



## MINING RESEARCH - INITIATING COVERAGE

### Horizonte Minerals

4.5p

The company that adds value

02 March 2009

Horizonte Minerals is an exploration and development company focused on generating new gold and base metal projects in Brazil and Peru. We believe that Horizonte represents an attractive opportunity for investors given that it has a proven track record of mineral discoveries which have added significant value to the company at low cost. The company also has an experienced management team and cash of £1.1m which we believe is sufficient to fund the company's activities over the next 12 months. Based on a sum-of-parts valuation, we have ascribed the company a valuation of 14.4p per share which equates to a 220% premium to the company's current share price and does not consider the potential upside of its pipeline of quality projects.

#### Valuation table

Valuation method	Attributed Value (£m)	Value (pence per share)
Sum-of-parts	5.9	14.4

Horizonte's business model is focused on adding tangible value while minimising risk. The company's core objective is to discover and develop new world-class deposits in order to farm-out or sell them on to mid-tier and major mining companies. The strategy is employed in order to provide cash flow to fund the development of new projects.

Horizonte aims to become the preferred partner for mid-tier and major exploration and development companies operating in Brazil and Peru. The company has already demonstrated the effectiveness of this strategy as evidenced by its farm-out JV with Troy Resources at the Tangará gold project in Brazil and its farm-in JV with Barrick Gold at the Pararapa gold project in Peru.

Horizonte's management team is highly experienced with a sound technical capability and substantial in-country knowledge. The Horizonte team also has a proven track record of mineral discoveries both in South America and globally.

The company has three high quality intermediate stage projects working towards resource definition. These are the:

- Tangará gold project JV with Troy Resources NL ('Troy Resources')
- Lontra nickel project
- El Aguila silver-lead-zinc project

Horizonte is also still actively acquiring and exploring exciting new ground in both Brazil and Peru and has been taking advantage of some of the many opportunities that have arisen during the current financial crisis.

Due to current low metal prices and reduced global demand for base metals, Horizonte has stated that it will now focus its grassroots exploration activities on gold projects. The group has cash of £1.1m which we believe will provide adequate funding for this strategy over the next 12 months. Horizonte's low overheads and its farm-out strategy enable it to have a slow cash burn rate while still allowing it to add value to the company.

### BUY

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#### SALES & TRADING CONTACTS

See reverse

#### COMPANY DESCRIPTION

Gold, silver and base metal exploration and development company focused on Brazil and Peru

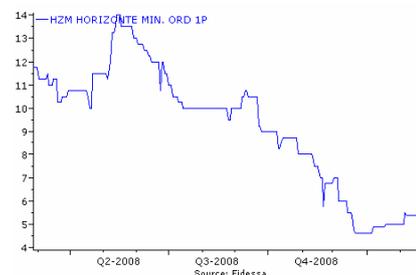
#### INVESTMENT DATA

Ticker	HZM
Listing	AIM
No. of shares	40.45m
Market cap	£1.8m

#### SHAREHOLDERS Holding (%)

Anglo Pacific Group	22.62
MVR	12.36
CIM Special Situation Fund	10.63
SIS Segaintersettle AG	7.15
Management	5.00
Insinger de Beaufort	4.94
Wills and Co	4.41
JM Finn & Nominee Ltd	3.55
Standard Bank Stockbrokers	3.45

#### 12M SHARE PRICE PERFORMANCE



HansonWesthouse acts as nominated adviser and broker to Horizonte Minerals and is paid fees for these services.

For important regulatory disclosures, please refer to the information on the page 22 of this report.

# Directors and senior management

## **David Hall – Non Executive Chairman**

Mr Hall holds an MSc in mineral exploration from Queens University, Ontario. He has 25 years of experience in the exploration sector and has worked on and assessed exploration projects and mines in over 40 countries. From 1992, he was Chief Geologist for Minorco, in Central and Eastern Europe, Central Asia and the Middle East. He moved to South America in 1997 as a consultant geologist for Minorco South America and subsequently became exploration manager for AngloGold South America. In 2002, Mr Hall was instrumental in forming TSX-V listed GoldQuest Mining Corp, and remains as president and chief executive officer. Mr Hall is also founder and Chairman of Stratex International plc, an exploration company which has made gold discoveries in Turkey.

## **Jeremy Martin - Director and Chief Executive Officer**

Mr Martin holds an MSc in mineral exploration from the University of Leicester. He has worked in South America for Inca Pacific Resources Inc. and in Central America and Europe for Minmet plc (subsequently acquired by Fox Petroleum), where he was responsible for grassroots regional metalliferous exploration programmes through to resources definition and mine development. Mr Martin has been involved in the formation of two AIM traded companies, has completed a number of high value mineral project transactions and has served on the board of Ovoca Gold plc.

## **Nicholas Winer - Director and Chief Operations Officer**

Mr Winer has over 20 years of experience in gold, base metals and diamond exploration in South America, Africa and Australia. He was exploration manager for AngloGold do Brasil, where he was responsible for brownfield exploration around mining operations as well as generative exploration programmes. Prior to this he spent 18 years with the exploration division of BHP Limited (now BHP Billiton Limited), three of these as exploration manager for Brazil. He joined and became a shareholder in MVR in August 2002 and has played a key role in the development of its exploration portfolio, which has now been integrated into the Group. Mr Winer has lived in Brazil since 1996, has permanent residency status and speaks fluent Portuguese.

## **Allan Walker – Non Executive Director**

Mr Walker has over 22 years experience in investment banking, primarily focused on energy sector project finance and private equity. He has extensive contacts in the renewable energy sector worldwide as well as with governments, multilateral agencies and regional development banks. He joined Black River Asset Management (UK) Limited, in 2005 to structure and develop a renewable energy, biofuels and carbon fund. Prior to this he was head of power and infrastructure in London for Standard Bank plc from 2002, a world leader in emerging markets resource banking. He was also previously a director in the Global Energy and Project Finance Group of Credit Suisse First Boston in London and ran the energy group at CSFB Garantia in Sao Paulo, Brazil from 1998 to 2001.

## **Gary Townsend - Chief Financial Officer**

Mr Townsend is a chartered accountant with over 10 years experience in the gold mining industry. He worked for Ashanti Goldfields from 1996 until 2004 as Group Financial Controller where he was responsible for setting up financial reporting systems across the group which had 7 operating mines across Africa. In 2004 he was appointed Chief Financial Officer of Guinor Gold a TSX listed company with operations in Guinea in West Africa and was involved in raising over US\$100m in equity and project finance for the expansion of operations.

## **Antonio Valério da Silva - Director of HM Brazil**

Mr da Silva is a Brazilian geologist with over 35 years of minerals industry experience. He worked for five years in the Brazilian Mines Department during which time he developed a keen understanding of the Brazilian mining code and the associated legal obligations. This was followed by 11 years working for consulting companies on a variety of projects in the Amazon region of Brazil. This included the exploration arm of CVRD, and NUCLEBRAS (Empresas Nucleares Brasileiras), the government's nuclear mineral exploration company. Since 1983 he has acted as a consultant to a number of local mining companies and in 1986 he co-founded MVR which has worked with companies including BHP Empreendimentos Mineraiis Ltda and AngloGold do Brasil.

