



**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2013**

## **Management's Comments on Unaudited Condensed Interim Consolidated Financial Statements**

The accompanying unaudited condensed interim consolidated financial statements of Harte Gold Corp. (the "Company" or "Harte Gold") for the three and six months ended June 30, 2013 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that the accompanying unaudited interim consolidated financial statements have not been reviewed by an auditor.

August 14, 2013

"Stephen G. Roman"

Stephen G. Roman  
Chairman, President and CEO

"Rein A. Lehari"

Rein A. Lehari  
Chief Financial Officer

**Harte Gold Corp.**  
 (An Exploration Stage Company)  
**Condensed Statement of Financial Position as at**  
**(unaudited)**

| Canadian dollars  | June 30,<br>2013     | December 31,<br>2012 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| <b>Current Assets</b>                                   |                      |                      |
| Cash and cash equivalents (note 4)                      | \$ 866,540           | \$ 2,587,839         |
| Receivables (note 5)                                    | 37,886               | 152,999              |
| Subscription receivable                                 | -                    | 15,000               |
| Prepays   | 24,182               | 15,881               |
|   | <b>928,608</b>       | <b>2,771,719</b>     |
| <b>Restricted Cash (note 4)</b>                         | <b>348,906</b>       | <b>348,906</b>       |
| <b>Property and Equipment (note 6)</b>                  | <b>66,101</b>        | <b>73,817</b>        |
| <b>Exploration and Evaluation Expenditures (note 7)</b> | <b>19,609,477</b>    | <b>18,053,084</b>    |
|   | <b>\$ 20,953,092</b> | <b>\$ 21,247,526</b> |
| <b>Liabilities</b>                                      |                      |                      |
| <b>Current Liabilities</b>                              |                      |                      |
| Accounts payable and accrued liabilities (note 8)       | 304,125              | 237,297              |
| Contingency provisions (note 17)                        | 315,355              | 427,425              |
| Flow-through share premium (note 9)                     | -                    | 370,771              |
|   | <b>\$ 619,480</b>    | <b>\$ 1,035,493</b>  |
| <b>Shareholders' Equity</b>                             |                      |                      |
| Capital stock (notes 10 & 12)                           | 29,544,363           | 29,612,654           |
| Other reserves (note 13)                                | 3,414,003            | 3,327,596            |
| Deficit   | (12,624,754)         | (12,728,217)         |
|   | <b>20,333,612</b>    | <b>20,212,033</b>    |
|   | <b>\$ 20,953,092</b> | <b>\$ 21,247,526</b> |

*The accompanying notes are an integral part of these financial statements*

**Harte Gold Corp.**  
 (An Exploration Stage Company)  
**Condensed Statements of Operations and Comprehensive Loss and Deficit**  
**For the Three and Six Months Ended**  
**(unaudited)**

| Canadian dollars                                | Three Months Ended |                    | Six Months Ended   |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | June 30, 2013      | June 30, 2012      | June 30, 2013      | June 30, 2012      |
| <b>Revenue</b>                                  |                    |                    |                    |                    |
| Interest Income and other income                | \$ 1,260           | \$ 5,337           | \$ 5,192           | \$ 11,610          |
| <b>Expenses</b>                                 |                    |                    |                    |                    |
| Management and consulting fees (note 15)        | 60,000             | 60,000             | 120,000            | 120,000            |
| Promotion and travel                            | 708                | 2,371              | 2,534              | 4,765              |
| Office and general                              | 20,959             | 37,323             | 54,707             | 72,868             |
| Professional fees                               | 14,250             | 41,292             | 33,487             | 51,473             |
| Stock-based compensation (note 13)              | -                  | 470,940            | -                  | 471,604            |
| Shareholders' information                       | 22,375             | 41,823             | 61,460             | 93,271             |
| Amortization                                    | 70                 | 100                | 140                | 200                |
| Part XII.6 interest and penalties               | (687)              | -                  | 172                | 6,887              |
| Flow-through share premium (note 9)             | -                  | -                  | (370,771)          | (101,625)          |
|   | <b>117,675</b>     | <b>653,849</b>     | <b>(98,271)</b>    | <b>719,443</b>     |
| <b>Net Income (Loss) and Comprehensive Loss</b> | <b>(116,415)</b>   | <b>(648,512)</b>   | <b>103,463</b>     | <b>(707,833)</b>   |
| Net income per share - basic and fully diluted  | \$ (0.001)         | \$ (0.004)         | \$ 0.001           | \$ (0.004)         |
| Weighted average number of shares outstanding   |                    |                    |                    |                    |
| Basic and fully diluted                         | <b>190,181,554</b> | <b>165,963,572</b> | <b>190,181,554</b> | <b>165,425,843</b> |

