



HORSESHOE METALS
LIMITED

ANNUAL FINANCIAL REPORT

A.B.N. 20 123 133 166

FOR THE YEAR ENDED 31 DECEMBER 2011

CORPORATE INFORMATION

Directors

Jeremy David Shervington (Non-Executive Chairman)
Neil Andrew Marston (Managing Director)
Stuart John Hall (Non-Executive Director)
Laurence James Shervington (Alternate Director)
Alec Christopher Pismiris (Non-Executive Director)

Company Secretary

Alec Christopher Pismiris

Registered Office

Unit 6, 11 Colin Grove
West Perth WA 6005
Telephone: +61 8 9481 5866
Facsimile: +61 8 9481 5966

Solicitors

DLA Piper Australia
Level 31, Central Park,
152-158 St Georges Terrace
Perth WA 6000
Telephone: +61 8 6467 6000

Bankers

Westpac Banking Corporation Limited
109 St George's Terrace
Perth WA 6000

Share Register

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000
Telephone: +61 8 9323 2000

Auditors

Somes Cooke
1304 Hay Street
West Perth WA 6005
Telephone: +61 8 9426 4500

Stock Exchange Listing

The Company is listed on the Australian Securities Exchange
ASX Code: HOR
HORO

Website

www.horseshoemetals.com.au

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Activities Report

The Company holds a 100% beneficial interest in the Horseshoe Lights and Kumarina Projects located in the Peak Hill Mineral Field of Western Australia (see figure 1).

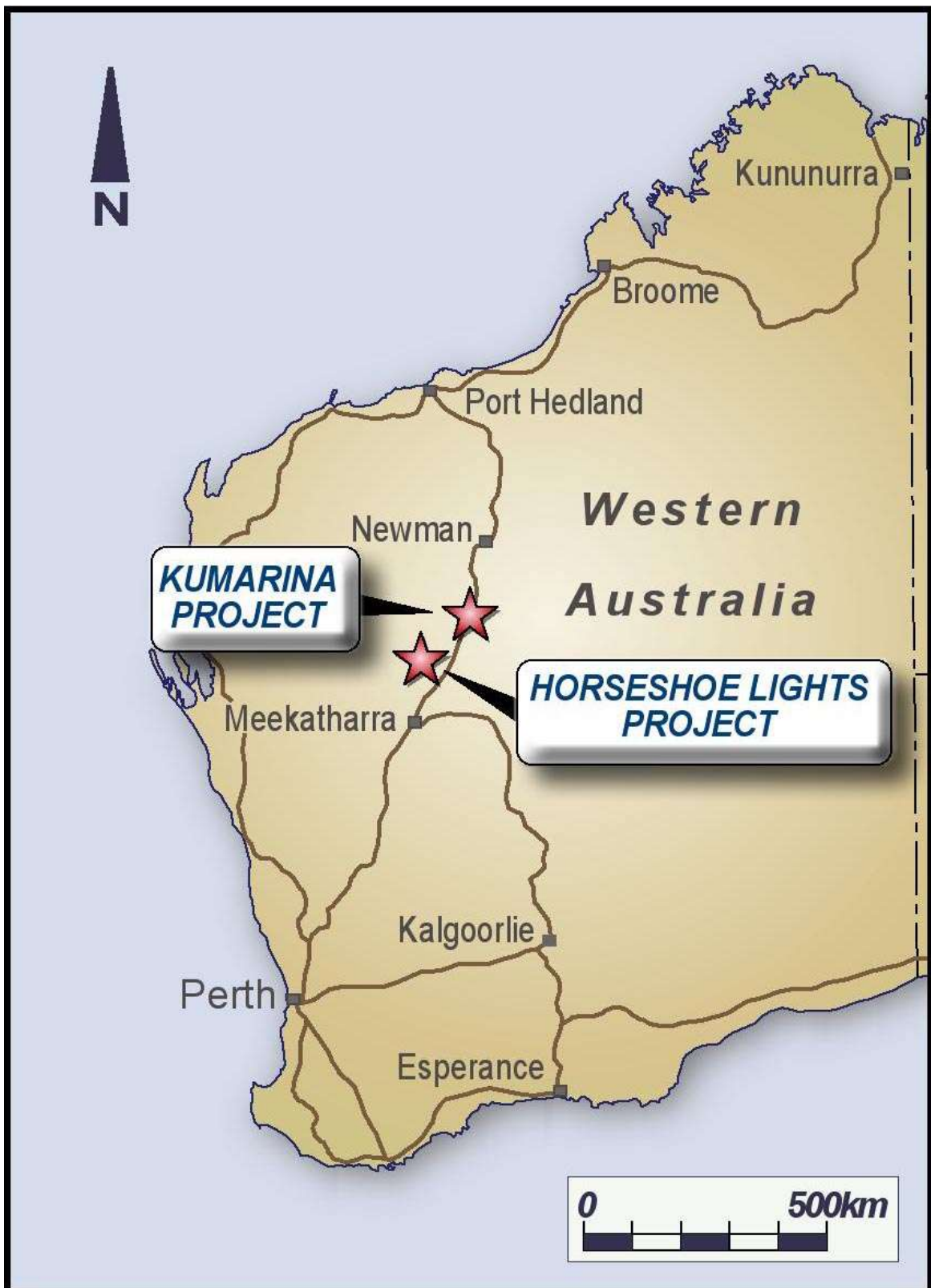


Figure 1 – Projects Location Plan

Activities Report Continued

Horseshoe Lights Project

The Horseshoe Lights Project is located 140km north of the town of Meekatharra in Western Australia. The project tenements cover a total of 80 km² in area.

The Horseshoe Lights Project includes the closed Horseshoe Lights mine which operated up until 1994, producing over 300,000 ounces of gold and 54,000 tonnes of copper.

Exploration Activity

Drilling

Fifteen Reverse Circulation Percussion ("RCP") holes were drilled in the Phase 3 programme in March/April 2011. This drilling was designed to test northerly strike and down dip extensions of the Northwest stringer zone.

Significant copper results from the Phase 3 drilling programme are shown in Table 1.

Table 1 Horseshoe Lights Project Phase 3 Drilling – Significant Copper Intersections* (0.25% Cu cut-off)									
Hole	Northing (m)	Easting (m)	Planned Azimuth	Planned Dip	Hole Depth(m)	FROM (m)	TO (m)	Interval (m)	%Cu
RC1028	7194420	662827	90°	-60°	210	184	196	12	2.3%
including						185	189	4	4.7%
RC1031	7194370	662840	90°	-65°	222	141	146	5	1.6%
						176	193	17	1.2%
RC1037	7194370	662815	90°	-65°	222	180	188	8	1.6%
including						180	183	3	3.2%
RC1040	7194345	662830	90°	-65°	234	207	216	9	0.6%
						217	224	7	1.3%
RC1041	7194340	662875	90°	-65°	198	130	146	16	1.8%
including						134	144	10	2.5%

Note: Coordinates GDA94 Zone 50.

* Insufficient geological information is available to determine the true widths of mineralisation reported.

Copper mineralisation generally consists of chalcopyrite veins and veinlets in sericite and chlorite schists. No significant gold or silver assays were received from the Phase 3 drilling programme.

In total 41 RCP holes were drilled by the Company during 2010/2011 with the best intersections recorded in steeply dipping copper mineralisation in an area approximately 150 metres north of the existing pit (see figures 2 & 3).

Activities Report Continued

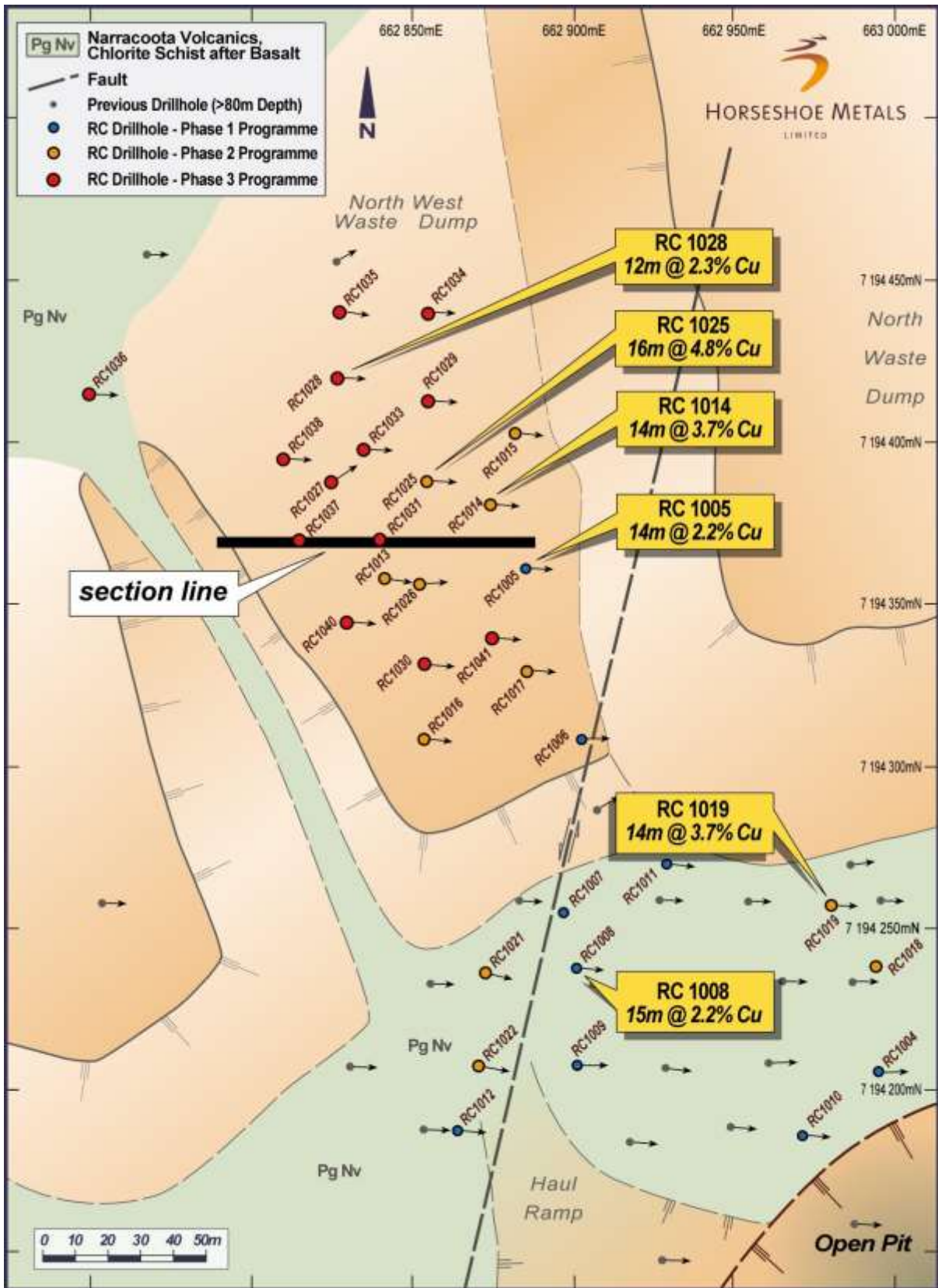


Figure 2 – Horseshoe Lights Project Drill Hole Location Plan showing Cu best intersections

Activities Report Continued

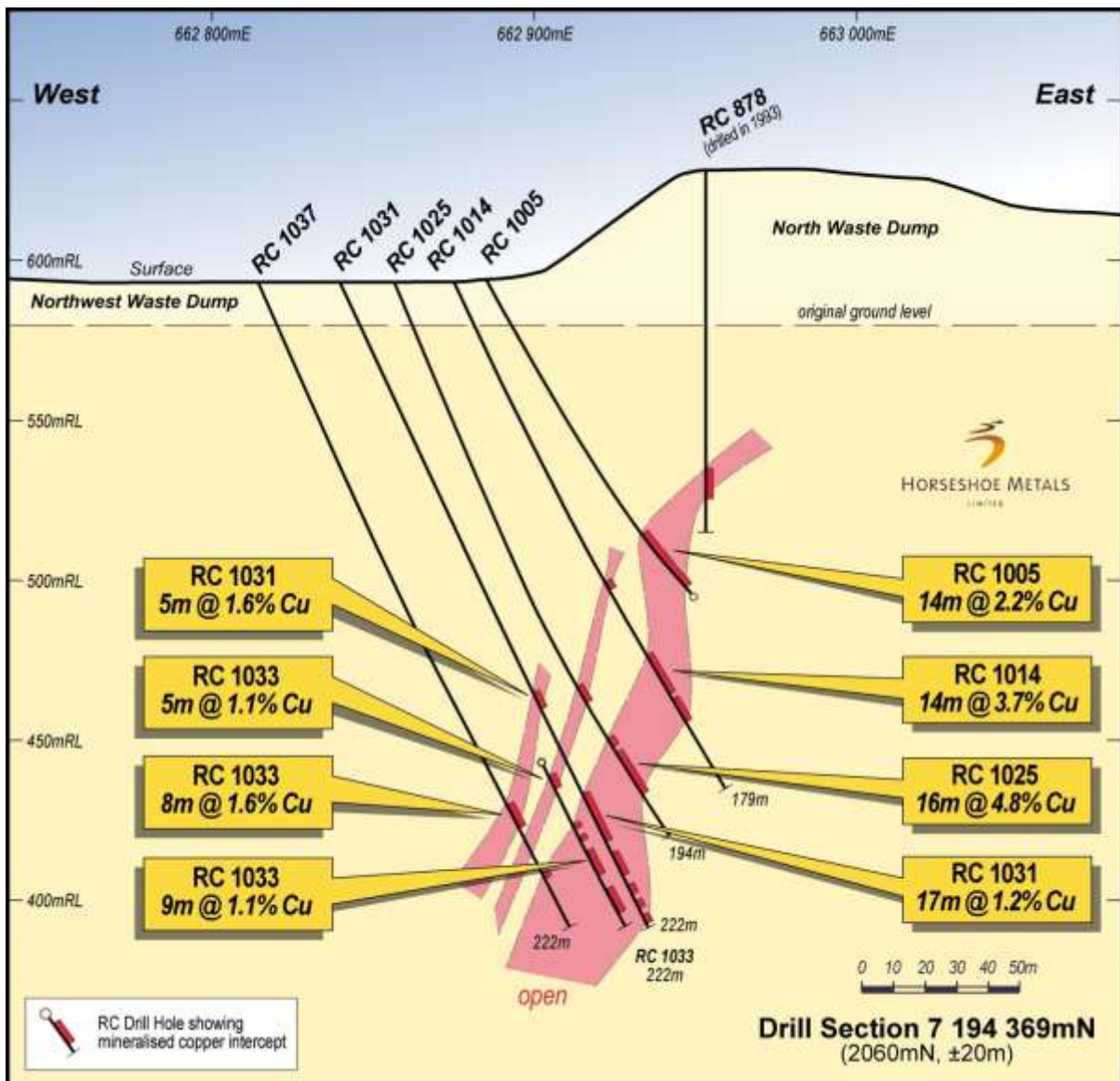


Figure 3 – Horseshoe Lights Project Drill Section

Geophysical Surveys

A Fixed Loop Time-Domain Electromagnetic (“FLTEM”) ground geophysical survey, consisting of five loops was completed in late April 2011. The FLTEM survey was designed to test anomalies identified in the 2010 heli-borne survey utilising the Versatile Time-Domain Electromagnetic (“VTM”) geophysical system and further detect new anomalous responses with the potential for copper/gold sulphide mineralisation.

