

# HARTE GOLD CORP.

## Commercial Production on Target for Year End

### EVENT

Harte Gold provided an operation and exploration update.

### BOTTOM LINE

**Positive** – First gold was poured in mid-October and commercial production is on schedule for year-end, in-line with expectations. We maintain our Buy rating and target of C\$1.20/share.

### FOCUS POINTS

- **Operations Update** – The Sugar Zone mill has consistently been operating at the target rate of 575 tpd, and commercial production is on pace for year-end. The flotation concentrate being produced and shipped to the Horne smelter is reconciling positively in terms of grades.
- **Exploration Update** – The Middle Zone has converged (at depth) not only with the main Sugar Zone, but also with the Wolfe Zone. In-fill drilling, as per the 2018 program, is now complete, and a revised 43-101 compliant resource will be released in Q1/19.
- **Harte Gold Starts Cash Flowing in 2019** – In our view, now is the time to own Harte Gold. Sugar Zone is on the verge of commercial production at the Phase I rate (575 tpd), and Harte is on the verge of positive free cash flow for the first time in its history. Longer-term, operations will ultimately ramp up to 1,400 tpd, producing +130 Koz Au per annum at bottom quartile cash costs.

### Recommendation:

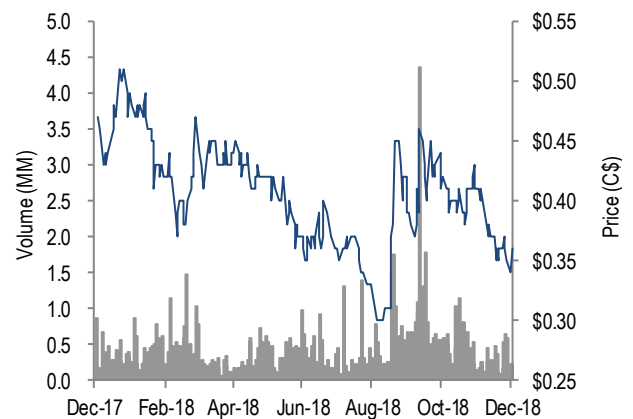
**BUY**

Symbol/Exchange: HRT/TSX  
Sector: Metals & Mining  
*All dollar values in US\$ unless otherwise noted.*  
Current price: C\$0.36  
One-year target: C\$1.20  
Return to Target: 233.3%  
Cash on hand: C\$12.0 MM

### Financial summary

Shares O/S (MM)	581.4	52-week range	C\$0.29 - C\$0.55
Market cap (\$MM)	C\$284.9	Avg. weekly vol. (MM)	5.03
Market float (\$MM)	C\$199.4	Fiscal year-end	31-Dec

Sugar Zone	MMt	g/T Au	MMoz
M&I	2.61	8.52	0.71
Inferred	3.59	6.59	0.76
<b>Total Resource</b>	<b>6.20</b>	<b>7.40</b>	<b>1.48</b>



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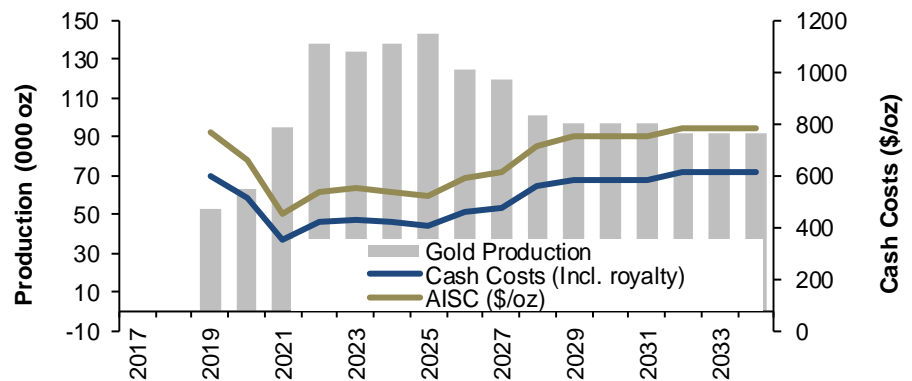
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See disclosure and a description of our recommendation structure at the end of this report.