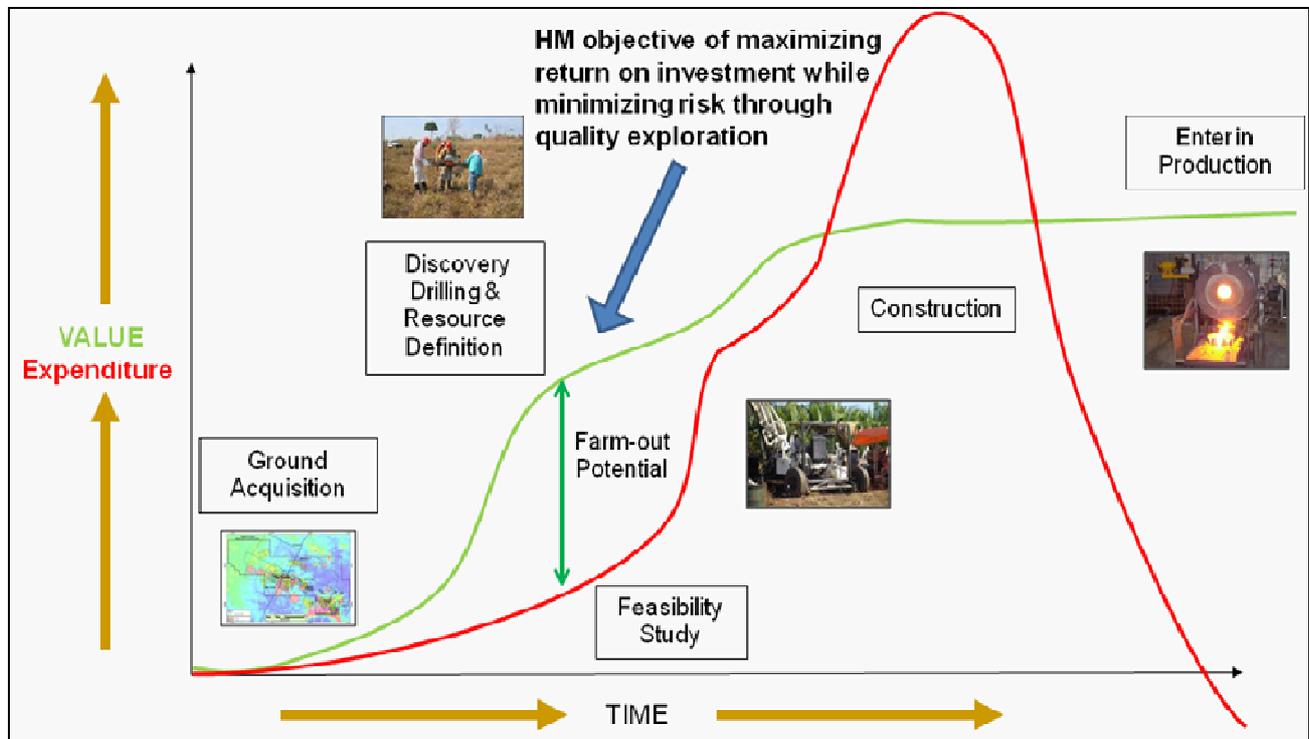
# The Horizonte business model

Horizonte Minerals is an exploration and development company focused in Brazil and Peru. The company’s aim is to discover new world-class gold and base metal deposits using its proven track record of developing early stage discoveries.

We believe that Horizonte is unlike a number of its peers in that it is a generative exploration company focused on producing new greenfield targets. This has been demonstrated through the discovery of the Lontra nickel laterite project and the Tangara gold project. This process is achieved by bringing new exploration techniques to under-explored regions rather than simply regenerating old mining projects.

The Horizonte business model is centred on adding real value while minimising risk. The company’s main objective is to discover and develop new exploration projects rapidly in order to farm-out to mid-tier and major mining companies, thereby adding substantial value at a significantly low cost.

## Adding value – the Horizonte Minerals business plan



Source: Company

## Value adding strategy

Global commodity prices have plummeted over the last six months and very few mining and exploration companies have escaped the substantial declines in share price – majors, mid-tier and junior companies alike. This near ubiquitous downturn has facilitated a significant reduction of grassroots exploration as a large number of companies have chosen to remain focused on near term production projects. We believe this is because investors are strongly favouring companies with near-term cashflow from projects that are either in or near production.

This has placed Horizonte in a unique position. The company has a substantial portfolio of projects and brings with it fresh ideas and new exploration techniques to under-explored areas. These are the projects that will, in the near term, provide mid-tier and major mining companies with new large-scale opportunities to take into production. Horizonte has already shown that this business model of ‘generating and rapidly advancing exploration projects’ adds value to the company. We believe this has been demonstrated through its JV with dual ASX and TSX quoted Troy Resources at its Tangará gold project.

## Meeting investor criteria

As the global financial crisis has intensified over the last six months, we believe that investors are looking for a number of characteristics in a new mining and minerals investments. We assert that Horizonte has many of these features:

- experienced and trustworthy management
- renewed focus on large-scale gold projects
- a solid business model which adds tangible value
- cash in the bank
- no significant project option payments or onerous land tax payments

## Management

We believe that experienced management is a key factor. Horizonte has a strong management team, with sound technical capability and expertise in both major and junior exploration companies. The team has a sound understanding of what the majors require in a project and brings with it substantial in-country knowledge and a proven track record of mineral discoveries both in South America and globally.

## The case for investing in gold

The company recognises that, in the current metals market, one of the best ways to continue to add value is to direct its focus to gold. Horizonte already has three core gold projects, namely Falcão (Brazil), Tangará (Brazil) and Pararapa (Peru) and has recently announced that its greenfield exploration activities are now also focused on gold.

The traditional 'safe haven' of gold has seen the gold price buck historic trends and push through perceived levels of key resistance by remaining buoyant despite significant disinflation in the UK and a relatively strong dollar in recent months. We have also seen that gold is holding its own against other major currencies including Sterling and the Australian dollar. Finally, gold and crude oil often move in sync. However, recently we have seen a decoupling in this relationship where Brent crude remains range-bound between US\$40-50 per barrel while gold has been on an upward trend.

We believe that the gold price will reach US\$1,000/oz and will be sustainable at this price over the coming year. We have also recently upgraded our long term (2012 onwards) gold forecast to US\$700/oz from US\$650/oz.

## The exit route

Horizonte aims to become the preferred partner for mid-tier and major exploration and development companies operating within Brazil and Peru. This is already a proven strategy as evidenced by the company's farm-out JV with Troy Resources at the Tangará gold project in Brazil and by its farm-in JV with at the Pararapa gold project in Peru with Barrick Gold, the world's largest gold producer.

Horizonte, through its JVs, has demonstrated that the majors in South America have been following its projects. The major and mid-tier companies still need new resources to replace depleting reserves and to support current production levels. With its pipeline of quality projects, we believe that Horizonte is well positioned to provide new projects to the larger players.

## Horizonte's cash position

Horizonte has a current cash position of £1.1m which we believe will provide adequate funding for the company's current strategy over the next 12 months. The company's low overheads and proven JV strategy contribute to a slow cash burn rate. We believe this makes it capable of weathering the current global economic slowdown while at the same time, producing results and releasing a steady flow of news from its exploration projects. We therefore believe that the near term funding risk for its gold exploration projects is low.

# Horizonte's primary projects

Horizonte Minerals came to the AIM market in May 2006 with three core projects, namely Tangará and Falcão in Brazil and El Aguila in Peru. Since listing on AIM, Horizonte has made significant progress with these projects and has also generated a pipeline of new gold and base metal projects in Brazil and Peru. HansonWesthouse visited a selection of the company's Brazilian projects in January 2009. Horizonte's core projects are:

- Tangará gold project, Brazil - JV with Troy Resources
- Falcão gold project, Brazil - 100% controlled
- Lontra nickel project, Brazil - JV with LGA Mineracao e Siderurgia
- El Aguila silver-lead-zinc project, Peru - 100% controlled
- Pararapa gold project, Peru – JV with Barrick Gold

## Focus on Brazil and Peru

Horizonte's exploration programmes are focused within stable countries with low geopolitical and environmental risk. The company has positioned itself within some of South America's most prolifically mineralised terranes, including the Carajas mineral province in Brazil and the Cerro de Pasco mining district in Peru. Horizonte has also been instrumental in creating a new world-class mineral district alongside some of Brazil's mining majors, Teck Cominco and Xstrata.

