

Hichens, Harrison & Co a company broker to Horizonte Minerals

## HORIZONTE MINERALS

15.25p

- **Horizonte Minerals plc is a gold, silver and base metal exploration and development company created to act as a South American focused discovery and development vehicle for major projects with an emphasis on Brazil and Peru. The company is managed by a team of experienced economic geologists with major company backgrounds in major companies all of whom have a good knowledge of the countries of operation. Horizonte has a range of projects at various stages of development in mineral producing districts and it is our belief that the current three flagship projects have the potential to be world class discoveries. We believe Horizonte is significantly undervalued at this point especially considering the work completed since listing and the developments made. We also believe the risk/reward ratio based on exploration to date is favourable and the stock should be bought.**

- **Brazil**

Vast country covering a wide range of prospective geological terrains – under explored.

- Major ore deposits discovered in the past 25 years – at least 12 world class mines in production or in final stages of feasibility.
- Established & growing economy with favourable investment climate.
- Sophisticated mining property tenure, supported by established mining laws.

- **Peru**

Proven mineral potential with multiple world class gold, silver, zinc, and copper mines.

- Significant Major mining company presence – Barrick, Teck Cominco, RioTinto, BHP, Xstrata,
- Goldfields.
- Foreign mining companies supported in the country for over 100 years, strong government backing, quick project initiation

- **Management**

Quality management team experienced in Brazil and Peru. Major mining company expertise.

- Good appreciation of risk/reward ratio of the exploration business and how to manage resource projects successfully

**Lontra**  
**Falcao**  
**El Aguila**

New Nickel laterite discovery  
Large Gold/Copper system  
High grade Silver, Lead Zinc mineralisation

**Stock Code:** HZM - AiM  
**Current Share Price:** 15.25p  
**Number of Shares:** 40.45m  
**Options : at 25 pence – restricted to Aug 08** 1.06m  
**Fully Diluted** 41.51m  
**Net Cash:** £2.30m  
**Market Capitalisation:** £6.17m  
**Enterprise Value :** £3.87m  
**Web Page :** [www.horizonteminerals.com](http://www.horizonteminerals.com)

**Major Shareholders:**

**Minmet** 14.8%  
**Anglo Pacific** 7.5%  
**Nick Winer** 13.6%  
**Management** 17.4%

Source: Company Data



Source: Bigcharts.com

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## HICHENS, HARRISON MINERAL EXPLORATION PHILOSOPHY

Mineral exploration is a high risk enterprise. However the risks can be mitigated in a number of ways. For an exploration company, operating in an area where there is a high probability of mineralisation and security of title should a major discovery be made, is very important. For an investor, risk mitigation can be achieved by selecting a number of exploration companies in selected areas, and in selecting a company which has favourable risk to reward fundamentals.

The value of an exploration project will only be defined by either; a property entering production so that a NPV or DCF can be calculated, or the project is purchased outright or as a joint venture by a third party.

We believe that the second option, the purchase or joint venture by a third party with the necessary development skills, is our preferable exit. This option means the exploration company does need to acquire the additional skills required to develop a mine. We suggest that exploration companies, that do not have the potential for an outright acquisition, should not be considered as an investment option.

We believe that for each exploration investment opportunity a number of factors should be considered and categorised depending on the risk profile of the investor. These are, (in no particular order);

- Commodity risk,
- Country risk,
- Area and accessibility risk (particularly if a bulk commodity, such as coal or iron ore is the exploration target),
- Number of exploration projects / portfolio,
- Management expertise,
- Value of company,
- Exit strategy.

### Horizonte Summary

The management of Horizonte is an experienced and established group; team members have held senior positions with major mining companies in South America. The management recognised the lack of quality exploration initiatives particularly in Brazil and subsequently developed a broad portfolio of regional scale projects, all demonstrating potential for major mineralized systems. Importantly, the Company operates in Brazil and Peru, two of the most prospective and stable countries in the region.

Horizonte intends to reduce its exploration risk by maintaining a broad portfolio of exploration projects at various stages of development, as opposed to having a single project focus. The Company aims to remain focused in its areas of interest, where they have established a network of contacts generating good project flow which have rapid acquisition potential.

