



**Breakaway  
Research**

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### Company Information

<b>ASX Code</b>	<b>HOR</b>
Share Price	A\$0.07
Ord Shares	75.9m
Options	16.6m
<b>MCAP</b>	<b>A\$5.8m</b>
Cash (March 13)	A\$0.55m
Total Debt	-
<b>Enterprise Value</b>	<b>A\$5.8m</b>

### Directors

Non-Ex. Chairman	Jeremy Shervington
Managing Director	Neil Marston
Non-Executive Director	Michael Fotios
Non-Executive Director	Stuart Hall

### Substantial Share Holders

Investment Limited	18.0%
Azure Capital Limited	5.3%
Directors	4.9%
Wyllie Group	1.5%

### Company Details

Address	Unit 6/11, Colin Grove West Perth WA 6005
Phone	+618 9481 5866
Web	www.horseshoemetals.com.au

### 1 Year Price Chart



Source: Bloomberg

# Horseshoe Metals Limited (HOR)

*Horseshoe Lights nearing size threshold for development*

**Recommendation: Speculative BUY**

## Company Update

### Key Points

- **JORC Resource upgraded by 40% to 12.85Mt @ 1.00% Cu for 128,600t of contained copper at Horseshoe Lights Project**
- **Mineralisation still open down dip and down plunge, with multiple nearby prospects still to be tested**
- **Down hole EM survey will test for additional 'conductive zones'**
- **2013 drilling at Kumarina to focus on regional targets**
- **Placement and 1 for 5 Rights Issue raising a total of A\$1.8M**

*Horseshoe Metals recently announced a 40% upgrade to the Horseshoe Lights Project, increasing the Resource to 12.85Mt @ 1.00% Cu for 128,600t of contained copper. The company is now fast approaching 'critical mass' to justify advancing the Horseshoe Lights into production. Ongoing exploration in the immediate area will likely lead to further resource upgrades, with preliminary feasibility work to follow.*

### Investment Thesis

Horseshoe Metals (ASX: HOR) recently announced a 40% JORC Resource upgrade at its flagship Horseshoe Lights project which now stands at 12.85Mt @ 1.00% Cu for 128,600t of contained copper.

The Horseshoe Lights deposit hosted an exceptionally high grade ore body which was historically mined via an open pit. With mining efforts concentrated on the high grade zone, limited exploration was carried out along strike and below a depth of ~100m.

The current Resource is primarily made up of (mostly Measured and Indicated) mineralisation to the north of the open pit, as well as a large Inferred Resource below the base of the open pit. Recent drilling indicates the ore body is still open down plunge (below the open pit) with mineralisation present to a depth of a least ~250m below surface. Further deep drilling is required to test the extent of down plunge extension to the ore body.

The Company is now close to establishing the critical mass which would justify reopening mining operations at Horseshoe Lights. Further drilling (supported by the current A\$1.8M capital raising) will likely lead to resource upgrades, with preliminary feasibility studies expected to follow.

## Company Update

40% increase in JORC Resource

Following a 68 hole drill program at the Horseshoe Lights project over the last 15 months, the company has now upgraded its JORC Resource from 8.62Mt @ 1.06% Cu to **12.85Mt @ 1.00% Cu**, representing a **40% increase** to the total contained copper. Approximately 30% of this is in the Measured and Indicated category, giving further confidence in the Resource model.

12.85Mt @ 1.00% Cu

### JORC Resource – Horseshoe Lights Project

Category	Tonnage (Mt)	Cu (%)	Contained Metal (t)
Measured	1.73	1.04	18,000
Indicated	2.43	0.95	23,200
Inferred	8.69	1.01	87,400
<b>Total</b>	<b>12.85</b>	<b>1.00</b>	<b>128,600</b>

Source: Horseshoe Metals

Highly prospective land package

The Horseshoe Lights Project includes the historical copper-gold open pit which operated intermittently between 1946 and 1994. During this time, over 300,000oz of gold and 54,000t of copper was produced. Approximately 110,000 tonnes of high grade (20% - 30% Cu) Direct Shipping Ore (DSO) was also mined, demonstrating the high grade nature of the deposit.

The Horseshoe Lights ore body is interpreted to be a deformed VMS deposit which has undergone supergene enrichment (during weathering), forming the exceptionally high grade zone mined by the old-timers. With historical mining focused on this enriched zone, minimal exploration was undertaken along strike and below the base of the open pit.