An interpretation of the VTEM and FLTEM survey data identified zones of conductivity to the north/north-west and east of the existing open pit. The zones of conductivity to the north/north-west of the existing open pit are interpreted to be southerly dipping zones of carbonaceous shale underlying the mineralised sequence which have been observed in drilling. The zone of conductivity to the east of the pit is very subtle in magnitude and requires further testing to confirm its depth and orientation.

Activities Report Continued

A Dipole-Dipole Induced Polarisation (“DDIP”) ground geophysical survey was completed in September 2011 to test the FLTEM zone of conductivity east of the pit and for disseminated zones around the open pit, with most of the survey focusing on ground to the East and South of the open pit. Lines surveyed south-east of the pit were completed on 200 metre spacings between each line. The technology used in the DDIP survey has the capacity to penetrate the ground to a depth of approximately 400 metres depth below the surface.

The DDIP survey identified a zone of medium to strong chargeability at a depth of approximately 200 metres below ground level which is generally co-incident with a known shear zone referred to as the South-East Shear Zone. This major shear zone is located along strike to the south-east of the main zones of copper/gold mineralisation located within the existing Horseshoe Lights open pit.

Figure 4 shows the results of the survey with two lines (Line 2 and Line 6) recording strong chargeability anomalies (as shown in red) co-incident with the South-East Shear Zone.

The cause of these high chargeability anomalies is unknown as there has been limited historical drilling in this area. However, in 1989 a small number of holes were drilled to angled target depths of 200 metres in the vicinity of the anomaly located on Line 2. Some of these holes ended prematurely in sandy quartz hematite similar to mineralised zones observed in the open pit. Recommendations by the geologist at the time were for additional deeper drilling however this drilling never occurred.

The Company plans to drill test the chargeability anomalies identified on Line 2 and Line 6 in 2012.

Mineral Resource Estimation

CSA Global Pty Ltd was engaged to complete a JORC compliant Mineral Resource Estimation for the copper and gold mineralisation at the Horseshoe Lights Project. The estimation was based upon most of the historical drilling data available as well as the 41 drill holes completed by the Company in 2010/2011.

At a cut-off grade of 0.5% Cu, the total Measured, Indicated and Inferred Mineral Resource Estimation is **8.6 million tonnes @ 1.06% Cu and 0.13 g/t Au for 91,000 tonnes Cu and 37,400 oz Au.**

The deposit was modelled based on geological interpretation and delineation of the mineralisation predominantly by grade and, where possible, alteration type, alteration intensity and veining. The wireframes were constructed based upon the previous interpretations with a minimum cut-off grade of 0.25% of Cu.

The Horseshoe Lights Project recoverable resources have been classified and reported in accordance with The 2004 Australasian Code for Reporting of Mineral Resources and Ore Reserves (JORC Code). Resource classification is based on confidence in the geological domaining, drill spacing and geostatistical measures. As there is limited QA/QC analysis for the historic drill-hole data, the resource covered by the historic drilling data has been classified into the Inferred category. For the 2010/2011 drilling program area, the Mineral Resource material has been classified into three categories (Measured, Indicated or Inferred) based on the geological confidence and data quality.

Activities Report Continued

The current Mineral Resources have been reported at a series of cut-off grades, which spans the range of interest for open pit studies and have been truncated to the natural topography surface. A full summary of the Mineral Resource Estimation is shown in Table 2.

The Mineral Resource Estimation excludes any surface stockpiles or mineralised dumps located at the Horseshoe Lights Project.

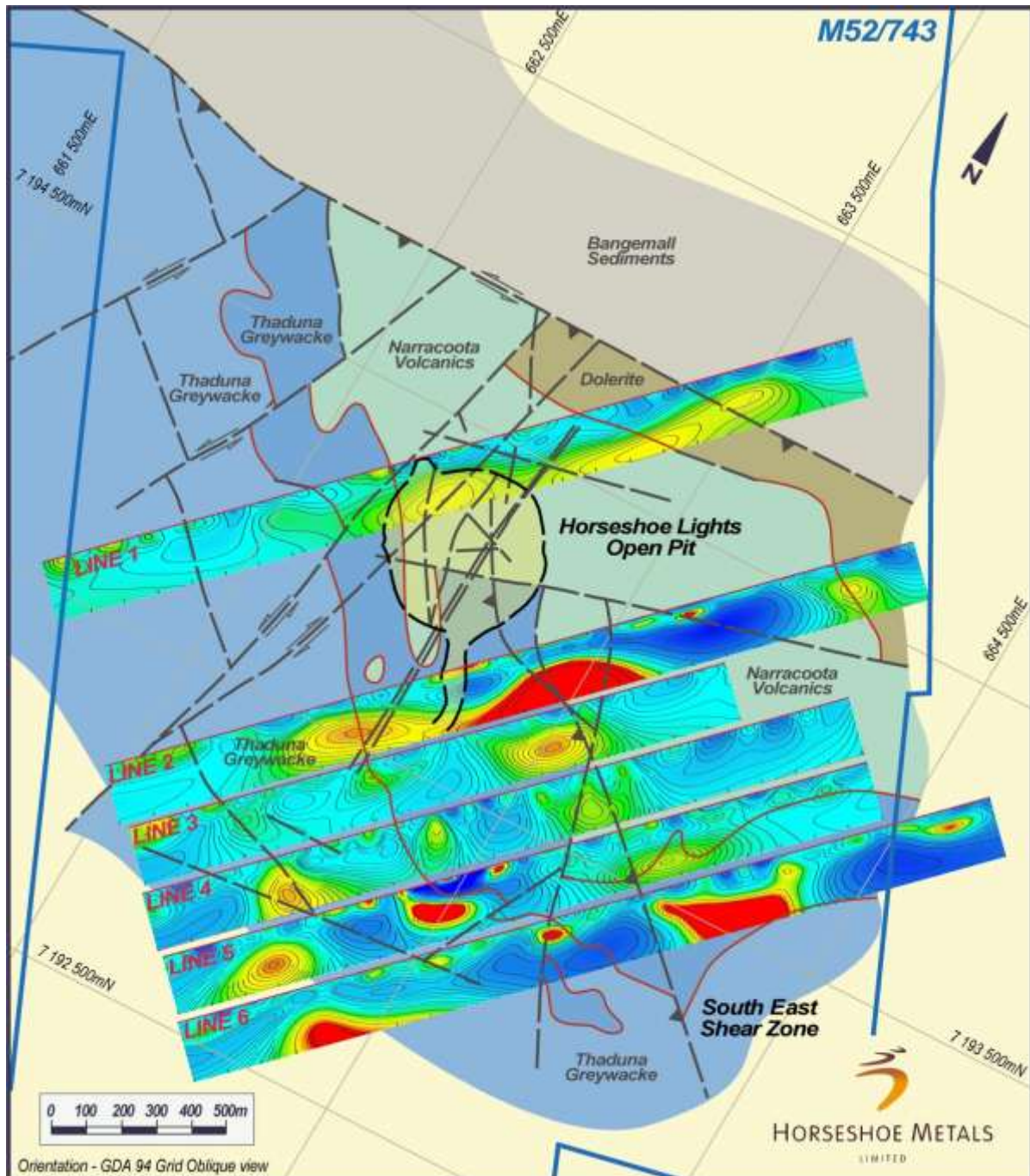


Figure 4 – Plan showing results of DDIP survey at Horseshoe Lights Project with zones of highest chargeability shown in red.

Activities Report Continued

Copper Tailings Study

Promet Engineers Pty Ltd (“ProMet”) was engaged to undertake a preliminary feasibility study into a copper tailings retreatment operation. Historical production reports indicate that 1.4 million tonnes of copper tailings exists on site. Samples from 100 auger drill holes completed in July 2010 have been used to determine an average tailings head grade of 0.47% Cu.

ProMet has prepared a report which confirms that the copper tailings can be readily leached with sulphuric acid with an average copper recovery of approximately 70%. ProMet prepared a capital cost estimate of \$24.6 million for a tank leaching circuit and a 2,000 tpa SX/EW plant with an operating cost estimate of \$10.1 million per annum.

Based on the above capital and operating cost estimates, treating the tailings on a standalone basis is sub-economic. However, the treatment plant designed will have the ability to also treat milled (i.e. crushed and ground) existing stockpiles and oxide copper ore should mining operations recommence at Horseshoe Lights.

Activities Report Continued

Table 2
Horseshoe Lights Project
Mineral Resource Estimation

Cut-off (Cu %)	Measured					Indicated					Inferred					TOTAL				
	Tonnes (Mt)	Grade (Cu %)	Grade (Au g/t)	Copper Metal (T)	Gold Metal (Oz)	Tonnes (Mt)	Grade (Cu %)	Grade (Au g/t)	Copper Metal (T)	Gold Metal (Oz)	Tonnes (Mt)	Grade (Cu %)	Grade (Au g/t)	Copper Metal (T)	Gold Metal (Oz)	Tonnes (Mt)	Grade (Cu %)	Grade (Au g/t)	Copper Metal (T)	Gold Metal (Oz)
0.25	0.54	0.674	0.014	3,607	241	0.76	0.569	0.028	4,322	684	17.09	0.689	0.107	117,743	58,788	18.38	0.683	0.101	125,560	59,696
0.50	0.29	0.939	0.017	2,705	157	0.32	0.880	0.027	2,787	275	8.02	1.067	0.143	85,534	36,856	8.62	1.056	0.135	91,040	37,400
0.70	0.18	1.152	0.019	2,051	109	0.16	1.146	0.024	1,871	126	4.96	1.363	0.173	67,612	27,591	6.30	1.349	0.163	71,522	27,785
1.00	0.10	1.414	0.023	1,347	70	0.08	1.432	0.020	1,213	54	2.71	1.803	0.226	48,932	19,720	2.89	1.780	0.213	51,511	19,818
1.50	0.03	2.013	0.021	564	19	0.02	2.056	0.031	438	21	1.27	2.473	0.343	31,484	14,040	1.32	2.457	0.331	32,492	14,073
2.00	0.01	2.509	0.009	285	3	0.01	2.845	0.001	205	0	0.71	3.066	0.399	21,782	9,114	0.73	3.055	0.389	22,271	9,117

The 3D block models were estimated using the geostatistical method of Ordinary Kriging (OK) Multiple Indicator Kriging (MIK) with block support adjustment based on the Kriging parameters. The block model estimate is based on 58 diamond drill holes and 789 RC drill holes using a 2m composite data set for 3 individual domains. 28 historic RC holes have been used for wireframe interpretation, but the assay data with low geological confidence have been excluded from the estimation. The same 3D block models were also estimated using the geostatistical method of Multiple Indicator Kriging (MIK). The MIK estimate produced very similar results with the OK estimate being the slightly more conservative of the two. Density values assigned to the block model are shown in Table 3.

Table 3
Block Model Density Values

Weathering Zone	Density (g/cm ³)
Oxidised	2.00
Transitional	2.20
Fresh	2.50

Activities Report Continued

Kumarina Project

The Kumarina Project is located 235km north of the town of Meekatharra in Western Australia. The project tenements cover a total of 217.1 km² in area.

Exploration Activity

Geophysical Surveys

In March 2011 a high resolution aeromagnetic and radiometric survey flown at 100m line spacings over the full project area was completed. Following an interpretation of the survey data, a ground geophysical survey over selected high priority target areas was conducted during August 2011 using Sub-Audio Magnetics ("SAM") technology.

The aim of the SAM survey was to more clearly identify drill targets before commencement of drilling. The SAM survey successfully provided more detailed information about the geological structures in the survey area with a number of additional shear zones and faults being identified where no obvious surface outcrop exists. Significantly, a number of the north-east trending shear zones and/or north-south cross faults identified coincide with old mine workings (see Figure 5).

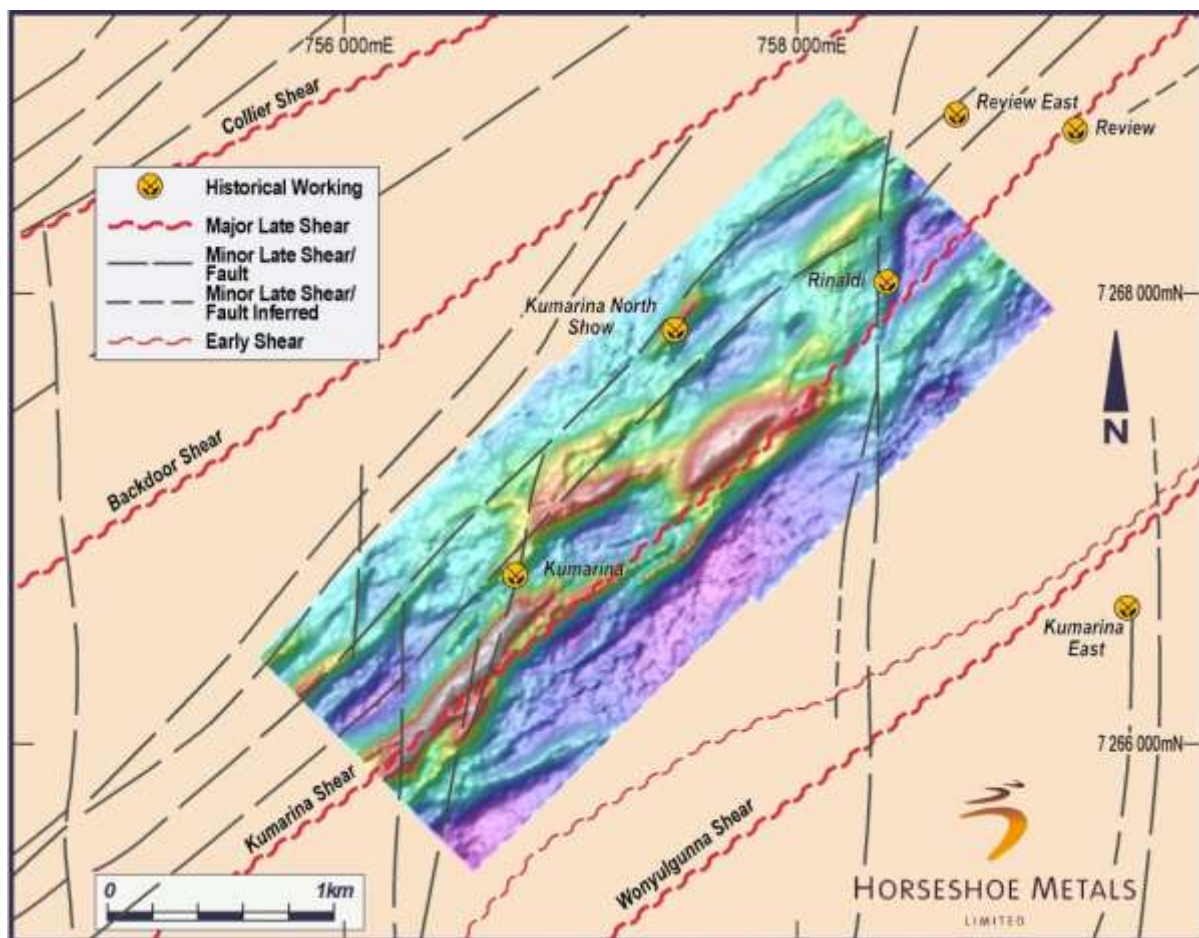


Figure 5 – Kumarina Project SAM Survey Total Field Magnetometric Resistivity overlay with Structural Interpretation.

