

Harte Gold – Sweet Smell of the Sugar Zone

The trend towards small-scale mining (or as we are tending to call it “right-sized” mining) seems to be gaining traction. Bankers don’t like it because it means smaller financings and less fees and consultants absolutely hate it because it means less mindless-drilling, wheel-spinning and production of useless tomes of BFS and DFS drivel. The group that does like it includes retail investors and us, while institutional investors find that, quite literally, they cannot get enough of these companies. We have highlighted Anaconda in the past for this strategy (to which it has added another property this week) and had favoured Minnova for proposing something similar (though it has seemingly lost track from production and gone into some continuous financing mode). In the latter case it really takes some doing to make your previous five announcements, over four months, solely about financings.

Then there is Harte Gold Corp. (TSX:HRT), which seems destined to shortly join the ranks of producers with its mine in Ontario. We shall do an overview here on the progress thus far.

Hunting in Hemlo Territory

Harte Gold Corp. is focused on the exploration and development of its 100% owned Sugar Zone property and is currently prepping for a “bulk sample” at the deposit that should yield up to 25,000 ozs Au. The Sugar Zone property is located in Ontario, approximately 60 km east of the Hemlo area gold mines, 25 km north of White River off the Trans-Canada Highway (#17). The property can be accessed via a series of logging roads and drill trails extending north from the community of White River.



Past Work at the Sugar Zone

Exploration for gold and base metals has been performed on the property since 1969. The original focus was base metals when Canex Aerial Exploration Ltd., in 1969, drilled three diamond drillholes in the vicinity of the mafic/ultramafic intrusives and flows near the north end of Dayohessarah Lake. Results include an intersection of 0.326% Ni and 0.08% Cu over 5 ft. in metagabbroic rocks.

In the intervening decades the main explorers were Hemlo Gold and Corona Gold conducting various campaigns with the primarily focus, understandably, being gold.

It was in 2010 that Harte Gold initiated its first drilling program. During March, a diamond drill program totalling 2,097.31 m in 12 holes, two of which were aborted before reaching the Sugar Zone. The program was successful in locating a high grade area of the Sugar Zone located near surface and directly under a series of surface trenches. The drill program was also successful in determining that the Sugar Zone has significant mineralization below 300m depth.

Geology

The Dayohessarah Greenstone Belt is situated between two larger greenstone belts; the Hemlo Greenstone Belt to the west and the Kabinakagami Greenstone Belt to the east. The belt is approximately 36 km in length and varies in width from 1.5 to 5.5 km. Principal lithologies in the belt are moderately to highly deformed metamorphosed volcanics, volcanoclastics and sediments that have been enclosed and intruded by tonalitic to granodioritic quartz-porphyry plutons.

The belt has been strongly foliated, flattened and strained. Deformation seen in the supracrustal rocks has been interpreted to be related to the emplacement of the Strickland

Pluton. The strain fabric is best observed a few hundred meters from the Strickland Pluton in the Sugar Zone, which has been characterized as the most severely strained part of the belt. The Sugar Zone is defined by sets of parallel mineralized quartz veining, quartz flooding of strongly altered wallrock, thin intermediate porphyry lenses and dykes/sills parallel to stratigraphy and foliation, and gold mineralization.

Near Dayohessarah Lake, the belt is dominated by a basal sequence of massive to pillowed mafic volcanics. Several fine to medium grained, intermediate feldspar porphyry dykes/sills have intruded and swarmed the belt. Swarming of the intermediate porphyry dykes is more intense east of Dayohessarah Lake. These intermediate dykes/sills vary in abundance across the property, but increase in regularity within, and around, the Sugar Zone.



There are three main targets for Harte, there are:

Sugar Zone is a high-grade 500,000 oz gold deposit open at depth and on strike, gold mineralization extends to 1,000m depth, target >1mn oz. Drilling in 2015 extended strike length from 800m to 1,100m. Discovery of Footwall Zone confirms parallel zone potential.