### Horseshoe Lights Open Pit: Looking South

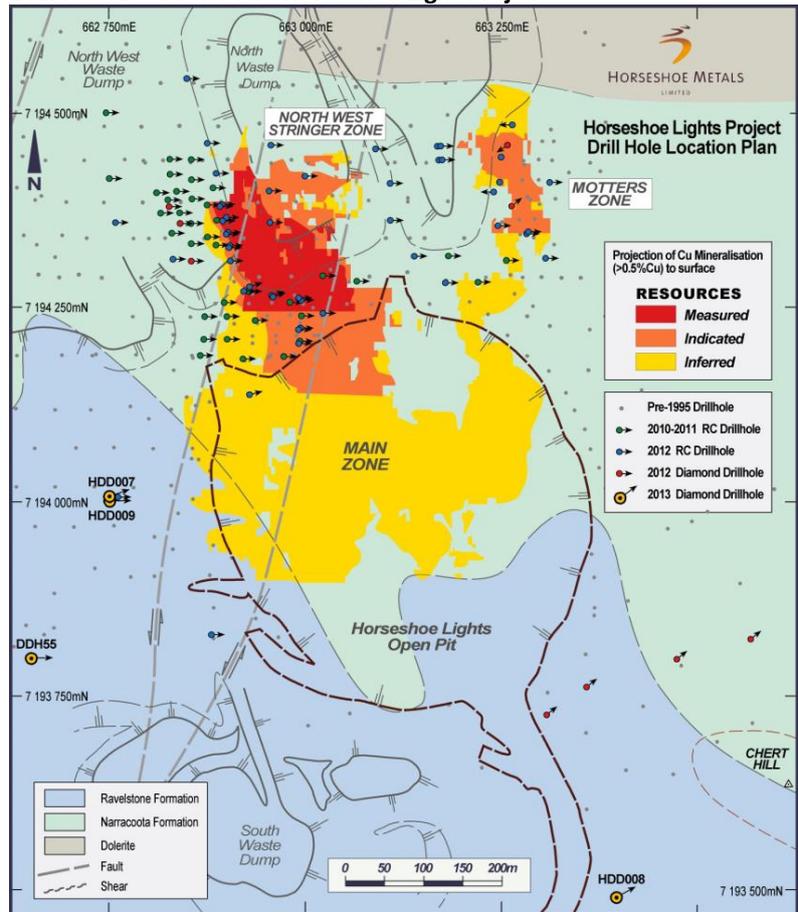


Source: Horseshoe Metals

Old-timers mined supergene zone from an open pit



### Drill Hole Location Plan: Horseshoe Light Project



Source: Horseshoe Metals

*Measured and indicated Resource defined to the north of the open pit*

*Large inferred resource below the open pit*

The majority of the 12.8Mt Resource is primary sulphide ore with the Measured and Indicated component primarily made up of mineralisation to the north of the open pit in the 'North West Stringer Zone'.

*'Twinning' of historical drill holes will likely lead to Resource upgrade*

Historical drilling below the open pit was (on the whole) undertaken pre-JORC. To upgrade the Inferred Resource, Horseshoe Metals will be required to test the reliability of the historical data by 'twinning' some of the existing holes. Should the historical data prove reliable, opportunity then exists to upgrade a large proportion of the Resource to the Measured and Indicated categories.

