Trickle Research

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

Fiscal 2023 Earnings Update

FORTITUDE GOLD CORP.

Fortitude Gold Corp.

(OTCQB: FTCO)

Report Date: 03/11/24

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: 03/08/24): $4.39

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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 their year-end results a couple of weeks ago in the face of some compression in the share price. We think the stock price compression is clearly related to concerns over the Company's ability to continue producing at historic levels (roughly 10,000 ounces per quarter) and there are a handful of items driving that concerns that we will briefly address.

First, from the high level, in our view, the concerns about forward production are not new for Fortitude Gold or for that matter its management in prior iterations. We have covered this in past coverage/updates, but we will reiterate it just to reestablish the point. As a matter of strategy, whenever possible, management has always prioritized *low cost* production and frankly associated dividends over building large reserves. As long as we have known the Company, which we can count in decades now, that approach has not changed. We accept that some may argue with the rationale of that strategy but we do not think one can argue with the consistency of their approach in that regard. We accept that some may be sellers of the shares (or never buyers of the shares) because they do not like the approach, but we do not think people should expect that to change. To translate, some of their current challenges around permitting may have perhaps exposed some of the risks to the business model of trying to add new production on a "just-in-time" fashion (our term not theirs), but again, it is not a new approach. Further, while people can critique the strategy, we think it is fair to say that it has largely served shareholders well since the time of our initiating coverage.

Second, as we alluded to above, and they spent some time addressing on their earnings call, they have apparently experienced some delays in permitting that they and frankly we, did not anticipate. To be clear, it sounds as if those delays are at the federal level with BLM. We reference that because we (and the Company) have always viewed Nevada as a positive place to be a miner, which we think it still is, but that may not be topical to federal agencies. To segue a bit, we were a bit taken back by one question on the call that suggested the Company's disappointment with the pace of federal permits was somehow a political statement. We do not think it takes a political bend to recognize that there is no practical reason for federal agencies to hold up permits of *this nature*. The Company suggests that it is about understaffing at the BLM, which they and others in the industry have offered to help mitigate. We are not so sure, and perhaps *that is* a political view. In our view, permitting delays have somehow become the biggest risk in the story, and we might actually feel better if it were just about staffing at the BLM. That is, we are more concerned that the issue is the current administration's bias against and associated willingness to impede resources development in this country, but that's just us. We are hopeful that they will get permits in short order but given the risks, we have made some adjustments to our model to reflect some of these delays. That brings us to our next point.

To reiterate, we think the Company's general strategy here remains intact. To edify, find a resource and produce gold and cash to pay dividends, then discerningly use some of those profits to develop additional resources to ultimately replace depleted production. We submit, while we think management attempts to time that process (commence the production of new resources as others are depleting) as optimally as possible, they may not get it just right, and things like permitting delays do not help. However, recognize, in our view, *that approach* is responsible in part for some of the Company's positive relative metrics (return on investment and costs per ounce etc.). That said, conceptually we think that approach likely ends up understating the value of resources they are developing since they cannot be reflected in typical reserve reports, which in turn probably hinders the stock price in general. For instance, currently the Company's cash and recoverable gold inventory on the leach pad at 12/31/23 had a value of nearly $160 million, or about *$50 million more than the current market capitalization of the stock*. Recall, Fortitude has no debt, so from our vantage point, ostensibly the street is not placing **any value on their development assets** (County Line, Golden Mile, East Camp Douglas, their new acquisitions or for that matter, the remaining opportunities in and around Isabella). Succintly, we think that is a short-sided approach.

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To summarize, we are not happy about the impact of the permitting delays, and we submit they entail some risks that we did not anticipate. Further, as we noted these events may be exacerbated by the Company's approach to align the start of the new resources with the depletion of the old. That is a fair critique, but we think it has been overdone in the share compression. Time will tell how accurate that view is. For our part, we have recast our model to reflect further delays. However, we would also note that our model *already reflected*, some of the other concerns raised on the call, for instance, the lower anticipated grades from new projects versus Issabella. Again, those *are not* new data points. On the other hand, as an aside, our prior model also reflected lower anticipated future gold prices ($1800 per ounce), which are at present providing some wind at Fortitude's back. We remain constructive on Fortitude's prospects to continue producing gold and paying dividends. Given the permitting uncertainties we are inclined to adjust our price targets (lower) while at the same time, given the compression in the stock, we are also inclined to adjust our allocation higher. We will hold off on each in hopes of some near-term visibility around the issue, and we will address these shortly one way or the other.

Projected Operating Model

Fortitude Gold Corp.					
Projected Operating Model					
By Trickle Research LLC					
	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	3/31/24	**6/30/24**	**9/30/24**	**12/31/24**	**Fiscal 2024**
Consolidated Statements of Operations (000's)					
Sales, net	**$ 14,122**	**$ 13,416**	**$ 13,416**	**$ 13,442**	**$ 54,397**
Mine cost of sales:					
Production costs	$ 4,025	$ 4,028	$ 4,028	$ 4,407	**$ 16,488**
Depreciation and amortization	$ 3,013	$ 3,017	$ 3,024	$ 3,210	**$ 12,264**
Reclamation and remediation	$ 69	$ 69	$ 69	$ 76	**$ 283**
Total mine cost of sales	**$ 7,107**	**$ 7,115**	**$ 7,121**	**$ 7,692**	**$ 29,034**
Mine gross profit	**$ 7,016**	**$ 6,302**	**$ 6,295**	**$ 5,750**	**$ 25,363**
Costs and expenses:					
General and administrative expenses	$ 1,383	$ 1,369	$ 1,369	$ 1,369	**$ 5,489**
Exploration expenses	$ 4,231	$ 4,324	$ 4,302	$ 4,302	**$ 17,160**
Other expense, net	$ 75	$ 75	$ 75	$ 75	**$ 300**
Total costs and expenses	**$ 5,689**	**$ 5,767**	**$ 5,746**	**$ 5,747**	**$ 22,949**
Income before income taxes	**$ 1,327**	**$ 535**	**$ 549**	**$ 4**	**$ 2,414**
Provision for income taxes	**$ 298**	**$ 120**	**$ 124**	**$ 1**	**$ 543**
Net income	**$ 1,028**	**$ 414**	**$ 426**	**$ 3**	**$ 1,871**
Net income per common share:					
Basic	**$ 0.04**	**$ 0.02**	**$ 0.02**	**$ 0.00**	**$ 0.08**
Diluted	**$ 0.04**	**$ 0.02**	**$ 0.02**	**$ 0.00**	**$ 0.08**
Weighted average shares outstanding:					
Basic	**24,084,542**	**24,084,542**	**24,136,625**	**24,188,709**	**24,123,605**
Diluted	**24,272,760**	**24,291,582**	**24,364,369**	**24,439,227**	**24,341,984**

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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.