## Location of Horizonte's core projects



Source: Company

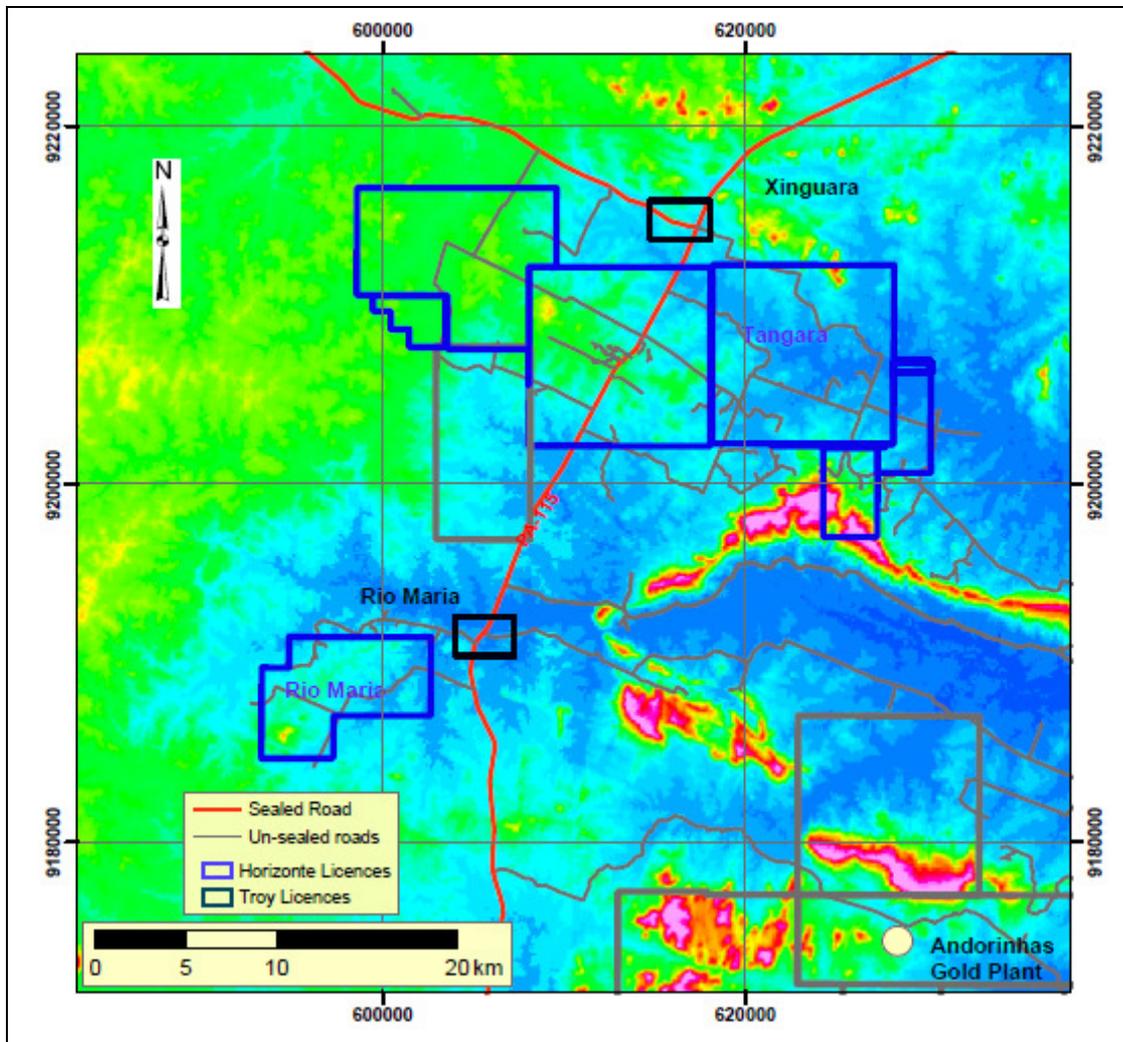
# Tangará gold project

The Tangará gold project is one of Horizonte's core projects. The company is developing Tangará in a JV with Troy Resources, through its subsidiary Reinarda Mineração Ltda ('RML').

Horizonte has been active at Tangará for two years and during this time, has completed a comprehensive exploration programme comprising stream sediment and soil sampling, coupled with mapping and geophysics. Targets were generated from this programme and a follow-up diamond drill campaign of 3,000m was completed. To date, Horizonte has invested around US\$1.0m in the Tangará project.

RML has completed over 600m of diamond drilling and 5,000m of RC drilling by utilising up to four drill rigs on site. RML has also carried out an extensive RAB drilling program which tested the extent of mineralisation within the abandoned garimpo workings (artisanal mining pits).

## Tangará land holding in the Identidade greenstone belt



Source: Company

## Terms of the Tangará JV with Troy Resources

In December 2007, Horizonte Minerals and Troy Resources entered into a three year joint venture earn-in and option agreement in which Troy Resources can acquire 100% of the Tangará project (to date, Troy Resources has earned 51%). The agreement states that Troy Resources will make cash payments totalling US\$800,000, comprising US\$200,000 payable on signing and a further US\$100,000 every 6 months. Troy Resources must spend US\$2 million over the three year period, after which it can exercise the option by paying a further US\$2 million to the company. The royalty payments are structured such that Troy Resources will pay royalties of US\$30/oz of gold produced up to a maximum of 500,000oz after which a net smelter royalty (NSR) of 1% will apply. On exceeding 1Moz of gold, the NSR will increase to 2%.

## Location and logistics

The Tangará project is located in the southern Carajas mineral province, in the Para State of northern Brazil. Tangará comprises two main prospects; the Malvinas Trend and Rio Maria, which have a combined strike length of 30km and cover an area of 32,890ha. The Malvinas Trend prospect is bisected by a tar sealed road and conveniently, high tension powerlines run alongside the project area. The Rio Maria prospect is located near the Rio Mari township, 15km southwest of Tangará. The countryside surrounding each prospect has been cleared for cattle grazing.

## Tangará project geology and mineralisation

The Tangará project lies within the highly prospective Archean Identidade greenstone belt. The belt comprises a package of iron-rich mafic to ultramafic volcanics intruded by late stage felsic stocks and dykes which lie between Proterozoic granites and granodiorites. The Malvinas Trend is associated with both the mafic and ultramafic lithologies whereas the Rio Maria project is dominated by the mafics of the Identidade greenstone belt.

The Malvinas Trend lies within a dilational jog that has been created by interference of WNW and NE structures coupled with flexure of the greenstone belt. The occurrence of this dilational zone has allowed for the emplacement of several generations of felsic intrusives and this indicates that there were repeated periods of mineralising activity over time.

The mineralisation is derived through hydrothermal activity associated with the emplacement of the felsic intrusions. Two of these intrusive phases appear to be related to mineralisation at Tangará, including the gold and molybdenum anomalous Malvinas quartz feldspar porphyry.

Gold mineralisation at Tangará is structurally very complex and likely constitutes a series of discrete mineralised bodies. Mineralisation occurs in a wide range of styles including quartz veining, shear zones and sericite sulphide alteration. Although Tangará is dominantly a gold project, base metals do reach economic grades in places where mineralisation occurs as base metal veining and semi-massive sulphides.

## The Malvinas Trend

### Horizonte's drilling at the Malvinas Trend

The Malvinas Trend is a 5km by 1km gold-in-soil anomaly within the Identidade greenstone belt. Horizonte has defined over a dozen targets within the Malvinas Trend with many of the targets still un-drilled. The 'Tangará discovery hole' was drilled at the Gerson target. The Gerson target discovery hole intersected 35m of breccia-hosted gold mineralisation grading 2.5g/t Au including 6.75m at 9.78g/t Au. Anomalous zinc up to 1% and Ag up to 85g/t was also defined at Gerson.