*The accompanying notes are an integral part of these financial statements*

**Harte Gold Corp.**  
(An Exploration Stage Company)  
**Condensed Statements of Cash Flow for the Three and Six Months Ended**  
**(unaudited)**

| Canadian dollars  | Three Months Ended |                     | Six Months Ended   |                     |
|---|--------------------|---------------------|--------------------|---------------------|
|   | June 30,<br>2013   | June 30,<br>2012    | June 30,<br>2013   | June 30,<br>2012    |
| <b>Cash provided by (used in):</b>  |                    |                     |                    |                     |
| <b>Operations</b>   |                    |                     |                    |                     |
| Net Income (loss)   | \$ (116,415)       | \$ (648,512)        | \$ 103,463         | \$ (707,833)        |
| Adjustments to reconcile net loss to cash flow from operating activities: |                    |                     |                    |                     |
| Amortization  | 70                 | 100                 | 140                | 200                 |
| Stock-based compensation  | -                  | 470,940             | -                  | 471,604             |
| Flow-through share premium  | -                  | -                   | (370,771)          | (101,625)           |
| Interest income   | (1,260)            | (5,337)             | (5,192)            | (11,610)            |
|   | <b>(117,605)</b>   | <b>(182,809)</b>    | <b>(272,360)</b>   | <b>(349,264)</b>    |
| Net changes in non-cash working capital items:                            |                    |                     |                    |                     |
| Prepays   | 2,177              | 5,503               | (8,301)            | 7,729               |
| Subscription receivables  | -                  | (100,000)           | 15,000             | 84,500              |
| Receivables   | 125,400            | (28,587)            | 115,113            | (153,436)           |
| Contingency provisions (note 17)  | -                  | -                   | (112,070)          | -                   |
| Accounts payable and accrued liabilities                                  | (286,883)          | 633,541             | 66,828             | 667,907             |
|   | <b>(276,911)</b>   | <b>327,648</b>      | <b>(195,790)</b>   | <b>257,436</b>      |
| <b>Financing</b>  |                    |                     |                    |                     |
| Cost of share issuances   |                    | (20,900)            | (1,745)            | (26,945)            |
| Issuance of units   | -                  | 1,557,499           | -                  | 1,557,499           |
| Issuance of Halverson shares  | -                  | 23,000              | -                  | 23,000              |
|   | -                  | 1,559,599           | (1,745)            | 1,553,554           |
| <b>Investing</b>  |                    |                     |                    |                     |
| Interest income   | 1,260 <sup>1</sup> | 5,337 <sup>1</sup>  | 5,192 <sup>1</sup> | 11,610 <sup>1</sup> |
| Additions to exploration and evaluation expenditures                      | (352,146)          | (3,687,774)         | (1,528,956)        | (4,590,643)         |
|   | <b>(350,886)</b>   | <b>(3,682,437)</b>  | <b>(1,523,764)</b> | <b>(4,579,033)</b>  |
| Net increase in cash and cash equivalents                                 | <b>(627,797)</b>   | <b>(1,795,190)</b>  | <b>(1,721,299)</b> | <b>(2,768,043)</b>  |
| <b>Cash and cash equivalents, beginning of year</b>                       | <b>1,494,337</b>   | <b>3,347,792</b>    | <b>2,587,839</b>   | <b>4,320,645</b>    |
| <b>Cash and cash equivalents, end of year (note 4)</b>                    | <b>\$ 866,540</b>  | <b>\$ 1,552,602</b> | <b>\$ 866,540</b>  | <b>\$ 1,552,602</b> |

<sup>1</sup> The Company presents cash interest income in investing activities.

*The accompanying notes are an integral part of these financial statements*

**Harte Gold Corp.**  
(An Exploration Stage Company)  
**Condensed Statement of Changes in Shareholders' Equity**  
(unaudited)

| Canadian dollars                        | Common Shares<br>(Note 10) |                   | Warrants<br>(Note 12) |                | Subtotal          | Other<br>(Note 13) | Deficit             | Total<br>Shareholders'<br>Equity |
|---|----------------------------|-------------------|-----------------------|----------------|-------------------|--------------------|---------------------|----------------------------------|
|   | #                          | \$                | #                     | \$             |                   | Reserves           |                     |                                  |
| <b>December 31, 2011</b>                | <b>164,888,114</b>         | <b>25,210,105</b> | <b>93,000</b>         | <b>12,325</b>  | <b>25,222,430</b> | <b>2,635,482</b>   | <b>(11,732,951)</b> | <b>16,124,961</b>                |
| Issued as a result of:                  |                            |                   |                       |                |                   |                    |                     |                                  |
| Private placements (notes 9, 10 and 12) | 6,066,667                  | 1,492,277         | 2,625,000             | 65,222         | 1,557,499         |                    |                     | 1,557,499                        |
| Flow-through premium (note 9)           |                            | (49,000)          |                       |                | (49,000)          |                    |                     | (49,000)                         |
| Issued to Halverson (note 20)           | 100,000                    | 23,000            |                       |                | 23,000            |                    |                     | 23,000                           |
| Share issuance costs                    |                            | (28,269)          | 37,200                | 1,324          | (26,945)          |                    |                     | (26,945)                         |
| Stock options granted                   |                            |                   |                       |                | -                 | 678,120            |                     | 678,120                          |
| Net loss for the period                 |                            |                   |                       |                | -                 |                    | (707,833)           | (707,833)                        |
| <b>June 30, 2012</b>                    | <b>171,054,781</b>         | <b>26,648,113</b> | <b>2,755,200</b>      | <b>78,871</b>  | <b>26,726,984</b> | <b>3,313,602</b>   | <b>(12,440,784)</b> | <b>17,599,802</b>                |
| Issued as a result of:                  |                            |                   |                       |                |                   |                    |                     |                                  |
| Private placements (notes 9, 10 and 12) | 19,126,773                 | 3,215,496         | 9,030,470             | 156,874        | 3,372,370         |                    |                     | 3,372,370                        |
| Flow-through premium (note 9)           |                            | (321,771)         |                       |                | (321,771)         |                    |                     | (321,771)                        |
| Share issuance costs                    |                            | (166,823)         | 438,451               | 14,219         | (152,604)         |                    |                     | (152,604)                        |
| Warrants expired (note 13)              |                            |                   | (93,000)              | (12,325)       | (12,325)          | 12,325             |                     | -                                |
| Stock options granted (note 11)         |                            |                   |                       |                |                   | 1,669              |                     | 1,669                            |
| Net loss for the year                   |                            |                   |                       |                |                   |                    | (287,433)           | (287,433)                        |
| <b>December 31, 2012</b>                | <b>190,181,554</b>         | <b>29,375,015</b> | <b>12,131,121</b>     | <b>237,639</b> | <b>29,612,654</b> | <b>3,327,596</b>   | <b>(12,728,217)</b> | <b>20,212,033</b>                |
| Share issuance costs                    |                            | (1,745)           |                       |                | (1,745)           |                    |                     | (1,745)                          |
| Warrants expired (note 13)              |                            |                   | (2,662,200)           | (66,546)       | (66,546)          | 66,546             |                     | -                                |
| Stock options granted (note 11)         |                            |                   |                       |                |                   | 19,861             |                     | 19,861                           |
| Net loss for the period                 |                            |                   |                       |                |                   |                    | 103,463             | 103,463                          |
| <b>June 30, 2013</b>                    | <b>190,181,554</b>         | <b>29,373,270</b> | <b>9,468,921</b>      | <b>171,093</b> | <b>29,544,363</b> | <b>3,414,003</b>   | <b>(12,624,754)</b> | <b>20,333,612</b>                |