Following completion of the SAM survey, a Gradient Array Induced Polarity ("GAIP") survey was completed over two high priority target areas identified by the SAM survey to test for chargeable zones which could potentially host copper mineralisation. The results of the GAIP survey were inconclusive.

Activities Report Continued

Drilling

The Company commenced its first RCP drilling programme in October 2011. Reconnaissance drilling was completed at a number of locations over a zone approximately 4 kilometres in length. The Company's second drilling programme was completed in December 2011. In total 76 RCP drill holes for a total of 5,751 metres were completed in the two programmes with the holes ranging in depth from 26 to 162 metres.

Rinaldi Prospect

The drilling at the Rinaldi Prospect produced the best results from the first programme with copper sulphide mineralisation observed in 11 holes along a north-south oriented fault zone for a distance of about 300 metres.

Drilling at the Rinaldi Prospect in the second programme produced similar results to those achieved in the first programme with copper sulphide mineralisation observed in 17 holes along the north-south oriented fault zone.

The location of the drill holes at the Rinaldi Prospect is shown in Figures 6 and a summary of the best mineralised intersections recorded is set out in Table 4. A cross section with some of the best drilling results is shown in Figure 7.

Table 4 Kumarina Project Rinaldi Prospect – Significant Copper Intersections* (0.2% Cu cut-off)									
Hole	Northing (m)	Easting (m)	Planned Azimuth (degrees)	Planned Dip (degrees)	Hole Depth (m)	FROM (m)	TO (m)	Interval (m)	%Cu
KRC060	7268150	758413	90	-60	48	10	23	13	3.0%
including						10	13	3	9.9%
KRC046	7268186	758396	90	-60	89	35	52	17	2.8%
including						35	40	5	5.0%
KRC056	7268032	758341	90	-60	108	67	80	13	2.7%
including						67	69	2	14.4%
						82	86	4	5.7%
including						83	85	2	10.5%
KRC061	7268154	758360	90	-60	138	94	107	13	2.7%
including						99	105	6	5.0%
KRC048	7268150	758402	90	-60	59	22	36	14	2.7%
including						25	30	5	4.6%
KRC063	7268208	758402	90	-60	66	33	46	13	2.2%
including						34	38	4	5.2%
KRC049	7267996	758339	90	-60	98	56	84	28	2.0%
KRC062	7268169	758388	90	-60	84	37	65	28	1.8%
including						57	60	3	7.5%

Note: Coordinates GDA94 Zone 50.

* Insufficient geological information is available to determine the true widths of mineralisation reported.

Activities Report Continued

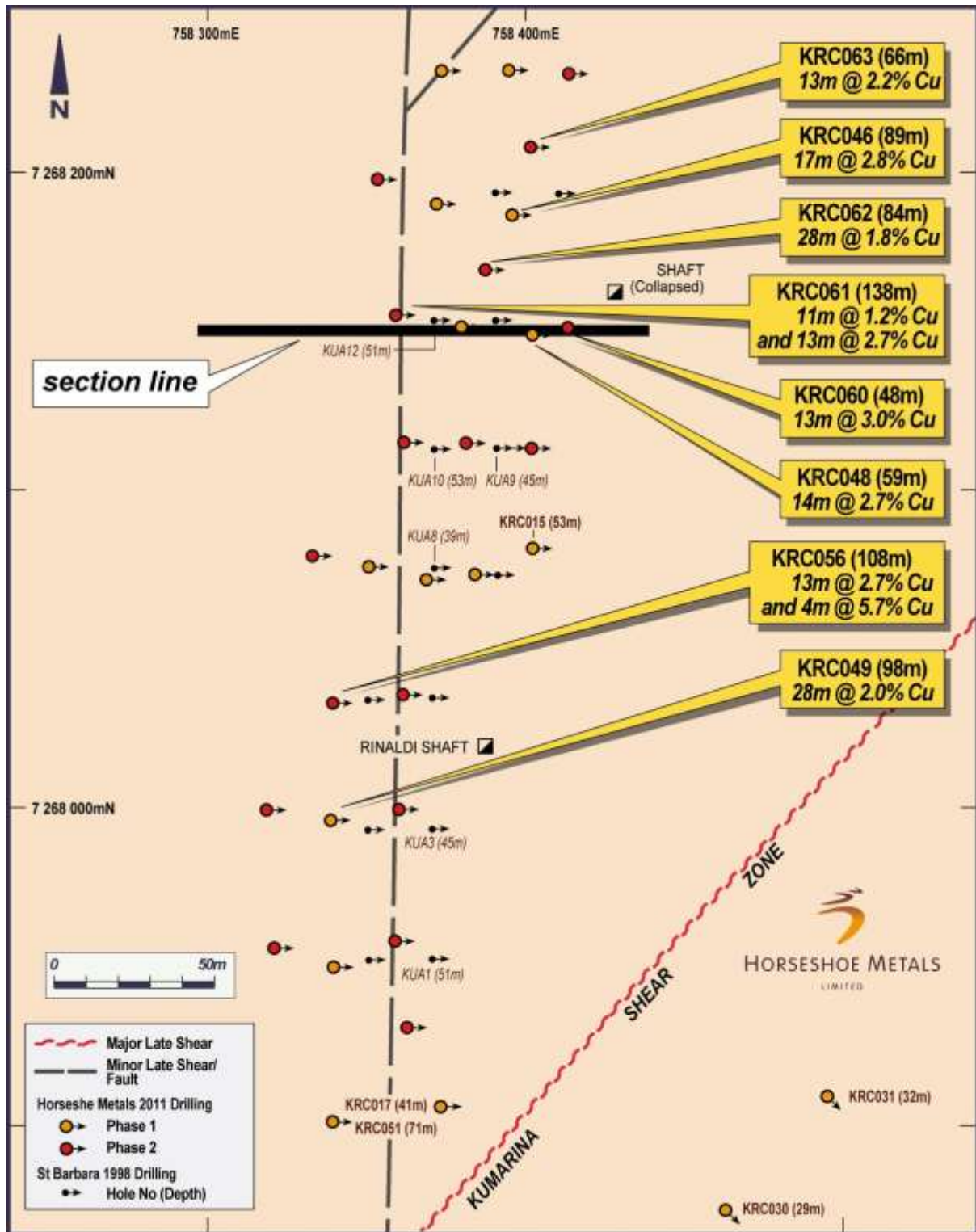


Figure 6 – Drill Hole Location Plan of Rinaldi Prospect with significant Cu% results.

A cross section of the best drilling section is shown in Figure 7.

Activities Report Continued

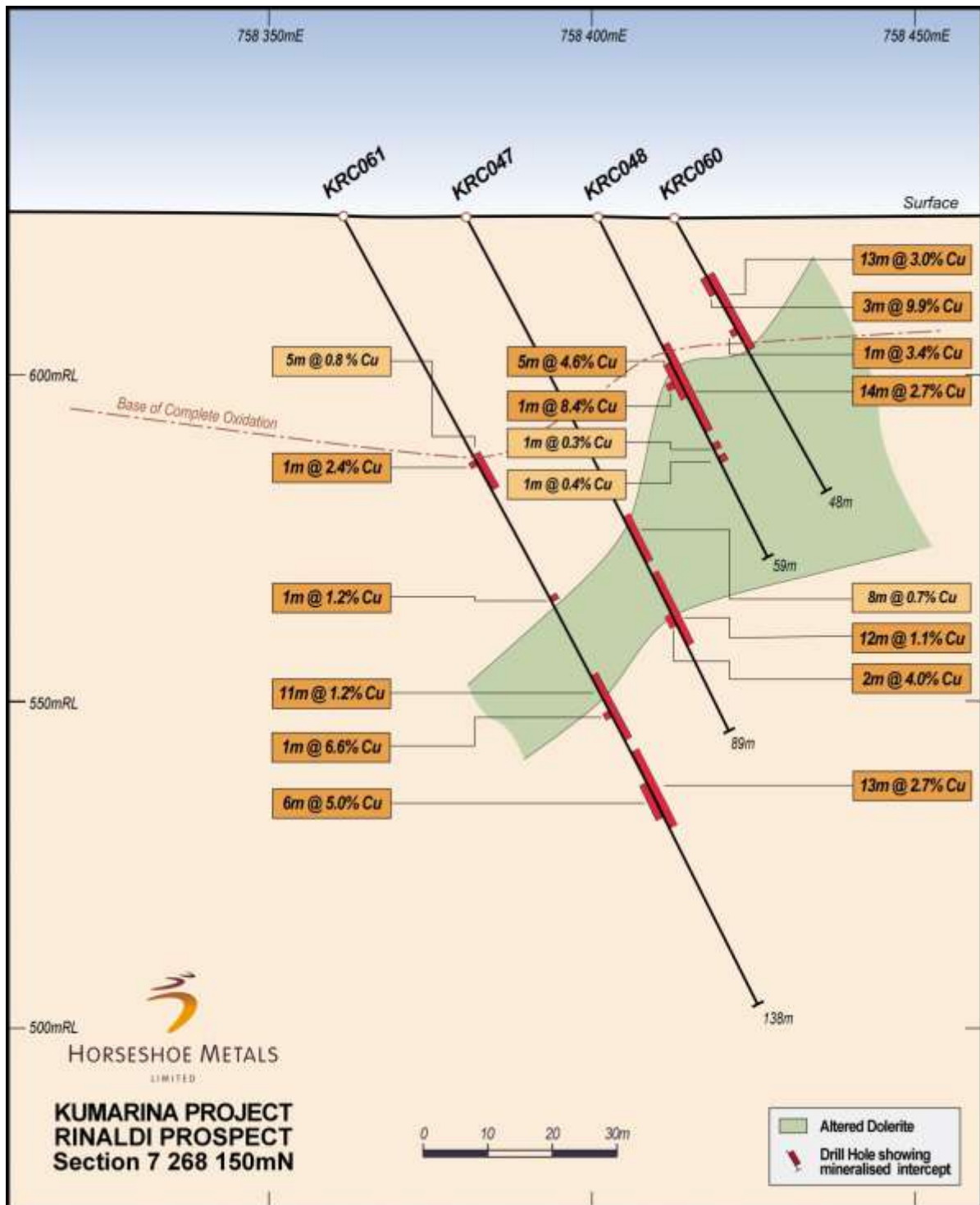


Figure 7 –Rinaldi Prospect Drill Section 7268150mN with Cu% results.

Activities Report Continued

North Show Prospect

A total of 10 RCP holes were drilled at the North Show Prospect as part of the first programme. The drilling intersected shallow copper oxide mineralisation associated with the hanging wall of a dolerite intrusion. The mineralisation consists of secondary copper minerals producing lower grade but consistent copper results.

Kumarina Copper Mine Area

The drilling in the area of the former Kumarina Copper Mine consisted of 11 RCP drill holes in the 2 programmes. One drill hole was drilled adjacent to the former mine shaft and recorded a zone of copper mineralisation of 12m @ 0.6% Cu from 40 metres.

Competent Persons Statement

The information in the report to which this statement is attached that relates to Exploration Results is based on information compiled by Mr Geoff Willetts, BSc. (Hons) MSc. who is a Member of the Australian Institute of Geoscientists. Geoff Willetts is employed full-time by Horseshoe Metals Limited.

Geoff Willetts has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Geoff Willetts consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Mineral Resources is based on information compiled by Dr Bielin Shi, who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM) and Australian Institute of Geoscientists (AIG). Dr Shi is a full-time employee of CSA Global Pty Ltd.

Dr Bielin Shi has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves". Dr Shi consents to the inclusion of such information in this report in the form and context in which it appears.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

Your Directors present their report, together with the financial statements of Horseshoe Metals Limited and controlled entities (the Group) for the year ended 31 December 2011.