### Upcoming Exploration Work

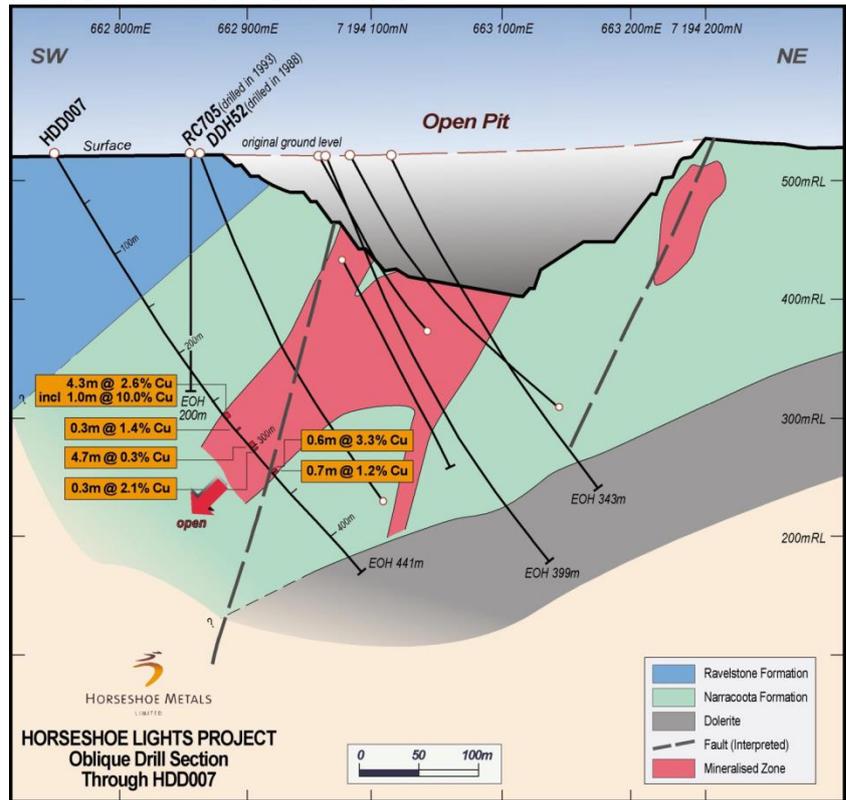
*Better understanding of the local geology*

Horseshoe's understanding of the local geology and the controls of the mineralisation has increased substantially as a result of the recent drilling campaigns.

Two diamond holes (HDD007 and HDD009) were recently completed to the west of the open pit which intersected 4.3m @ 2.6% Cu (including 1m @ 10% Cu) from 264m and 4.1m @ 1.5% Cu from 309m respectively. These intercepts are significant as it confirms the down dip extensions of the ore body to the southwest of the open pit.



### North East-South West Drill Section



*Mineralisation still open down plunge*

Source: Horseshoe Metals

*Down Hole Electromagnetic Survey to commence shortly*

The ore body is still open down plunge, however further drilling is required to test the extent of this mineralisation. Horseshoe Metals is now planning to undertake a Down Hole Electromagnetic Survey (DHEM) with the aim of identifying 'off-hole conductors' which may represent massive sulphide copper gold mineralisation. These conductors will then be drill tested in the next program.

### Additional Horseshoe Lights Targets

*Numerous targets in immediate vicinity*

The immediate area around the open pit remains prospective for additional zones of mineralisation to be identified. Of particular note, historical drilling to the east of the pit intersected 'ore grade' copper mineralisation. However, these targets have not yet been adequately tested by Horseshoe and follow-up drilling is required.

Horseshoe's interpretation of the local geology indicates the mineralisation to the south of the open pit is cut off by a fault and has highlighted opportunity for discovery of further zones of mineralisation displaced beyond this fault boundary.



## Kumarina Project

*Highly prospective land package*

The Kumarina Project comprises two tenements covering an area of ~217km<sup>2</sup> located to the northeast of the Company's Horseshoe Lights Project. The Kumarina copper deposits extend over nearly 5km as a series of pits, shafts and shallow open cuts that were discovered in 1913 and worked intermittently until 1973. Records indicate that the mines were small, but high grade copper producers.