**Harte Gold Corp.**  
(An Exploration Stage Company)  
**Notes to the Condensed Financial Statements**  
**For the Six Months Ended June 30, 2013**  
(unaudited)

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**1. CORPORATE INFORMATION**

Harte Gold Corp. (The "Company" or "Harte Gold") The Company was incorporated in Ontario on January 22, 1982 and is a reporting issuer in the Provinces of Ontario, Alberta and British Columbia. The common shares of the Company trade on the Toronto Stock Exchange under the symbol "HRT" and on the Frankfurt Stock Exchange under the symbol "H4O". The head office and principal address of the Company is 8 King Street East, Suite 1700, Toronto, Ontario, M5C 1B5

The Company is engaged in the acquisition, exploration and development of mineral resource properties with a focus on gold properties located in the Province of Ontario, Canada, and currently owns interests in two advanced exploration projects: the Sugar Zone Property, 60 km east of the Hemlo area gold mines, located on the north shore of Lake Superior and the Stoughton-Abitibi Property (formerly Stoughton-Porcupine), 110 km east of Timmins and 50 km north east of Kirkland Lake. Harte Gold is planning to complete an Advanced Exploration and Bulk Sample program on its Sugar Zone Property over the next two years and this will determine the recoverability and economics of its resource, and may result in the reclassification of these resources as reserves. On the basis of information to date, the Company has not yet identified a mineral resource on its Stoughton-Abitibi Property.

**2. BASIS OF PRESENTATION**

**(a) Statement of Compliance**

These condensed interim financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. These condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2012, which were prepared in accordance with IFRS as issued by the IASB. The management of Harte Gold prepared these unaudited condensed interim financial statements, which were then reviewed by the Audit Committee and the Board of Directors. The unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 14, 2013.

**(b) Continuation of Operations**

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of interests in mineral properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and noncompliance with regulatory and environmental requirements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the Company's financial statements for the year ended December 31, 2012.

**Harte Gold Corp.**  
(An Exploration Stage Company)  
**Notes to the Condensed Financial Statements**  
**For the Six Months Ended June 30, 2013**  
(unaudited)

**4. CASH AND CASH EQUIVALENTS**

| <b>Assets</b>                          | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|--|--------------------------|------------------------------|
| Cash                                   | \$ 170,547               | \$ 697,038                   |
| Liquid short term investment           | 695,993                  | 1,890,801                    |
| <b>Total cash and cash equivalents</b> | <b>\$ 866,540</b>        | <b>\$ 2,587,839</b>          |

Restricted cash of \$348,906 at June 30, 2013 (December 31, 2012 - \$348,906) is cash held by the Ontario Ministry of Northern Development and Mines ("MNMD") as assurance that the Company will complete its obligations under the proposed Closure Plan in respect of the Advanced Exploration and Bulk Sample program. In December 2012, the Company applied for Closure Plan approval and had submitted the cash assurance amount along with its application. The Closure Plan was approved in early February 2013 and the cash will be held in trust by the MNMD until all remediation and closure procedures under the Closure Plan have been completed.

**5. RECEIVABLES**

|                                  | <b>June 30,<br/>2013</b> | <b>December 31,<br/>2012</b> |
|----------------------------------|--------------------------|------------------------------|
| GST/HST receivable               | \$ 37,410                | \$ 152,561                   |
| Miscellaneous receivables        | 476                      | 438                          |
| <b>Total accounts receivable</b> | <b>\$ 37,886</b>         | <b>\$ 152,999</b>            |

**6. PROPERTY AND EQUIPMENT**

|                          | Office Equipment <sup>(1)</sup> |              |              | Site Vehicles <sup>(1)</sup> |               |               | TOTAL<br>NBV  |
|--------------------------|---------------------------------|--------------|--------------|------------------------------|---------------|---------------|---------------|
|                          | Cost                            | Amortization | NBV          | Cost                         | Amortization  | NBV           |               |
| December 31, 2011        | 7,569                           | 1,592        | 5,977        | 107,665                      | 23,767        | 83,898        | 89,875        |
| Additions                | 2,958                           | 2,236        | 722          | -                            | 16,780        | (16,780)      | (16,058)      |
| <b>December 31, 2012</b> | <b>10,527</b>                   | <b>3,828</b> | <b>6,699</b> | <b>107,665</b>               | <b>40,547</b> | <b>67,118</b> | <b>73,817</b> |
|                          | -                               | 1,004        | (1,004)      | -                            | 6,712         | (6,712)       | (7,716)       |
| <b>June 30, 2013</b>     | <b>10,527</b>                   | <b>4,832</b> | <b>5,695</b> | <b>107,665</b>               | <b>47,259</b> | <b>60,406</b> | <b>66,101</b> |

1) Amortization on these site vehicles is capitalized to exploration and evaluation assets.