DIRECTORS

The names of the Directors in office at any time during, or since the end of, the year are:

NAMES	POSITION	APPOINTED
Mr Jeremy Shervington	Non-Executive Chairman	
Mr Neil Marston	Managing Director	
Mr Stuart Hall	Non-Executive Director	
Mr Alec Pismiris	Non-Executive Director	
Mr Laurence Shervington	Alternate Director	14 April 2011

INFORMATION ON DIRECTORS

The names, qualifications and experience of each person who has been a director during the year and to the date of this report are:

Mr Jeremy Shervington

Qualifications	B.Juris, LLB
Experience	Mr Shervington is the proprietor of his own Western Australian based legal firm. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has over 30 years experience as a lawyer, gained since his admission as a Barrister and Solicitor of the Supreme Court of Western Australian in 1981. Since 1985 Mr Shervington has also served as a director of various ASX listed companies as well as a number of unlisted public and private companies.
Interest in shares and options	1,400,000 shares and 1,133,333 options
Other directorships in listed entities held in the previous three years	Ridge Resources Ltd Australian Zircon NL Emerald Oil & Gas NL Prairie Downs Metals Limited - retired 25 August 2011 Papillon Resources Limited (formerly Colonial Resources Limited) - retired 27 May 2011 Industrial Minerals Corporation Limited - retired 10 March 2011 Cokal Limited (formerly Altera Resources Limited) - retired 23 December 2010 Stirling Resources Limited - retired 18 June 2010 Northern Manganese Limited (formerly Groote Resources Limited) - retired 22 March 2010

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

Mr Neil Marston

Qualifications	B.Com, MAICD, ACIS
Experience	Mr Marston is a qualified accountant and Chartered Secretary with over 30 years experience working in the resources and other industry sectors. Mr Marston has served most recently as the Company Secretary and/or CFO of Grange Resources Limited and Gippsland Limited. He has extensive experience in the areas of capital raising, corporate governance and compliance, project management, mining and environmental approvals, contract negotiations and stakeholder engagement.
Interest in shares and options	150,000 shares and 2,025,000 options
Other directorships in listed entities held in the previous three years	Nil

Mr Stuart Hall

Qualifications	B.Sc Hons, FAusIMM, FGS
Experience	Mr Hall is a qualified geologist with over 40 years experience in exploration and mining projects located in Australia and Africa. He has extensive experience in the areas of exploration strategy, mine geology, open pit and underground mining operations, resource/reserve estimations, reconciliation, feasibility, mine project development and mine management. Mr Hall has been involved in the feasibility, construction, commissioning and management of several open pit and underground mining operations. Mr Hall currently operates his own geological consultancy.
Interest in shares and options	333,334 options
Other directorships in listed entities held in the previous three years	Gladiator Resources Limited Prairie Downs Metals Limited - retired 25 August 2011 Papillon Resources Limited (formerly Colonial Resources Limited) - retired 27 May 2011 Northern Manganese Limited (formerly Groote Resources Limited) - retired 11 February 2011

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

Mr Alec Pismiris

Qualifications	B.Com, AICSA
Experience	Mr Pismiris is currently an Executive Director of Azure Capital Limited, a company which provides corporate advisory services. Mr Pismiris has over 20 years' experience in the securities, finance and mining industries. Mr Pismiris completed a Bachelor of Commerce degree at the University of Western Australia and is an associate of Chartered Secretaries Australia. He is the Company Secretary of several public and private companies.
Interest in shares and options	708,515 shares and 133,253 options
Other directorships in listed entities held in the previous three years	Ridge Resources Ltd Prairie Downs Metals Limited Papillon Resources Limited (formerly Colonial Resources Limited) Northern Manganese Limited (formerly Groote Resources Limited) - retired 4 March 2010 Industrial Minerals Corporation Limited - retired 22 April 2010

Mr Laurence Shervington (appointed 14 April 2011)

Qualifications	LLB. SF Fin. MAICD
Experience	Mr Shervington is a Special Counsel for Minter Ellison Perth. He has over 35 years specialist commercial and corporate law experience.
Interest in shares and options	Nil
Other directorships in listed entities held in the previous three years	Cooper Energy Limited

COMPANY SECRETARY

The following person held the position of company secretary at the end of the year:

Alec Pismiris B.Com, AICSA.

REVIEW OF OPERATIONS

The consolidated loss of the Group for the year after providing for income tax amounted to \$(2,513,558) (31 December 2010 \$(530,785)). The significant increase in net losses was attributable to the Company operating for the full year as an ASX listed entity.

Additional information on the Company's operations and activities is contained in the Activities Report on page 1 of this report.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the Group's state of affairs occurred during the year.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN NATURE OF ACTIVITIES

The principal activities of the Group during the year were:

- Exploration of the Horseshoe Lights Project;
- Exploration of the Kumarina Project;
- Investment of cash assets in interest bearing bank accounts; and
- The general administration of the Group.

During the reporting period the Group has used the cash that it had at the time of admission onto the Australian Securities Exchange in July 2010 in a way which is consistent with the business objectives as set out in the Prospectus dated 16 June 2010.

There were no significant changes in the nature of the Group's principal activities during the year.

MEETINGS OF DIRECTORS

During the year, 15 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Mr Jeremy Shervington	13	10	-	-	-	-
Mr Neil Marston	13	13	-	-	-	-
Mr Stuart Hall	13	13	2	2	-	-
Mr Alec Pismiris	13	13	2	2	-	-
Mr Lawrence Shervington	13	3	-	-	-	-

Mr Marston attended the audit committee meetings in a management capacity rather than as a member of the Audit Committee.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid or recommended during the year.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

FINANCIAL POSITION

The net assets of the Group have decreased by \$2,146,972 from 31 December 2010 to \$6,329,799 at 31 December 2011. This decrease is largely due to the following factors:

- incurring those overheads and running costs consistent with operating a listed company;
- an increased provision for rehabilitation of legacy mining infrastructure at the Horseshoe Lights project, and
- remuneration of key management personnel essential to the continued success of Horseshoe Metals Limited.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Group has agreed to indemnify all the Directors of the Group for any liabilities to another person (other than the Group or related body corporate) that may arise from their position as Directors of the Group and its controlled entity, except where the liability arises out of conduct involving a lack of good faith. During the financial year the Group paid a premium in respect of a contract insuring the directors and officers of the Group against any liability incurred in the course of their duties to the extent permitted by the *Corporations Act 2001*.

OPTIONS

At the date of this report, the unissued ordinary shares of Horseshoe Metals Limited under option are as follows:

DATE OF EXPIRY	EXERCISE PRICE	NUMBER UNDER OPTION
30 June 2012	\$0.20	22,846,750
30 June 2013	\$0.20	6,091,667
		<hr/>
		28,938,417
		<hr/> <hr/>

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity. For details of options issued to Directors and other key management personnel as remuneration, refer to the Remuneration Report. During the year ended 31 December 2011, the following ordinary shares of Horseshoe Metals Limited were issued on the exercise of options granted.

	ISSUE DATE	EXERCISE PRICE	NUMBER OF SHARES ISSUED
Issue of ordinary shares	19 December 2011	\$0.20	125,000
Issue of ordinary shares	6 July 2011	\$0.20	5,000
Issue of ordinary shares	21 February 2011	\$0.20	2,500
			<hr/>
			132,500
			<hr/> <hr/>

A further 450,000 shares have been issued since that date as a result of the exercise of options. No amounts are unpaid on any of these shares.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AFTER BALANCE DATE EVENTS

On the 21st February 2012 the Company announced a placement to Investmet Limited and/or its nominees ("Investmet") which will raise up to \$4,125,000 before costs of the issue. Investmet is to subscribe for 10,000,000 shares in the Company at \$0.275 each and, at the option of Investmet, up to a further 5,000,000 shares in the Company at \$0.275 within a period of 3 months from the date of the Shareholder Meeting ("Placement Shares").

The Placement Shares are to have a free attaching unlisted fully transferable Option to subscribe for fully paid ordinary shares in the Company granted for nil consideration on a one for one basis, as follows:

- i) one third (i.e. up to 5,000,000) exercisable at \$0.35 within 12 months of Shareholder Meeting;
- ii) one third (i.e. up to 5,000,000) exercisable at \$0.45 within 24 months of Shareholder Meeting, and
- iii) one third (i.e. up to 5,000,000) exercisable at \$0.60 within 36 months of Shareholder Meeting ("Placement Options").

As the issue of these securities to Investmet may exceed 20% of the Company's existing issued capital, the placement is subject to prior shareholder approval of all resolutions (including exercise of the Placement Options) for the benefit of Investmet under item 7 of section 611 of the Corporations Act 2001 and ASX Listing Rule 7.2 exception 16, at a general meeting planned to be held in April 2012 ("Shareholder Meeting").

For general working capital prior to completion of the placement, Investmet has also agreed to make available an interest free loan of \$500,000 ("Loan") to the Company. The Loan will be made available in tranches of \$100,000, and is:

- i) convertible to Shares at a conversion price of \$0.275 each plus a free attaching option on the same terms as the Placement Options, subject to prior shareholder approval for the issue of the placement at the Shareholder Meeting ("Loan Conversion"), effectively forming part of the placement and reducing the subscription funds payable for the Placement Shares by the corresponding amount of the Loan funds advanced, or

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

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- ii) at Investmet's election, repayable on demand if shareholder approval is not received for the issue of the placement at the Shareholder Meeting by a maturity date of 31 May 2012, or
- iii) at Investmet's election, convertible to Shares at a conversion price of \$0.16 each in the event that shareholder approval is not received for the issue of the placement at the Shareholder Meeting, within the Company's existing 15% capacity under Listing Rule 7.1 without shareholder approval, on the next business day following the Shareholder Meeting.

Except for the above, no other matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future years.

FUTURE DEVELOPMENTS

The Directors have excluded from this report any further information on the likely developments in the operations of the Group and the expected results of those operations in future financial periods, as the Directors believe that it would be speculative and prejudicial to the interests of the Group to include any such information in this report.

ENVIRONMENTAL ISSUES

The Group's operations are subject to various environmental laws and regulations under government legislation. The exploration tenements held by the Group are subject to these regulations and there have been no breaches of the Group's environmental obligations.

At the Horseshoe Lights project there exists unrehabilitated legacy areas including dumps, stockpiles and tailings storage facilities from past mining operations. A review of the cost to rehabilitate these areas has been completed during the reporting period and the financial statements of the Group have been adjusted accordingly.

AUDITORS INDEPENDENCE DECLARATION

The lead auditors independence declaration for the year ended 31 December 2011 has been received and can be found on page 33 of the financial report.

NON-AUDIT SERVICES

Somes Cooke, the Group's auditors, did not provide any non-audit services during the year ended 31 December 2011.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

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REMUNERATION REPORT (AUDITED)

REMUNERATION POLICY

The Board of Directors of Horseshoe Metals Limited is currently responsible for determining and reviewing compensation arrangements for the Directors and senior executives. The Board's remuneration policy has been implemented to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The policy seeks to provide remuneration and benefits that encourage high standards of performance and demonstrates the value the Group places on its officers by being equitable, consistent with individual performance and experience, and market competitive. Such officers are given the opportunity to receive their base emolument in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating any additional cost to the Group.

REMUNERATION COMMITTEE

The Board of the Company presently operates a separate Remuneration Committee. The committee has been in effect since February 2012.

The Committee assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

REMUNERATION STRUCTURE

In accordance with best practice Corporate Governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

The Remuneration Committee seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 25 May 2010 when shareholders approved an aggregate remuneration of \$250,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Remuneration Committee considers advice from external stakeholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Senior Manager and Executive Director Remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

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Fixed Remuneration

Fixed remuneration is reviewed annually by the Remuneration Committee. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Remuneration Committee has access to external, independent advice where necessary.

RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

Short Term

The objective of the short term incentive program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential short term incentive available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Actual payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. It is envisaged that targets determined by the Remuneration Committee will consist of a number of key performance indicators covering financial and non-financial, corporate and individual measures of performance.

Long Term

The Group also makes long term incentive payments to reward senior executives in a manner that aligns this element of remuneration with the creation of shareholder wealth. This includes the ability to recognise the efforts of the Directors, employees and consultants of the Group who have contributed to the success of the Group and to provide them with rewards where deemed appropriate.

It also provides an incentive to the Directors, employees and consultants to achieve the long term objectives of the Company and improve the performance of the Group.

Company Performance

The Remuneration Committee considers that at this time evaluation of the Group's financial performance using generally accepted measures such as profitability, total shareholder return or peer company comparison is inappropriate as the Group is at a very early stage in the implementation of the corporate strategy. Appropriate assessment criteria will be developed for future reporting periods.

PERFORMANCE CONDITIONS LINKED TO REMUNERATION

Performance conditions for employees and key management personnel of the Group are limited to the granting of options as remuneration with various vesting conditions and short term cash incentives based on achievement of measureable targets.

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL AND OTHER EXECUTIVES

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the Group, and to the extent different, among the five Group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

HORSESHOE METALS LIMITED

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		NON PERFORMANCE RELATED %	SHARES %	OPTIONS %
Directors	Position			
Mr Jeremy Shervington	Non-executive Chairman	76	-	24
Mr Neil Marston	Managing Director	68	-	32
Mr Stuart Hall	Non-executive Director	69	-	31
Mr Alec Pismiris	Non-executive Director	100	-	-
Mr Laurence Shervington	Alternate Director	-	-	-

SERVICE AGREEMENTS

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

The remuneration and other terms of employment for the Managing Director is set out in a formal service agreement as summarised below.

Mr Neil Marston is employed as Managing Director under an executive employment agreement, the key features being:

- Commencement Date of 29 July 2010 for a 3 year term;
- Fixed Remuneration of \$240,000 (\$250,000 from 1 February 2012) plus 9% superannuation;
- Notice Period of 3 months.

In cases of resignation, a termination payment (not exceeding the maximum allowable under the *Corporations Act 2001*) will be paid to Mr Marston.

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

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REMUNERATION DETAILS FOR THE YEAR ENDED 31 DECEMBER 2011

The following table lists benefits and payment details, in respect to the year, and the components of remuneration for each member of the key management personnel of the Group and, to the extent different, the five Group executives and five company executives receiving the highest remuneration:

2011	SHORT TERM BENEFITS			POST EMPLOYMENT BENEFITS	EQUITY SETTLED SHARE BASED PAYMENTS		TOTAL
	SALARY AND FEES \$	BONUSES \$	OTHER \$	PENSION AND SUPER- ANNUATION \$	OPTIONS AND RIGHTS \$	SHARES AND UNITS	
DIRECTORS							
Mr Jeremy Shervington	65,000	-	-	-	20,534	-	85,534
Mr Neil Marston	240,000	-	1,763	21,600	123,206	-	386,569
Mr Stuart Hall	45,000	-	-	-	20,535	-	65,535
Mr Alec Prismiris	72,000	-	-	-	-	-	72,000
Mr Laurence Shervington (appointed 14 April 2011)	-	-	-	-	-	-	-
	422,000	-	1,763	21,600	164,275	-	609,638

2010	SHORT TERM BENEFITS			POST EMPLOYMENT BENEFITS	EQUITY SETTLED SHARE BASED PAYMENTS		TOTAL
	SALARY AND FEES \$	BONUSES \$	OTHER \$	PENSION AND SUPER- ANNUATION \$	OPTIONS AND RIGHTS \$	SHARES AND UNITS	
DIRECTORS							
Mr Jeremy Shervington	32,500	-	-	-	14,515	-	47,015
Mr Neil Marston	151,000	-	-	9,180	87,093	-	247,273
Mr Stuart Hall	22,500	-	-	-	14,515	-	37,015
Mr Alec Pismiris	42,000	-	-	-	-	-	42,000
	248,000	-	-	9,180	116,123	-	373,303

HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2011

OPTIONS AND RIGHTS GRANTED

	GRANT DETAILS					OVERALL		
	GRANT DATE	NO.	TOTAL VALUE \$	EXPENSED IN 2011 \$	VESTED IN 2011 NO.	TOTAL VESTED %	TOTAL UNVESTED %	LAPSED %
Key Management Personnel								
Mr Jeremy Shervington	21 July 2010	333,333	37,574	20,534	111,000	33	67	-
Mr Neil Marston	21 July 2010	2,000,000	225,445	123,207	666,000	33	67	-
Mr Stuart Hall	21 July 2010	333,334	37,574	20,534	111,000	33	67	-
Mr Alec Pismiris		-	-	-	-			
Mr Laurence Shervington		-	-	-	-			
		<u>2,666,667</u>	<u>300,593</u>	<u>164,275</u>	<u>888,000</u>			

The options vest in 3 equal tranches, each tranche representing a third of the total options issued. The first tranche vested on 1 July 2011, the second vested on 1 January 2012 and the third vests on 1 July 2012.