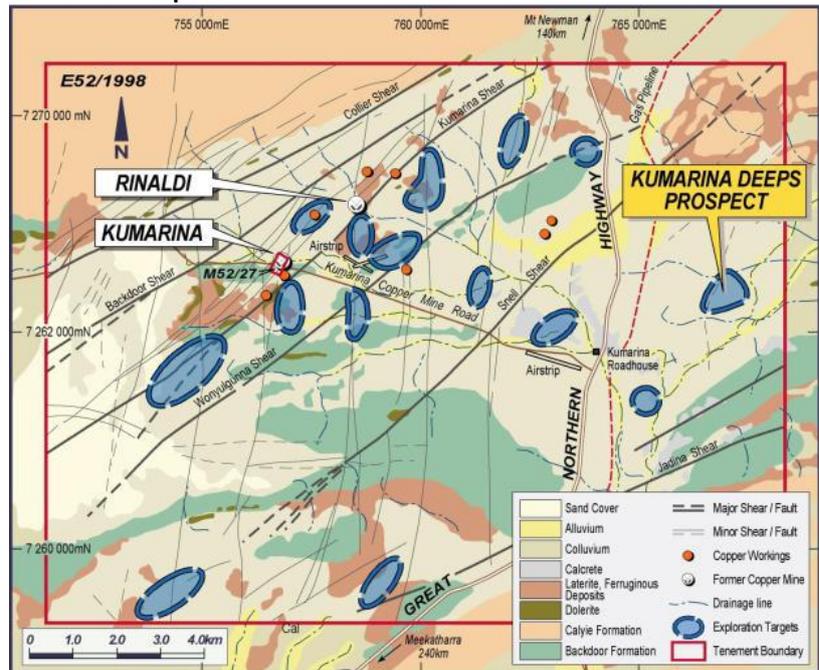
*0.835Mt @ 1.3% Cu*

There has been limited modern exploration carried out on the Kumarina tenements, with the most relevant being by St Barbara (ASX: SBM) between 1992 and 1998. This work focussed on the Kumarina and Rinaldi workings and included mapping, geochemical sampling and 51 shallow air core holes – with four holes returning significant copper (1.15% to 3.5% Cu) in multiple lodes.

Ongoing exploration by Horseshoe recently led to the delineation of an initial JORC Resource of 835,000t @ 1.3% Cu at the Rinaldi Prospect with mineralisation still open along strike in both directions and at depth. Encouragingly, this resource commences within 2m of surface (to a depth of ~120m).

*Kumarina Deeps next target to be drill tested*

### Kumarina Prospect



Source: Horseshoe Metals

*Strong aeromagnetic anomaly commencing at 250m below surface*

### Upcoming Drilling

*5 hole program co-funded by WA Government*

The next target on Horseshoe's agenda is to test some of the regional exploration targets generated from earlier exploration, including the Kumarina Deeps Prospect where the company has identified a strong aeromagnetic anomaly commencing at ~250m below surface.

Horseshoe is also planning additional drilling at the Rinaldi prospect to test for copper mineralisation within the fault zone of the lower dolerite sill.



## Capital Raising

*A\$1.8M capital raising*

On the 18<sup>th</sup> of June, Horseshoe Metals announced it had successfully completed a share placement of 7.857 million shares @ 7c per share, to sophisticated investors, raising a total of A\$550,000. Interests associated with one of the directors, Michael Fotios, requested a 2.143M share allocation, raising a further A\$150,000, however this tranche will be subject to shareholder approval.

*1 for 5 Non Renounceable Rights Issue*

Existing shareholders (as on the 20<sup>th</sup> June 2013) are also being given the opportunity to participate in the capital raising via a **1 for 5 Non-Renounceable Rights Issue**. Under the terms outlined, existing shareholders may apply for 1 additional share for every 5 held at an issue price of 7c per share (representing a ~10% discount to the closing price before the capital raising was announced).

*Major shareholder and director support*

Capital Raising	Shares issued	Amount raised A\$
Share placement @ 7cps	7,857,000	549,990
Share placement @ 7cps*	2,143,000	150,010
1 for 5 NR Rights Issue @ 7cps	16,755,500	1,172,885**
<b>Total</b>	<b>26,755,500</b>	<b>1,872,885</b>

*Source: Horseshoe Metals \*Subject to shareholder approval \*\*Still to be raised via rights issue*

## Breakaway's View

*'Unjust' EV*

Exploration companies on the Australian bourse have been subjected to a barrage of negativity in recent times, resulting in significant reductions of company share prices and thus, valuations. Unfortunately, Horseshoe Metals was not spared. Horseshoe's apparent need for additional capital has put further pressure on the Company's share price, attracting a 'come-raising' Enterprise Value of just A\$5.8M.

*Close to 'development threshold'*

**Breakaway view this valuation as unwarranted.** Horseshoe's recent 40% increase to JORC Resources (now 12.85Mt @ 1.00% Cu) places them close to the 'development threshold', justifying a stand-alone operation. Further opportunity exists for Resource upgrades at the Horseshoe Lights project (both in category and in size) through the drill testing already identified nearby targets, as well as through 'twinning' existing holes below the base of the open pit.

*Highly leveraged to positive news flow*

With an estimated post raising EV of ~A\$5.1M, Horseshoe is highly leveraged to positive news flow. Proving up Resources beyond the 'development threshold' and a decision to begin feasibility work would likely have a meaningful positive impact to the company valuation.



### **Analyst Verification**

We, Grant Craighead and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

### **Disclosure**

Breakaway Investment Group (AFSL 290093) may hold direct and indirect shares in the Horseshoe Metals. It has also received a commission on the preparation of this research note.

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