## Property Portfolio

Horizonte was established to generate new projects in prospective areas of Brazil and Peru. The Group was not looking to re-work existing projects in an attempt to increase reserves/resources, under the guise of changing economics etc. but to focus on new prospective areas, of which they could acquire 100% ownership. Initially, the Company focused on the greenstone belts of central Brazil, greenstone belts being traditional host rocks for many of the major gold producing regions of the world. Two examples are the Timmins Camp in Canada and the super-pit in Western Australia. Horizonte focused on two main belts, the Inaja and Identidade Greenstone to the south of the Carajas Mineral District in north central Brazil. This belt lies less than 100km south of the Carajas in central Brazil, a major mineral-hosted belt that is the mainstay of CVRD, the major Brazilian mining company, now one of the largest mining companies by capitalisation in the world.



Property Locations -  
Source: Company data

## BRAZIL

### Falcao

The Falcao project, covering the Inaja Greenstone belt, was initially discovered by BHP in the mid 1990's and was their highest valued gold anomaly in Brazil. Follow up work led to a limited and very wide spaced drill program. Encouraging results were returned just before BHP withdrew from all exploration in South America. Nick Winer, a current director and chief geologist for Horizonte, was head of South American operations for BHP at the time.

A detailed soil geochemistry program has been initiated to assist with target definition prior to follow up drilling planned for later this year.

### Lontra Nickel

The Lontra Project is situated in the Araguaia mobile belt, which flanks the eastern margin of the Carajas Mineral Province of northern Brazil, just 80km south of the major lateritic Nickel project operated by Xstrata at Serra da Tapa (inferred resource of 60Mt at 1.63% Ni and 0.06%) and 7km northwest of the Vila Oito project, where Teck Cominco currently has a drilling program underway.

This is a new discovery by Horizonte following an initial reconnaissance stream and soil sampling in mid 2006. Follow up shallow auger drilling in November 2007 has returned high grade nickel and cobalt values from four of the seven target areas. The auger program defined four priority anomalies of which two have strike lengths of over 1,000m. The majority of the anomalous holes ended in Nickel mineralisation, with 6 of the drill holes returning over 1% Nickel close to surface. Horizonte is confident that they have identified a significant nickel target that will now be drill tested to a greater depth to determine its economic potential.

This is a new discovery in a new nickel province. Teck Cominco controls the ground directly to the east and south of the Lontra project. Horizonte was able to claim the project by being in country with an established property acquisition and exploration team.



Source: Horizonte Minerals

## PERU

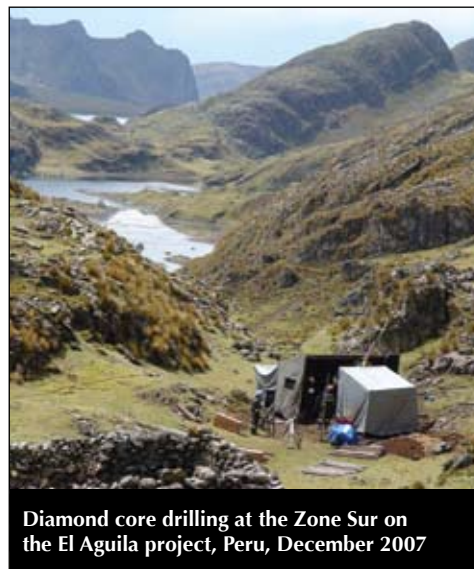
### El Aguila

The El Aguila project is located in the world-class Cerro de Pasco mining district in central Peru, approximately 17 km north of the Cerro de Pasco mining center and 10 km from the Atacocha silver-lead-zinc mine. The project consists of the El Aguila and Pacos Hill mining claims, which straddle the Cerro de Pasco fault, the main mineralizing control in the district. Sulphide veins and replacement structures, known from colonial times, were mined on a small-scale during the 1970s.