### OPERATIONS UPDATE

Sugar Zone poured first gold in mid-October, and in a press release yesterday afternoon, Harte Gold reported that commercial production is on target prior to year-end, in-line with previous expectations. The mill is consistently achieving Phase I nameplate capacity of 575 tpd (in-line with permits) with the feed currently comprised of both fresh ore from underground stopes and lower-grade stockpile material on surface. The feed will transition entirely to underground material in early 2019. Gold is being produced on site in the form of both high-grade concentrate (shipped to the Home smelter) and dore via the gravity circuit. In 2019, we expect Harte Gold to produce +50 Koz Au at cash costs of \$600/oz and AISC of \$768/oz. Over the medium term (1-2 years) Sugar Zone will ramp-up to Phase II capacity of 800 tpd at very modest incremental CAPEX (the mill is oversized for this capacity already). Longer-term, operations at Sugar Zone will ultimately ramp up to 1,400 tpd, producing +130 Koz Au per annum at bottom quartile cash costs.

**Exhibit 1. Production and Cost Profile (Cantor Estimates)**



Source: Cantor Fitzgerald

### BALANCE SHEET UPDATE

Harte Gold exited Q3/18 with C\$3.7 MM in cash, and subsequent to quarter-end, raised an additional C\$8.3 MM via non-brokered private placements of both common and flow-through shares. More recently, Harte Gold deferred the repayment date of its \$20 MM subordinated loan facility with Appian Natural Resources Fund to May 9, 2019. With Sugar Zone on the verge of commercial production, we forecast Harte Gold to generate \$25 MM in free cash flow in 2019 at current spot gold prices. As such, the company should have sufficient balance sheet capacity to repay all of its short-term debt, maintain normal-course operations, and undertake the modest expansion to Phase II at Sugar Zone.

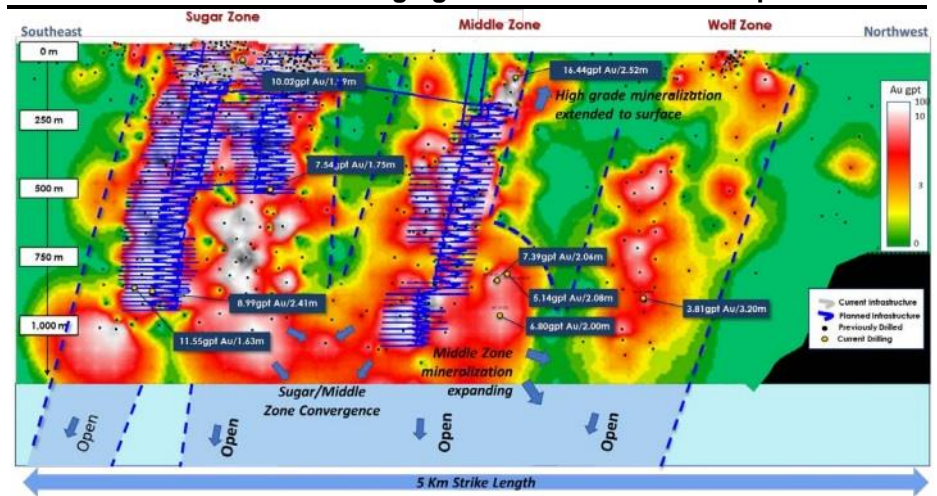
### EXPLORATION UPDATE

Harte Gold continues to actively explore the Sugar Zone complex, now comprised of multiple zones all within close proximity of the mill (Sugar, Middle, Wolf, Eagle, Highway, etc.) In-fill drilling as per the 2018 exploration program has been completed, and a revised 43-101 compliant resource estimate is scheduled for release in Q1/19. We expect the vast majority of the Inferred resources (3.59 MMt grading 6.59g/t Au equating to 0.76 MMoz Au) to convert to the Indicated category, and for grades to likely improve as well. Moreover,

concurrent with the resource update at Sugar Zone in Q1/19, a maiden resource will be also be released at the Wolf Zone (Cantor estimate 0.3-0.5 MMoz Au). We note that all zones continue to remain open at depth, and in many cases, laterally along strike as well. Case in point, the Middle zone has now been proven to converge (at depth) not only with the main Sugar Zone, but also with the Wolfe Zone (Exhibit 2). Exploration highlights from yesterday’s press release include:

- WZ-18-220: 6.8g/t Au over 2.0m (a step-out hole at Middle Zone indicating that it converges with Wolf Zone at depth).
- WZ-18-207: 16.4g/t Au over 2.5m (an in-fill hole at Middle Zone near surface).
- SZ-18-255W2: 11.6g/t Au over 1.6m (an in-fill hole at Sugar Zone).