Signed in accordance with a resolution of the Board of Directors and on behalf of the Directors by:



Neil Marston

Managing Director

Perth, Western Australia

Dated this 19th day of March 2012

HORSESHOE METALS LIMITED

CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2011

This statement sets out the significant Corporate Governance policies and practices of Horseshoe Metals Limited which comply with all the best practice recommendations of the ASX Corporate Governance Council unless otherwise discussed below.

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Principles and Recommendations issued in August 2007 and amended in 2010.

The status of the Company's compliance with each of the Council's recommendations is set out below.

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Council Principle 1: Lay solid foundations for management and oversight.

COUNCIL RECOMMENDATION 1.1:

Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The Company complies with this recommendation. Any functions not reserved for the Board and not expressly reserved for members by the *Corporations Act 2001* are reserved for senior executives.

COUNCIL RECOMMENDATION 1.2:

Disclose the process for evaluating the performance of senior executives.

The Company complies with this recommendation. At present evaluation arrangements put in place by the Board to monitor the performance of the Company's executives are:

- an annual review by the remuneration committee of the Company's financial and operating performance; and
- comparison of executive remuneration levels to industry benchmarks.

COUNCIL RECOMMENDATION 1.3:

Companies should provide the information indicated in the Guide to reporting on Principle 1.

The Company complies with this recommendation. The Company has completed a review of senior executive performance in accordance with the above policy during the reporting period.

STRUCTURE THE BOARD TO ADD VALUE

Council Principle 2: Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

COUNCIL RECOMMENDATION 2.1:

A majority of the Board should be independent directors.

The Company does not comply with this Recommendation. Currently the Board has only two independent director, Mr S. Hall and Mr L. Shervington (an alternate director) and three non-independent directors, Mr J. Shervington,

HORSESHOE METALS LIMITED
CORPORATE GOVERNANCE STATEMENT
31 DECEMBER 2011

Mr A.Pismiris and Mr N. Marston. While the Board strongly endorses the position that boards need to exercise independence of judgment, it also recognises (as does ASX Corporate Governance Council Principle 2) that the need for independence is to be balanced with the need for skills, commitment and a workable board size. The Board believes it has recruited members with the skills, experience and character to discharge its duties and that any greater emphasis on independence would be at the expense of the Board's effectiveness.

Mr J. Shervington was a substantial shareholder of the Company within the last three years and is therefore not considered independent within the ASX Corporate Governance Council's guidelines.

Mr A. Pismiris is an executive director of Azure Capital Limited which is a substantial shareholder in the Company and is therefore not considered independent within the ASX Corporate Governance Council's guidelines.

Mr N. Marston is employed in an executive capacity by the Company and is therefore not considered independent within the ASX Corporate Governance Council's guidelines.

Mr S. Hall is a Non-Executive Director of the Company and is considered independent within the ASX Corporate Governance Council's guidelines.

Mr L. Shervington is an Alternate Director of the Company and is considered independent within the ASX Corporate Governance Council's guidelines.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of appointing additional independent Non-Executive Directors.

COUNCIL RECOMMENDATION 2.2:

The chair should be an independent director.

The Company does not comply with this Recommendation. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to necessitate the appointment of an independent Chairman. Mr J. Shervington has the necessary experience and attributes to perform the role of Chairman.

COUNCIL RECOMMENDATION 2.3:

The roles of chair and chief executive officer should not be exercised by the same individual.

The Company does comply with this Recommendation. The role of chairman is being filled by Mr J. Shervington whilst Mr N. Marston exercises the role of chief executive officer.

COUNCIL RECOMMENDATION 2.4:

The Board should establish a nomination committee.

The Company does not comply with this Recommendation. The Board has formally adopted a Nomination Committee Charter but given the present size of the Company, has not formed a separate Committee. Instead the function will be undertaken by the full Board in accordance with the policies and procedures outlined in the Nomination Committee Charter. At such time when the Company is of sufficient size, a separate Nomination Committee will be formed.

COUNCIL RECOMMENDATION 2.5:

Disclose the process for evaluating the performance of the board, its committees and individual directors.

The Company complies with this Recommendation. The Board will conduct performance reviews of itself on a regular basis.

COUNCIL RECOMMENDATION 2.6:

Companies should provide the information indicated in the Guide to reporting on Principle 2.

HORSESHOE METALS LIMITED

CORPORATE GOVERNANCE STATEMENT

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The Company complies with this recommendation and provides the following disclosures. The period of office, skills, experience and expertise relevant to the position held by each director are disclosed in the Directors' Report. The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

No performance evaluation of non-executive board members was completed during 2011.

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Council Principle 3: Companies should actively promote ethical and responsible decision-making.

COUNCIL RECOMMENDATION 3.1:

Establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the Company's integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company does comply with this recommendation. A Code of Conduct for Directors and Key Executives and a Corporate Code of Conduct has been established and is disclosed on the Company's website.

COUNCIL RECOMMENDATION 3.2:

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.

The Company complies with this recommendation. The Board has formally adopted a Diversity Policy which is disclosed on the Company's website.

COUNCIL RECOMMENDATION 3.3:

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

The Company does not comply with this recommendation. The Company's policy on diversity is to employ the right person for the right job regardless of their gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. The Company currently employs (including on a consulting basis) 6 staff; 3 females and 3 males.

COUNCIL RECOMMENDATION 3.4:

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

HORSESHOE METALS LIMITED

CORPORATE GOVERNANCE STATEMENT

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The Company complies with this recommendation. The Company has 4 directors and 1 alternate director, all of whom are male. The Company currently employs (including on a consulting basis) 6 people; 3 females and 3 males.

COUNCIL RECOMMENDATION 3.5:

Companies should provide the information indicated in the Guide to reporting on Principle 3.

The Company complies with this recommendation.

SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Council Principle 4: Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

COUNCIL RECOMMENDATION 4.1:

The Board should establish an audit committee.

The Company does comply with this recommendation. Members of the Audit Committee are Mr J. Shervington, Mr A. Pismiris and Mr S. Hall (chairman).

COUNCIL RECOMMENDATION 4.2:

The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board;
- has at least three members.

The Company does not comply with all these recommendations. The Audit Committee consists of 1 independent and 2 non-independent directors. All other recommendations under council recommendation 4.2 are complied with.

COUNCIL RECOMMENDATION 4.3

The audit committee should have a formal operating charter.

The Company complies with this recommendation The Board has formally adopted an Audit Committee Charter which is disclosed on the Company's website.

COUNCIL RECOMMENDATION 4.4:

Provide the information indicated in the Guide to reporting on Principle 4.

The Company complies with this recommendation and provides the following disclosure. The Company appointed Somes Cooke as auditors in 2010. External auditors are selected on the basis of professional skills, reputation, service levels and fees. A copy of the Company's Audit Committee Charter is presently available to shareholders on request or from the Company's website.

HORSESHOE METALS LIMITED
CORPORATE GOVERNANCE STATEMENT
31 DECEMBER 2011

MAKE TIMELY AND BALANCED DISCLOSURE

Council Principle 5: Companies should promote timely and balanced disclosure of all material matters concerning the Company.

COUNCIL RECOMMENDATION 5.1:

Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company does comply with this recommendation. A Continuous Disclosure Policy has been established and disclosed on the Australian Securities Exchange and on the Company's website.

COUNCIL RECOMMENDATION 5.2:

Provide the information indicated in the Guide to reporting on Principle 5.

The Company complies with this recommendation.

RESPECT THE RIGHTS OF SHAREHOLDERS

Council Principle 6: Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

COUNCIL RECOMMENDATION 6.1:

Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.

The Company does comply with this recommendation.

COUNCIL RECOMMENDATION 6.2:

Provide the information indicated in the Guide to reporting on Principle 6.

The Company complies with this recommendation. A Stakeholder Communication Strategy has been established and disclosed on the Australian Securities Exchange and on the Company's website.

RECOGNISE AND MANAGE RISK

Council Principle 7: Companies should establish a sound system of risk oversight and management and internal control.

COUNCIL RECOMMENDATION 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

The Company does comply with this recommendation. A Risk Management Policy has been established and disclosed on the Australian Securities Exchange and on the Company's website.

HORSESHOE METALS LIMITED
CORPORATE GOVERNANCE STATEMENT
31 DECEMBER 2011

COUNCIL RECOMMENDATION 7.2

The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

The Company does comply with this recommendation. The Chief Executive Officer is required to establish the risk management and internal control systems and report to the Board in respect of the Company's key business risks and how they are being managed.

Risk Management has been reported on by the Chief Executive Officer at each Board meeting during the reporting period.

COUNCIL RECOMMENDATION 7.3

The board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Company does comply with this recommendation.

COUNCIL RECOMMENDATION 7.4:

Provide the information indicated in the Guide to reporting on Principle 7.

The Company does comply with this recommendation.

REMUNERATE FAIRLY AND RESPONSIBLY

Council Principle 8: Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

COUNCIL RECOMMENDATION 8.1

The Board should establish a remuneration committee.

The Company does comply with this recommendation. The remuneration committee consists of Mr Alec Pismiris (committee chairman) and Jeremy Shervington. The committee met for the first time in February 2012.

RECOMMENDATION 8.2:

The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least three members.

The Company does not comply with this recommendation. Given the size of the Company and the Board of Directors, the remuneration committee consists of only two members.

HORSESHOE METALS LIMITED
CORPORATE GOVERNANCE STATEMENT
31 DECEMBER 2011

COUNCIL RECOMMENDATION 8.3

Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

The Company complies with this recommendation. Information on director and executive remuneration is contained within the Directors' Report.

COUNCIL RECOMMENDATION 8.4:

Provide the information indicated in the Guide to reporting on Principle 8.

The Company complies with this recommendation and provides the following disclosures. The Company currently has no schemes for retirement benefits. The Company does have unvested entitlements under any equity-based remuneration schemes as disclosed in the Directors' Report.

Other information

Further information relating to the Company's corporate governance practices and policies have been made publicly available on the Company's web site. (www.horseshoemetals.com.au)

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Horseshoe Metals Limited

As auditor for the audit of Horseshoe Metals Limited for the year ended 31 December 2011,
I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.



Kevin Somes



Kevin Somes
Perth
19 March 2012

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 \$	2010 \$
Other income		76,015	280,973
Interest income		183,485	143,180
		259,500	424,153
Occupancy expenses		(24,145)	(16,170)
Consulting expenses		(23,343)	(35,318)
Administrative expenses		(642,916)	(448,741)
Rehabilitation expenses	10	(1,320,300)	-
Depreciation expenses		(19,377)	(3,664)
Director's Remuneration		(609,638)	(373,303)
Other expenses		(93,829)	(77,742)
Project generation expenses		(39,510)	-
Loss before income taxes		(2,513,558)	(530,785)
Income tax expense	3	-	-
Other comprehensive income, net of tax		-	-
Total comprehensive income		(2,513,558)	(530,785)
Total comprehensive income attributable to members of the parent entity		(2,513,558)	(530,785)
Loss per share			
Basic and diluted loss per share (cents)	13	(4.49)	(1.82)

These financial statements should be read in conjunction with the accompany notes.

HORSESHOE METALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	NOTE	2011 \$	2010 \$
CURRENT ASSETS			
Cash and cash equivalents	4	916,331	3,531,185
Trade and other receivables	5	69,979	193,742
Other assets	7	19,862	10,951
TOTAL CURRENT ASSETS		1,006,172	3,735,878
NON-CURRENT ASSETS			
Property, plant and equipment	6	69,830	26,427
Exploration and evaluation expenditure	8	8,520,389	6,676,720
Other non-current assets	7	1,066,500	1,066,500
TOTAL NON-CURRENT ASSETS		9,656,719	7,769,647
TOTAL ASSETS		10,662,891	11,505,525
CURRENT LIABILITIES			
Trade and other payables	9	416,208	449,962
Provisions	10	26,150	28,958
TOTAL CURRENT LIABILITIES		442,358	478,920
NON-CURRENT LIABILITIES			
Provisions	10	3,890,734	2,549,834
TOTAL NON-CURRENT LIABILITIES		3,890,734	2,549,834
TOTAL LIABILITIES		4,333,092	3,028,754
NET ASSETS		6,329,799	8,476,771
EQUITY			
Issued capital	11	9,271,882	9,073,046
Reserves	12	493,169	325,419
Accumulated losses		(3,435,252)	(921,694)
TOTAL EQUITY		6,329,799	8,476,771

These financial statements should be read in conjunction with the accompany notes.

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

2011					
	ISSUED CAPITAL	ACCUMULATED LOSSES	SHARE BASED PAYMENT RESERVE	OPTION PREMIUM RESERVE	TOTAL
	\$	\$	\$	\$	\$
Balance at 1 January 2011	9,073,046	(921,694)	116,123	209,296	8,476,771
Losses attributable to members of the parent entity	-	(2,513,558)	-	-	(2,513,558)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	(2,513,558)	-	-	(2,513,558)
Shares issued during the year	226,500	-	-	-	226,500
Transaction costs	(27,664)	-	-	-	(27,664)
Share based payment expense	-	-	167,750	-	167,750
Sub-total	198,836	(2,513,558)	167,750	-	(2,146,972)
Balance at 31 December 2011	9,271,882	(3,435,252)	283,873	209,296	6,329,799

2010					
	ISSUED CAPITAL	ACCUMULATED LOSSES	SHARE BASED PAYMENT RESERVE	OPTION PREMIUM RESERVE	TOTAL
	\$	\$	\$	\$	\$
Balance at 1 January 2010 1 January 2011	634,250	(390,909)	-	19,633	262,974
Losses attributable to members of the parent entity	-	(530,785)	-	-	(530,785)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	(530,785)	-	-	(530,785)
Shares issued during the year	9,056,750	-	-	189,663	9,246,413
Transaction costs	(617,954)	-	-	-	(617,954)
Share based payment expense	-	-	116,123	-	116,123
Sub-total	8,438,796	(530,785)	116,123	189,663	8,213,797
Balance at 31 December 2010	9,073,046	(921,694)	116,123	209,296	8,476,771

These financial statements should be read in conjunction with the accompany notes.

