

# HARTE GOLD CORP.

## Ramp-up Challenges at Sugar Zone

### EVENT

Harte Gold released Q4/18 financial results and provided an operations update at the Sugar Zone mine.

### BOTTOM LINE

**Negative** – Sugar Zone achieved commercial production on January 1, 2019, but the ramp-up has been plagued by a number of issues ranging from equipment failures to the freezing of the tailings impoundment. This has put significant stress on the balance sheet. We maintain our Buy rating but are reducing our target to C\$0.75/share from C\$1.20/share previously.

### FOCUS POINTS

- **Ramp-Up Challenges** – January and February were difficult months at Sugar Zone. Severe weather froze the water in the tailings impoundment that in turn restricted the supply of recycled water to the process plant. Combined with equipment failures and manpower issues, the ramp-up has been challenging for Harte. The Company is reporting that underground mining and process rates significantly improved in March.
- **Balance Sheet Liquidity Challenges** – The Company exited 2018 with C\$7.3 MM in cash, and C\$70.7 MM in short-term debt. Harte is in advanced discussions on refinancing its current liabilities and solving its near-term liquidity challenges.
- **Maintaining Buy, Lowering Target** – The problematic ramp-up at Sugar Zone has put significant pressure on Harte's balance sheet, and the Company is in need of a near-term liquidity solution. We are maintaining our Buy rating, but reducing our target multiple to 0.75x NAVPS<sub>5%</sub> from 1.0x NAVPS<sub>5%</sub> previously to account for the financing risk.

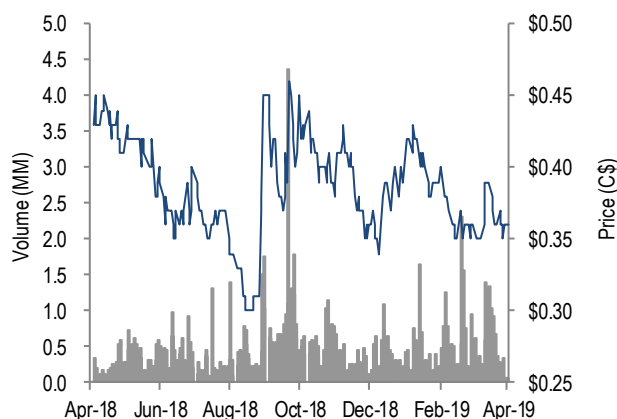
### Recommendation:

**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\$0.75↓  
Return to Target: 108.3%  
Cash on hand: C\$7.3 MM

### Financial Summary

Shares O/S (MM)	600.2	52-week range	C\$0.29 - C\$0.55
Market cap (\$MM)	C\$216.1	Avg. weekly vol. (MM)	5.03
Market float (\$MM)	C\$151.3	Fiscal year-end	31-Dec
<b>Sugar, Middle, Wolf</b>	<b>MMt</b>	<b>g/T Au</b>	<b>MMoz</b>
M&I	4.24	8.12	1.11
Inferred	2.95	5.88	0.56
<b>Total Resource</b>	<b>7.20</b>	<b>7.20</b>	<b>1.67</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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See disclosure and a description of our recommendation structure at the end of this report.

## RAMP-UP CHALLENGES AT SUGAR ZONE

Sugar Zone achieved commercial production on January 1, 2019 but January and February were difficult months at Sugar Zone. Severe weather froze the water in the tailings impoundment that in turn restricted the supply of recycled water to the process plant, resulting in lower than expected throughput. Combined with equipment failures and manpower issues, the ramp-up has been challenging for Harte. The Company is reporting that underground mining and process rates significantly improved in March, with the issues plaguing the ramp-up in January and February having since been rectified. Operating performance for Q1/19 is still in the process of being reviewed, but Harte is reporting that the mine and mill are operating according to plan. We have adjusted our 2019E production and cost forecasts for Harte Gold from 40 Koz Au at \$768/oz (AISC) to 33 Koz Au at \$964/oz.

## BALANCE SHEET LIQUIDITY CHALLENGES

The problematic ramp-up at Sugar Zone has put significant pressure on Harte's balance sheet, and the Company is in need of a near-term liquidity solution. Harte exited 2018 with C\$7.3 MM in cash, and C\$70.7 MM in short-term debt. Of the short-term debt, \$20 MM (C\$28.2 MM) is repayable to ANR Investments B.V. ("Appian") on May 9, 2019. As of exit 2018, given the challenging ramp-up of the mine, the Company was in default on various covenants (operating and completion) related to the \$50 MM Sprott Private Resource Lending ("Sprott") loan facility, of which \$40 MM has currently been drawn. Note that Sprott waived these covenants in January and February, and presumably has waived them for March as well. That said, the Sprott debt has also been classified as short-term given the violation of the covenants. We note that both the Sprott and Appian debt is secured by all assets of the Company, with the Appian debt subordinate to the Sprott debt. Harte is in advanced discussions on refinancing its current liabilities and solving its near-term liquidity challenges. We note that Appian is Harte's single largest shareholder (19.9%) and both entities are working toward a near-term liquidity solution to get Sugar Zone through its ramp-up period and toward normal-course operations. It is our view that Harte *will* be able to re-finance and access sufficient liquidity to navigate the ramp-up of the mine, but likely at a punitive cost of capital.

### Exhibit 1. Updated NAVPS Estimate

Asset		Value (\$MM)	\$ Per Share	% of NAV
Sugar Zone Project NPV	5.0% disct.	\$571.6	\$0.87	108%
Other		\$0.0	\$0.00	0%
<b>Total Mining Assets</b>		<b>\$571.6</b>	<b>\$0.87</b>	<b>108%</b>
<b>Total Mining Assets (C\$)</b>		<b>C\$714.5</b>	<b>C\$1.09</b>	<b>108%</b>
Cash	Exit Q4/18	C\$7.3	C\$0.01	1%
Cash From ITM Opts/Wrnts		C\$11.7	C\$0.02	2%
Future Equity Financing	N/A	C\$0.0	C\$0.00	0%
Debt	Exit Q4/18	C\$71.1	-C\$0.11	-11%
<b>Net Asset Value (C\$)</b>	1.25 C\$/US\$	<b>C\$804.6</b>	<b>C\$1.01</b>	<b>100%</b>
P/NAV			0.36x	

Source: Cantor Fitzgerald

### **FEASIBILITY STUDY IMMINENT**

Later this week Harte Gold will be releasing the maiden Feasibility Study on the Sugar Zone mine that evaluates a low-cost expansion to 800 tpd from current production rates of <600 tpd. Based on the existing M&I resource, at the higher throughput rate, Sugar Zone would still have a mine-life of 14+ years.

### **MAINTAINING BUY RATING, LOWERING TARGET**

The ramp-up challenges at Sugar Zone have put significant pressure on Harte's balance sheet. While we are optimistic on Harte's ability to re-finance and properly ramp the mine to normal-course operations, we are mindful of the added financial risk to the Company at the present time. We are maintaining our Buy rating, but reducing our target multiple to 0.75x NAVPS<sub>5%</sub> from 1.0x NAVPS<sub>5%</sub> previously to account for the financing risk. Combined with our lowered 2019 production estimates and higher associated costs, this results in a reduction in our target price from C\$1.20/share to C\$0.75/share. We are maintaining our Buy rating.

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### *Disclosures as of April 2, 2019*

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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.

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**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.

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