**Exhibit 2. Middle Zone Converging in Both Directions at Depth**



Source: Harte Gold

**NO CHANGES TO ESTIMATES**

Incorporating Harte’s updated cash balance and outstanding shares post the financings in Q4/18, there are no material changes to our NAVPS or target price. The updated 43-101 compliant resource at Sugar/Wolf in Q1/19 will likely act as a positive catalyst in the short term, as will quarterly production and financial results in 2019 post declaration of commercial production (later this quarter).

**Exhibit 3. Harte Gold NAVPS Estimate**

Asset		Value (\$MM)	\$ Per Share	% of NAV
Sugar Zone Project NPV	5.0% disct.	\$582.8	\$0.92	103%
Other		\$0.0	\$0.00	0%
<b>Total Mining Assets</b>		<b>\$582.8</b>	<b>\$0.92</b>	<b>103%</b>
<b>Total Mining Assets (C\$)</b>		<b>C\$777.1</b>	<b>C\$1.22</b>	<b>103%</b>
Cash	Exit Q4/18	C\$12.0	C\$0.02	2%
Cash From ITM Opts/Wrnfts		C\$11.7	C\$0.02	2%
Future Equity Financing	N/A	C\$0.0	C\$0.00	0%
Debt	Exit Q4/18	C\$49.7	-C\$0.08	-7%
<b>Net Asset Value (C\$)</b>	1.33 C\$/US\$	<b>C\$850.5</b>	<b>C\$1.18</b>	<b>100%</b>
P/NAV			0.31x	

Source: Cantor Fitzgerald

## HARTE GOLD TO START CASH FLOWING IN 2019

In our view, now is the time to own Harte Gold. Sugar Zone is on the verge of commercial production at the Phase I rate (575 tpd), and Harte is on the verge of positive free cash flow for the first time in its history. Longer-term, operations will ultimately ramp up to 1,400 tpd, producing +130 Koz Au per annum at bottom quartile cash costs.

## SENTIMENT IN THE JUNIOR GOLD SECTOR

The performance of the junior gold equities in 2018 has been underwhelming to put it mildly, as has the performance of Harte Gold. In our view, Harte Gold has been sold off with the rest of the junior gold sector, undeservingly so. While the gold price itself has been effectively flat YTD (-4%), the junior gold sector, as measured via the Van Eck Junior Gold Miners ETF (GDXJ-NYSE) is down 17%. Sentiment in the junior gold equity sector, as measured via the GDXJ/gold ratio, is within 5% of its historical trough, originally reached in Q4/15. For contrarian and/or longer-term deep value investors, now is the opportune time to buy *high quality* junior gold equities at rock-bottom valuations, the emphasis being on high quality. Harte Gold/Sugar Zone, is of superior grade, lower cost, and located in a better jurisdiction relative to many of its peers. Moreover, the mine is fully financed (no onerous CAPEX), it is built and operating, the company is on the verge of positive free cash flow, and the balance sheet is in good shape. In short, the outlook for the company has never been stronger, and the valuation of the stock has never been more attractive.

### Exhibit 4. GDXJ/Gold Ratio



Source: Cantor Fitzgerald

## MAINTAINING BUY RATING AND C\$1.20 TARGET PRICE

Harte is in the “sweet spot” with high-grade exploration results, imminent commercial gold production, and an updated resource due in Q1/19. Through the first half of 2019, we expect the stock to re-rate higher as the mine de-risks, and investors begin to focus on the significant operating cash flow the company will generate. Based on a target multiple of 1.0x NAVPS<sub>5.0%</sub> (rounded), we maintain our target price of C\$1.20/share. Harte remains one of our preferred names in the gold sector, and we maintain our Buy rating on the stock.

