HORSESHOE METALS

LIMITED

A.B.N. 20 123 133 166

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

CORPORATE INFORMATION

Directors
Michael George Fotios (Non-Executive Chairman)
Alan Wallace Still (Non-Executive Director)
Neil Stephen Porter (Non-Executive Director)

Company Secretary
Shannon Coates

Registered Office
24 Mumford Place
Balcatta WA 6021
Telephone: +61 8 6241 1844
Facsimile: +61 8 6241 1811

Solicitors
Squire Paton Boggs
Level 21
300 Murray Street
Perth WA 6000

Bankers
Westpac Banking Corporation Limited
109 St Georges Terrace
Perth WA 6000

Share Register
Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace
Perth WA 6000
Telephone: +61 8 9323 2000

Auditors
Rothsay Auditing
Level 1 Lincoln House
4 Ventnor Avenue
West Perth WA 6005
Telephone: +61 8 9486 7094

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

Website www.horseshoemetals.com.au

HORSESHOE METALS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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HORSESHOE METALS LIMITED

DIRECTORS' REPORT

31 DECEMBER 2017

Your Directors present their report, together with the financial statements of Horseshoe Metals Limited and controlled entity (the Group) for the year ended 31 December 2017.

DIRECTORS

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

NAME	POSITION	APPOINTED/RETIRED
Mr Michael Fotios	Non-Executive Chairman	
Mr Alan Still	Non-Executive Director	
Mr Neil Porter	Non-Executive Director	Appointed 13 January 2017

Directors have been in office since the start of the year to the date of this report unless otherwise stated.

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 Michael Fotios BSc (Hons) MAusIMM

Mr Fotios has qualifications in geology specialising in economic geology with extensive experience in exploration throughout Australia working with gold, base metals, tantalum, tin and nickel from exploration to feasibility. Mr Fotios has held the position of Managing Director of a number of listed companies in the past and has substantial interests in the mining and exploration industry.

During the previous three years, Mr Fotios has held directorships in the following ASX listed companies:

- Pegasus Metals Limited – current;
- Oklo Resources Limited – current;
- Eastern Goldfields Limited – current;
- Redbank Copper Limited – current;
- General Mining Corporation Limited – merged with Galaxy Resources Limited on 1 September 2016; and
- Galaxy Resources Limited – resigned 28 December 2016.

Mr Alan Still

Mr Alan Still is a metallurgist with over 40 years' experience in a variety of commodities. In the previous three years Mr Still was also a director of the following ASX listed companies:

- Eastern Goldfields Limited – current;
- Pegasus Metals Limited – current; and
- General Mining Corporations Limited – resigned 9 August 2016.

Mr Neil Porter

Mr Porter is a Commercial Manager with over 20 years' experience specialising in supply and logistics across all facets of the mining industry. He has created and operated two logistics and supply companies (SLR Australia and National Supply Partners) servicing the mining and industrial sectors. In the previous three years Mr Porter was also a director of the following ASX listed companies:

- Redbank Copper Limited – current; and
- Pegasus Metals Limited – current.

COMPANY SECRETARY

Ms Shannon Coates was appointed on 23 October 2015 and held the position of Company Secretary during the year and to the date of this report.

Ms Coates is a qualified lawyer with over 20 years' in-house experience in corporate law and compliance for public companies. She is a Chartered Secretary and an Associate Member of both the Institute of Chartered Secretaries & Administrators and the Governance Institute of Australia. Ms Coates is currently director of Evolution Corporate Services Pty Ltd, a company providing corporate advisory services and is also company secretary to a number of ASX listed and unlisted public companies.

DIRECTORS' INTERESTS

At the date of this report, the interests of each Director in the securities of Horseshoe Metals Limited were:

Director	Fully Paid Shares	Unlisted Options	Performance Rights
M. Fotios	37,334,236	-	-
A. Still	-	-	-
N Porter	495,319	-	-

MEETINGS OF DIRECTORS

During the year, no meetings of directors (including committees of directors) were held. All decisions at Board level were made via circulating resolution of the Directors.

DIVIDENDS PAID OR RECOMMENDED

No dividends have been paid, declared or recommended by the Directors during the year.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

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*.

NON-AUDIT SERVICES

Rothsay Auditing, the Group's auditors, did not provide any non-audit services during the year ended 31 December 2017.