**7. EXPLORATION AND EVALUATION ASSETS**

**Sugar Zone Property, Hemlo Gold Area**

The Sugar Zone Property consists of 414 contiguous claims (comprising 1,844 contiguous claim units) within the Sault Ste. Marie Mining Division located in Ontario, approximately 60 km east of the Hemlo area gold mines, 25 km northeast of White River off the Trans-Canada Highway (#17). The Company owns 100% interest in 411 of these claims. Of these, 288 claims are subject to a 3.5% net smelter royalty ("NSR") in favour of the original vendors of the property, which can be reduced to 2% through the payment of \$1.5 million. Included in the total claims are 3 claims on which the



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**Notes to the Condensed Financial Statements**  
**For the Six Months Ended June 30, 2013**  
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**7. EXPLORATION AND EVALUATION ASSETS cont'd**

Company holds options (the "Halverson Options") and which are subject to a 3% NSR that can be reduced to 1.5% upon payment of \$1.5 million (see note 16).

The following costs have been capitalized to exploration and evaluation assets in respect of the Sugar Zone Property.

|   | June 30,<br>2013  | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>Opening Balance</b>                  | <b>18,053,084</b> | 12,114,761           |
| Expenditures incurred during the period |                   |                      |
| Acquisition costs                       | 51,831            | 2,574,810            |
| Drilling                                | 630,530           | 1,358,959            |
| Geophysics                              | -                 | 342,080              |
| Sampling                                | -                 | 29,274               |
| Assays                                  | 34,814            | 41,575               |
| Camp costs                              | 37,933            | 93,803               |
| Direct management/employees             | 174,610           | 340,590              |
| Site access                             | 105,766           | 127,941              |
| Consultants                             | 472,320           | 767,330              |
| Stock-based compensation                | 19,861            | 208,184              |
| Amortization of vehicles                | 7,576             | 18,616               |
| Other costs                             | 21,152            | 35,161               |
| <b>Total for this period</b>            | <b>1,556,393</b>  | 5,938,323            |
| <b>Closing Balance</b>                  | <b>19,609,477</b> | 18,053,084           |

**Stoughton-Abitibi Property, Timmins Porcupine Gold Area**

The Stoughton-Abitibi Property (formerly known as Stoughton-Porcupine property), is located along the Destor-Porcupine Fault, 110 km east of the Timmins, 50 km northeast of Kirkland Lake, Ontario and 10 km due east of the Holloway-Holt gold mine and mill and consists of a 90% interest in 9 claims and a 100% interest in 25 claims in the Larder Lake Mining Division of Ontario.

In 2009, the Company concluded that it should prioritize the Sugar Zone Property and has not funded any exploration expenses on the Stoughton-Abitibi Property since then. Accordingly, the Company recorded an impairment provision of \$2,756,133 against the Stoughton-Abitibi Property at November 30, 2009.

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|   | June 30, 2013  | December 31, 2012 |
|---|----------------|-------------------|
| Accounts Payable                                      | 289,125        | 200,257           |
| Accrued Liabilities                                   |                |                   |
| Audit   | 15,000         | 30,000            |
| Other   | -              | 7,040             |
| <b>Total accounts payable and accrued liabilities</b> | <b>304,125</b> | <b>237,297</b>    |

**Harte Gold Corp.**  
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**9. FLOW-THROUGH LIABILITIES**

Flow-through liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through issues.

|   |                   |
|---|-------------------|
| <b>Balance on December 31, 2011</b>                     | <b>\$ 101,625</b> |
| Settlement of liability through renouncement in Q1 2012 | (101,625)         |
| Liability incurred on flow-through shares issued        |                   |
| June 15, 2012   | 49,000            |
| July 23, 2012   | 53,292            |
| December 4, 2012  | 205,287           |
| December 27, 2012                                       | 63,192            |
| <b>Balance on December 31, 2012</b>                     | <b>\$ 370,771</b> |
| Settlement of liability through renouncement in Q1 2013 | (370,771)         |
| <b>Balance on June 30, 2013</b>                         | <b>\$ -</b>       |

In the first quarter of 2012, the flow-through expenditures related to various 2011 flow-through shares issued were renounced, thus settling the liability that had been carried forward on the statement of financial position. Similarly, the flow-through expenditures related to the various 2012 flow-through share issues were renounced in early 2013.

On July 5, 2011, the Company completed an initial closing of a non-brokered private placement financing of 2,250,000 flow-through shares at a price of \$0.40 per share for gross proceeds of \$900,000. A flow-through share premium of \$67,500 was recorded on this financing. As of June 30, 2013 and December 31, 2012, all funds had been spent.

