

Trickle Research

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



Price Target Upgrade



FORTITUDE GOLD CORP.

Fortitude Gold Corp.

(OTCQB: FTCO)

Report Date: 08/04/22

12- 24 month Price Target: \$9.25

Allocation: 4

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

Closing Stock Price at Target Upgrade (Closing Px: 03/09/22): \$7.36

Closing Stock Price at This Update (Closing Px: 08/03/22): \$6.49

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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.

Fortitude announced results for 2Q-F22. Those results were highly positive, above expectations but not overly surprising. To summarize, they reported production of 10,980 ounces of gold, which was at the high end of their typical guidance of 10,000 ounces per quarter. Incidentally, they also reported production of 16,027 ounces of silver, which was higher than we would have anticipated even with the higher gold production. Moreover, they sold 12,851 ounces, or nearly 1,900 more ounces than they produced. That difference is related to a handful of issues including timing of deliveries, contract adjustments and others, and is not atypical on one side or the other. In short, a few issues (higher production, additional sales beyond production, higher gold prices etc.) all contributed to a positive performance surprise relative to our projections. That said, as we have noted in the past, we believe they have considerable control over the levers here, so performance at one end of their range or another does not generally surprise us. We anticipate the balance of the year to continue to fall within their guidance of "10,000 ounces per quarter \pm 10%".

The above is good news, but other portions of the quarter and the quarterly call/update were in our view more telling with respect to the future of Fortitude, and by extension the valuation. To edify, we think those reasonably familiar with the story will find it hard not to notice the growing focus on exploration and development. For instance, over the past few sessions and on the call, they provided constructive drill results from Golden Mile, as well as some comments regarding County Line. They also made some positive comments about East Camp Douglas, which to summarize, (if we are reading the tea leaves correctly) they believe could be a bonanza (albeit our words not theirs). The point is, we noted in our initiation as well as in updates along the way, we think the street has been comfortable discounting Fortitude (and historically its management), for an approach that can generally be described as more focused on production/cashflow than perhaps on developing large resource bases. We are not going to debate (redebate) the merits of each, but we think there are some changes emerging around that theme.

It is clear to us that the Company is beginning to set its sights on the development of additional resources. To clarify, given the defined life of Isabella Pearl (at least as it is delineated to this point), it is clearly necessary for them to find more resources to mine to maintain the current production profile. Further, we are comfortable suggesting that the greater plan is to *increase the production profile* in the future, and current exploration/development is the basis for that endeavor. In our view, while production from the current exploration program(s) is certainly not an imminent event, we think continued success on the exploration side will provide visibility into the maintenance of current production levels as well as perhaps the inference of increasing production levels, which in turn should speak to higher (and in our view more appropriate) valuations.

We are maintaining both our price target and our allocation of Fortitude, although frankly, we are inclined to bump the latter on what we think is a burgeoning exploration profile. Given the general state of things, we will keep that powder dry for now, but we view the stock as a good value at current levels, especially given the current dividend yield of nearly 8%.

Projected Operating Model

Fortitude Gold Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	<u>3/31/22</u>	<u>6/30/22</u>	<u>9/30/22</u>	<u>12/31/22</u>	<u>Fiscal 2022</u>	<u>Fiscal 2023</u>
Consolidated Statements of Operations (000's)						
Sales, net	\$ 15,361	\$ 23,993	\$ 17,039	\$ 16,471	\$ 72,864	\$ 69,610
Mine cost of sales:						
Production costs	\$ 5,781	\$ 8,189	\$ 5,550	\$ 5,550	\$ 25,070	\$ 23,400
Depreciation and amortization	\$ 2,778	\$ 4,155	\$ 3,541	\$ 3,505	\$ 13,980	\$ 14,408
Reclamation and remediation	\$ 47	\$ 76	\$ 38	\$ 38	\$ 198	\$ 165
Total mine cost of sales	\$ 8,606	\$ 12,420	\$ 9,129	\$ 9,093	\$ 39,248	\$ 37,973
Mine gross profit	\$ 6,755	\$ 11,573	\$ 7,910	\$ 7,378	\$ 33,616	\$ 31,637
Costs and expenses:						
General and administrative expenses	\$ 1,180	\$ 1,094	\$ 1,106	\$ 1,097	\$ 4,477	\$ 4,445
Exploration expenses	\$ 2,514	\$ 2,426	\$ 2,680	\$ 2,541	\$ 10,161	\$ 10,172
Other expense, net	\$ 17	\$ 65	\$ 75	\$ 75	\$ 232	\$ 300
Total costs and expenses	\$ 3,711	\$ 3,585	\$ 3,861	\$ 3,713	\$ 14,870	\$ 14,917
Income before income taxes	\$ 3,044	\$ 7,988	\$ 4,049	\$ 3,665	\$ 18,746	\$ 16,720
Provision for income taxes	\$ 426	\$ 1,423	\$ 911	\$ 825	\$ 3,585	\$ 3,762
Net income	\$ 2,618	\$ 6,565	\$ 3,138	\$ 2,840	\$ 15,162	\$ 12,958
Net income per common share:						
Basic	\$ 0.11	\$ 0.27	\$ 0.13	\$ 0.12	\$ 0.63	\$ 0.53
Diluted	\$ 0.11	\$ 0.27	\$ 0.13	\$ 0.12	\$ 0.63	\$ 0.53
Weighted average shares outstanding:						
Basic	23,995,254	24,024,542	24,128,280	24,180,363	24,082,110	24,310,572
Diluted	24,197,423	24,207,185	24,148,670	24,202,792	24,189,017	24,339,197

Proprietary

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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.