PROCEEDINGS ON BEHALF OF COMPANY

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

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

AUDITORS INDEPENDENCE DECLARATION

The auditor’s independence declaration for the year ended 31 December 2017 has been received and can be found on page 22 of the financial report.

OPTIONS AND PERFORMANCE RIGHTS

At the date of this report, there were no unissued ordinary shares of Horseshoe Metals Limited under option.

Option holders do not have any rights to participate in any issues of shares or other interests in the Group 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 2017, no ordinary shares in Horseshoe Metals Limited were issued on the exercise of options granted. No further shares have been issued since that date. No amounts are unpaid on any of these shares. No options were issued during, or since the end of the year.

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

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

- Exploration and development evaluation 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.

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

OPERATING RESULTS

The consolidated loss of the Group after providing for income tax amounted to 2,496,295 (31 December 2016: loss $868,462).

REVIEW OF OPERATIONS

Horseshoe Lights Copper/Gold Project (HOR: 100%) *(GRR: 3% NSR Royalty)*

The Horseshoe Lights Project is located 140km north of the town of Meekatharra in Western Australia. The project tenements cover a total of approximately 60 km^2 in area, and are located approximately 75km west of Sandfire Resources NL's (ASX:SFR) DeGrussa copper-gold mine (see Figure 1).

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, including over 110,000 tonnes of Direct Shipping Ore (DSO) which graded between 20-30% copper.

The Horseshoe Lights ore body is interpreted as a deformed Volcanogenic Hosted Massive Sulphide (VMS) deposit that has undergone supergene alteration to generate the gold-enriched and copper- depleted cap that was the target of initial mining. The deposit is hosted by quartz-sericite and quartz- chlorite schists of the Lower Proterozoic Narracoota Formation, which also host Sandfire Resources' DeGrussa copper/gold mine.

Past mining was focused on the Main Zone, a series of lensoid ore zones which passed with depth from a gold-rich oxide zone through zones of high-grade chalcocite mineralisation into massive pyrite- chalcopyrite. To the west and east of the Main Zone, copper mineralisation in the Northwest Stringer Zone and Motters Zone consists of veins and disseminations of chalcopyrite and pyrite and their upper oxide copper extensions.