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Cantor *has* provided investment banking services or received investment banking related compensation from Harte Gold Corp. within the past 12 months.

The analyst responsible for this research report *does 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.

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**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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## On Track for Commercial Production

**OUR TAKE:** With consistent throughput of 575k tpd, HRT is in position to achieve a full year of production from the Sugar Zone in 2019. We look for production to be complemented by drilling progress and resource growth.

### KEY HIGHLIGHTS

- ◆ **The Sugar Zone mill is achieving steady throughput of 575tpd**, with over 24kt of material processed YTD. Management is pleased with operating costs and recoveries, including 59% from the gravity circuit. The mine has six months of stope development on 5 levels. Management is projecting to declare commercial production by year-end, leading into a full year of production in 2019.
- ◆ **Infill drill program complete, updated resource in the new year.** Mineralization at the Middle Zone has extended closer to surface, with 16.4g/t Au over 2.5m at a depth of 109.5m. Infill drill results from the Middle zone were largely in line with previous drilling. Infill drilling from the Sugar and Middle zones is now complete and a resource estimate is being prepared on the basis of drilling in 2018. The resource update will include an Inferred resource from the Wolf zone.
- ◆ **Well funded.** An agreement has been reached with Appian Natural Resources Fund to extend the \$20M subordinated loan facility to May 2019 on similar terms, including 11.5% interest. The key benefit from the loan agreement is that the company will not require equity funding as it builds working capital from cash flow. We note that HRT recently closed on a \$8M financing (\$5.5M at \$0.52/sh and \$1.3M at \$0.42/sh).

### RECOMMENDED ACTION

#### *We recommend Buy as HRT approaches commercial production*

- ◆ While the shares remain more expensive relative to peers, we believe the higher-grade quality of the asset helps to justify the valuation. We expect the stock, which has declined since production started in October, should get a re-rating as commercial production takes hold.

### KEY STATISTICS AND METRICS

52-Week High/Low	C\$0.55/C\$0.29
YTD Performance	(24%)
Dividend Yield	-
Shares O/S	596.3M
Market Capitalization	\$157.8M
Cash (Q3/18)	\$3M
Debt (Q3/18)	\$37M
Enterprise Value	\$192M
Daily Volume (3 mos.)	552,700
Currency	US\$ unless noted

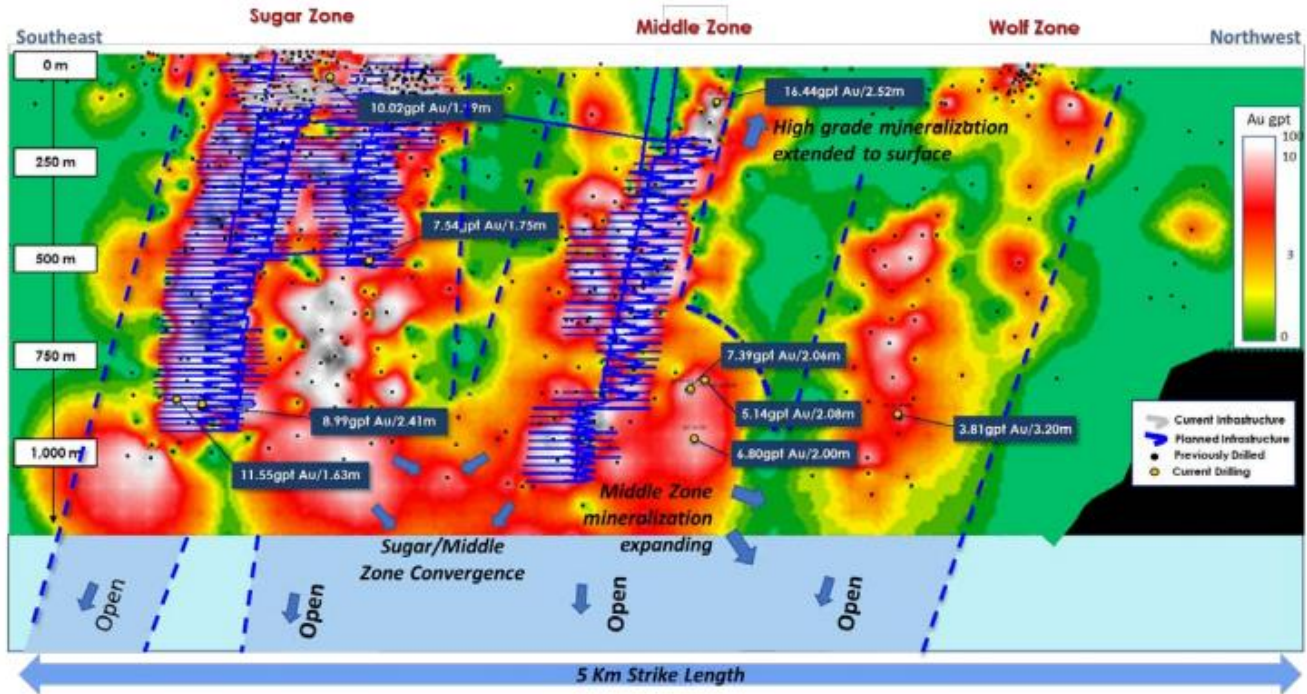
### HAYWOOD ESTIMATES (USD)