HORSESHOE METALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTE	2011 \$	2010 \$
CASH FROM OPERATING ACTIVITIES:			
Payments to suppliers and employees		(1,121,416)	(451,736)
Interest received		183,485	64,243
Fuel tax rebate received		70,200	-
Net cash used by operating activities	22	(867,731)	(387,493)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments relating to exploration and evaluation of mineral assets		(1,883,179)	(934,913)
Cash acquired on acquisition of subsidiary		-	97,363
Purchase of property, plant and equipment		(62,780)	(30,091)
Repayment of loans		-	(2,251,696)
Net cash used by investing activities		(1,945,959)	(3,119,337)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of shares		226,500	7,000,000
Proceeds from call on partly paid shares		-	330,000
Proceeds from the sale of forfeited shares		-	54,375
Payment for costs of raising capital		(27,664)	(617,954)
Net cash provided by financing activities		198,836	6,766,421
Net cash (decrease) /increase in cash and cash equivalents		(2,614,854)	3,259,591
Cash and cash equivalents at beginning of the year		3,531,185	271,594
Cash and cash equivalents at end of the year	4	916,331	3,531,185

These financial statements should be read in conjunction with the accompany notes.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1 CORPORATE INFORMATION

This financial report includes the consolidated financial statements and notes of Horseshoe Metals Limited ("the Company") and controlled entities and its interest in controlled entities ("the Group"). The financial statements were authorised for issue by the Board of Directors on 19 March 2012.

Horseshoe Metals Limited is a public company limited by shares, incorporated in Australia. The Company is domiciled in Western Australia.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

The registered office and principal place of business of the Company is: Unit 6/11 Colin Grove, WEST PERTH WA 6005.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The Group's financial report is presented in Australian dollars.

(B) GOING CONCERN

The financial statements have been prepared on the going concern basis that contemplates normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business.

As outlined at Note 24, on 21 February 2012 the Company announced a placement to Investmet Limited and/or its nominees to raise up to \$4,125,000 before costs of issue. The placement is subject to prior shareholder approval of all resolutions at a general meeting to be held in April 2012. The ability of the Company to continue to adopt the going concern assumption for 12 months from the date of issue of these financial statements will depend on completion of this transaction or obtaining funds from other sources.

In the Directors opinion, at the date of signing the financial report there are reasonable grounds to believe that the matters set out above will be achieved and have therefore prepared the financial statements on a going concern basis.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(B) GOING CONCERN (CONTINUED)

Should the Directors not achieve the matters set out above, there is significant uncertainty whether the Company will be able to continue as a going concern. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or to the amounts or classification of liabilities, which might be necessary should the Company not be able to continue as a going concern.

(C) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Horseshoe Metals Limited at the end of the reporting period. A controlled entity is any entity over which Horseshoe Metals Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

A list of controlled entities is contained in Note 19 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the Group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

(D) BUSINESS COMBINATIONS

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination, one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The consideration transferred for a business combination shall form the cost of the investment in the separate financial statements. Such consideration is measured at fair value at acquisition date and consists of the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(D) BUSINESS COMBINATIONS (CONTINUED)

and the equity interests issued by the acquirer.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

(E) REVENUE AND OTHER INCOME

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(F) INCOME TAX

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) INCOME TAX (CONTINUED)

result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting year. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Current assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Income tax (see Note 3) has been calculated on the basis that Horseshoe Metals Limited and its 100% owned Australian resident subsidiary will implement tax consolidation from 21 July 2010.

(G) PROPERTY, PLANT AND EQUIPMENT

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. Cost includes expenditure that is directly attributable to the asset.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(G) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives used for each class of depreciable assets are:

CLASS OF FIXED ASSET	USEFUL LIFE (YEARS)
Plant and Equipment	5 to 15

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(H) FINANCIAL INSTRUMENTS

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is the equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in arm's length transaction. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) FINANCIAL INSTRUMENTS (CONTINUED)

(d) less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The classification of financial instruments depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and at the end of each reporting period for held-to-maturity assets.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

The Group did not hold any fair value through profit or loss investments in the current or comparative financial year.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost .

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period, which will be classified as current assets.

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) FINANCIAL INSTRUMENTS (CONTINUED)

investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

The Group did not hold any held-to-maturity investments in the current or comparative financial year.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be realised within 12 months after the end of the reporting period.

The Group did not hold any Available-for-sale financial assets in the current or comparative financial year.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Fees payable on the establishment of loan facilities are recognised as transaction costs of the loan.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are immediately recognised as a deduction from equity, net of any tax effects.

Preference share capital is classified as equity if it is non-redeemable or redeemable only at the company's option, and any dividends are discretionary.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H) FINANCIAL INSTRUMENTS (CONTINUED)

Derecognition (continued)

When available-for-sale investments are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(I) IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information and dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use to the asset's carrying value. Value in use is calculated by discounting the estimated future cash flows of the asset or cash-generating unit (CGU) at a pre-tax discount rate reflecting the specific risks in the asset / CGU. Any excess of the asset's carrying value over its recoverable amount is expensed to the consolidated statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the future economic benefits of the asset are not primarily dependent upon the asset's ability to generate net cash inflows and when the Group would, if deprived of the asset, replace its remaining future economic benefits, value in use is determined as the depreciated replacement cost of an asset.

Impairment losses recognised in respect of CGU's are allocated first to reduce the carrying amount of goodwill to nil and then to the other assets in the unit in proportion to their carrying amount.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Assets, other than goodwill that have an allocated impairment loss are reviewed for reversal indicators at the end of each reporting period. After recognition of an impairment loss, the amortisation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Impairment losses are recognised as an expense immediately, unless the relevant asset is property, plant and equipment held at fair value (other than investment property carried at a revalued amount) in which case the impairment loss is treated as a revaluation decrease as described in the accounting policy for property, plant and equipment.

Where an impairment loss on a revalued asset is identified, this is debited against the revaluation surplus in respect of the same class of asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. As the exploration and evaluation assets are currently not available for use they are not amortised.

Exploration and evaluation assets are initially measured at cost and include acquisition of mining tenements, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Deferred exploration and evaluation accumulated costs in relation to an abandoned area are written off in full against profit or loss in the period in which the decision to abandon that area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The mining extraction and processing activities of the Group normally give rise to obligations for site closure or rehabilitation.

Costs of site restoration are provided over the life of the facility from when exploration commences except when rehabilitation obligations are assumed through a business combination (Note (d)). When provisions for closure and rehabilitation are recognised, or remeasured more than one year after being assumed through a business combination, the corresponding cost is expensed. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology discounted to their present value.

(K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less which are convertible to a known amount of cash and subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the consolidated statement of financial position.

(L) TRADE AND OTHER PAYABLES

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(M) PROVISIONS

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the outflow required to settle the obligation at the end of the reporting period. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the unwinding of the discount is taken to finance costs in the consolidated statement of comprehensive income.

Provisions recognised represent the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Provisions relating to the rehabilitation of land as the result of exploration and evaluation activities are expensed in the consolidated statement of comprehensive income rather than capitalised as deferred exploration expenditure.

(N) EMPLOYEE BENEFITS

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The amount to be expensed is determined by reference to the fair value of the options or shares granted, this expense takes in account any market performance conditions and the impact of any non-vesting conditions but ignores the effect of any service and non-market performance vesting conditions.

Non-market vesting conditions are taken into account when considering the number of options expected to vest. At the end of each reporting period, the Group revises its estimate of the number of options which are expected to vest based on the non-market vesting conditions. Revisions to the prior period estimate are recognised in profit or loss and equity.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) LEASES

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. The lease is not recognised in the consolidated statement of financial position.

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the life of the lease term.

(P) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(Q) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(R) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(R) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

Key estimates - impairment

The Group assesses impairment at the end of each reporting year by evaluating conditions specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key estimates - share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black and Scholes model. The valuation involves making key estimates such as volatility and expected exercise date.

Key estimates - provision for rehabilitation

Included in liabilities at the end of each reporting period is an amount that represents an estimate of the cost to rehabilitate the land upon which the Group has carried out its exploration and evaluation for mineral resources. Provisions are measured at the present value of management's best estimate of the costs required to settle the obligation at the end of the reporting period. Actual costs incurred in future periods to settle these obligations could differ materially from these estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates, and discount rates could affect the carrying amount of this provision.

Key judgments - exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$ 8,520,389.

(S) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Group did not early adopt any Australian Accounting Standards that are not yet mandatory. From 1 July 2011 the Group has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2011, including:

- AASB 124 Related Party Transactions (amendment) The amended standard clarifies the definitions of a related party. Secondly, the amendment introduces an exemption from the general related party disclosure requirement for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government entity as the reporting entity. The amendment had no impact on the Group during the year.
- AASB 132 Financial Instruments: Presentation (amendment) The amendment alters the definition of a financial liability to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment had no impact on the Group during the year.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS (CONTINUED)

- AASB 3 Business Combinations (amendment) The measurement options available for non-controlling interest (NCI) have been amended. The amendment had no impact on the Group during the year.
- AASB 7 Financial Instruments – Disclosures (amendment) The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information into context. The amendment had no impact on the Group during the year.
- AASB 101 Presentation of Financial Statements (amendment) The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment had no impact on the Group during the year.
- AASB 134 Interim Financial Statements (amendment) The amendment requires additional information for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in half-year financial statements.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3 INCOME TAX EXPENSE

(a) The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:

2011	2010
\$	\$

The major components of income tax expense comprise:

Statement of comprehensive income

Current income tax	-	-
Current income tax charge/(benefits)	-	-

Deferred Income Tax

Relating to the origination and reversal of timing differences	-	-
--	---	---

(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

2011	2010
\$	\$

- Accounting loss before income tax	(2,513,558)	(530,785)
- At the group's statutory income tax rate of 30%	(754,067)	(159,236)

Add:

Tax effect of:

- share based payments	50,325	107,923
- other non-allowable items	8,201	5,236
- rehabilitation expense	396,090	-
- temporary differences and tax losses not brought to account as a deferred tax asset	852,552	46,077

553,101	-
---------	---

Less:

Tax effect of:

- Exploration expenses incurred	(553,101)	-
---------------------------------	-----------	---

Income tax attributable to parent entity

-	-
---	---

At 31 December 2011 the Group had unused tax losses for which no deferred tax asset has been recognised in the amount of approximately \$1,945,648 (2010: \$1,093,096). The availability of these losses is subject to satisfying Australian taxation legislative requirements. The deferred tax asset attributable to tax losses has not been brought to account in these financial accounts because the Directors believe it is not presently appropriate to regard realisation of the future income tax benefits as probable.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

4 CASH AND CASH EQUIVALENTS

The following table details the components of cash and cash equivalents as reported in the statement of financial position.

	2011	2010
	\$	\$
Cash at bank	346,331	261,185
Short-term bank deposits	570,000	3,270,000
	<u>916,331</u>	<u>3,531,185</u>

5 TRADE AND OTHER RECEIVABLES

The following table details the major components of current trade and other receivables as reported in the statement of financial position.

	2011	2010
	\$	\$
Trade receivables	-	34,860
Other receivables	69,979	158,882
	<u>69,979</u>	<u>193,742</u>

The Group expects the above trade and other receivables to be recovered within 12 months of 31 December 2011 and therefore considers the amounts shown above at cost to be a close approximation of fair value.

Trade and other receivables expose the Group to credit risk as potential for financial loss arises should a debtor fail to repay their debt in a timely manner. Disclosure on credit risk can be found at Note 15(A).

6 PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	\$	\$
Property, plant and equipment		
At cost	92,871	30,091
Accumulated depreciation	(23,041)	(3,664)
	<u>69,830</u>	<u>26,427</u>

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

MOVEMENTS IN CARRYING AMOUNTS

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	PROPERTY, PLANT AND EQUIPMENT	TOTAL
	\$	\$
2011		
Balance at 1 January 2011	26,427	26,427
Additions	62,780	62,780
Depreciation expense	(19,377)	(19,377)
	<hr/>	<hr/>
Balance at 31 December 2011	69,830	69,830
	<hr/> <hr/>	<hr/> <hr/>
2010		
Balance at 1 January 2010	-	-
Additions	30,091	30,091
Depreciation expense	(3,664)	(3,664)
	<hr/>	<hr/>
Balance at 31 December 2010	26,427	26,427
	<hr/> <hr/>	<hr/> <hr/>

7 OTHER ASSETS

	2011	2010
	\$	\$
CURRENT		
Prepayments	19,862	10,951
	<hr/>	<hr/>
	19,862	10,951
	<hr/> <hr/>	<hr/> <hr/>
NON-CURRENT		
Secured Term Deposit	1,066,500	1,066,500
	<hr/>	<hr/>
	1,066,500	1,066,500
	<hr/> <hr/>	<hr/> <hr/>

A Term Deposit of \$1,066,500 is held by Westpac Banking Corporation as security for an Unconditional Performance Bond lodged with the Minister of Mines in respect to ongoing environmental obligations on Mining Lease M52/743 which covers the Horseshoe Lights mine.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

8 EXPLORATION AND EVALUATION EXPENDITURE

The following table details the movement in exploration and evaluation expenditure reported in the statement of financial position during the year ended 31 December 2011.

	2011	2010
	\$	\$
Carrying amount at beginning of year	6,676,720	-
Expenditure during the year	1,843,669	934,913
Pre-acquisition date exploration and evaluation expenditure in acquired subsidiary	-	427,175
Cost of acquisition of subsidiary	-	5,314,632
	<hr/>	<hr/>
Carrying amount at end of year	<u>8,520,389</u>	<u>6,676,720</u>

The recoupment of deferred exploration and evaluation costs carried forward is dependent upon the successful development and commercialisation or sale of the areas of interests being explored and evaluated.

