Equity Research

August 15, 2019
Company Update

HARTE GOLD CORP.

Operations to Normalize by Year End

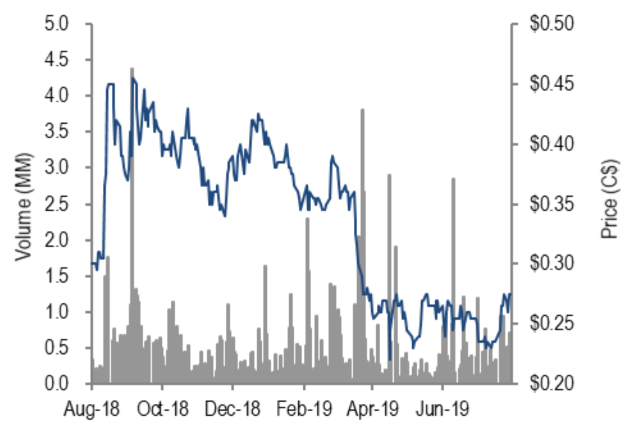
Recommendation: BUY

Symbol/Exchange:	HRT/TSX
Sector:	Metals & Mining
All dollar values in US$ unless otherwise noted.	
Current price:	C$0.28
One-year target:	C$0.80
Return to Target:	190.9%
Cash on hand:	C$3.9 MM

Financial Summary

Shares O/S (MM)	602.9	52-week range	C$0.21 - C$0.55
Market cap ($MM)	C$165.8	Avg. weekly vol. ('000)	521.27
Market float ($MM)	C$110.1	Fiscal year-end	31-Dec

Sugar, Middle, Wolf	MMt	g/T Au	MMoz
Probable	3.88	7.10	0.89
Totel Reserve	3.88	7.10	0.89
M&I	4.24	8.12	1.11
Inferred	2.95	5.88	0.56
Total Resource	7.20	7.20	1.67



EVENT

Yesterday evening, Harte Gold reported Q2/19 financial results, following on from the operating results that were pre-reported on July 4.

BOTTOM LINE

Neutral – It is no secret that the ramp-up at the Sugar Zone has been challenging with the most recent issues being delays to mine ventilation and the start-up of the paste backfill plant. While these issues negatively impacted stope availability in Q2/19, operations still improved markedly Q/Q and are tracking toward hitting targeted rates by year end. We maintain our Buy rating and our target of C$0.80/share.

FOCUS POINTS

- **Financial and Operating Results** – Ventilation constraints in May and June, combined with limited stope availability (one open face) forced operations to draw on low-grade stockpile and sill development ore. As a result, the mine produced 7.75 Koz Au during the quarter, up 42% from Q1 but 21% below our previous estimates. Cash costs and AISC were $1,070/oz Au and $1,734/oz Au, down 26% and 33%, respectively, relative to Q1.
- **Outlook for Remainder of 2019 –** It has been a slow start but operations are improving at Sugar Zone. The ventilation issues have been resolved and development work in Q2 opened two new faces for Q3. Overall, this should drive grades, recoveries and throughput rates up to near-target levels. We anticipate operations to stabilize in the latter part of H2 2019.
- **Balance Sheet** – HRT refinanced its previous debt (see Note), but still has a tight working capital position. The Company does have a $7.5 MM non-equity standby commitment from Appian that it can tap, though at a costly price.

Company profile: Harte Gold is advancing its 100%-owned Sugar Zone property located 60km east of the operating Hemlo mine in Ontario. Harte also holds the Stoughton-Abitibi property 110km northeast of Timmins.

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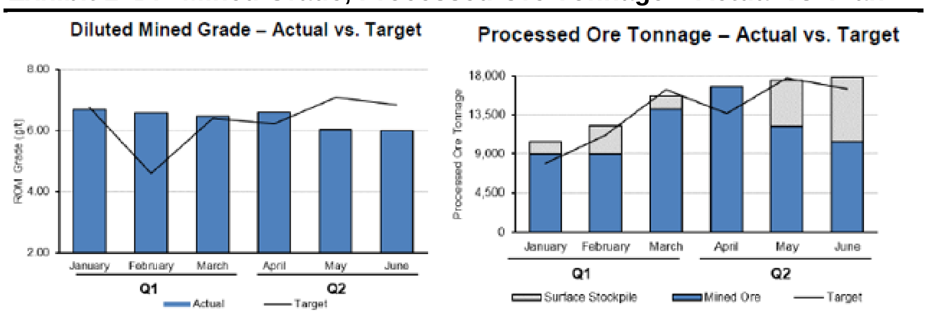
See disclosure and a description of our recommendation structure at the end of this report.