The region hosts a number of world class silver-lead zinc mines including Cerro de Pasco, with reserves of 41million tonnes after over 100 years of mining. Cerro de Pasco mined 3.2 million tones of ore in 2005, a major zinc/silver/lead production asset. El Aguila is hosted within a hydrothermal breccia pipe below silicified Pucarra Limestone, which is the same host rock in the producing polymetallic mines in the Cerro de Pasco district. Mineralisation occurs in the form of massive sulphide and stockwork veins with associated mineralised hydrothermal breccia.

A first pass drill program was undertaken late 2006, to target the areas detailed by previous mining and trenching. All drill holes returned economic Silver-Lead-Zinc intersections. Infill drilling is now required to determine the resource potential of the Pacos Hill zone. The second drill program recently completed, targeted the Zona Sur, 4km to the south of Pacos Hill. Drill results from the first phase of this program are expected shortly.

The location of the El Aguila project make it of high interest to the numerous silver-zinc mining companies in the area. Traditional mineralisation is found as discrete, vent-like pipes of high grade material, which lead to much larger reserves at depth. We believe the management team at Horizonte has identified the key controls to mineralisation and consider it analogous to the high grade Atacocha Mine with similar alteration and mineralisation style found on surface pre mining. This analogous model gives the project a reasonable probability of economic success.



**Diamond core drilling at the Zone Sur on the El Aguila project, Peru, December 2007**

*Source: Horizonte Minerals*

## PIPE LINE

The Company is currently developing four new gold and two new nickel projects. All are 100% owned and will be advanced to the drill stage in the most rapid and cost effective manner. The project pipe line ensures that the Company always has new projects entering the exploration cycle if the more advanced projects fail to deliver an economic discovery.

## HORIZONTE TRANSACTIONS

### Tangara

Horizonte management has set itself up to explore for large scale deposits with grass root exploration. This is a high-risk business, however we believe the management of Horizonte has the skills and experience to quickly identify new targets and quantify their potential. Importantly, if the project does not fit the bill for a Major mining company, then all is not lost. Although the project is not considered to have potential to Horizonte as a major scale development, it may still be appealing to an intermediate mining company. The Tangara project is a good example where Horizonte's model has developed value.

The Tangara project is a 32km long zone of the Archean aged Identidade Greenstone belt, which underwent extensive garimpero mining activity during the 1980's. Horizonte has completed stream sediment sampling, soil sampling, geophysics and drilling, resulting in the definition of 4 principle target areas. The main target, the Malvinas trend, a 3km long by 1.5km wide gold in soil anomaly, underwent a 3,000m diamond drilling program in 2007, which resulted in the discovery of near surface gold mineralisation. The best drill intercept was 35m at 2.54 g/t Au with a higher grade core grading 6.75m at 9.8g/t Au. The Tangara project is likely to be a series of small to medium size gold deposits operated from a central plant, ideally suited to the small to medium size gold producers.

Consequently in December 2007 Horizonte optioned the project to Troy Resources who are mining the Andhorinas gold project to the south of the Tangara project. This transaction gives Horizonte cash payments that will be used to fund exploration on the other core projects, a free carried interest in production, with the potential for significant short to mid term cash flow.

This is an example of risk managed exploration, whereby a project does not fulfil the size criteria targeted by the Company but value is released via a third party transaction.

The Tangara transaction not only provides some cash flow to Horizonte while Troy is undertaking exploration as part of the Joint Venture agreement, but also provides the potential of up to US\$15m to Horizonte from Royalties should the project go into production. This shows that the Horizonte model for exploration works and is a cost efficient method of finding a major mineral deposit.

## INVESTMENT OPPORTUNITY

We believe that exploration is the lifeblood of the mining industry. The major mining companies have followed the BHP model of supporting junior exploration companies in their exploration efforts as a cost effective method for undertaking exploration. Horizonte has set itself up to fill this void.