9 TRADE AND OTHER PAYABLES

	2011	2010
	\$	\$
CURRENT		
Trade payables	191,633	353,733
Other payables	224,575	96,229
	<hr/>	<hr/>
	<u>416,208</u>	<u>449,962</u>

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

10 PROVISIONS

	2011	2010	
	\$	\$	
CURRENT			
Environmental rehabilitation	-	20,600	
Employee entitlements	26,150	8,358	
	<u>26,150</u>	<u>28,958</u>	
NON-CURRENT			
Environmental rehabilitation	3,890,734	2,549,834	
	<u>3,890,734</u>	<u>2,549,834</u>	
	EMPLOYEE	ENVIRONMENTAL	
	ENTITLEMENTS	REHABILITATION	TOTAL
	\$	\$	\$
Balance at 1 January 2011	8,358	2,570,434	2,578,792
Additions during the period	17,792	1,320,300	1,338,092
	<u>26,150</u>	<u>3,890,734</u>	<u>3,916,884</u>

Rehabilitation obligations in relation to the Horseshoe Lights Mining Lease M52/743 exist and cash-backed bank guarantees totalling \$1,066,500 (Note 7) have been lodged with the Minister of Mines by the Group. The majority of the outstanding rehabilitation obligations are associated with the flotation tailings dam, the waste dumps and the plant and camp sites.

During the year, SRK Consulting (Australasia) Pty Ltd completed a review of the estimated costs involved in fulfilling the rehabilitation obligations as set out in the rehabilitation plan. The current and non-current provisions have been updated in respect to the rehabilitation cost estimate.

Whilst the SRK Consulting (Australasia) Pty Ltd report provides an up to date estimate of rehabilitation costs based on tasks and quantities provided in the rehabilitation plan, there remains a risk that the nature and scale of rehabilitation obligations may change in the future due to changes in regulator expectations, requirements and industry practice.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

11 ISSUED CAPITAL

	2011	2010
(A) CONTRIBUTED EQUITY	\$	\$
56,233,001 (31 December 2010: 54,452,501) Ordinary shares	9,917,500	9,691,000
Share issue costs written off against issued capital	(645,618)	(617,954)
	<u>9,271,882</u>	<u>9,073,046</u>

(B) MOVEMENT IN ORDINARY SHARES

	NO.	\$
Balance at 1 January 2010	8,400,000	608,625
Conversion of Partly Paid to Fully Paid Shares	2,200,000	330,000
Sale of Forfeited Shares – 30 June 2010	362,500	54,375
Ordinary Shares issued (IPO) - 21 July 2010	35,000,000	7,000,000
Ordinary Shares Issue (vendors) - 21 July 2010	8,240,001	1,648,000
Conversion of Convertible Notes - 21 July 2010	250,000	50,000
Balance at 31 December 2010	<u>54,452,501</u>	<u>9,691,000</u>
Issue of shares to a service provider - 4 February 2011	1,648,000	200,000
Exercising of options during the year	132,500	26,500
Balance at 31 December 2011	<u>56,233,001</u>	<u>9,917,500</u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

(C) MOVEMENT IN PARTLY PAID SHARES

	2011	2010
	NO.	NO.
At the beginning of the year	-	2,562,500
Conversion to Fully Paid Shares	-	(2,200,000)
Partly Paid Shares forfeited – 21 June 2010	-	(362,500)
At the end of the year	<u>-</u>	<u>-</u>

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

11 ISSUED CAPITAL (CONTINUED)

(C) MOVEMENT IN PARTLY PAID SHARES (CONTINUED)

On 28 August 2007, the Company issued 2,562,500 partly paid ordinary shares, each with 1 cent paid on application, and a further 15 cents payable at call, together with a free one for two attaching Option exercisable at 20 cents on or before 30 June 2012. On 21 April 2010 a call of 15 cents was made by the Company on holders of the partly paid ordinary shares. Called amounts on 2,200,000 partly paid ordinary shares were received from the shareholders. A total of 362,500 partly paid ordinary shares and 181,250 attaching options for which called amounts were not received were forfeited by the Company on 21 June 2010.

12 RESERVES

(A) OPTION PREMIUM RESERVE

The option premium reserve is used to record the value of consideration received for options provided to capital investors and stakeholders.

(B) SHARE BASED PAYMENT RESERVE

This reserve records the cumulative value of employee services received for the issue of share options. When the options are exercised the amount in the share based payment reserve is transferred to share capital.

For more information on movements in the share based payment reserve, refer to Note 23.

13 EARNINGS PER SHARE

	2011	2010
	\$	\$
Earnings used to calculate overall earnings per share	(2,513,558)	(530,785)
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS:		
	NO.	NO.
Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	55,955,413	29,155,535
Anti dilutive options on issue not used in dilutive EPS calculation	29,388,417	29,970,917

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

14 COMMITMENTS

(A) EXPLORATION EXPENDITURE COMMITMENTS

	2011	2010
	\$	\$
Payable:		
- no later than 1 year	267,500	217,500
- between 1 year and 5 years	734,200	870,000
- greater than 5 years	108,900	-
	<u>1,110,600</u>	<u>1,087,500</u>

(B) OPERATING LEASE COMMITMENTS

Horseshoe Metals Limited has a commercial lease for rental premises at Unit 6, 11 Colin Grove, West Perth Western Australia 6005. The lease was for twelve months commencing on 1 January 2011 with two options to extend the lease for periods of one year each. The option to extend the lease for the period 1 January – 31 December 2012 has been exercised.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December 2011 are as follows: \$ 36,498 within 12 months.

15 FINANCIAL RISK MANAGEMENT

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects and ensure that net cash flows are sufficient to support the delivery of the Company's financial targets whilst protecting future financial security. The Group continually monitors and tests its forecast financial position against these objectives.

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk and commodity price risk.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to subsidiaries.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2011	2010
	\$	\$
Financial Assets		
Cash and cash equivalents	916,331	3,531,185
Trade and other receivables	69,979	193,742
Total financial assets	<u>986,310</u>	<u>3,724,927</u>
Financial Liabilities		
Trade and other payables	416,208	449,962
Total financial liabilities	<u>416,208</u>	<u>449,962</u>

FINANCIAL RISK MANAGEMENT POLICIES

The Board of Directors has overall responsibility for the establishment of the Group's financial risk management framework. This includes the development of policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and the use of derivatives. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The day-to-day risk management is carried out by the Group's finance function under policies and objectives which have been approved by the Board of Directors. The Chief Financial Officer or the officer fulfilling such role has been delegated the authority for designing and implementing processes which follow the objectives and policies. This includes monitoring the levels of exposure to interest rate and foreign exchange rate risk and assessment of market forecasts for interest rate and foreign exchange movements.

The Board of Directors receives monthly reports which provide details of the effectiveness of the processes and policies in place.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

Mitigation strategies for specific risks faced are described below:

(A) CREDIT RISK

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group and arises principally from the Group's receivables.

The Company's maximum exposure to credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position. Other than cash balances and term deposits held at bank the Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

(B) LIQUIDITY RISK

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financial activities which are monitored on a monthly basis;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of current financial liabilities with the realisation profile of current financial assets.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Financial liability maturity analysis

	WITHIN 1 YEAR		1 TO 5 YEARS		OVER 5 YEARS		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Financial liabilities due for payment								
Trade and other payables	416,208	449,962	-	-	-	-	416,208	449,962
Total contractual outflows	416,208	449,962	-	-	-	-	416,208	449,962

The timing of expected outflows is not expected to be materially different from contracted cashflows.

(C) MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed by maintaining cash in interest bearing accounts and having no interest bearing liabilities.

Sensitivity analysis

The following sensitivity analysis is based on the interest rate risk exposures in existence at the end of the reporting period.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

An increase/(decrease) of 100 basis points during the period would have increased/(decreased) equity and total

comprehensive income by the amounts shown below. This analysis assumes that other variables are held constant.

	COMPREHENSIVE INCOME		EQUITY	
	100 BASIS POINTS INCREASE	100 BASIS POINTS DECREASE	100 BASIS POINTS INCREASE	100 BASIS POINTS DECREASE
	\$	\$	\$	\$
2011	33,698	(33,698)	33,698	(33,698)
2010	16,421	(16,421)	16,421	(16,421)

The net exposure at the end of the reporting period is representative of what the Group was and is expecting to be exposed to at the end of the next twelve months.

The sensitivity analysis is performed on the same basis as in 2010.

(D) FAIR VALUE ESTIMATION

The fair values of financial assets and financial liabilities can be compared to their carrying values as presented in the consolidated statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

	2011		2010	
	NET CARRYING VALUE	NET FAIR VALUE	NET CARRYING VALUE	NET FAIR VALUE
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	916,331	916,331	3,531,185	3,531,185
Trade and other receivables	69,979	69,979	193,742	193,742
Total financial assets	986,310	986,310	3,724,927	3,724,927
Financial liabilities				
Trade and other payables	(416,208)	(416,208)	(449,962)	(449,962)
Total financial liabilities	(416,208)	(416,208)	(449,962)	(449,962)

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

16 OPERATING SEGMENTS

For management purposes, the Group is organised into one main operating segment, which involves the exploration of minerals and evaluation of mineral investment opportunities for its investors, presently solely in Australia. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (chief operating decision maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment.

The financial results from this segment are equivalent to the financial statements of the Group as a whole.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of these financial statements.

17 INTERESTS OF KEY MANAGEMENT PERSONNEL

The totals of remuneration paid to key management personnel of the Company and the Group during the year are as follows:

	2011	2010
	\$	\$
Short-term employee benefits	423,763	248,000
Post-employment benefits	21,600	9,180
Share-based payments	164,275	116,123
	<u>609,638</u>	<u>373,303</u>

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 31 December 2011.

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17 INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

(A) KEY MANAGEMENT PERSONNEL OPTION HOLDINGS

The number of options in Horseshoe Metals Limited held by each key management person of the Group during the financial year is as follows:

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERA- TION	OTHER CHANGES	BALANCE AT THE END OF YEAR	VESTED DURING THE YEAR	VESTED AND EXERCISABLE	UNVESTED
31 December 2011							
Directors							
Mr Jeremy Shervington	1,133,333	-	-	1,133,333	111,000	911,333	222,333
Mr Neil Marston	2,025,000	-	-	2,025,000	666,000	691,000	1,334,000
Mr Stuart Hall	333,334	-	-	333,334	111,000	111,000	222,334
Mr Alec Pismiris	258,253	-	(125,000)	133,253	-	133,253	-
Mr Laurence Shervington	-	-	-	-	-	-	-
	3,749,920	-	(125,000)	3,624,920	888,000	1,846,586	1,778,667

	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERA- TION	OTHER CHANGES	BALANCE AT THE END OF YEAR	VESTED DURING THE YEAR	VESTED AND EXERCISABLE	UNVESTED
31 December 2010							
Directors							
Mr Jeremy Shervington	800,000	333,333	-	1,133,333	-	800,000	333,333
Mr Neil Marston	-	2,000,000	25,000	2,025,000	-	25,000	2,000,000
Mr Stuart Hall	-	333,334	-	333,334	-	-	333,334
Mr Alec Pismiris	-	-	258,253	258,253	-	258,253	-
	800,000	2,666,667	283,253	3,749,920	-	1,083,253	2,666,667

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

17 INTERESTS OF KEY MANAGEMENT PERSONNEL (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL SHARE HOLDINGS

The number of ordinary shares in Horseshoe Metals Limited held by each key management person of the Group during the financial year is as follows:

	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
31 December 2011				
Directors				
Mr Jeremy Shervington	1,400,000	-	-	1,400,000
Mr Neil Marston	50,000	-	100,000	150,000
Mr Stuart Hall	-	-	-	-
Mr Alec Pismiris	708,515	-	-	708,515
Mr Laurence Shervington	-	-	-	-
	<u>2,158,515</u>	<u>-</u>	<u>100,000</u>	<u>2,258,515</u>

	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
31 December 2010				
Directors				
Mr Jeremy Shervington	1,400,000	-	-	1,400,000
Mr Neil Marston	-	-	50,000	50,000
Mr Stuart Hall	-	-	-	-
Mr Alec Pismiris	-	-	708,515	708,515
	<u>1,400,000</u>	<u>-</u>	<u>758,515</u>	<u>2,158,515</u>

(C) OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

During the financial year fees of \$34,282 (2010: \$19,285) exclusive of GST were paid or payable under normal terms and conditions to Tenement Management Services Pty Ltd of which Mr Marston is a Director, for the provision of administrative and secretarial services at normal commercial rates. These amounts are not included in Mr Marston's remuneration. At year end, nil (2010: nil) including GST remained outstanding.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

18 AUDITORS' REMUNERATION

	2011	2010
	\$	\$
Remuneration of the auditor of the Group, Somes Cooke, for:		
- auditing or reviewing the financial statements	34,000	21,210

19 CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%)*	PERCENTAGE OWNED (%)*
		2011	2010
Subsidiaries:			
Murchison Copper Mines Pty Ltd	Australia	100	100

* Percentage of voting power is in proportion to ownership

20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In the opinion of the Directors, the Group did not have any contingencies at 31 December 2011 (30 December 2010: Nil).

21 RELATED PARTY TRANSACTIONS

Loans to Related Parties

At 31 December 2011 Horseshoe Metals Limited had a loan receivable from its subsidiary, Murchison Copper Mines Pty Ltd, in the amount of \$4,647,765 (2010: \$2,824,902).

The loan is non-interest bearing and has no specific repayment date nor is it subject to any contract. The loan balance is eliminated on Group consolidation.

Key Management Personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered Key Management Personnel.

For details of remuneration disclosures relating to key management personnel, refer to Note 17: Interests of Key Management Personnel and the remuneration report in the Directors' Report.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

22 CASH FLOW INFORMATION

Reconciliation of net income to net cash provided by operating activities:

	2011	2010
	\$	\$
Net loss for the period	(2,513,558)	(530,785)
Cash flows in profit or loss not attributable to operating activities		
- Project generation expenses	39,510	-
Non-cash flows in profit:		
- Share based payments	167,750	116,123
- Depreciation expense	19,377	3,664
- Non-refundable deposit paid	-	(250,000)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	123,763	(137,354)
- (increase)/decrease in other assets	(8,911)	(10,951)
- increase/(decrease) in trade and other payables	(33,754)	413,452
- increase/(decrease) in provisions	1,338,092	8,358
Cashflow (used in) operating activities	<u>(867,731)</u>	<u>(387,493)</u>

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

23 SHARE-BASED PAYMENTS

A summary of the Company options on issue are as follows:

2011

GRANT DATE	EXPIRY DATE	EXERCISE PRICE \$	START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	LAPSED DURING THE YEAR	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE AT THE END OF THE YEAR
28 August 2007	30 June 2011	0.40	750,000		-	(750,000)	-	-
13 July 2007	30 June 2012	0.20	4,281,249	-	-	-	4,281,249	4,281,249
21 July 2010	30 June 2012	0.20	19,148,001	-	(132,500)	-	19,015,501	19,015,501
13 August 2008	30 June 2013	0.20	3,000,000	-	-	-	3,000,000	3,000,000
19 May 2010	30 June 2013	0.20	125,000	-	-	-	125,000	125,000
21 July 2010	30 June 2013	0.20	2,666,667	-	-	-	2,666,667	888,000
28 September 2011	30 June 2013	0.20	-	300,000	-	-	300,000	-
	29 June 2		29,970,917	300,000	(132,500)	(750,000)	29,388,417	27,309,750

As at the date of exercise, the weighted average share price of options exercised during the year was \$0.20 (2010: \$nil).