On July 15, 2011, the Company completed the final closing of a non-brokered private placement financing of 487,500 flow-through shares at a price of \$0.40 per share for gross proceeds of \$195,000. A flow-through share premium of \$34,125 was recorded on this financing. As of June 30, 2013 and December 31, 2012, all funds had been spent.

On December 23, 2011, the Company completed a non-brokered private placement financing of 2,000,000 flow-through shares at a price of \$0.25 per share for gross proceeds of \$500,000. There was no flow-through share premium for this financing. As of June 30, 2013 and December 31, 2012, all funds had been spent.

On June 15, 2012, the Company completed an initial closing of a non-brokered private placement financing of 816,667 flow-through shares at a price of \$0.30 per share for gross proceeds of \$245,000. A flow-through share premium of \$49,000 was recorded on this financing. As of June 30, 2013 and December 31, 2012, all funds had been spent.

On July 23, 2012, the Company completed its final closing of a non-brokered private placement financing of 1,065,833 flow-through shares at a price of \$0.30 per share for gross proceeds of \$319,750. A flow-through share premium of \$53,292 was recorded on this financing. As of June 30, 2013 and December 31, 2012, all funds had been spent.

On December 4, 2012, the Company completed an initial closing of a non-brokered private placement financing of 10,264,352 flow-through units at a price of \$0.17 per unit for gross proceeds of \$1,744,940. Each Unit comprises one flow-through common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.25 per common share for a period of 18 months from closing. A flow-through share premium of \$205,287 was recorded on this financing. As of June 30, 2013, all funds had been spent (December 31, 2012 - \$159,914 had been spent).

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**For the Six Months Ended June 30, 2013**  
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**9. FLOW-THROUGH SHARE PREMIUM cont'd**

On December 27, 2012, the Company completed its final closing of a non-brokered private placement financing of 3,159,588 flow-through units at a price of \$0.17 per unit for gross proceeds of \$537,130. Each Unit comprises one flow-through common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.25 per common share for a period of 18 months from closing. A flow-through share premium of \$63,192 was recorded on this financing. As of June 30, 2013, \$241,005 had been spent (December 31, 2012 - \$nil had been spent).

**10. CAPITAL STOCK**

The Company is authorized to issue an unlimited number of common shares without par value.

Number of shares issued and outstanding.

The issued and outstanding common shares are as follows :

|   | <b>June 30,<br/>2013</b> | December 31,<br>2012 |
|---|--------------------------|----------------------|
| <b>Balance beginning of period</b>                | <b>190,181,554</b>       | 164,888,114          |
| Private placement of units                        |                          | 9,887,000            |
| Private placement of flow-through shares (note 9) |                          | 1,882,500            |
| Private placement of flow-through units (note 9)  |                          | 13,423,940           |
| Issuance of shares to Halverson (note 16)         |                          | 100,000              |
| <b>Balance end of period</b>                      | <b>190,181,554</b>       | 190,181,554          |

On June 15, 2012, the Company completed an initial closing of a non-brokered private placement financing of 5,250,000 units at a price of \$0.25 per unit for gross proceeds of \$1,312,500. Each Unit comprises one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.35 per common share for a period of 12 months from closing.

On July 23, 2012, the Company completed its final closing of a non-brokered private placement financing of 750,000 units at a price of \$0.25 per unit for gross proceeds of \$187,500. Each Unit comprises one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.35 per common share for a period of 12 months from closing.

On December 4, 2012, the Company completed an initial closing of a non-brokered private placement financing of 3,320,000 units at a price of \$0.15 per unit for gross proceeds of \$498,000. Each Unit comprises one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.25 per common share for a period of 18 months from closing.

On December 27, 2012, the Company completed its final closing of a non-brokered private placement financing of 567,000 units at a price of \$0.15 per unit for gross proceeds of \$85,050. Each Unit comprises one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.25 per common share for a period of 18 months from closing.

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**11. STOCK OPTION PLAN cont'd**

The Company has established a stock option plan to provide additional incentive to officers, directors, employees and consultants in their efforts on behalf of the Company in the conduct of its affairs. The terms of the stock option plan provide that the directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant. The number of shares reserved for issuance is not to exceed 10% of the issued and outstanding common shares from time-to-time. At June 30, 2013, the Company had 3,470,655 (December 31, 2012 – 2,758,155) common shares available for granting of future options.

Under the terms of the plan, options vest immediately unless otherwise determined by the Board, and expire on the fifth anniversary from the date of issue unless otherwise specified. As at June 30, 2013, a total of 16,210,000 options were outstanding under the stock option plan.

|                                 | June 30, 2013                      |                      | December 31, 2012                  |                      |
|---------------------------------|------------------------------------|----------------------|------------------------------------|----------------------|
|                                 | Weighted Average<br>Exercise Price | Number<br>of Options | Weighted Average<br>Exercise Price | Number<br>of Options |
| Outstanding beginning of year   | \$ 0.23                            | 16,260,000           | \$ 0.20                            | 13,280,000           |
| Transactions during the period: |                                    |                      |                                    |                      |
| Granted                         |                                    |                      | \$ 0.30                            | 2,980,000            |
| Granted                         |                                    |                      | \$ 0.35                            | 250,000              |
| Forfeited                       | \$ (0.47)                          | (50,000)             | \$ (0.50)                          | (250,000)            |
| Outstanding at end of period    | \$ 0.23                            | 16,210,000           | \$ 0.23                            | 16,260,000           |
| Exercisable at end of period    | \$ 0.22                            | 15,685,000           | \$ 0.22                            | 15,735,000           |