Following the successful first phase of drilling at the Malvinas Trend, Horizonte completed an induced polarisation (IP) geophysical survey and a soil sampling program. The IP survey defined a strong chargeability anomaly 350m to the west of the Gerson discovery hole which created a coincident geophysical and geochemical anomaly that covered a strike length of around 500m.

Horizonte completed a second drill program in 2007 which further tested the targets in the Malvinas Trend, and in particular the Gerson target. Drill holes DDH13 and DDH14, drilled 60m west of the Gerson target, yielded the most significant results of 12m grading 5.0g/t Au including 2m at 18.7g/t Au. Mineralisation here was found to be notably similar to DDH04 and again, elevated zinc and silver levels were found.

The results of the 2006 and 2007 drill campaigns demonstrated a good continuity along the Gerson Trend. Highlights of Horizonte's 2006 and 2007 drill programs are given in the table below.

#### Highlights of Horizonte's drilling at the Malvinas Trend

Drill hole	Drill Target	Thickness (m)	Gold Grade (g/t)
DDH04	Gerson Trend	35	2.54
<i>incl.</i>		6.75	9.7
DDH13	Filao Vermelho/Filao Branco	12	5.0
<i>incl.</i>		2	18.7
DDH14	Gerson Trend	2	4.8
DDH23	Gerson Trend	2	4.25
DDH24	Gerson Trend	4	2.4

Source: Company

#### RML's drilling at the Malvinas Trend

RML took up drilling at the Malvinas Trend in 2008 to advance the JV agreement. Drilling was focused on three main targets and included the Gerson target which returned intersections including 4m grading 3.68g/t Au from 51m depth and 2m grading 144.1 g/t Au from 32m depth.

#### The Gerson target, Malvinas Trend, Tangará



Source: HansonWesthouse January 2009

### RML's future focus at the Malvinas Trend

RML's 2009 exploration campaign at the Malvinas Trend will concentrate on the Filao Vermelho/Filao Branco and Barbosa Pit targets. The Filao Vermelho/Filao Branco target is focused around two garimpo pits which lie along sub-parallel structures approximately 200m apart. The workings cover a strike length of around 800m and show the potential to be continuous along a strike of over 1500m. Mineralisation is associated with narrow sub-vertical shear zones and is hosted by a package of mafic volcanics intruded by felsic dykes. Horizonte has drilled five diamond drill holes within the target. Highlights include 2m grading 3.9g/t Au and 1.5m grading 3.3g/t Au.

The Barbosa Pit target comprises a garimpo where local artisanal workers mined high grade gold from quartz veins. Sampling of float from around the Barbosa pit has returned 13g/t Au historically. Horizonte has drilled two diamond holes into the Barbosa Pit target. One of the drill holes intersected gold mineralisation and both drill holes interested broad zones of weakly anomalous base metals.

### West Rio Maria

Troy Resources's Q4 2008 exploration was focused at West Rio Maria and aimed to follow up historical gold-in soil and stream sediment anomalies. The gold-in-soil anomaly is 1000m long and has yielded grades of up to 1,443ppb. The stream sediment anomalies were found to be associated with small-scale alluvial gold workings.

The West Rio Maria target has two main prospects, namely the Manuel and Anastacio trends. These trends correspond to a series of pits which have previously been worked by artisanal miners targeting gold-bearing quartz veins. The Manuel trend has a strike length of 1,000m and is focused around two clusters of pits.

Gold mineralisation at the Manuel trend is associated with intensely deformed quartz veins hosted by altered and sheared metasediments and notably, box-work textures and visible gold have been identified. Gold mineralisation at the Anastacio trend is characterised by fine quartz veins with minor box-work textures. Anastacio is currently being worked by local artisanal miners who have developed a small-scale gold operation there. Highlights of the channel sampling completed at the Manuel and Anastacio trends are given in the table below.

#### Tangará channel sampling results

Target	Sample Interval (m)	Average Gold Grade (g/t)	Host Rock Lithology
Manuel	0.6	5.18	Quartz vein
Manuel	3.0	13.5	Quartz sericite schist/quartz vein
<i>incl.</i>	2.0	19.8	Quartz sericite schist/quartz vein
Manuel	3.0	2.85	Quartz sericite schist/quartz vein
Anastacio	2.0	1.78	Metabasalt saprolite /quartz vein
Anastacio	4.5	7.62	Metabasalt saprolite /quartz vein
<i>incl.</i>	3.5	9.65	Metabasalt saprolite /quartz vein

Source: Company/RML(Troy Resource.) Note: results have been determined in-house. Independent analytical sampling is in progress

### Where to at Tangará?

Mineralisation at Tangará is structurally complex and will likely require a substantial drill programme to get it to the resource stage. The company believes that, if the controls to mineralisation are better understood through further drilling, the Tangará project will end up as a series of small gold deposits which could provide the potential for a series of shallow open pits.

Troy Resources, through RML, is the ideal partner for this project as it has substantial local experience along the same greenstone belt and a gold processing plant only 20km away. This could make Tangará a very low cost gold operation. We expect to see a steady flow of news from April onwards as RML resumes its exploration at the Filao Vermelho/Filao Branco and Barbosa Pit targets at Tangará when the rainy season ends.

Through its Tangará project, Horizonte has proven its strategy of making low cost discoveries and farming them out to mid-tier or major producers for a significant return on investment. Horizonte has shown this to be a cost effective way of funding its ongoing exploration costs while at the same time adding value for its shareholders.

# Falcão gold project

Falcão is a highly prospective 6km long anomalous gold/copper project that is situated in the Inaja greenstone belt, an area that shows outstanding potential for the discovery of a significant mining project. The Tangará farm-out of the project leaves Horizonte to focus on making its next gold discovery - Falcão.

The 100% controlled Falcão project started off as a grassroots discovery by BHP and was picked up in 2002 by the Horizonte team. During its exploration campaign at Falcão, BHP completed a regional soil grid and shallow auger drill programme over an 800m by 200m grid. Follow up RC drilling by BHP confirmed the gold anomaly. The drill programme demonstrated the presence of a substantial alteration system with highlights including 9m grading 4.8g/t Au from the surface. Horizonte has obtained, under a purchase agreement, a substantial database covering the work completed by BHP at Falcão from 1995 to 1998. Under this agreement, should a mine be commissioned at Falcão, a one-off payment of US\$800,000 must be made to BHP.

## Location, accessibility and permitting

The Falcão gold project is located in the northern state of Para in Brazil, 300km south of the Carajas mineral province and 100km south of the large town of Redenção. The Falcão tenement lies within the saddle zone of the Serra do Inaja greenstone belt to the west of the Rio Araguaia basin. The project area is characterised by an undulose terrane comprising NE-SW trending lateritic plateaus and elongate hills. The Serra do Inaja ridges lie to the northwest of the area and reach elevations of between 420m and 770m asl.

The Falcão project is accessed by all-weather secondary roads via the townships of Casa da Tabua or Santa Maria das Barreiras. The climate is tropical with a dry season from May to September and a pronounced rainy season from December to January. Annual rainfall is around 1,800mm.

The project is 100% controlled by Horizonte. The project area comprises three tenements for a total land area of 27,717ha. The tenements have been granted a three year exploration licence after which time the company is required to have defined a resource. Horizonte then has one year to apply for a mining licence for the project.

