultimately help attract income investors as well. We think they may be right about that.

To summarize, we have covered Gold Resource for some time now and part of our thesis at the time of that initiation stemmed from enthusiasm for the "Nevada Unit" which today is Fortitude Gold. We believe Fortitude represents a compelling gold play based on sustained gold prices at or around current levels and by extension an even more compelling value in a rising gold market. We are initiating our coverage of Fortitude Gold Corp. shares with an allocation of 4 and a 12-24 month price target of $8.75. We will reassess these conclusions as relevant data points emerge.

Projected Operating Model

Fortitude Gold Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/21	6/30/21	9/30/21	12/31/21	Fiscal 2021	Fiscal 2022
Consolidated Statements of Operations (000's)						
Sales, net	**$ 16,409**	**$ 16,204**	**$ 16,204**	**$ 16,204**	**$ 65,022**	**$ 66,114**
Mine cost of sales:						
Production costs	$ 8,630	$ 8,551	$ 8,474	$ 8,397	**$ 34,052**	**$ 33,493**
Depreciation and amortization	$ 2,590	$ 2,596	$ 2,609	$ 2,622	**$ 10,416**	**$ 10,617**
Reclamation and remediation	$ 5	$ 5	$ 5	$ 5	**$ 20**	**$ 20**
Total mine cost of sales	**$ 11,224**	**$ 11,152**	**$ 11,088**	**$ 11,024**	**$ 44,488**	**$ 44,130**
Mine gross profit	**$ 5,185**	**$ 5,052**	**$ 5,117**	**$ 5,181**	**$ 20,534**	**$ 21,983**
Costs and expenses:						
General and administrative expenses	$ 2,475	$ 1,267	$ 1,267	$ 1,267	**$ 6,277**	**$ 5,115**
Exploration expenses	$ 1,589	$ 1,334	$ 1,327	$ 1,327	**$ 5,578**	**$ 5,343**
Other expense, net	$ 75	$ 75	$ 75	$ 75	**$ 300**	**$ 300**
Total costs and expenses	**$ 4,138**	**$ 2,677**	**$ 2,670**	**$ 2,670**	**$ 12,154**	**$ 10,757**
Income before income taxes	**$ 1,046**	**$ 2,375**	**$ 2,447**	**$ 2,511**	**$ 8,380**	**$ 11,226**
Provision for income taxes	**$ 169**	**$ 514**	**$ 533**	**$ 550**	**$ 1,765**	**$ 2,497**
Net income	**$ 878**	**$ 1,861**	**$ 1,914**	**$ 1,962**	**$ 6,615**	**$ 8,729**
Net income per common share:						
Basic	**$ 0.04**	**$ 0.08**	**$ 0.08**	**$ 0.08**	**$ 0.28**	**$ 0.36**
Diluted	**$ 0.04**	**$ 0.08**	**$ 0.08**	**$ 0.08**	**$ 0.28**	**$ 0.36**
Weighted average shares outstanding:						
Basic	**23,711,208**	**23,763,291**	**23,882,108**	**24,001,518**	**23,839,531**	**24,303,041**
Diluted	**23,711,208**	**23,763,291**	**23,882,108**	**24,001,518**	**23,839,531**	**24,303,041**

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Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

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 "Hold" 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.