Horizonte has established operations in both Brazil and Peru where they are able to investigate, acquire and explore opportunities. The Lontra Nickel project is a good example of this. Mineral exploration is a risky business. One of the most cost effective decisions is to cut a non-performing project early or realise value, which is exactly what Horizonte have done with the Tangara gold project in Brazil

Although Horizonte has not quantified a large scale discovery to date, they have developed value on the current projects as well as investigating additional available opportunities. As well as having all the necessary skills, Horizonte's management are present on the ground, and thus able to quickly evaluate specific projects of interest that have the potential to drive shareholder value. We believe the focus for an investor investing in early stage exploration should consider the following points.

- Management skills for economic exploration.
- Management's entrepreneurial skills and previous track record.
- Management's in-country knowledge, length of operation in the country and local contacts.
- Management's efficiency in husbanding their cash resources.
- Project ownership.
- Country of operations relationship with foreign mining companies.
- Primary focus of exploration.
- Country of operation/s.
- Number and quality of projects in the portfolio, the first is valued higher, than subsequent projects, but a portfolio is clearly preferable.
- Size potential of the target project/s.
- Any other projects in the vicinity.

We believe the Horizonte profile is very well represented in the above requirements.

## VALUATION

The valuation of an exploration company depends on a large number of key valuation criteria, as detailed in our peer group comparison comment. Management composition is certainly of major importance. For exploration projects, potential size is also very important. We believe that exploration is separate from the business of mining and, once a project is uncovered, the best value for an exploration company is the realisation of value, either by outright sale, or a joint venture with a proven mine developer for a project's further development.

We believe the market initially values a true exploration company particularly on the entrepreneurial skills within it. This is essentially the network effect; it is part of our role to uncover the entrepreneurs of the future. For this we look to good technical management, with a well thought out plan of exploration. We also believe a specific focus, be it country or commodity, is important.

Our valuation yardstick for exploration companies looks for a committed group, who have undertaken to list on a public market, with at least one quality project with a basic valuation of at least £4.0m already within the portfolio. We would add to this any other quality properties, plus premiums for quality of management, project ownership, countries of operation, majors in the area, local knowledge by management and the company's net outstanding cash balance. We would apply a discount for low level of entrepreneurial skill (e. g. a new, developing group or major, past failures). Any future discoveries are incremental and any exploration failures are deductible.

### Peer Group Valuation

We provide an update of our, 'London AiM – gold exploration – peer group' comparison, which is on the following page. This was first published one year ago in January 2007. Since that time the total valuation for the 15 'Regional exploration companies' has increased from £218m to the current value of £265.9m. This is in spite of only 5 stocks showing an increase in share price over that period. The increase in valuation comes mainly from additional financings throughout 2007. Of the companies included only one had a major property acquisition, EMED, which increased the market value 3 times. The valuation of this sub-sector ranges from £5m to £30m. We believe that these valuations should be based on a number of basic fundamentals, the first should always be 'does the property have major scale potential'. Thereafter the following criteria should be considered; the area and country of operation, the logistics of the region, management's expertise, management's cost controls, the companies cash position and ability to refinance and the number of projects in the portfolio.

For Horizonte, we believe a valuation of £12m is justified using our criteria. They have three good quality projects, all majority owned, in a region which is highly prospective, together with a pipeline of generative projects combined with the management skills to progress the projects in a professional and cost-conscious way.

Horizonte have three highly qualified and experienced exploration geologists, all of whom have worked for major mining companies, and all have worked in South America. The projects are all of a major scale and would be attractive, in our opinion, as an exploration project for a major. We believe that the Peruvian silver project, El Aguila, is worth the current Horizonte's market value alone. Silver projects in North America are highly valued, and El Aguila, of which Horizonte holds 100%, sits astride the major mineralized fault, in an a major silver producing area and has had small scale historic production.