During the year, 300,000 options were granted to an employee as an incentive, vesting in 3 equal tranches on 25 May 2012, 25 February 2013 and 25 May 2013. The expense that arose from the issue of the options was \$3,475.

The weighted average remaining contractual life of options outstanding at year end was 0.76 years (2010: 1.69). The weighted average exercise price of outstanding options at the end of the reporting period was \$0.20 (2010: \$0.21).

24 EVENTS AFTER THE END OF THE REPORTING PERIOD

On the 21st February 2012 the Company announced a placement to Investmet Limited and/or its nominees ("Investmet") which will raise up to \$4,125,000 before costs of the issue. Investmet is to subscribe for 10,000,000 shares in the Company at \$0.275 each and, at the option of Investmet, up to a further 5,000,000 shares in the Company at \$0.275 within a period of 3 months from the date of the Shareholder Meeting ("Placement Shares").

The Placement Shares are to have a free attaching unlisted fully transferable Option to subscribe for fully paid ordinary shares in the Company granted for nil consideration on a one for one basis, as follows:

- i) one third (i.e. up to 5,000,000) exercisable at \$0.35 within 12 months of Shareholder Meeting;
- ii) one third (i.e. up to 5,000,000) exercisable at \$0.45 within 24 months of Shareholder Meeting, and
- iii) one third (i.e. up to 5,000,000) exercisable at \$0.60 within 36 months of Shareholder Meeting ("Placement Options").

HORSESHOE METALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

24 EVENTS AFTER THE END OF THE REPORTING PERIOD (CONTINUED)

As the issue of these securities to Investmet may exceed 20% of the Company's existing issued capital, the placement is subject to prior shareholder approval of all resolutions (including exercise of the Placement Options) for the benefit of Investmet under item 7 of section 611 of the Corporations Act 2001 and ASX Listing Rule 7.2 exception 16, at a general meeting to be held in April 2012 ("Shareholder Meeting").

For general working capital prior to completion of the placement, Investmet has also agreed to make available an interest free loan of \$500,000 ("Loan") to the Company. The Loan will be made available in tranches of \$100,000, and is:

- i) convertible to Shares at a conversion price of \$0.275 each plus a free attaching option on the same terms as the Placement Options, subject to prior shareholder approval for the issue of the placement at the Shareholder Meeting ("Loan Conversion"), effectively forming part of the placement and reducing the subscription funds payable for the Placement Shares by the corresponding amount of the Loan funds advanced, or
- ii) at Investmet's election, repayable on demand if shareholder approval is not received for the issue of the placement at the Shareholder Meeting by a maturity date of 31 May 2012, or
- iii) at Investmet's election, convertible to Shares at a conversion price of \$0.16 each in the event that shareholder approval is not received for the issue of the placement at the Shareholder Meeting, within the Company's existing 15% capacity under Listing Rule 7.1 without shareholder approval, on the next business day following the Shareholder Meeting.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

HORSESHOE METALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

25 PARENT ENTITY

The following information has been extracted from the books and records of the parent entity, Horseshoe Metals Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Horseshoe Metals Limited has been prepared on the same basis as the consolidated financial statements.

	2011	2010
	\$	\$
Statement of Financial Position		
Assets		
Current assets	945,590	3,612,645
Non-current assets	6,814,785	5,385,088
Total Assets	<u>7,760,375</u>	<u>8,997,733</u>
Liabilities		
Current liabilities	<u>129,388</u>	<u>238,586</u>
Total Liabilities	<u>129,388</u>	<u>238,586</u>
Equity		
Issued capital	9,271,882	9,073,046
Retained earnings	(2,134,064)	(900,624)
Reserves	<u>493,169</u>	<u>325,419</u>
Total Equity	<u>7,630,987</u>	<u>8,497,841</u>
Statement of Comprehensive Income		
Total comprehensive income	(1,233,440)	(686,003)

CONTINGENT LIABILITIES

The parent entity did not have any contingent liabilities as at 31 December 2011 or 31 December 2010.

CONTRACTUAL COMMITMENTS

The parent entity did not have any commitments as at 31 December 2011 or 31 December 2010 other than the operating lease commitments disclosed in note 14.

HORSESHOE METALS LIMITED DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes for Horseshoe Metals Limited for the year ended 31 December 2011 are in accordance with the *Corporations Act 2001* including:
 - (a) complying with International Financial Reporting Standards and *Corporations Regulations 2001*; and
 - (b) giving a true and fair view of the financial position of the Company and the Group as at 31 December 2011 and of the performance for the year ended on that date;
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
3. The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report), for the year ended 31 December 2011, comply with Section 300A of the *Corporations Act 2001*, and
4. The Directors have been given the declarations by the chief executive officer and chief financial officer pursuant to Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.



Neil Marston

Managing Director

Perth, Western Australia

Dated this 19th day of March 2012

Independent Auditor's Report To the members of Horseshoe Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of Horseshoe Metals Limited, which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Horseshoe Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Horseshoe Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 2, which outlines that the company is dependent on shareholder approval of a placement to raise up to \$4.125 million, or obtaining funds from other sources, to pay its debts as and when they fall due.

As a result there is material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and therefore whether it will realise its asset and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 25 of the directors' report for the year ended 31 December 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Horseshoe Metals Limited for the year ended 31 December 2011, complies with section 300A of the *Corporations Act 2001*.



Somes Cooke



Kevin Somes
19 March 2012
Perth

ADDITIONAL INFORMATION FOR ASX LISTED COMPANIES

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below. This information is current as at 2 March 2012.

(a) Distribution of equity security holders

Analysis of numbers of equity holders by size of holding:

HOLDING	LISTED 20 CENT OPTIONS EXPIRING 20 JUNE 2012	LISTED ORDINARY SHARES
	NUMBER OF HOLDERS	NUMBER OF HOLDERS
1 - 1,000	3	30
1,001 - 5,000	28	143
5,001 - 10,000	86	138
10,001 - 100,000	157	401
100,000 and over	49	83
	<hr/>	<hr/>
	323	795

There were 52 holders of less than a marketable parcel of ordinary shares.

ADDITIONAL INFORMATION FOR ASX LISTED COMPANIES

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted ordinary shares are:

		ORDINARY SHARES	
		NUMBER HELD	% OF ISSUED SHARES
1	AZURE CAPITAL INVESTMENTS PTY LTD	3,929,334	6.93
2	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	3,902,854	6.89
3	NEFCO NOMINEES PTY LTD	3,600,000	6.35
4	NATIONAL NOMINEES LIMITED	1,710,750	3.02
5	SURFBOARD PTY LTD <ARW SUPER FUND NO 1 A/C>	1,500,000	2.65
6	PANGA PTY LTD	1,400,000	2.47
7	WOODCROSS HOLDINGS PTY LTD	1,400,000	2.47
8	DR SALIM CASSIM	1,010,000	1.78
9	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,000,000	1.76
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	962,700	1.70
11	MRS PAO-YU CHOU <THE MCS FAMILY A/C>	935,000	1.65
12	FGL ASSET MANAGEMENT LIMITED	900,000	1.59
13	J D CRIBBES ENTERPRISES PTY LTD	824,000	1.45
14	MR CHRISTOPHER NEIL LINEGAR	770,000	1.36
15	FOSTER STOCKBROKING NOMINEES PTY LTD <NO 1 ACCOUNT>	758,279	1.34
16	MR DAVID RICHARD BURT + MRS CHRISTINE ELIZABETH BURT <OTTO SUPER FUND A/C>	730,000	1.29
17	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	699,880	1.23
18	CUNNINGHAM PETERSON SHARBANEE SECURITIES PTY LIMITED	566,666	1.00
19	AZURE CAPITAL LIMITED <AZURE CAPITAL A/C>	500,000	0.88
20	MISS VICKI SHEARER	500,000	0.88
		27,599,463	48.69

ADDITIONAL INFORMATION FOR ASX LISTED COMPANIES

(c) Twenty largest optionholders

The names of the twenty largest holders of quoted 20 cent options expiring 30 June 2012 are:

		LISTED 20 CENT OPTIONS EXPIRING 30 JUNE 2012	
		NUMBER HELD	% OF ISSUED OPTIONS
1	MR ROSS JEREMY TAYLOR	1,250,000	5.47
2	TALEX INVESTMENTS PTY LTD	980,000	4.29
3	NEW ENGLAND SPECIALTY POULTRY PTY LTD <SUPER BENEFITS FUND A/C>	862,500	3.78
4	PANGA PTY LTD	800,000	3.50
5	WOODCROSS HOLDINGS PTY LTD	800,000	3.50
6	AZURE CAPITAL INVESTMENTS PTY LTD	641,666	2.81
7	MR DAVID BRIAN ARGYLE	500,000	2.19
8	CATANI BAY PTY LTD	500,000	2.19
9	NEFCO NOMINEES PTY LTD	500,000	2.19
10	ROKEBA NOMINEES PROPRIETARY LIMITED <SILMAN PROPERTY A/C>	500,000	2.19
11	MRS ELLEN MARGARET FINGER	472,000	2.07
12	101C PTY LTD	450,000	1.97
13	MR ANTHONY JOHN VETTER + MRS JEANNETTE VETTER	450,000	1.97
14	J P MORGAN NOMINEES AUSTRALIA LIMITED	375,000	1.64
15	CUNNINGHAM PETERSON SHARBANEE SECURITIES PTY LIMITED	333,333	1.46
16	MR GORDON ROGER BARRATT + MRS MARYLEE BARRATT <BARRATT FAMILY A/C>	302,617	1.32
17	DACOMA HOLDINGS PTY LIMITED <JJO SUPERANNUATION FUND A/C>	300,000	1.31
18	ONE DOG ONE BONE PTY LTD	300,000	1.31
19	M & K KORKIDAS PTY LTD <M&K KORKIDAS P/L S/FUND A/C>	270,000	1.18
20	MR DENNIS CLIFFORD MORGAN + MS GRACE MAREE MORGAN <GRADEN SUPER FUND A/C>	220,250	0.96
		10,807,366	47.30

ADDITIONAL INFORMATION FOR ASX LISTED COMPANIES

(d) Substantial shareholders

The number of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

SHAREHOLDERS	NUMBER OF SHARES	PERCENTAGE OF ORDINARY SHARES
AZURE CAPITAL INVESTMENTS PTY LTD	3,929,334	6.9%

(e) Unquoted Securities

DESCRIPTION	SECURITIES ON ISSUE	NUMBER OF HOLDERS	NUMBER OF UNQUOTED SECURITIES SUBJECT TO VOLUNTARY ESCROW	EXPIRY DATE OF VOLUNTARY ESCROW
SHARE, ORDINARY FULLY PAID	8,696,000	11	8,696,000	29 July 2012
OPTION, EXPIRING 30 JUNE 2012, EXERCISE PRICE \$0.20	2,999,999	8	2,999,999	29 July 2012
OPTION, EXPIRING 30 JUNE 2013, EXERCISE PRICE \$0.20	6,091,667	9	4,291,667	29 July 2012

Holders of more than 20% of the abovementioned Unquoted Securities are:

HOLDER NAME	SHARE, ORDINARY FULLY PAID	OPTION, EXPIRING 30 JUNE 2012, EXERCISE PRICE \$0.20	OPTION, EXPIRING 30 JUNE 2013, EXERCISE PRICE \$0.20
AZURE CAPITAL INVESTMENTS PTY LTD	3,929,334	641,666	
PANGA PTY LTD		800,000	
WOODCROSS HOLDINGS PTY LTD		800,000	
JOHN FRANCIS CORR <BAWNLUSK A/C>			1,500,000
NEIL ANDREW MARSTON			2,000,000

ADDITIONAL INFORMATION FOR ASX LISTED COMPANIES

(f) Schedule of interests in mining tenements

PROJECT	TENEMENT	AREA	AREA (km ²)	EQUITY	ANNUAL EXPENDITURE COMMITMENT
Horseshoe Lights	M52/743	988.3 ha	9.88	100%	\$98,900
Horseshoe Lights	P52/1203	172.0 ha	1.72	100%	\$6,880
Horseshoe Lights	P52/1204	199.0 ha	1.99	100%	\$7,960
Horseshoe Lights	P52/1205	194.0 ha	1.94	100%	\$7,760
Horseshoe Lights	P52/1206	191.0 ha	1.91	100%	\$7,640
Horseshoe Lights	P52/1207	197.0 ha	1.97	100%	\$7,880
Horseshoe Lights	P52/1208	196.0 ha	1.96	100%	\$7,840
Horseshoe Lights	P52/1209	171.0 ha	1.71	100%	\$6,840
Horseshoe Lights	P52/1210	199.0 ha	1.99	100%	\$7,960
Horseshoe Lights	P52/1211	196.0 ha	1.96	100%	\$7,840
Horseshoe Lights	E52/2042	17 blocks	52.7	100%	\$20,000
Horseshoe Lights	L52/42	0.26 ha	0.003	100%	-
Horseshoe Lights	L52/43	2.3 ha	0.023	100%	-
Horseshoe Lights	L52/44	3.8 ha	0.038	100%	-
Horseshoe Lights	L52/45	3.0 ha	0.03	100%	-
Horseshoe Lights	L52/66	15.0 ha	0.15	100%	-
Kumarina	M52/27	9.7 ha	0.097	100%	\$10,000
Kumarina	E52/1998	70 blocks	217	100%	\$70,000
TOTAL			297.1		\$267,500

Horseshoe Gold Mine Pty Ltd retains a 3% net smelter return royalty in respect to all production derived from some of the Horseshoe Lights tenements being M52/743, P52/1203 – 1206, E52/2042 (portion only) L52/42 – 45 and L52/66.