	2018E	2019E	2020E
Revenue (C\$M)	15	57	111
EBITDA (C\$M)	2	23	65
OCF (C\$M)	5	20	61
Earnings / sh (C\$)	(0.00)	0.01	0.07
OCF / sh (C\$)	0.01	0.03	0.11
FCF / sh (C\$)	(0.14)	0.00	0.07
Gold Grade (g/t)	6.50	5.75	7.00
Gold Prod (koz)	9.4	34.9	61.8
AISC (C\$/oz)	667	1,267	915

### VALUATION

**HRT trades at a P/NAV of 0.62x**, based on our NAV of C\$0.57/FDIM sh, compared to peers trading at 0.49x.  
**Our target price of C\$0.80** is based on a multiple of 1.4x NAV.

Figure 1. Longitudinal section of the Sugar Zone property, showing profiles of the Sugar, Middle and Wolf zones.



Source: Company Reports

Figure 2. Recent drill results from the Sugar Zone.

**Middle Zone Extension**

Hole #	From	To	Grade (g/t)	Width (m)
WZ-18-220	1041.9	1,043.90	6.80	2.00
WZ-18-221	927.1	929.16	7.39	2.06
WZ-18-221W	959.72	961.80	5.14	2.08

**Infill Drilling – Middle Zone**

Hole #	From	To	Grade (g/t)	Width (m)
WZ-18-207	109.53	112.05	16.44	2.52

**Infill Drilling – Sugar Zone**

Hole #	From	To	Grade (g/t)	Width (m)
SZ-18-255W2	1,029.00	1,030.63	11.55	1.63
SZ-18-256	1,026.48	1,028.89	8.99	2.41
SZ-18-257W2	672.00	673.75	7.54	1.75
SZ-18-259	128.43	130.42	10.02	1.99

**Wolf Zone Drilling**

Hole #	From	To	Grade (g/t)	Width (m)
WZ-18-188W4	946.2	949.40	3.81	3.20

Core intersection lengths in the tables above approximate 80% true width, assay results are uncut, fire assay with metallic screen on samples >10 g/t

Source: Company Reports





**Harte Gold Corp. (HRT-T)**

Rating: BUY Risk: High

Target Price: C\$0.80

Metric: 1.4x After-Tax Corporate NAV9%

Target Price, C\$	\$0.80
Current Price, C\$	\$0.36
Return, %	125%
52-Week High / Low, C\$	\$0.55 / \$0.29
Daily Volume (100-day avg)	552,700

Shares O/S, million	596.3
Shares F/D, million	658.5
Market Capitalization, US\$M	\$157.8
Company CEO	Stephen G. Roman
Company Web Site	<a href="http://www.hartegold.com">www.hartegold.com</a>

Balance Sheet and Capitalization	As of: 3Q/18A			
	US\$M	US\$ / Sh	C\$M	C\$ / Sh
Market Capitalization	\$158	\$0.26	\$212	\$0.36
Current Cash	\$3	\$0.00	\$4	\$0.01
Working Capital	(\$27)	(\$0.05)	(\$36)	(\$0.06)
Total Debt	\$37	\$0.06	\$50	\$0.08
Book Value	\$90	\$0.15	\$121	\$0.20
Enterprise Value (EV)	\$192	\$0.32	\$258	\$0.43