The following table provides additional information regarding stock options outstanding at June 30, 2013.

| Expiry Date       | Exercise price | Weighted average remaining contractual life (years) | Number of options outstanding | Number of options vested (exercisable) |
|-------------------|----------------|---|-------------------------------|--|
| February 17, 2014 | \$0.15         | 0.64  | 3,050,000                     | 3,050,000                              |
| May 25, 2014      | \$0.15         | 0.90  | 250,000                       | 250,000                                |
| January 26, 2015  | \$0.15         | 1.58  | 150,000                       | 150,000                                |
| June 22, 2015     | \$0.15         | 1.98  | 6,800,000                     | 6,800,000                              |
| July 26, 2015     | \$0.20         | 2.07  | 800,000                       | 800,000                                |
| November 9, 2015  | \$0.70         | 2.36  | 500,000                       | 500,000                                |
| February 14, 2016 | \$0.47         | 2.63  | 880,000                       | 630,000                                |
| July 14, 2016     | \$0.40         | 3.04  | 400,000                       | 400,000                                |
| October 21, 2016  | \$0.50         | 3.31  | 150,000                       | 150,000                                |
| May 3, 2017       | \$0.30         | 3.84  | 130,000                       | 130,000                                |
| May 28, 2017      | \$0.35         | 3.91  | 250,000                       | 100,000                                |
| June 20, 2017     | \$0.30         | 3.98  | 2,850,000                     | 2,850,000                              |
|                   | <b>\$0.23</b>  | <b>2.19</b>   | <b>16,210,000</b>             | <b>15,810,000</b>                      |

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**11. STOCK OPTION PLAN**

***Stock-based Compensation***

The following table summarizes assumptions used with the Black-Scholes valuation model for the determination of stock-based compensation costs for stock options issued during the year ended December 31, 2012 and the three months ended June 30, 2013:

| <b>Grant date</b>                    | <b>4-May-12</b> | <b>29-May-12</b>     | <b>20-Jun-12</b> |
|--------------------------------------|-----------------|----------------------|------------------|
| Number of options                    | 130,000         | 250,000 <sup>1</sup> | 2,850,000        |
| Share price                          | \$ 0.25         | \$ 0.28              | \$ 0.26          |
| Exercise price                       | \$ 0.30         | \$ 0.35              | \$ 0.30          |
| Expected life in years               | 5               | 5                    | 5                |
| Volatility <sup>(2)</sup>            | 110.82%         | 110.03%              | 109.60%          |
| Risk-free interest rate              | 1.44%           | 1.32%                | 1.26%            |
| Dividend yield                       | 0.00%           | 0.00%                | 0.00%            |
| Fair value per option <sup>(3)</sup> | \$ 0.193        | \$ 0.214             | \$ 0.200         |
| Fair value assigned to options       | \$ 25,103       | \$ 53,475            | \$ 571,140       |

<sup>1</sup> 100,000 of these options were vested as of June 30, 2013; if these options are not exercised by May 28, 2017, they will be extended for a further 5 year term

<sup>2</sup> Volatility is determined based on historical share prices

<sup>3</sup> Where options have been granted in which vesting is conditional upon future events, the fair value has been estimated taking into account the probability and timing of meeting those future events, and the fair value is recognized based on these probabilities.

**12. WARRANTS**

As at June 30, 2013, there were 12,131,121 warrants to purchase common shares outstanding. Warrants expire as follows:

|                                     | <b>Exercise Price</b> | <b>Warrants</b>   | <b>Expiry date</b> |
|-------------------------------------|-----------------------|-------------------|--------------------|
| <b>Balance at December 31, 2011</b> |                       | <b>93,000</b>     |                    |
| Expired                             |                       | (93,000)          |                    |
| Issued                              | \$ 0.35               | 2,625,000         | June 15, 2013      |
| Issued for finder's fee             | \$ 0.30               | 37,200            | June 15, 2013      |
| Issued                              | \$ 0.35               | 375,000           | July 23, 2013      |
| Issued for finder's fee             | \$ 0.30               | 53,310            | July 23, 2013      |
| Issued                              | \$ 0.25               | 6,792,176         | June 4, 2014       |
| Issued for finder's fee             | \$ 0.18               | 331,766           | June 4, 2014       |
| Issued                              | \$ 0.25               | 1,863,294         | June 27, 2014      |
| Issued for finder's fee             | \$ 0.18               | 53,375            | June 27, 2014      |
| <b>Balance at December 31, 2012</b> |                       | <b>12,131,121</b> |                    |
| Expired                             |                       | (2,662,200)       |                    |
| <b>Balance at June 30, 2013</b>     |                       | <b>9,468,921</b>  |                    |