## Project geology and previous work at Falcão

The Serra do Inaja Archean greenstone belt lies within the Rio Maria granite-greenstone terrane and comprises a mafic and ultramafic volcanic package. The mafic component comprises basalts associated with dacites, banded iron formations (BIF), felsic volcanics and volcanoclastics. Falcão is situated within a structurally complex zone along the eastern margin of the greenstone belt seen as a series of NE-SW and E-W trending 'horsetail' splay structures.

The soil sampling programme at Falcão delineated a substantial gold anomaly of over 6km by 2.5km with two distinctive zonations. The first zone occurs as intensely sericitised mafics with a 50ppb gold anomaly and elevated copper, manganese, chromite and cobalt. The second zone is associated with felsic volcanics which are also strongly sericite altered. Within the felsics, there is a 900m long zinc anomaly with broad zones of elevated silver and lead and other pathfinder elements.

BHP followed up the soil sampling programme with 3483m of wide spaced RC drilling. The highlights of the RC drilling are 9m grading 4.8g/t Au from the surface and 3m grading 4.0g/t Au from 57m. A second RC hole which was drilled to close off the anomaly returned 24m grading 0.5g/t Au and included 3m grading 2.8g/t Au.

### Highlights of BHP's RC drill programme

Drill hole	From (m)	To (m)	Intersection (m)	Gold grade g/t
RC18	3	9	6	7.0
RC17	48	51	3	4.0
RC26	57	60	3	3.7
RC50	60	63	3	2.8

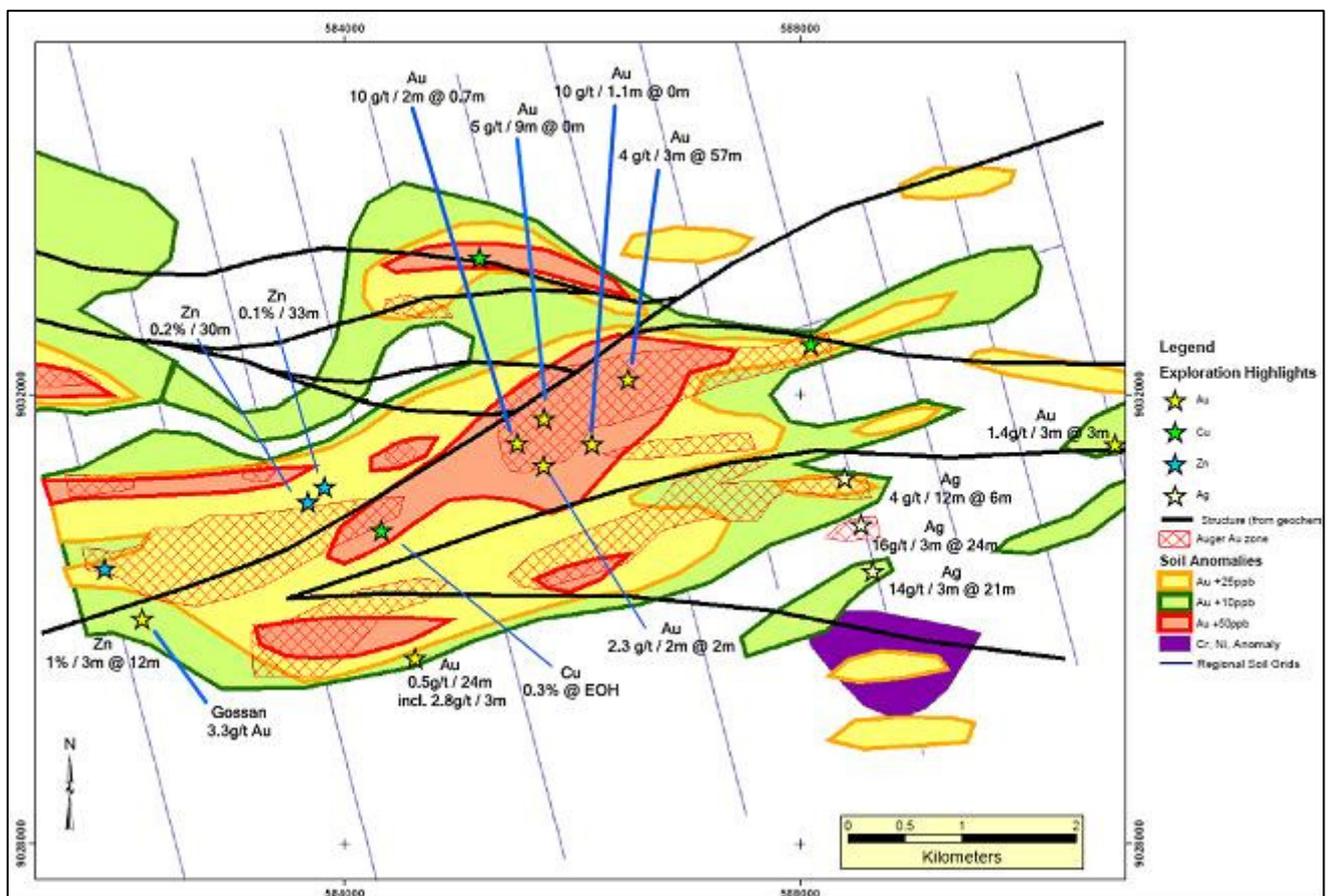
Source: BHP/Company

## Horizonte's target areas at Falcão

BHP's wide spaced soil sampling and drill programme has produced a number of significant results however, it has failed to define Falcão as a mineralised structural corridor. Horizonte however, has reprocessed and reinterpreted BHP's geochemical data and has delineated several major mineralised structures (shown in the image below) which form the basis for the company's continued exploration at Falcão. Horizonte has proposed a comprehensive exploration campaign comprising in-fill soil sampling, mapping and ground magnetic surveys to be followed up with an extensive drill programme. The main exploration focus at Falcão will be:

- mafic-hosted, gold anomaly which follows 2km along a major mineralised structural corridor
- felsic-hosted, zinc-gold-lead anomaly which follows 2.5km along a major mineralised structural corridor
- nickel sulphide target with anomalous copper and nickel associated with mafic-ultramafic package

### Gold anomaly, drill highlights and structures



Source: Company

## Major competition in the Inaja greenstone belt

The Inaja Archean greenstone belt is host to a number of major mining companies including Valé (formerly CVRD), Teck Cominco, Barrick and Codelco. Aura Gold holds a substantial land package in the belt while the remainder of the pegged ground has been snatched up by the majors. Horizonte has a key land package within the Inaja belt, situated in between Aura, Codelco and Valé.

# Lontra nickel project

## Project overview

The Lontra nickel project is a major greenfields discovery and was identified by Horizonte using a regional multi-element stream sediment survey and follow-up soil sampling program undertaken in 2007. In late 2007, an auger drilling programme commenced and was followed by a successful 60 hole diamond drill programme in 2008. From start to finish, this major discovery has taken under one year. The Lontra project is 50%-controlled by Horizonte. LGA Mineracao e Siderugja holds the other 50% and fully funds its own 50% slice of the exploration expenditure.

## Location, accessibility and permitting

The Lontra nickel project is situated in the northern state of Para in Brazil, 200km southeast of the Carajas mineral province. The project lies within the Araguaia mobile belt approximately 10km to the east of Teck Cominco's advanced exploration project at Vila Oito and 80km to the south of Xstrata's Serra da Tapa and Vale dos Sonhos nickel laterite discoveries.

The project is accessed by tar sealed and all weather dirt roads. The land is largely agricultural with only a handful of residential buildings scattered across the tenement. The climate is equatorial (hot and wet) and this has facilitated the formation of a well established laterite profile throughout the project area.

The exploration licences at Lontra cover a period of three years each and Horizonte is currently awaiting publication of several of these tenement renewals from the DNPM (Brazil's department of mines). These renewals are expected to be granted without any issues.