Wolf Zone is a 2010 discovery with 9.5 g/t over 7.5m, including high-grade core of 22.9 g/t over 3m. Subsequent drilling extended mineralization at depth and on strike.

Contact Zone is more formative with an IP/Mag survey in 2014 identifying mafic volcanic/sedimentary contact. Drilling in 2015 confirmed the Hemlo setting, pathfinder elements and gold values.

Resource

The latest resource estimate for the Sugar Zone was included in the PEA published in 2015.



CapEx

Financial assumptions in the 2012 PEA have been superseded by adverse price action in the commodities and resultant downward revision of all costs, we moved the site to an area roughly mid-point of the deposit, which is smaller than previous and much less expensive to develop. The 2012 PEA had posited CapEx of around \$118mn.

Harte Gold plans to update the PEA the second half of 2016. CapEx is probably going to be around \$25 – \$30 million only and consists of a gravity mill (no cyanide circuit), tailings (benign) facility and running hydro-sourced power to site.

The company believes that normalized operating costs under commercial production are expected to be less than CAD\$600 per ounce.

The Road to Production

The key to the current strategy is the extraction of a 70,000 tonne Bulk Sample which should yield approximately 25,000oz Au. It is calling this an Advanced Exploration and Bulk Sampling Program (AEBSP). This will essentially be the “production you are having when you are not having production”. To this end the company signed a Heads of Agreement for a Fixed Price mining contract has been signed with Technica Mining in the middle of last year. Technica agreed to perform the work at a cost of \$20mn, with cost reimbursement of \$15mn, through the duration of the contract and the balance payable in cash or common shares of Harte Gold, as determined on completion of the contract.

Technica Mining mobilized personnel and equipment to site

shortly thereafter. The approach to the Portal face was excavated and the screening and bolting of the face together with surface work to support underground mining were completed. The first blast to cut the Portal and go underground occurred in the middle of third quarter.



The optimized mine plan will accelerate the AEBSP production schedule and shorten project timelines. Recently completed in-fill drilling in the Bulk Sample area and in two previously drilled areas of gold mineralization parallel to the proposed ramp have been added into a new mine plan with a view to optimizing mining operations and accelerating project timelines. The bulk sample is already permitted.

The company expects the bulk sample to make money which will be re-invested in commercial permitting and exploration drilling below the Sugar Zone Deposit and along the 2 km distance between the Sugar Zone and Wolf Zone.

Deal with Barrick

In mid-2015, Barrick Gold and Harte inked a Letter of Intent to process the 70,000 tonne Sugar Zone Bulk Sample at the nearby Hemlo Mill with the final Agreement expected to be signed by the end of August. The Hemlo Mill is a standard grind, leach and carbon-in-pulp extraction mill. This will involve transport over 60 kms.

Financing Deal with Auramet

In an interesting development, Harte Gold has by-passed the equity market for the financing needed for the final push to production with a gold loan. The novel thing is that the gold loan will be on material yielded from the aforementioned bulk sample rather than "normal" production.

Back in July of 2015, Harte Gold announced it had signed an

indicative Term Sheet with Auramet International LLC for a gold loan of up to US\$6mn together with a working capital facility. Both of these financing elements being subject to due diligence, credit review and legal documentation. Hopefully an announcement will be forthcoming on this score in coming weeks.

Auramet is a metals trader and financier based in New Jersey. Its merchant banking activities include working capital facilities, in-process refining facilities, pre-production advances, bridge facilities and pre-export financing. The most well-known deal orchestrated by Auramet was a \$10mn gold loan for Banro, which was put together in 2013.

Conclusion

Production remains king and long lead times are death to a gold mining story. With the Canadian dollar in a good place versus the USD (well at least if you are a miner) and the gold price on the mend (in USD-terms) waiting around for consultants to get their acts together is a recipe for investor boredom. Harte have short-circuited that process and aim to be putting some "ounces on the table" in a limited time frame and to that end have got their financing and engineering ducks in a row in 2015, with a view to delivering investors action in 2016. There is little we can find fault with in that!