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**12. WARRANTS cont'd**

The following table summarizes assumptions used with the Black-Scholes valuation model for the determination of the value allocated to the warrants issued as finder's warrants during the year ended December 31, 2012 and June 30, 2013 in connection with flow-through share financings:

| Issue date                               | 15-Jun-12 | 15-Jun-12           | 23-Jul-12 | 23-Jul-12           |
|--|-----------|---------------------|-----------|---------------------|
| Number of warrants                       | 2,625,000 | 37,200 <sup>1</sup> | 375,000   | 53,310 <sup>1</sup> |
| Share price                              | \$ 0.24   | \$ 0.24             | \$ 0.25   | \$ 0.25             |
| Exercise price                           | \$ 0.35   | \$ 0.30             | \$ 0.35   | \$ 0.30             |
| Expected life in years                   | 1.0       | 1.0                 | 1.0       | 1.0                 |
| Volatility <sup>(2)</sup>                | 56.84%    | 55.75%              | 54.89%    | 54.89%              |
| Risk-free interest rate                  | 0.97%     | 0.97%               | 0.98%     | 0.98%               |
| Dividend yield                           | 0%        | 0%                  | 0%        | 0%                  |
| Fair value per warrant                   | 0.025     | 0.036               | 0.038     | 0.038               |
| Fair value of warrants issued            | \$ 65,888 | \$ 3,124            | \$ 14,400 | \$ 2,047            |
| Relative fair value assigned to warrants | \$ 65,222 | \$ -                | \$ 13,373 | \$ -                |

<sup>1</sup> Finder's warrants

| Issue date                               | 04-Dec-12  | 04-Dec-12            | 27-Dec-12 | 27-Dec-12           |
|--|------------|----------------------|-----------|---------------------|
| Number of warrants                       | 6,792,176  | 331,766 <sup>1</sup> | 1,863,294 | 53,375 <sup>1</sup> |
| Share price                              | \$ 0.15    | \$ 0.15              | \$ 0.15   | \$ 0.15             |
| Exercise price                           | 0.25       | 0.18                 | 0.25      | 0.18                |
| Expected life in years                   | 1.5        | 1.5                  | 1.5       | 1.5                 |
| Volatility <sup>(2)</sup>                | 56.17%     | 56.17%               | 55.11%    | 55.11%              |
| Risk-free interest rate                  | 1.13%      | 1.13%                | 1.13%     | 1.13%               |
| Dividend yield                           | 0%         | 0%                   | 0%        | 0%                  |
| Fair value per warrant                   | 0.018      | 0.0317               | 0.017     | 0.031               |
| Fair value of warrants issued            | \$ 120,222 | \$ 10,517            | \$ 31,676 | \$ 1,655            |
| Relative fair value assigned to warrants | \$ 113,524 | \$ -                 | \$ 29,977 | \$ -                |

<sup>2</sup> Volatility is determined based on historical share prices

The expiry dates of warrants outstanding as of June 30, 2013 are as follows:

| Expiry date   | Number of warrants outstanding | Exercise price | Weighted average remaining contractual life (years) |
|---------------|--------------------------------|----------------|---|
| July 23, 2013 | 53,310                         | \$ 0.30        | 0.06  |
| July 23, 2013 | 375,000                        | \$ 0.35        | 0.06  |
| June 4, 2014  | 6,792,176                      | \$ 0.25        | 0.93  |
| June 4, 2014  | 331,766                        | \$ 0.18        | 0.93  |
| June 27, 2014 | 1,863,294                      | \$ 0.25        | 0.99  |
| June 27, 2014 | 53,375                         | \$ 0.18        | 0.99  |
|               | <b>9,468,921</b>               | <b>\$ 0.25</b> | <b>0.90</b>   |

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**13. OTHER RESERVES**

|  | 30-Jun-13        | 31-Dec-12 |
|--|------------------|-----------|
| <b>Balance beginning of period</b>         | <b>3,327,596</b> | 2,635,482 |
| Stock-based compensation expense (note 11) | 19,861           | 679,789   |
| Fair value assigned to expired warrants    | 66,546           | 12,325    |
| <b>Balance end of period</b>               | <b>3,414,003</b> | 3,327,596 |

**14. INCOME/LOSS PER SHARE**

The calculation of the basic earnings per share for the three and six months ended June 30, 2013 was based on the income/loss attributable to common shareholders of \$103,463 (loss for the six months ended June 30, 2012 - \$707,833) and a weighted average number of common shares outstanding of 190,181,554 (June 30, 2012 – 165,425,843).

There have been no significant capital transactions from the reporting date to the date of this filing which have had a material impact on earnings per share.

Income for the three and six months ended June 30, 2013 divided by weighted average number of common shares outstanding is equal to \$0.001 per share.

**BASIC**

|                    |             |
|--------------------|-------------|
| Numerator          | \$103,463   |
| Denominator        | 190,181,554 |
| Earnings per share | \$0.001     |

**15. RELATED PARTY TRANSACTIONS**

Balances and transactions with related parties as at and in the six months ended June 30, 2013 were as follows:

| <b>For six months ended June 30, 2013</b> | Amount<br>charged | <b>Outstanding<br/>balance</b> |
|---|-------------------|--------------------------------|
| Silvermet Inc.                            | \$ 19,884         | \$ -                           |
| Global Atomic Fuels Corporation           | 44,942            | 61,766                         |

Amounts due to or from related parties are unsecured, non-interest bearing and due on demand. These are settled on a regular basis.

Transactions with related parties were in the normal course of operations and were measured at the same value as if the transactions had occurred with non-related parties.