## Project geology

The regional geology of the Lontra project comprises arcuate, north-south trending Proterozoic metasediments forming low, undulose hills that are considered to be the fronts of low angle mafic to ultramafic thrusts. These thrust fronts lie positioned between plateaus which are flanked by lateritic hard caps.

Nickel mineralisation at the Lontra project is associated with the weathering of mafic to ultramafic ophiolite slivers, which comprise a lithological package of basalts, gabbros, serpentinised peridotites, talc-schists and serpentinites. The ophiolites are generally north – south trending and easterly dipping.

At Lontra, these ultramafic and mafic lithologies are overlain by a saprock silicate transition zone which is covered by a well developed laterite profile. Nickel mineralisation occurs within the laterite profile, and is largely confined to the upper and lower limonite zones. The lower limonite zone comprises strongly oxidised light brown to iron-rich clays and is overlain by the upper limonite zone which is characterised by strongly oxidised dark red-brown clays to iron-rich magnetitic clays with common manganese and limonite zones.

## Lontra nickel project drill target zones and laterite soils



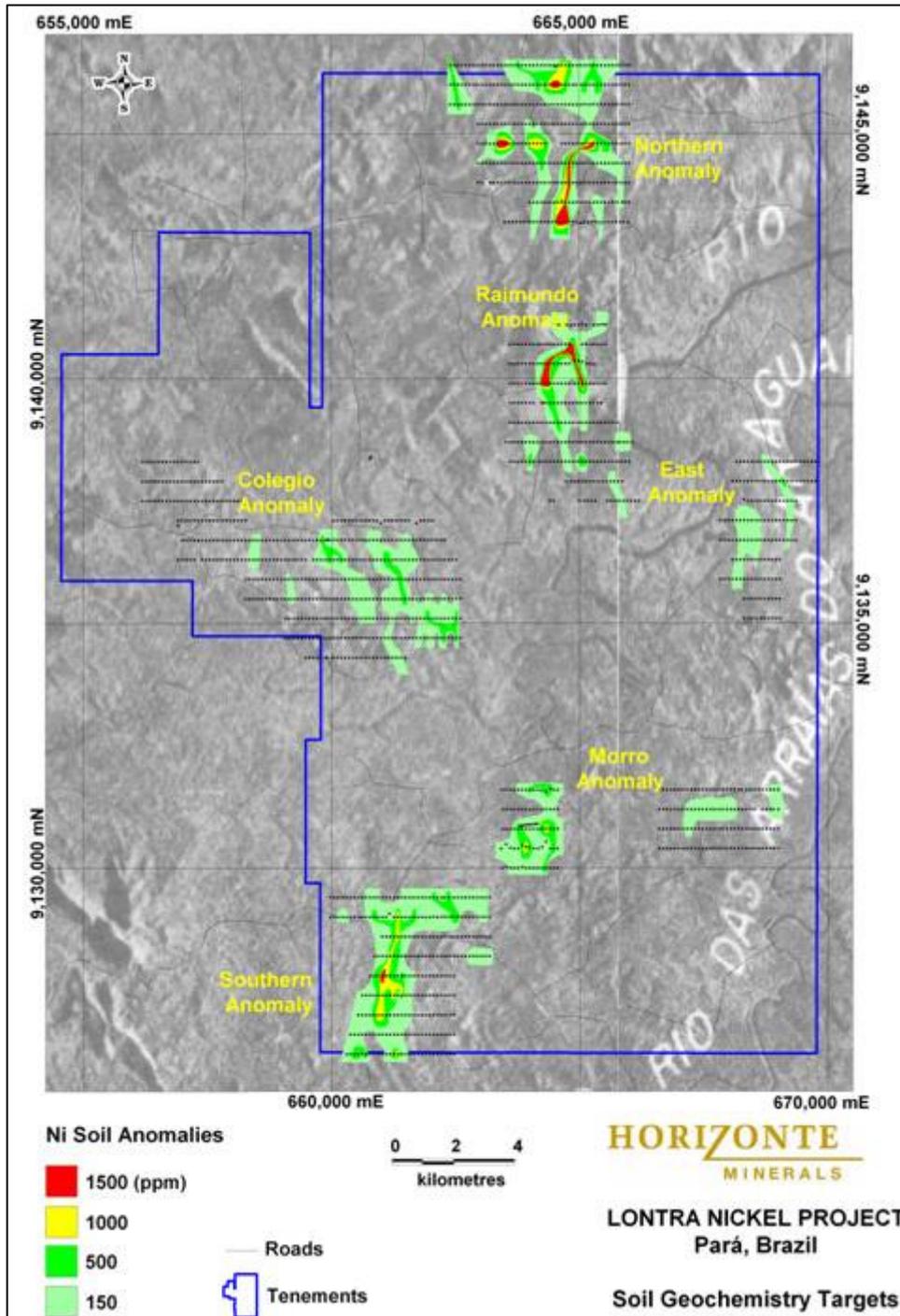
Source: HansonWesthouse January 2009

## The 2008 Lontra drill campaign - drill targets and results

### Lontra geochemical anomalies

The Lontra project is made up of four significant soil geochemical anomalies which form the basis for the delineation of four main targets at Lontra - the Northern, Raimundo, Southern and Mundo targets. The company has completed a total of 2,000m of auger drilling and 60 diamond drill holes since the identification of the Ni anomalies early in 2008. The drill targets are focused in areas dominated by ultramafic lithologies (predominantly peridotites) which are associated with the shallow-lying nickel laterite mineralisation.

### Lontra soil geochemistry targets



Source: Company

### Drilling at Lontra

Drilling to date has been focused on the Northern and Raimundo targets while the Morro and Southern anomalies are yet to be drill tested. The 2008 drill campaign was completed as vertical drill holes using 400m spaced lines by 80m drill centres and are generally drilled to depths of between 15m and 20m.

The first drill phase targeted the Northern anomaly which covers an area of approximately 1.5km by 0.4km. The higher order Raimundo anomaly lies 3km to the south of the Northern target and covers an area of approximately 1.8km by 1.2km. A total of 32 diamond holes have been drilled at the Raimundo anomaly.

The Lontra drill programme returned some encouraging results that include a number of potentially economic nickel intercepts. The Raimundo and Northern targets were both shown to have well developed laterite profiles of between 3m and 9m thickness, although shallow auger drilling indicates higher Ni grades at the Raimundo anomaly. Highlights of the drilling to date include 11.5m grading 1.58% Ni at the Northern anomaly and 7.6m grading 1.6% Ni at the Raimundo anomaly.

The results of the final drill holes are still outstanding.

### Highlights of drilling at Lontra

Hole ID	From (m)	To (m)	Thickness (m)	Ni Grade %
Northern	7.2	18.5	11.3	1.08
Northern	5.0	16.8	11.8	1.21
Northern	5.0	16.5	11.5	1.58
Northern	4.0	18.4	14.3	1.10
Raimundo	6.1	13.7	7.6	1.60
Raimundo	13.7	20.6	6.9	1.32
Raimundo	8.5	18.3	9.8	1.24
Raimundo	13.0	17.7	4.7	1.15

Source: Company

Results of the Northern anomaly are given using a 0.8% Ni cut-off; Results of the Raimundo anomaly are given using a 1.0% Ni cut-off.

### Lontra JV agreement

The Lontra project comprises five exploration licences registered in the name of Horizonte's (100%) subsidiary HM do Brasil Ltda. covering a total area of 24,051ha. The two principle licences are covered by JV's with two private Brazilian companies, namely LGA S/A and PST S/A, where Horizonte has the role of technical management and administrator (for which the company charges a 10% administration fee). 25% of Horizonte's holding remains subject to option payments and has the following outstanding liabilities:

- Payment of US\$100,000 on 23 March 2009
- Payment of US\$200,000 on 23 March 2010
- Participation relative to a 1% NSR which can be purchased at any time for a cash payment of US\$500,000

The Brazilian JV partners provide the funding for any 6 month work program period in advance, on a pro-rata basis, into a JV account managed by Horizonte. The partners have first-right of refusal over the participating interests in the JV partnership. A further three peripheral licence areas are 100%-controlled by Horizonte.

