

Trickle Research

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



3QF23 Earnings Update



FORTITUDE GOLD CORP.

Fortitude Gold Corp.

(OTCQB: FTCO)

Report Date: 11/08/23

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: 11/07/23): \$6.11

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.

Fortitude reported 3QF23 numbers the other day. We had to take a moment to review the numbers before providing the update as we needed a bit of clarity from management regarding some of the production tables. Having had that opportunity here is a brief update.

For 3QF23 (ended September 30, 2023) FTCO reflected revenues of \$21.3 million and net income of \$5.7 million (\$.24 per share), versus our estimate of \$19.3 million and net income of \$3.3 million (\$.13 per diluted share). Those results were markedly higher than the same period last year (\$16.1, \$1.72 and \$.07) it was a very solid quarter and included the addition of over \$5 million of cash resulting in a total cash balance of \$52 million or over 1/3rd of the current total market cap of the stock. We would add, the carrying value of the Company's inventories represents another 1/3rd of the current market cap. However, keep in mind, the large majority of those inventories represent ore sitting on the leach pad, which is effectively carried at cost, which we think represent less than half of those assets' ultimate sale value at current gold prices. Put another way, we think the "liquidation value" of the Company's working capital is largely equivalent to the market capitalization of the Company, which effectively means, the street is valuing the Company's other development assets at something *close to zero*. That brings us to those development assets.

Recall, the Company's current operations are focused on their Isabella Pearl ("IP") property, while their development properties include County Line, Golden Mile and East Camp Douglas (as well as additional portions of the Isabella Pearl concessions). Succinctly, the Company continues to drill holes and gather information on all these projects and based on the Company's comments on the earnings call (and associated regulatory requirements of each) we think the likely established chronology of production at County Line followed by production at Golden Mile remain the likely rollout. On the other hand, *as we see it*, added production from multiple portions of Isabella Pearl (lower pit depths and Scarlet located northwest of the existing operations) are becoming more visible. Further, as we have noted, we continue to view East Camp Douglas as the emerging Ace-in-the-Hole here, with the potential to *markedly* add to FTCO's narrative. In short, they remain focused on adding reserves and by extension production from these developing assets, and we believe they are making progress on all these fronts, despite the street's apparent skepticism of the same. Specifically, setting aside the typical regulatory timing wildcards, given that they have already committed equipment to County Line and that production will be trucked to IP (eliminating the time and costs associated with new leach ops) we continue to model meaningful County Line contributions to commence in early 2025.

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)	(actual)	(estimate)	(estimate)	(estimate)
	<u>3/31/23</u>	<u>6/30/23</u>	<u>9/30/23</u>	<u>12/31/23</u>	<u>Fiscal 2023</u>	<u>Fiscal 2024</u>
Consolidated Statements of Operations (000's)						
Sales, net	\$ 21,540	\$ 19,219	\$ 21,268	\$ 20,607	\$ 82,634	\$ 73,532
Mine cost of sales:						
Production costs	\$ 5,653	\$ 5,020	\$ 5,992	\$ 5,861	\$ 22,526	\$ 23,663
Depreciation and amortization	\$ 3,479	\$ 2,905	\$ 3,349	\$ 3,108	\$ 12,841	\$ 12,350
Reclamation and remediation	\$ 72	\$ 68	\$ 91	\$ 71	\$ 302	\$ 287
Total mine cost of sales	\$ 9,204	\$ 7,993	\$ 9,432	\$ 9,039	\$ 35,668	\$ 36,300
Mine gross profit	\$ 12,336	\$ 11,226	\$ 11,836	\$ 11,568	\$ 46,965	\$ 37,232
Costs and expenses:						
General and administrative expenses	\$ 1,059	\$ 1,087	\$ 1,335	\$ 1,512	\$ 4,993	\$ 5,871
Exploration expenses	\$ 3,688	\$ 6,061	\$ 3,833	\$ 5,038	\$ 18,620	\$ 17,857
Other expense, net	\$ (327)	\$ (434)	\$ (491)	\$ 75	\$ (1,177)	\$ 300
Total costs and expenses	\$ 4,420	\$ 6,714	\$ 4,677	\$ 6,625	\$ 22,436	\$ 24,028
Income before income taxes	\$ 7,916	\$ 4,512	\$ 7,159	\$ 4,943	\$ 24,529	\$ 13,204
Provision for income taxes	\$ 1,548	\$ 908	\$ 1,437	\$ 1,112	\$ 5,005	\$ 2,971
Net income	\$ 6,368	\$ 3,604	\$ 5,722	\$ 3,831	\$ 19,524	\$ 10,233
Net income per common share:						
Basic	\$ 0.26	\$ 0.15	\$ 0.24	\$ 0.16	\$ 0.81	\$ 0.42
Diluted	\$ 0.26	\$ 0.15	\$ 0.24	\$ 0.16	\$ 0.81	\$ 0.42
Weighted average shares outstanding:						
Basic	24,063,853	24,084,542	24,084,542	24,084,542	24,079,370	24,123,605
Diluted	24,208,676	24,225,953	24,212,436	24,255,649	24,225,679	24,123,605

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of its investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Fortitude Gold.

Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. Fortitude Gold has paid fees to present at investor conferences co-sponsored by Trickle Research.

Reproduction of any portion of Trickle Research's reports, updates or other publications without written permission of Trickle Research is prohibited.

All rights reserved.

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.