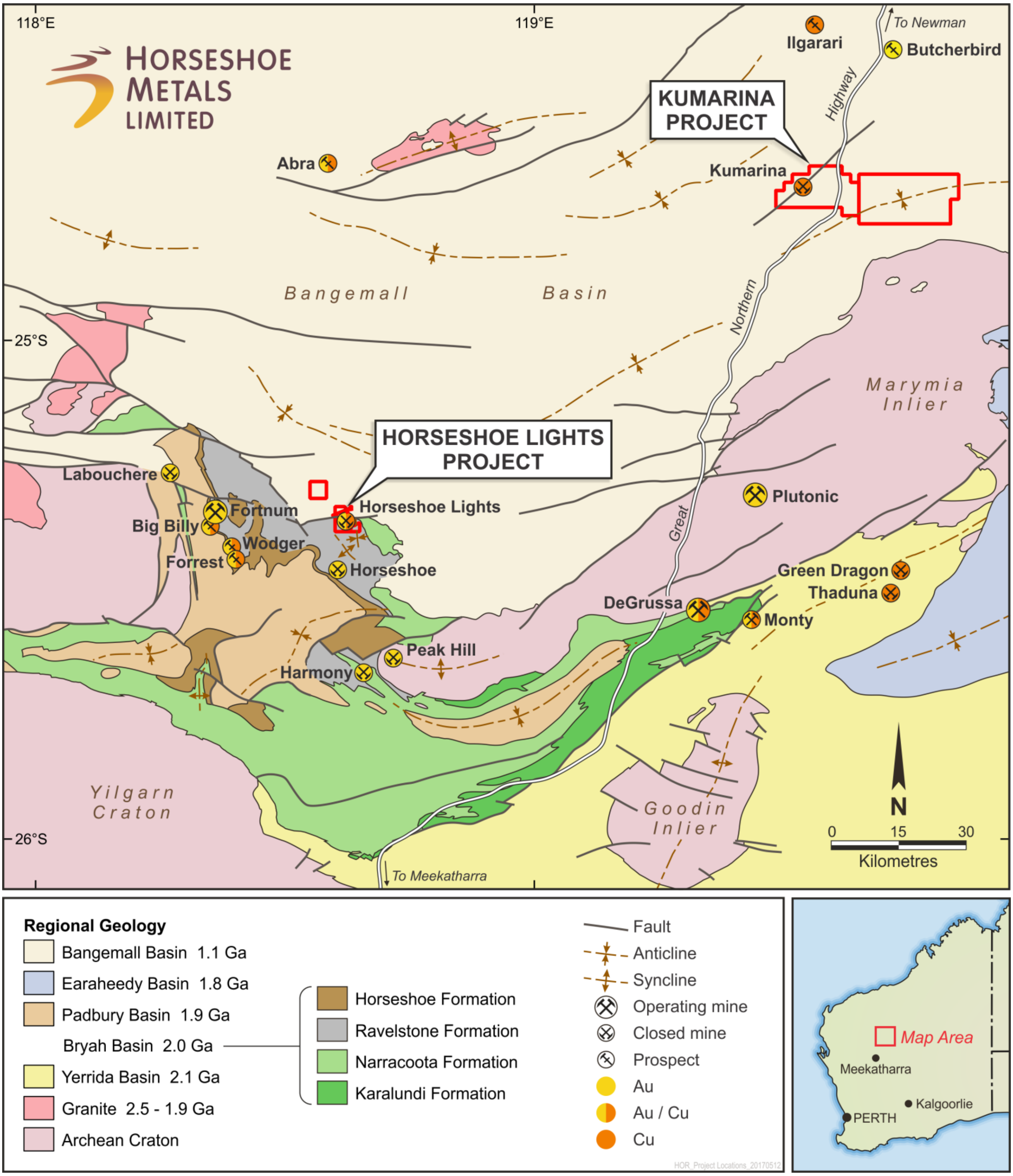

Figure 1: Project Location Plan

Exploration Activities

The Company completed a 15-hole RC drilling program during the year, targeting bedrock areas and waste-rock landforms (WRL) to provide new drilling inputs to the SMART Project (refer Table 1 and Figure 2).