## Horizonte Minerals - Pear Group Comparison

Company	LSE Code	Latest Price 11-Jan-08	Shares in Issue (m)	Market Value £ million.	Cash Position million	Adj. Market Value** £ million.	Hichens Harrison Comment
<b>Regional Exploration</b>							
Alba Mineral Resources	ALBA	£0.02	88.1	1.8	£0.35	1.4	Minerals exploration in Scotland & Sweden. Mainly Nickel and copper.
Ariana Resources	AAU	£0.05	46.9	2.3	£2.31	0.0	Exploration projects in Turkey. Goveli large scale high grade nickel project
Mariana Resources	MARL	£0.11	35.4	3.7	£3.14	0.6	S. American exploration - Ecuador and Argentina.
Cambridge Mineral Resources *	CMR	£0.02	209.0	4.4	£1.20	3.2	Small h/g gold mine in Colombia and exploration in Hungary. Management in place over long term, but no track record of success.
Condor Resources	CNR	£0.04	130.3	5.0	£2.32	2.7	Exploration projects in El Salvador and Nicaragua. Early exploration but some high grade gold intersections.
<b>Horizonte Minerals*</b>	<b>HZM</b>	<b>£0.15</b>	<b>40.4</b>	<b>6.2</b>	<b>£1.80</b>	<b>4.4</b>	<b>Regional Exploration Brazil and Peru. Large scale properties in prospective areas.</b>
Trans-Siberian Gold	TSG	£0.24	41.2	9.8	\$38.13	-9.7	Developing the Asacha Gold Mine in Kamchatka, Russia. Sold Krasnoyarsk for US\$40m.
Persian Gold	PNG	£0.16	63.4	10.1	£0.70	9.4	Gold exploration in Iran. 70% held. Drilling program started. Early drill results show low grade at depth.
Hidefield Group	HIF	£0.05	275.3	14.8	£1.69	13.1	Cata preta gold in Iron Quad of Brazil. Two projects listed on TSE Venture, attributable value C\$10.2m. Other exploration projects in the USA.
Triple Plate Junction	TPJ	£0.18	94.4	17.7	£3.91	13.8	Exploration in Vietnam and PNG, and an electric furnace business in Zambia, Africa. Barrick is earning into their PNG project.
Landore Resources	LND	£0.18	100.3	16.1	£1.95	16.1	Exploration projects in Canada. Top is nickel exploration in Ontario Canada, where 12,000 metres of exploration drilling has been completed.
African Eagle	AFE	£0.10	208.1	20.8	£3.72	17.1	Mkushi Copper project in Zambia. 11m tonnes at 0.73% copper. Other exploration projects in Africa. Mgmt in place over long term, but no track record of success.
Patagonia Gold	PGD	£0.06	357.9	22.8	£0.43	22.4	Gold exploration in Argentina. A number of projects over large areas. One with a small resource.
Zambezi Resources	ZRL	£0.17	163.4	27.8	£11.74	16.0	Gold, Copper, Nickel Uranium exploration drilling in Zambia. Major project is Cheowa and Kangalawi. 50,000 m drilling completed in '07.
EMED Mining Ltd.	EMED	£0.20	147.9	28.8	£1.00	27.6	Option to acquire Proyecto Rio Tinto Cu project in Spain. Copper in Cyprus, Gold in Slovakia and Georgia. Projects in Turkey and Bulgaria in listed sub Kefi (KEFI).
African Consolidated Resources	AFCR	£0.14	221.0	29.8	£4.94	24.9	Minerals exploration in Zimbabwe. Two key gold projects were past producers from underground. JORC resources of 813/- ozs.
Tianshan Goldfields <i>Primary listing-Australia</i>	TGF	£0.22	215.2	46.3	A\$5.53	43.7	Primary Listing - Australia. Gold exploration in China - 2 projects. 13,250 meters drilled in 2007 to date.
<b>Project Exploration</b>							
Central China Goldfields	GGG	£0.08	120.2	9.5	£3.17	6.3	Chinese gold exploration projects. JV with Majestic Gold on drilled targets. Flagship project Snow Mountain drilled - resource calculation imminent.
Shanta Gold	SHG	£0.17	96.8	16.0	\$13.61	9.0	Four gold exploration targets in Tanzania. 38,000 metres drilled. Estimated resources (non-JORC) of 362,000 ozs gold.
Medorc Resources	MRL	£0.27	61.3	16.2	\$2.20	15.1	Gold development in Venezuela, with 423,000 ozs gold from open pit and underground. Also a number of gold projects in Mali.
Frontier Mining	FML	£0.09	218.1	19.9	£3.85	16.1	Gold Mining in Khazakistan - 5,000 ounces gold per year.
Stratex	STI	£0.09	234.1	20.5	£7.43	13.1	JV with Teck on a number of projects in Turkey. Some good early stage results.
Alexander Mining	AXM	£0.16	134.5	20.9	£14.00	6.9	Leon copper and silver project in N. Argentina. Small oxide copper projects. No economic geology experience.
Peninsular Gold	PGL	£0.54	43.3	23.2	£1.11	22.0	Developing the RAUB tailings project in Malaysia, and exploring around the old mine.
Bezant Resources	BZT	£1.11	37.2	41.1	£1.70	39.4	Exploring Mkurumi in Tanzania with AngloGold Ashanti. Also has projects in the Philippines.
<b>In-fill Drilling / Development</b>							
Anglo Asian Mining	AAZ	£0.11	99.2	10.9	\$2.48	9.6	Gedabek Project Azerbaijan - 7.7m tonnes at 1.8g/t gold, 15.9 g/t silver and 0.29% copper. Capex US\$30.7m.
Kryso Resources	KYS	£0.16	79.2	12.7	£2.12	10.6	Exploring around the old Pakrut Mine in Tajikistan. M&I resource of 850,000 ozs gold at 2.53 g/t at a 1 g/t cut off.
Rambler Metals & Minerals	RMM	£0.72	49.4	35.3	£5.16	30.1	Underground copper and gold project in Newfoundland Canada, existing shaft infrastructure. High grade but deep.
China Goldmines	CGM	£1.09	48.5	52.8	\$4.88	50.3	80% of eight underground gold mines in China under development and Westernisation. Inferred resources of 1.83m ozs.
Cluff Gold	CLF	£0.92	68.9	63.1	£13.40	49.7	Two near development projects in Africa. Baomahun project in Sierra Leone, 880,000 ounces gold. Angovia in Cote d'Ivoire to be restarted.
Leyshon Resources <i>Main listing-Australia</i>	- LRL	£0.30	217.1	65.1	A\$18.22	56.8	Drilling on Zheng Guang gold / zinc project in China. Co. looking for fast track development.
Greystar <i>Main listing - Canada</i>	- GSL	£3.60	45.7	164.6	\$52.53	137.76	Developing the Angostura project in Colombia. Detailed feasibility due in 2006. Reserves are 167m tonnes at 1.28 g/t Au and 5.8 g/t Ag.