\*Balance sheet figures reflect last reported period C\$/US\$ FX Rate: 1.34

Financial Forecast	2018E	2019E	2020E	2021E
Forecast Gold Price, US\$/oz	\$1,275	\$1,300	\$1,400	\$1,400
C\$/US\$ FX Rate	\$1.29	\$1.25	\$1.28	\$1.28
Shares O/S, millions	581	581	581	581
Revenue, C\$M	\$15	\$57	\$111	\$129
Gross Profit, C\$M	\$10	\$33	\$76	\$86
Operating Income, C\$M	\$9	\$31	\$72	\$81
EBITDA, C\$M	\$2	\$23	\$65	\$74
Earnings, C\$M	(\$2)	\$9	\$41	\$44
EPS, C\$	(\$0.00)	\$0.01	\$0.07	\$0.08
Operating Cash Flow, C\$M	\$5	\$20	\$61	\$66
CFPS, C\$	\$0.01	\$0.03	\$0.11	\$0.11
Free Cash Flow, C\$M	(\$79)	\$2	\$43	\$48
FCFPS, C\$	(\$0.14)	\$0.00	\$0.07	\$0.08
Capex, C\$	\$84	\$18	\$18	\$18

Valuation Ratios	2018E	2019E	2020E	2021E
EV / Revenue	17.2x	4.5x	2.3x	2.0x
EV / EBITDA	143.8x	11.0x	4.0x	3.5x
EV / Operating Cash Flow	54.7x	13.0x	4.2x	3.9x
EV / Free Cash Flow	-	136.4x	6.0x	5.3x
P / Adjusted Earnings	-	24.2x	5.0x	4.7x
P / Operating Cash Flow	43.4x	10.4x	3.4x	3.1x
P / NAV	0.62x			

Sugar Zone Production Profile	2018E	2019E	2020E	LOM
Material Mined, 000 tonnes	47	198	288	4,540
Mill Capacity, 000 tpd	525	550	800	1084
Tonnes of Ore Milled, 000 tonnes	47	198	288	4,540
Gold Grade, g/t	6.50	5.75	7.00	6.48
Gold Recovery, %	95.4%	95.4%	95.4%	95.4%
Gold Produced, koz	9.4	34.9	61.8	904.9
Payable Gold, koz	9.2	34.9	61.8	904.8
Unit Operating Costs				
Operating Cash Costs, C\$/oz	\$642	\$726	\$596	\$645
Total Cash Costs, C\$/oz	\$667	\$752	\$624	\$673
AISC, C\$/oz	\$667	\$1,267	\$915	\$907
Total Mining Operations Costs, C\$/t mined	\$133	\$133	\$134	\$133

Recent Financings
Dec 14, 2016 - C\$15M bought deal equity financing (38.5M shares @ C\$0.39 per unit)
Dec 14, 2016 - C\$10M private placement financing (33.3M shares @ C\$0.30 per unit)
July 20, 2016 - C\$4.1M private placement equity offering (13.5M shares @ C\$0.30 per unit)
March 31, 2016 - C\$2M private placement equity offering (10M shares @ C\$0.20 per unit)

Share Capital Dilution	As of: 3Q/18A					
	As of	Number	Avg. Price	Proceeds	ITM	Expiry
Shares Outstanding	Sep-18	581.4M	-	-	-	-
Options	Sep-18	47.4M	C\$0.30	C\$13.4M	C\$5.9M	Apr/19 - Jul/23
Warrants	Sep-18	16.2M	C\$0.49	C\$7.9M	C\$0.0M	Dec/18 - May/23
Dilutive Securities	Sep-18	63.6M	C\$0.33	C\$21.3M	C\$5.9M	Dec/18 - Jul/23
Fully Diluted Shares	Sep-18	645.0M	-	-	-	-

\*Shares outstanding reflects last reported period (Management estimates there are currently 596.3M shares outstanding)