Q2/19 FINANCIAL AND OPERATING RESULTS

Yesterday evening, Harte Gold reported Q2/19 financial results, following on from the operating results that were pre-reported on July 4. It is no secret that the ramp-up at the Sugar Zone has been challenging with the most recent issues being delays to mine ventilation development and the start-up of the paste backfill plant. That said, according to Management, the issues relating to mine ventilation have been resolved, stope availability is improving, and the paste backfill plant is expected to be fully operational by late September. In the second quarter, the insufficient ventilation restricted ore mining to only one open face, with the mill being fed by supplemental low-grade stockpile and sill development ore (Exhibit 1). As a result, the mine produced 7.75 Koz Au during the quarter, up 42% from Q1 but 21% below our original estimates (prior to the operational update on July 4). Cash costs and AISC remained high in Q2/19 at $1,070/oz Au and $1,734/oz Au, but were down significantly (26% and 33%, respectively), relative to Q1/19. The supplementary feed from low-grade stockpile and development ore in Q2/19 resulted in a blended feed grade of 4.89 g/t Au, well below the planned 6.75 g/t Au. That said, production in Q3/19 is expected to be derived exclusively from three active faces, up from a single face in Q2/19. The remaining issue that will be required to clear the productivity bottleneck is completion of the paste backfill plant. Harte has stated that it anticipates the delays that impeded the paste plant start-up to be resolved by exit Q3/19. Over the last nine months, it has been a slow, but now steadying climb for operations to reach target at the Sugar Zone mine. Moving forward, Harte's recent work to de-bottleneck ventilation constraints and stope availability should drive grades, recoveries and throughput rates up to near-target levels by exit 2019. While the Sugar Zone ramp up is tracking approximately 20% below/behind plan at the present time, the mine is making continuous improvements quarter over quarter and month over month. While Q2/19 was still operationally below our forecasts, it showed marked improvements relative to Q1/19. Harte expects Sugar Zone to achieve targeted operational levels (in-line with the Feasibility study) by year-end.

Exhibit 1. Dil. Mined Grade, Processed Ore Tonnage – Actual vs. Plan



Source: Harte Gold

BALANCE SHEET OUTLOOK

Harte's debt is comprised of its PNB Paribas term loan ($52.5 MM) and credit facility ($20.0 MM), which is fully drawn, amounting to C$93.0 MM including C$4.2 MM that is currently classified as short-term debt. In Q1/19 Harte Gold refinanced its previous, higher-cost outstanding debt, but at the present time, still has a tight working capital position of (C$7.5 MM), including C$3.9 MM in cash. Harte's working capital position has improved from its Q1/19 level of (C$10.9 MM), but the Company is still expected to seek near-term financing by way of additional equity or debt. It does have a non-equity standby commitment of up to $7.5 MM from Appian that it can tap, though at a costly price. Under the terms of the standby agreement, Harte would be required to issue a 1.5% royalty to Appian on all future gold produced from the Sugar Zone mine, for gross proceeds of $7.5 MM.

Exhibit 2. Debt Repayment Schedule

Debt repayments under the BNP Debt facility are as follows:

BNP Debt Repayment Schedule (US $)

