Trickle Research

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

2QF23 Earnings Update

FORTITUDE GOLD CORP.

Fortitude Gold Corp.

(OTCQB: FTCO)

Report Date: 08/10/23

12- 24 month Price Target: $9.25

Allocation: 5

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 Allocation Upgrade (Closing Px: 03/06/23): $6.22

Closing Stock Price at This Update (Closing Px: 08/09/23): $6.29

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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.

For 2QF23 (ended June 30, 2023) FTCO reflected revenues of $19.2 million and net income of $3.6 million ($.15 per share), versus our estimate of $19.1 million and net income of $3.5 million ($.14 per share). Those results were comparatively lower than the same period last year, but were also in line with our expectations.

Looking over the numbers, there were a few things that jumped out at us.

First, we have come to expect that while the Company's production may vary one quarter to the next (with no particular pattern), when we average it out over the course of a year, they are going to produce in-line with their guidance of 40,000 ounces per year. Keep in mind, they have a considerable amount of gold sitting on the leach pad at any point in time, so we think they have some ability to control the number of ounces they produce or more specifically sell, in any given quarter. Until they get new projects online, we do not expect that to change materially. That brings us to our second point.

We have been noting for some time now that the Company has been focusing increasing efforts on developing new resources. Those efforts are clearly in full swing as demonstrated in part by the outsized exploration expenses they recognized in the quarter. Specifically, exploration expenses for 2QF23 were just over $6 million, whereas the Company has never spent over $3.7 million in any previous quarter. In short, we underestimated that number considerably, *and they still outperformed our estimates,* via improved operating expenses and lower G&A. Frankly, we have anticipated the added resource development for some time now, but we submit, we do not have a confident handle on the level of exploration and development outlays in any given quarter, or for that matter, what portions of those will be capitalized versus expensed. Our sense is that they opt for the latter wherever they can, but regardless, pegging exploration expenses is becoming more challenging as they accelerate their efforts to open additional mines.

Third, it looks increasingly clear that when it comes to County Line and Golden Mile, the question is no longer *if* they will turn these into producing units, but rather *when*. They have provided guidance in that regard, which suggests that these will start making contributions to production in mid-2025, which coincides with the winding down of Isabella Pearl. Ostensibly, the timing of those events (the ramping of new mines versus the winding down of old mines) will impact quarters in and around their respective commencements. We would add, while we have attempted to model these additions, our assumptions include markedly lower grade projections than the Company currently experiences at Isabella Pearl, which negatively impacts costs per ounce. From a different perspective, if we were to model lower anticipated production from County Line and Golden Mile but grades more in line with Isabella Pearl, our target conclusions would be markedly higher. Clearly, emerging data points regarding new production assets will drive future valuations.

Lastly, the Company continues to develop East Camp Douglas and those efforts are providing initial data points that are beginning to help us frame the potential of the project. We suggest that investors keep a close eye on those developments. Our view and *we think*, the Company's view, is that this project *could* become a major valuation catalyst as they continue to accumulate resource data.

To summarize, the quarter was very close to our expectations, but again, outside of exploration expenses, we suspect they will continue to perform in line with their 10,000 ounce per quarter guidance, and most of the other numbers around that will likely also fall in line as well. Obviously, gold prices will also continue to be a wild card in the numbers (and out of sheer conservatism, we are modeling those lower into 2024 and beyond). The better questions here lie in the development and timing of the new projects, and more specifically their ability to replace the depleting reserve at Isabella. While we continue to believe that FTCO shares are undervalued, we understand the street's concerns about the Company's ability to identify and recover new reserves, because without them our "undervalued" argument falls apart. However, recall, that concern has followed this management team for decades, largely because they have (strategically) always prioritized production over building reserves, and historically that approach has largely paid off for them. We submit, that does not *guarantee* that they will necessarily succeed *this time around* and get County Line and/or Golden Mile into production and replace production from Isabella, but if history is a guide, we would not bet against them. To reiterate, if we assume success in that regard, we think the stock is undervalued in the context of a gold pure play. Further, and again to reiterate the point, we also believe East Camp Douglas could be the diamond in the ruff.

We reiterate our 12-24 month price target of $9.25 while maintaining our allocation of 5 and we will revisit each as resource visibility continues to improve.

Projected Operating Model

Fortitude Gold Corp.						
Projected Operating Model						
By Trickle Research LLC						
	(actual)	(actual)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/23	**6/30/23**	**9/30/23**	**12/31/23**	**Fiscal 2023**	**Fiscal 2024**
Consolidated Statements of Operations (000's)						
Sales, net	**$ 21,540**	**$ 19,219**	**$ 19,258**	**$ 19,659**	**$ 79,676**	**$ 74,747**
Mine cost of sales:						
Production costs	$ 5,653	$ 5,020	$ 5,168	$ 5,271	**$ 21,112**	**$ 21,351**
Depreciation and amortization	$ 3,479	$ 2,905	$ 3,113	$ 3,170	**$ 12,667**	**$ 12,517**
Reclamation and remediation	$ 72	$ 68	$ 69	$ 71	**$ 280**	**$ 288**
Total mine cost of sales	**$ 9,204**	**$ 7,993**	**$ 8,349**	**$ 8,512**	**$ 34,058**	**$ 34,156**
Mine gross profit	**$ 12,336**	**$ 11,226**	**$ 10,909**	**$ 11,148**	**$ 45,618**	**$ 40,591**
Costs and expenses:						
General and administrative expenses	$ 1,059	$ 1,087	$ 1,635	$ 1,643	**$ 5,425**	**$ 6,496**
Exploration expenses	$ 3,688	$ 6,061	$ 4,977	$ 4,978	**$ 19,703**	**$ 17,839**
Other expense, net	$ (327)	$ (434)	$ 75	$ 75	**$ (611)**	**$ 300**
Total costs and expenses	**$ 4,420**	**$ 6,714**	**$ 6,687**	**$ 6,696**	**$ 24,517**	**$ 24,635**
Income before income taxes	**$ 7,916**	**$ 4,512**	**$ 4,222**	**$ 4,451**	**$ 21,101**	**$ 15,956**
Provision for income taxes	**$ 1,548**	**$ 908**	**$ 950**	**$ 1,002**	**$ 4,407**	**$ 3,590**
Net income	**$ 6,368**	**$ 3,604**	**$ 3,272**	**$ 3,450**	**$ 16,693**	**$ 12,366**
Net income per common share:						
Basic	**$ 0.26**	**$ 0.15**	**$ 0.14**	**$ 0.14**	**$ 0.69**	**$ 0.51**
Diluted	**$ 0.26**	**$ 0.15**	**$ 0.13**	**$ 0.14**	**$ 0.69**	**$ 0.51**
Weighted average shares outstanding:						
Basic	**24,063,853**	**24,084,542**	**24,136,625**	**24,188,709**	**24,118,432**	**24,318,917**
Diluted	**24,208,676**	**24,225,953**	**24,292,177**	**24,359,816**	**24,271,656**	**24,318,917**

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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.