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For the six months ended June 30, 2013, the Company paid key management personnel, including officers, directors or their related entities for consulting services and/or management services, as follows:

|   | <b>June 30,<br/>2013</b> | December 31,<br>2012 |
|---|--------------------------|----------------------|
| Management and consulting fees                                      | <b>\$ 120,000</b>        | \$ 265,000           |
| Consulting fees included in exploration and evaluation expenditures | <b>45,000</b>            | 100,000              |
| Stock based compensation  |                          |                      |
| - expensed to Statement of Operations and Comprehensive Loss        | -                        | 470,940              |
| - capitalized to exploration and evaluation expenditures            | -                        | 100,200              |

**16. COMMITMENTS**

On June 28, 2010, the Company entered into the Halverson Option Agreement to acquire 3 mining claims contiguous to the claims previously held. To earn a 10% interest in the claims, the Company must make cash payments of \$225,000 over 4 years, incur work commitments of \$300,000 over 5 years, and issue 200,000 common shares over 3 years. The claims interest is subject to a 3% net smelter return that can be reduced to 1.5% upon payment of \$1,500,000. Additionally, if an economically viable deposit is found, the Company must make advance royalty payments of \$20,000 per year over 5 years or alternatively, may make annual payments of \$20,000 to extend the Option for a further 5 years and complete the purchase of the claims. As of June 30, 2013, cash payments of \$70,000 remain to be paid on June 28, 2014 and work commitments of \$150,000 remain through June 28, 2015.

In connection with the Halverson Option Agreement, 100,000 common shares were issued in 2012 at a fair value of \$23,000. In the absence of a reliable measurement of the claims interest, the transaction has been measured at the fair value of the shares issued.

In addition to the above commitments, the Company has minimum lease payments to make for a building rental as follows:

|             |           |
|-------------|-----------|
| < 1 year    | \$ 6,000  |
| 1 – 5 years | \$ 16,000 |

**17. CONTINGENCIES**

Mr. John Ternowesky, a former director of the Company, has filed a Statement of Claim in the amount of \$3,000,000 against the Company in the Ontario Superior Court of Justice. The claim alleges that Mr Ternowesky had provided services as a director and consultant to the Company during the period November 1993 through June 2001. The Company has filed a Statement of Defence and Counterclaim. Management is of the position that the claim by Mr. Ternowesky is without merit as there are no corporate records of any such services or agreements. The Company's Counterclaim is in respect of Mr. Ternowesky's breach of his duties as a director in respect of flow-through share issuances (see below) and seeks damages in the amount of \$750,000 relating to CRA liabilities and indemnity of \$750,000 for any amounts that may be needed to be reimbursed to investors, plus a discharge of any royalties owing to Mr. Ternowesky. (Mr. Ternowesky holds a portion of the royalties on Sugar Zone Property – see note 7). Mr. Ternowesky has made an offer to settle his claim at a significantly reduced amount but the Company has rejected this offer. At present, the Company believes it will prevail in this matter and no liability will result. Since any such liability is remote, no provision is included.

Pursuant to a 2009 audit by the Canada Revenue Agency ("CRA") of 2003 exploration expenses, current management conducted a review of expenditures incurred and filings made in respect of flow-through share issuances during the period 2003 – 2008. This review uncovered issues related to the use of flow-through funds, timing of expenditures and other related compliance matters. The Company has filed the required documents with CRA related to the issuance of flow-through common shares during this period and estimates it may incur interest charges and penalties associated



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with the foregoing and may incur other costs. These financial statements contain a provision of \$315,355 for the probable obligation to reimburse investors as a result of flow-through funds not spent within prescribed time limits. The Q4 2012 provision was \$427,425 comprised of both the probable obligation to reimburse investors and an amount for the interest charges and penalties under the Part XII.6 provisions in the Income Tax Act. During Q1, the Company received a CRA assessment notice in respect of the Part XII.6 interest and penalties in the amount of \$112,070, which was paid.

In addition to the claim against Mr. Ternowesky as noted above, the Company also filed a claim against the other former directors and officers of the Company that were retained, employed or otherwise engaged by the Company during the relevant period, for damages of \$750,000 relating to CRA liabilities and indemnity of \$750,000 for any amounts that may need to be reimbursed to investors. A number of such directors have in turn filed a claim against Mr. Ternowesky for any such damages or indemnity liability. Any recovery by the Company is very uncertain so no amount has been included in the financial statements for any such potential recovery.

#### **18. OPERATING SEGMENT**

The Company is engaged in the exploration and evaluation of properties for the mining of precious metals in Canada. The present focus of the Company is entirely on its Sugar Zone Property. The corporate office operates to support the field work being carried out on the Sugar Zone Property. As a result, the Company operates in one reportable operating segment.

#### **19. SUBSEQUENT EVENTS**

Subsequent to the end of the current reporting period, the Company reimbursed certain investors in the amount of \$211,537 pursuant to the CRA assessment referred to in Note 17 above, such that the \$315,355 provision related thereto has been reduced to \$103,818.

On July 17, 2013, the Company closed an initial tranche of a non-brokered private placement financing for gross proceeds of \$660,000. The Company issued 6,500,000 flow-through units at \$0.10 per unit. Each flow-through unit consists of one (1) flow-through common share and one-half (1/2) common share purchase warrant. Each full warrant is exercisable at \$0.15 per common share for a period of 24 months from closing. The Company also issued 125,000 units at \$0.08 per unit. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant is exercisable at \$0.15 per common share for a period of 24 months from closing.

On July 31, 2013, the Company closed a second tranche of a non-brokered private placement financing for a total gross proceeds of \$213,800. The Company issued 550,000 flow-through units at \$0.10 per unit. Each flow-through unit consists of one (1) flow-through common share and one-half (1/2) common share purchase warrant. Each full warrant is exercisable at \$0.15 per common share for a period of 24 months from closing. The Company also issued 1,985,000 units at \$0.08 per unit. Each unit consists of one (1) common share and one (1) common share purchase warrant. Each warrant is exercisable at \$0.15 per common share for a period of 24 months from closing.