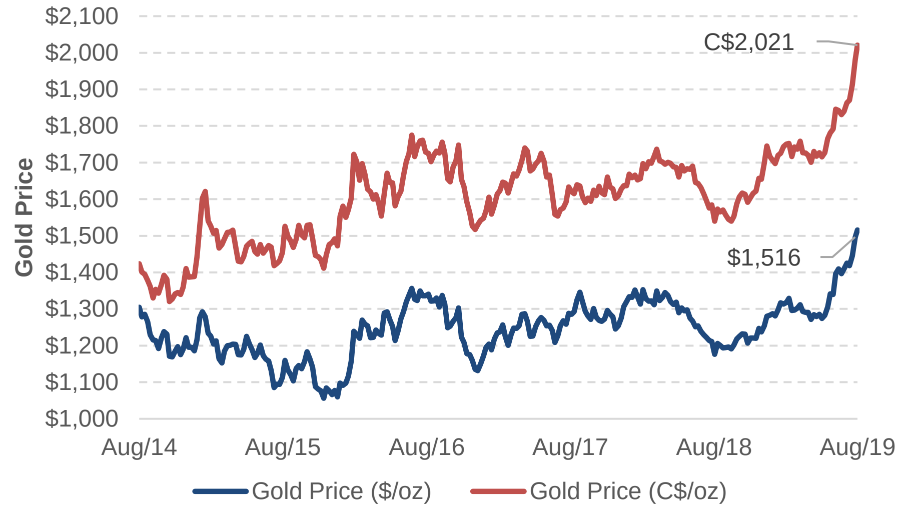
Year	Non-revolving term credit facility	Revolving term credit facility	Total
2019	$ -	$ -	$ -
2020	6,353,000	-	6,353,000
2021	12,338,000	-	12,338,000
2022	17,378,000	20,000,000	37,378,000
2023	8,610,000	-	8,610,000
2024	3,623,000	-	3,623,000
2025	4,198,000	-	4,198,000
Total	52,500,000	20,000,000	72,500,000
Current portion	3,176,500	-	3,176,500
	$ 49,323,500	$ 20,000,000	$ 69,323,500
Current portion (C$)			$ 4,157,086
Long-term Portion (C$)			$ 88,892,865

Source: Harte Gold

GOLD AT RECORD HIGHS IN C$; HRT TO BENEFIT

In our most recently released Macro report (see note) we outline a number of factors driving recent strength in the gold and silver prices. While gold prices are making new *multi-year* highs in US$ terms, now comfortably above the $1,500/oz level, it is important to note that the yellow metal is making new *all-time* highs in most other major global currencies, including the Canadian dollar. Harte, as a Canadian mine operator, stands out given its leverage to the CADUSD foreign exchange rate. The Company operates its Sugar Zone mine in Ontario, Canada, benefitting from almost entirely C$ denominated costs, while selling gold in US$ terms. Although the Company is producing at high operating costs on a per ounce basis at the present time, these figures are expected to decline over the remainder of 2019 as productivity improves and the mine debottlenecks to design specifications. As unit costs decline at Sugar Zone, Harte should enjoy massive margin expansion, particularly given the favourable C$/US$ FX rates and strengthening gold prices.

Exhibit 3. Gold Price in US$ and C$



Source: FactSet, Cantor Fitzgerald

Exhibit 4. Updated NAVPS Estimates

Asset		Value ($MM)	$ Per Share	% of NAV
Sugar Zone Project NPV	7.5% disct.	$585.4	$0.99	148%
Other		$0.0	$0.00	0%
Total Mining Assets		**$585.4**	**$0.99**	**118%**
Cash		$3.9	$0.01	1%
Cash From ITM Options		$0.2	$0.00	0%
Future Equity Financing		$0.0	$0.00	0%
Debt (Exit Q2 2019)		$93.6	-$0.16	-19%
Net Asset Value		**$683.1**	**$0.84**	**100%**
P/NAV			0.33x	

Source: Cantor Fitzgerald

MAINTAINING BUY RATING AND TARGET

We are incorporating the Q2/19 financial and operating results into our DCF-based NAVPS and production profile for Harte Gold. Our 2020 numbers are unchanged, and continue to be based on the Company's guidance for Sugar Zone as outlined in the recently completed Feasibility Study. While the mine ramp-up in 2019 has certainly faced difficulties, Harte Gold is making continuous and noticeable improvements at Sugar Zone. Over the course of this year, production has consistently been trending higher, and costs have been trending lower. We expect the mine to be operating up to designed specifications by year-end. Our $\text{NAVPS}_{7.5\%}$ for Harte Gold is C$0.84 (unchanged) based on our gold price deck of $1,500/oz long-term. Leaving our 1.0x NAVPS (rounded) target multiple unchanged, we are maintaining our Buy rating on Harte Gold and target price of C$0.80/share.

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The analysts responsible for this research report *do not have*, either directly or indirectly, a long or short position in the shares or options of Harte Gold Corp.

The analyst responsible for this report *has* visited the material operations of Harte Gold Corp (Sugar Zone). No payment or reimbursement was received for the related travel costs.

Analyst certification

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Definitions of recommendations

BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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