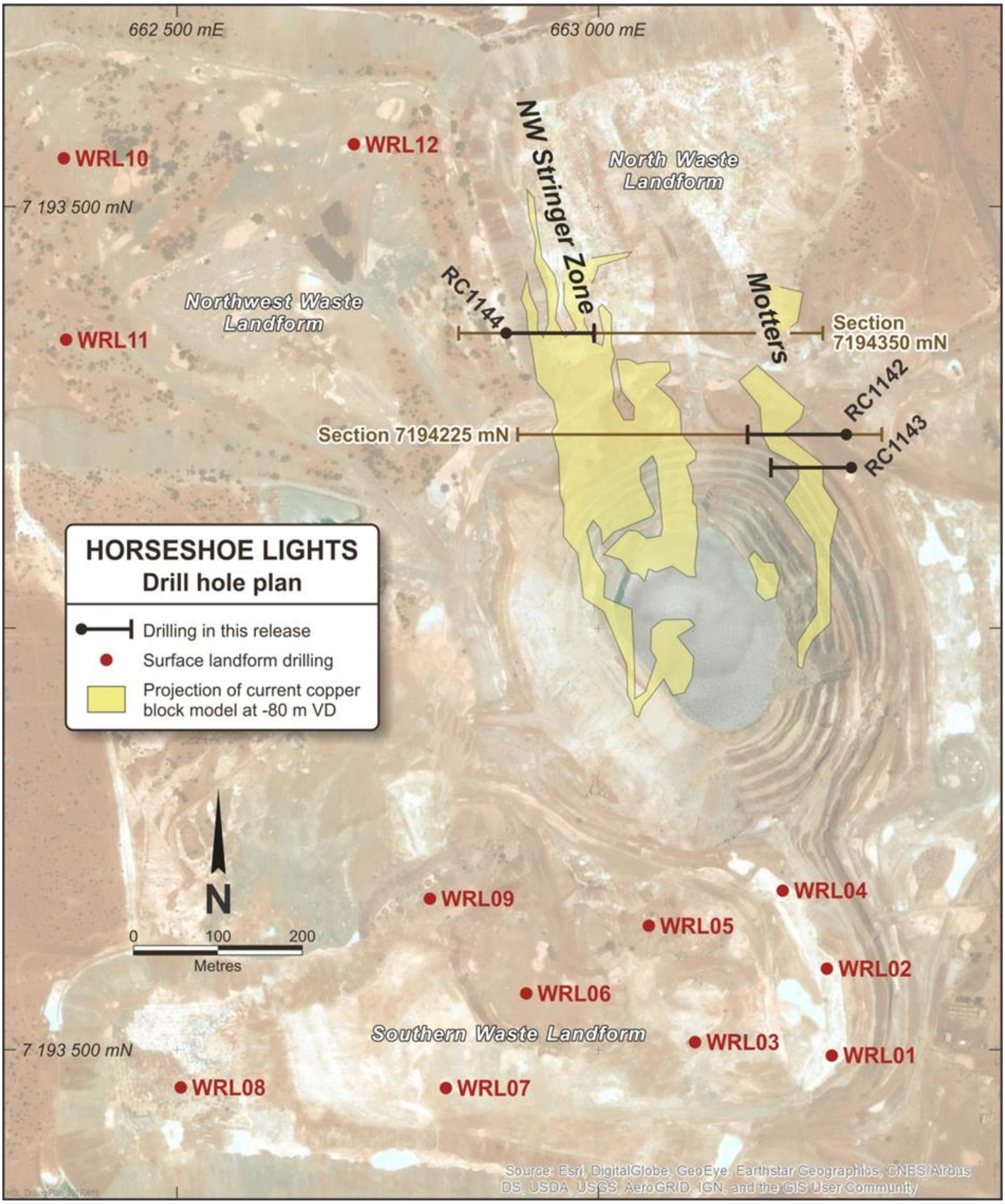

Figure 2. Drill Plan showing WRL and Bedrock drill holes

Waste Rock Landform drilling

Current generation (post-2010) drilling to the north of the pit targeting the Motters and NW Stringer Zones had to collar through the North Waste Landform from the previous mining event. These incidental samples have previously returned copper and gold intersections of economic interest. As other WRL and stockpiled mineralised dumps on the property had limited information, an initial 12 RC hole (WRL01 - 12) drill program totalling 180 m was completed on the Northwest and Southern WRL's to investigate these landforms as possible resources for the SMART Project.

The programme was very broad in nature and only intended as an indicative assessment of potential, and as a secondary check of volume. Indicative results observed for copper from portable XRF (pXRF) observations at WRL drill sites were generally low grade (<0.2 %), and an assessment of the gold anomalism will follow from the assay results. Formal results from the programme are awaited.

Table 1: Horseshoe Lights Project, 2017 RC Drilling Program: Drill Hole Information

Hole ID	*Easting (m)*	*Northing (m)*	*Azimuth (degrees)*	*Dip*	*Depth (m)*	*Location Target Area*
WRL01	663277	7193503	360	-90	12	Waste Rock Landform
WRL02	663272	7193606	360	-90	10	Waste Rock Landform
WRL03	663115	7193519	360	-90	17	Waste Rock Landform
WRL04	663219	7193698	360	-90	8	Waste Rock Landform
WRL05	663132	7193658	360	-90	9	Waste Rock Landform
WRL06	662915	7193576	360	-90	23	Waste Rock Landform
WRL07	662819	7193464	360	-90	15	Waste Rock Landform
WRL08	662504	7193465	360	-90	14	Waste Rock Landform
WRL09	662798	7193675	360	-90	12	Waste Rock Landform
WRL10	662366	7194568	360	-90	20	Waste Rock Landform
WRL11	662368	7194352	360	-90	14	Waste Rock Landform
WRL12	662710	7194585	360	-90	26	Waste Rock Landform
RC1142	663294	7194225	270	-44	155	Eastern Footwall
RC1143	663300	7194200	270	-55	160	Eastern Footwall
RC1144	662891	7194348	090	-50	165	NW Stringer Zone

Bedrock Target Areas

<u>Northwest Stringer Zone</u>

Drill hole RC1444 was designed to test the continuity of oxide mineralization between holes on Section 4350 of the Northwest Stringer Zone (Figure 2) and provide bulk material for SMART testwork. Three separate mineralized zones were encountered in Narracoota Formation volcanic rock as indicated by RC drilling chips containing coarse malachite (Figure 4), with elevated pXRF readings in mineralised zones of economic interest, and reflective of expected grades (refer Cross Section- Figure 3). Material from oxide zones were retained to provide new sampling inputs to the SMART Project.