## The next step for Lontra

The results of last year's drill campaign show nickel grades which are commensurate with economic nickel laterite deposits, including Valé's 78Mt Onca Puma nickel project grading 1.5% Ni, which is also located in Brazil's Para state. Production at Onca Puma is expected to come on line in the first quarter of 2009.

As a result, a second phase of drilling will be undertaken to further define the occurrence of nickel laterite mineralisation at Lontra. This will form the basis for a resource statement, which we expect to see this year.

While the immediate market demand for nickel is weak the future is looking bright (see below for our thoughts on nickel). We believe that this is the ideal time for Horizonte Minerals to bring the project to the pre-production stage to take advantage of an upswing in nickel price and the lower current cost of exploration due to the lower oil price, reduced sample turnaround time, availability of drill rigs quality economic geologists compared to a year ago.

## The nickel market – past, present and future

Nickel is primarily used in the stainless steel industry to increase the strength and durability of steel. The price of nickel is driven by supply and demand fundamentals. Currently supply greatly outweighs demand, however the nickel sector has finally started to see some drastic production cuts globally, including the shutdown of BHP Billiton's Ravensthorpe nickel mine and the restructuring of Xstrata's Canadian nickel operations. In our opinion it will take a while for the cut backs to filter through to reduce the stockpiles and impact the price but we remain upbeat about long term nickel prices.

Nickel is currently trading at a spot price of US\$9,850/t after dipping to a five year low of around US\$9,000/t. The nickel price has been range-bound for the past four months, with spot prices between US\$9,000/t to US\$12,000/t. We expect to see the nickel price stabilise over the next two years before rising as a result of the recent production cuts and increased demand.

## The Araguaia mobile belt

The Araguaia mobile belt is already considered by many to be an emerging world-class nickel province, with several major players such as Xstrata and Teck Cominco already at scoping study or feasibility stage within the belt. Xstrata's Araguaia nickel project comprises the Serra da Tapa and Vale dos Sonhos nickel deposits which have a combined inferred resource of 73.3Mt grading 1.5% Ni. Teck Cominco and Lara Exploration also hold ground within the belt and together, have recently completed infill drilling at the Vila Oito project on Lara's Araguaia nickel project.

Horizonte anticipates that over US\$4bn will be spent in developing this new nickel province within the next few of years. This is excellent news for Horizonte as having good mining and mineral processing infrastructure in place in the region vastly reduces the cost of putting Lontra into production.

### Nickel projects of northern Brazil

Company	Project	Tonnage	Grade
Anglo American	Jacare	430Mt	1.30%
Vale	Onca Puma	78Mt	1.80%
Vale	Vermelho	290Mt	0.80%
Xstrata	Serra da Tapa	87Mt	1.60%
Votorantim	Niquelandia	60Mt	1.50%
Anglo American	Barro Alto	116Mt	1.50%

Source: Company

# El Aguila silver-lead-zinc project

The El Aguila silver-lead-zinc project lies within the Cerro de Pasco mining district in central Peru, and is surrounded by several producing silver and silver-lead-zinc mines including the Vinchos silver mine 8km to the north and the Atacocha polymetallic mine 10km to the west.

The El Aguila project has been worked historically by artisanal miners who targeted sulphide veins and replacement structures. Previous work also includes limited historical drilling at El Aguila, which first demonstrated the potential to the company by yielding results including 11m grading 312g/t Ag, 6.5% Pb and 8.11% Zn.

Since listing in May 2006, Horizonte has fast tracked its El Aguila exploration programme. The company has undertaken mapping and channel sampling programmes, geophysical surveys including ground magnetics and induced polarisation (IP), and has completed two follow-up drill programmes for over 2,800m of diamond drilling over four zones at El Aguila; Veta Norte, Veta Sur, Zona Norte and Veta Laguna.

## Location and logistics

El Aguila lies in the Altiplano in southern Peru at an elevation of around 4,200m. The project is situated within the world-class Cerro de Pasco mining district which benefits from a 'ready made' infrastructure including excellent road and rail networks and the availability of mineral processing infrastructure.

The project comprises two granted mining licences, the El Aguila and Pacos Hill mining claims. The licences both lie along the Cerro de Pasco fault which is the main mineralising control in the Cerro de Pasco mining district.

### Sample geochemistry and drilling at El Aguila



Source: Company

## Project geology and mineralisation

Mineralisation at El Aguila occurs as a series of massive sulphides and polymetallic stockwork veining within a hydrothermal breccia pipe. The breccia pipe lies beneath the dolomitised and silicified Pucarra Limestone which is the host lithology for many of the mining districts polymetallic deposits, including the Cerro de Pasco deposit, the second largest known Cordilleran base metals deposit which has produced over 175Mt grading 7% Zn, 2% Pb and 93g/t Ag.

## El Aguila results to date

### Results of channel sampling

During the first half of 2006, the company completed a first pass sampling programme to determine the extent of mineralisation at surface, at the old mine dumps and in the historic underground workings. Sampling and mapping of the Pacos Hill zone has defined three mineralised veins named Veta Norte, Veta Sur and Veta Laguna. Channel sampling across replacement style mineralisation within these principal vein structures returned excellent results including 6m grading 10.7oz/t silver (or approximately 332g/t), 7.8% Pb and 5.8% Zn. Sampling of underground veins yielded 1.2m grading 13.9oz/t (or approximately 432g/t), 8.8% Pb, 2.2% Zn and 0.46g/t Au.

At the surface, breccia zones occur at the intersection of vein structures where the concentration of fluids has caused replacement of the limestone host rock. Two channels were opened down to 1.5m to test these breccia zones. The first channel, TR-1 returned 10m grading 2.7oz/t Ag (or approximately 83.9g/t), 2.5% Pb, 0.33% Zn. The second channel, TR-2 returned 16m grading 4.6oz/t Ag (or approximately 143.0g/t) and 2.8% Pb, 0.7% Zn.

### Results of diamond drilling

In 2006, Horizonte completed an eleven hole diamond drill programme for a total of 1,350m. The aim of the drill programme was to test the lateral and vertical continuity of the Veta Norte and Veta Sur structures. The drill programme proved a great success as each drill hole returned broad zones of pervasive alteration associated with economic polymetallic intersections. Mineralisation has now been identified over a strike length of 200m and both the Veta Norte and Veta Sur structures are vertically continuous to a depth of 130m from the surface. Mineralisation remains open along strike and at depth.

In 2007, Horizonte completed a ten hole diamond drill programme for a total of 1,526m following a geophysical survey (ground magnetics and IP) over the Pacos Hill area which defined the Zona Sur area, 5km to the south of Pacos Hill, as a new priority target. The first seven drill holes were sunk to test geophysical and geochemical anomalies at Zona Sur. The following three holes were drilled to further test the geophysical anomalies and to determine the extent of the mineralisation at depth.

Highlights of these last three drill holes include DDH20 which tested the vertical extent of the Veta Norte target. Drill hole DDH20 returned two broad zones of mineralisation with the grade of silver mineralising increasing with depth. It is the company's opinion that this increase in silver grades may be indicative of a larger mineralised body at depth. The highlights of the two drill programmes at El Aguila are shown in the table below.