Major Shareholders	O/S (millions)	O/S (%)
Aprian Capital Advisory LLP	116.3	20%
Roman, Stephen G.	34.4	6%
1832 Asset Management L.P.	9.6	2%
Merian Global Investors	5.0	1%
Cowie, Michael P.	4.1	1%
Middlefield Capital Corporation	1.8	0%
Friends and Family	118.0	20%
Total	289.1	48%

Corporate Metal Inventory - Reserve and Resource	Tonnes (Mt)	Grade (g/t Au)	Ounces (Moz)	EV/oz (US\$/oz)
Mineral Resource Estimate (Cutoff of 3.0 g Au/t Capped Grades)				
Indicated Resources (100%)	2.61	8.52	0.714	\$269
Inferred Resources (100%)	3.59	6.59	0.761	n/a

Peer-Group Comparables (sourced via Capital IQ)	Share Price	Corp NAV	Price/Nav
Anaconda Mining Inc. (TSX:ANX)	C\$0.24	US\$1.01	0.17x
Atlantic Gold Corporation (TSXV:AGB)	C\$1.68	US\$1.93	0.65x
Equinox Gold Corp. (TSXV:EQX)	C\$0.90	US\$1.62	0.41x
Leagold Mining Corporation (TSX:LMC)	C\$1.48	US\$3.47	0.32x
Lundin Gold Inc. (TSX:LUG)	C\$4.88	US\$5.21	0.70x
Osisko Mining Inc. (TSX:OSK)	C\$2.52	US\$2.91	0.65x
Wesdome Gold Mines Ltd. (TSX:WDO)	C\$3.94	US\$3.25	0.90x
Peer-Group Average			0.49x
Harte Gold Corp. (HRT-T)	C\$0.36	US\$0.43	0.62x

C\$/US\$ FX Rate: 1.34

Corporate NAV Summary and CFPS with Sensitivity	Haywood Model	\$1,100	\$1,200	\$1,300	\$1,400	Spot
Forecast Gold Price, US\$/oz		\$1,100	\$1,200	\$1,300	\$1,400	\$1,249
Forecast C\$/US\$ FX Rate		\$1.10	\$1.20	\$1.30	\$1.40	\$1.34
Corporate Adjustments, C\$M	(\$25)	(\$25)	(\$25)	(\$25)	(\$25)	(\$25)
Sugar Zone Property After-Tax NPV 5.0%, C\$M	\$345	\$242	\$302	\$362	\$422	\$387
Resource Valuation, C\$M	\$50	\$50	\$50	\$50	\$50	\$50
Corporate NAV, C\$M	\$370	\$267	\$327	\$387	\$447	\$412
Corporate NAV, C\$ / F/D share	\$0.57	\$0.41	\$0.51	\$0.60	\$0.69	\$0.64
Target Price / Corporate NAV	1.4x	1.9x	1.6x	1.3x	1.2x	1.3x
2020E Operating Cash Flow (C\$/Share)	\$0.10	\$0.07	\$0.08	\$0.10	\$0.11	\$0.10

Model shares F/D: 645M





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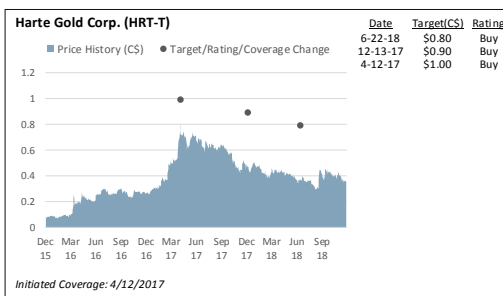
- ◆ Haywood Securities, Inc. has reviewed lead projects of Atlantic Gold Corporation (AGB-V), Equinox Gold Corp. (EQX-V), Lundin Gold Inc. (LUG-T), Osisko Mining Corp. (OSK-T), Harte Gold Corp. (HRT-T) and a portion of the expenses for this travel may have been reimbursed by the issuer.
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Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

### Distribution of Ratings (as of December 12, 2018)

	%	#	IB Clients (TTM)
Buy	76.8%	73	96.2%
Hold	11.6%	11	3.8%
Sell	0.0%	0	0.0%
Tender	2.1%	2	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	9.5%	9	0.0%

### Price Chart, Rating and Target Price History (as of December 12, 2018)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities

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