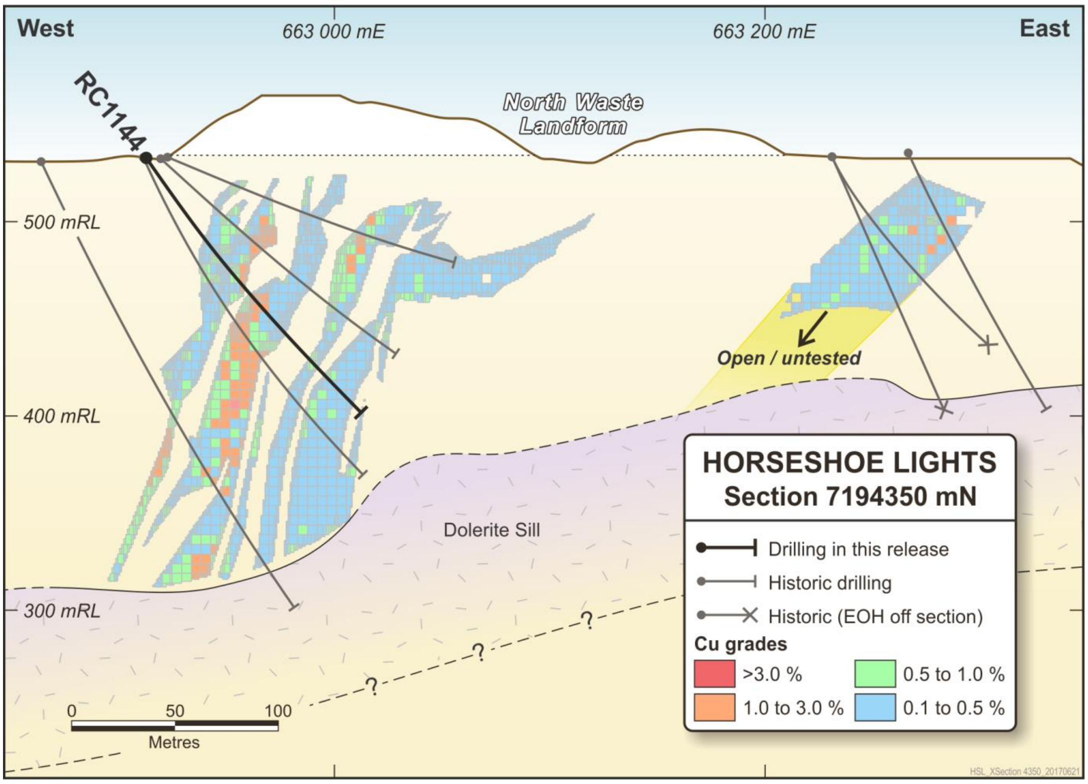

Figure 3. Drill Section 7194225 mN. Hole RC1144 targeting the Northwest Stringer Zone.