Aus \$ / £ Sterling : 0.456

Can \$ / £ Sterling : 1.999

US\$ / £ Sterling : 1.958

Source : Hichens Harrison plc. - Dave Paxton 020 7382 7785


Notes : \*\* Enterprise Value - Market Value (Shares issued x price) less Cash.

\* Hichens Harrison acts as company broker.

## CONCLUSION

We believe Horizonte's portfolio and depth of management experience provides real value for the Company. Horizonte is focusing on countries which have a proven track record in allowing foreign companies to develop projects, which are acceptable to major mining companies. Foreign mining companies have long-established operations in both Brazil and Peru with full ownership of their projects. They compare very favourably against other countries with far higher political risk. The exploration areas are prospective. Management is very experienced in large scale exploration projects and is capable of undertaking these programs in a professional manner. The Company is running a tight ship, to conserve its cash resources.

Mineral exploration, particularly at the generative stage, is a risky business. We believe the risk/reward ratio for Horizonte, given the clear potential should it uncover a significant deposit, is very positive. We suggest that if an investor is prepared to accept the risks associated with a generative exploration program, then Horizonte offers very good value. We believe the value should be at least at the average of their peer group, in the region of £10 million, net of cash.



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**\*\*IMPORTANT DISCLOSURE CONCERNING INTEREST IN COMPANY\*\***

Dave Paxton, a mining analyst at Hichens, Harrison & Co. plc and the author of this report, holds shares in Horizonte Minerals. He acquired his shares in July 2005.

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