### Highlights of drilling at El Aguila silver-lead-zinc project

Drill hole	From (m)	To (m)	Interval (m)	Ag (g/t)	Pb (%)	Zn (%)
Veta Norte/Sur	76.2	84.0	7.8	101.96	1.23	1.09
Veta Sur	28.9	33.0	4.0	229.00	4.77	5.00
Veta Sur	46.0	56.4	10.4	173.99	1.39	1.22
Veta Sur	43.8	57.9	14.1	142.98	2.84	3.09
Veta Sur	27.8	42.0	14.2	133.12	3.26	3.07
Veta Norte	88.1	100.0	11.9	82.50	1.72	2.50
Zona Sur	58.8	60.83	12.03	112.97	0.82	1.63
Veta Norte	56.0	74.0	18.0	133.70	0.27	0.21
Veta Norte/Sur	176.0	182.0	6.00	215.50	3.41	2.61

Source: Company

## El Aguila: ready for more drilling and resource definition...

Drilling at Pacos Hill has shown the El Aguila project to have high grade silver-lead-zinc veining associated with carbonate-hosted replacement mineralisation similar to the Cerro de Pasco polymetallic deposit. This has significant implications for a potential discovery at El Aguila on the same scale as the Cerro de Pasco giant. Peru is one of the world's major silver producers and the Cerro de Pasco mining district produces over 50% of the country's silver.

More drilling is needed at El Aguila however, to increase the tonnage potential in both the veins and the high sulphidation replacement mineralisation and to further define the dimensions of the principal veins because although the vein continuity is there, the widths are still inconsistent in places.

El Aguila is in a great position. The project is in amongst several mines in the world-class Cerro de Pasco mining district, so the controls to mineralisation are largely understood. The project also has the advantage of existing infrastructure for rapid development. Finally, there is a ready market of major silver-lead-zinc producers when Horizonte has defined a resource. That's when we'll see the next stage of the business model kick in with a farm out or sale of the El Aguila project.

### Channel sampling at El Aguila



Source: Company

# Pararapa gold project

The Pararapa gold project in southern Peru is a JV project with gold industry leader Barrick Gold Corporation ('Barrick') through its subsidiary Placer Dome del Peru. In July 2008, Horizonte signed a 'heads of agreement' with Barrick to explore and develop Pararapa with the view to acquire the project.

Pararapa is situated within the Department of Arequipa, Peru. Historically the Pararapa project has been worked by artisanal miners who undertook small scale open pit and underground operations to extract high grade gold and silver from the property. Despite these well known occurrences, the project remains under-explored.

## Pararapa gold project



Source: Company

## Conditions of the JV with Barrick Gold

Under the 'heads of agreement', Horizonte has the right to earn a 100% interest in the Pararapa property by completing an agreed amount of exploration within a three year period, commencing from the execution date of the Formal Option Agreement. The minimum exploration commitment is as follows:

- year one: minimum of 1,000m diamond drilling
- year two: additional minimum 2,000m diamond drilling
- year three: additional minimum 4,000m diamond drilling

Furthermore, as stated in the agreement, Horizonte has the following financial commitments payable to Barrick's subsidiary for its consideration of the Pararapa project:

- 1.5 million new ordinary shares payable 12 months from the date of the execution of the agreement
- a further 2.0 million new shares payable 24 months from the date of the execution of the agreement

In the agreement, the royalties are structured so that where a resource of over 250,000oz of gold is defined Horizonte will pay US\$25/oz up to 1Moz gold equivalent and US\$30/oz up to 2Moz gold equivalent. This is for the 100% consideration of the property and is payable on commercial mining production. In the event that Horizonte defines a resource of over 2Moz Barrick has the right to earn back up to 70% of the project.

## **A typical low sulphidation silver project**

The Pararapa property lies 300km from the city of Arequipa and covers an area of 2,147ha, in a region well endowed with known gold and silver bearing intermediate and low sulphidation deposits. The project lies within trucking distance of several mines that are currently developing low sulphidation style veins similar to that found at Pararapa, including AIM-quoted Hochschild's Arcata gold and base metal project.

Mineralisation at Pararapa occurs as a north-south trending low sulphidation epithermal style quartz vein structure which displays textures including colloform banding and vuggy fracture fill. The mineralised structure has been traced on the surface for approximately 2km. Mapping, soil sampling and channel sampling of the vein has also identified sub-parallel quartz veins up slope of the main vein and beneath the volcanic cover. This shows potential for the continuation of the main vein and/or its splays further than that already traced across the surface.

Horizonte has completed a reconnaissance exploration project comprising mapping of the Southern and Northern Vein targets accompanied by channel sampling and soil sampling. Channel sampling returned grades of 14.3g/t Au and 1,230g/t Ag over a width of 0.8m and sampling across 700m of the Southern Vein has yielded grades of 3.6g/t Au and 419g/t Ag from surface.

## **The project pipeline**

Horizonte has a pipeline of new projects in Peru and Brazil that it has developed through its generative exploration programmes. The company portfolio is made up primarily of gold projects but includes some early stage base metal projects. Since the global financial crisis has hit the mining sector, Horizonte has changed its tack to focus on gold over the next 12 to 18 months.

## Company valuation

We value Horizonte at £5.8m using a sum-of-parts calculation outlined in full below. This equates to 14.4p per share, which is a 220% premium to the current share price. For our calculations, we have used the current \$/£ exchange rate of \$1.42/£1.00. Also, we have assigned a 0.4x discount to the value calculated for each project. This has been done to take into account the risk of applying a valuation to a project which has not been assigned a compliant resource calculation.

### Tangará

We have ascribed the Tangará project a valuation of £1.5m. We have completed a simplified DCF analysis, in which we have calculated an NPV (10%) for Horizonte's remaining consideration of the Tangará project.

Our valuation is based on the assumption that Troy Resources will define a series of small deposits totalling 200,000 ounces of gold to sustain a life of mine of five years. Based on this scenario, for the 100% consideration of the Tangará project, Troy Resource's total outstanding payments to Horizonte would be US\$8.4m. Although we have applied a risk factor of 0.4x to our NPV, we believe the risk is somewhat mitigated as we are confident that Troy Resources will fast track its exploration program at Tangará. This is because Troy Resources is actively exploring for satellite gold deposits within the vicinity of its Andhorinas mine to support continued production at its gold processing plant when the Andhorinas mine is exhausted.

### Lontra

We have assigned a value of £4.0m for Horizonte's 50% consideration of the Lontra nickel project. This valuation is based on the assumption that Horizonte Minerals will obtain its target resource of 30Mt grading 1.0% Ni, for 300,000t of contained nickel. We estimate that the realised value of the nickel will equate to around 1% of the value of the in-situ metal. At today's nickel spot price of US\$9,650/t, this implies a valuation for Horizonte's 50% consideration of the in-situ nickel at Lontra of US\$14.8m.

We are optimistic that Horizonte will complete an initial resource estimate for the Lontra nickel project within the next 12 months.

The Araguaia mobile belt is shaping up to be a new world-class nickel province. This is evidenced by several major players in the belt which are already at scoping study or feasibility stage with their nickel projects. We believe this is excellent news for Horizonte given that having mining and mineral processing infrastructure already in place in the region will significantly reduce the cost of putting Lontra into production.

### Pararapa

We have assigned a value of £300,000 for the Pararapa gold project using an appraised value method. This simplified valuation is based on Horizonte's forthcoming exploration and financial commitments for the 100% consideration of the Pararapa gold project. Under the JV agreement, for 100% of the Pararapa gold project, Horizonte is required to issue 3.5 million new shares to Barrick Gold. Based on the current share price, when fully diluted, this is equal to £168,000. Horizonte is also committed to completing 7,000m of diamond drilling over the next three years which will cost an estimated US\$1.05m.

### Additional projects provide potential upside

We believe that the market is currently placing very little value on pure greenfields exploration projects and as such, we have not included the Falcão or El Aguila projects within our sum-of-all-parts valuation.

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