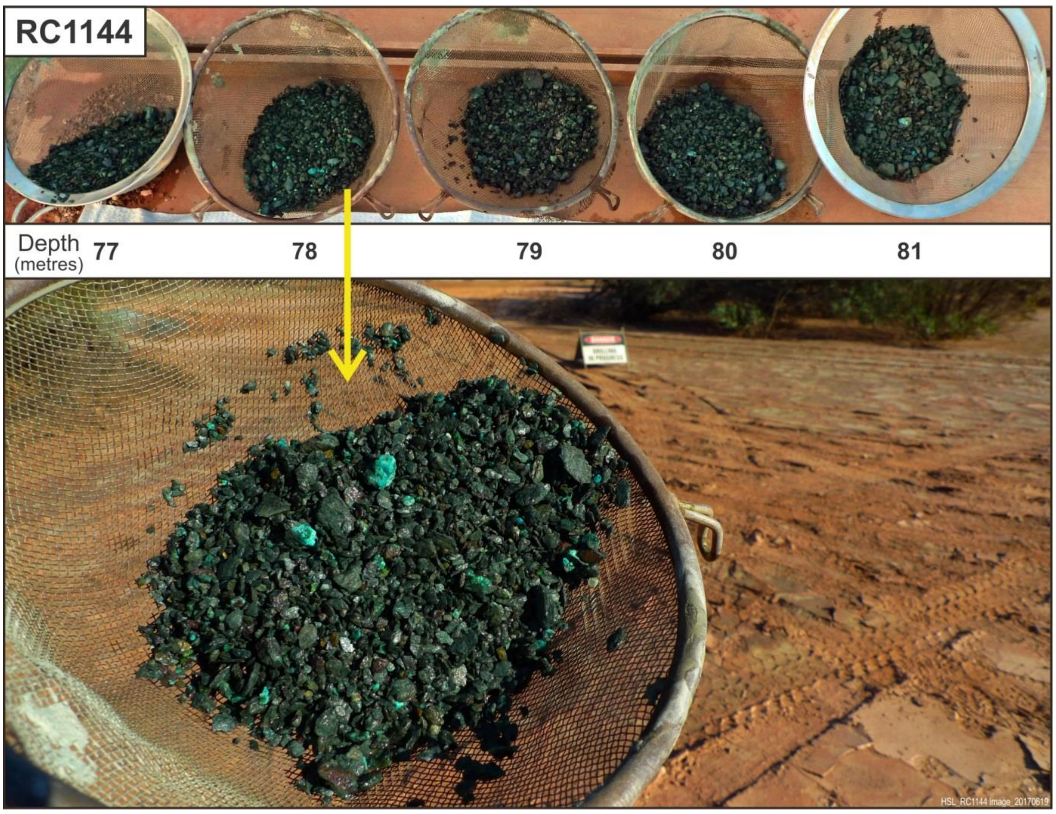

Figure 4. Example of oxidised mineralisation (visible green malachite) from upper interval in RC1144.

Eastern Footwall Zone

Current generation drilling of the Eastern Footwall Zone is difficult due to the proximity of the pit wall. A specialty drilling rig (Figure 6) completed two flat angled holes (RC1142 and RC1143) in a target area believed to be a linkage between the Main mineralised Zone and the Motters Zone. A third planned hole further south was not drilled. Drilling encountered Narracoota Formation volcanic rock with disseminated chalcopyrite observed in the target zone, with pXRF readings in mineralised zones generally low grade (<0.5% Cu), and reflective of the model (refer Cross Section- Figure 5).

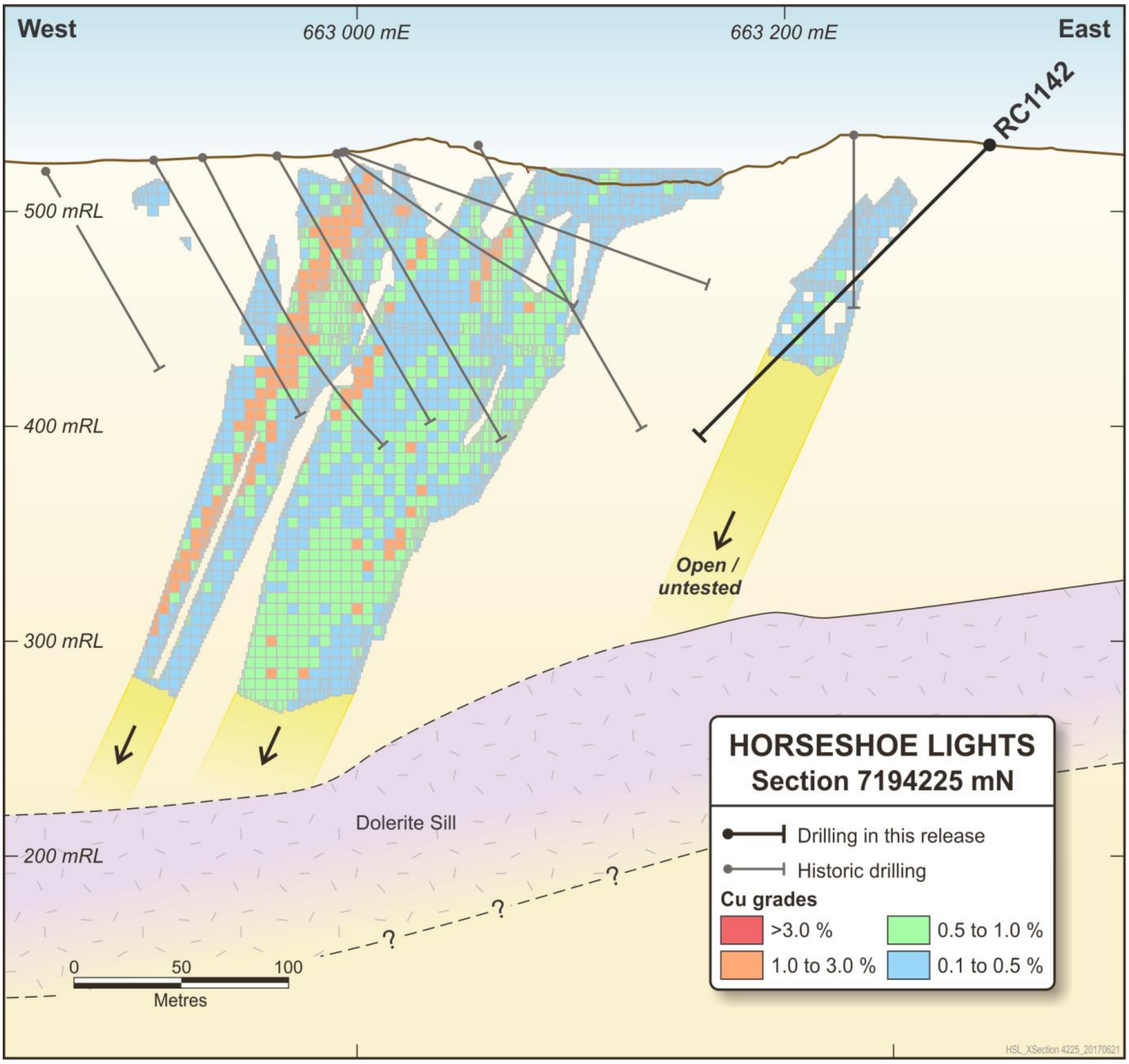

Figure 5: Section 7194225 mN. Hole RC1142 targeting the Eastern Footwall Zone.

Programme of Works approval for planned Aircore drilling of geochemical targets on E52/2042 was received during the year. The Company intends to undertake this work in the first half of 2018.

Figure 6. Specialty RC drill rig capable of drilling low-angle holes

Oxide Copper Project Scoping Study

The Scoping Study is currently in abeyance, as the company considers it would benefit from additional inputs, to be provided by the RC drilling of shallow in-situ oxide copper mineralisation and mineralised dump material undertaken during the year. The Company is currently looking to engage a suitable consultant to direct remaining studies.

The Scoping Study for the SMART (**S**urface **M**aterial **R**e-**T**reatment) project, *(refer previous ASX announcement 20 August 2015);* expanding on previous work undertaken by the Company, but specifically evaluating the viability of a low-capex oxide copper treatment process. The SMART project was initiated following an internal review of previously reported results demonstrating it was possible to separate copper and gold concentrates by using gravity separation equipment. Investigations have continued, and involve identifying process flow-sheet options, and engaging with equipment suppliers to discuss equipment suitability.

In addition, historical leaching test work demonstrated that oxide copper material present at Horseshoe Lights is very amenable to acid leaching with copper recoveries of over 80% achieved. The oxide resources to be considered in the Scoping Study include:

1. shallow in-situ oxide copper resources which occur from surface to a depth of 100 metres;
2. surface stockpile material (M15 and sub-grade);
3. flotation tailings, and
4. mineralised dumps.

The conceptual production rate for the study is 5,000 tonnes per annum of contained copper metal for a period at least five years. The Scoping Study will establish the technical and economic parameters that will be required to recommence copper production at the mine.

Other activities

A high-resolution remote-sensing survey using an unmanned aerial vehicle was completed over M52/743 and E52/2042 during the year, generating accurate surface imagery and elevation models for geological and environmental purposes. Results from this survey are being used to plan remedial works in the immediate mine area.

Option-to-purchase agreements for E52/2569 (held by Elysium Resources Limited) and M52/600 (held by private interests) expired during the year and were not pursued.

Kumarina Copper Project (HOR: 100%)

The Kumarina Project consists of two exploration licences and one mining lease covering approximately 433km2. The project is located 95km north of Sandfire Resources NL's DeGrussa copper-gold mine, in the Gascoyne region of Western Australia (see Figure 1).

Field activity in the form of field reconnaissance was undertaken by the Company on the Kumarina Copper Project during the year, with field assessment of seven high priority targets (T1-T7) from anomalous auger results on E52/1998 (refer Figure 7).

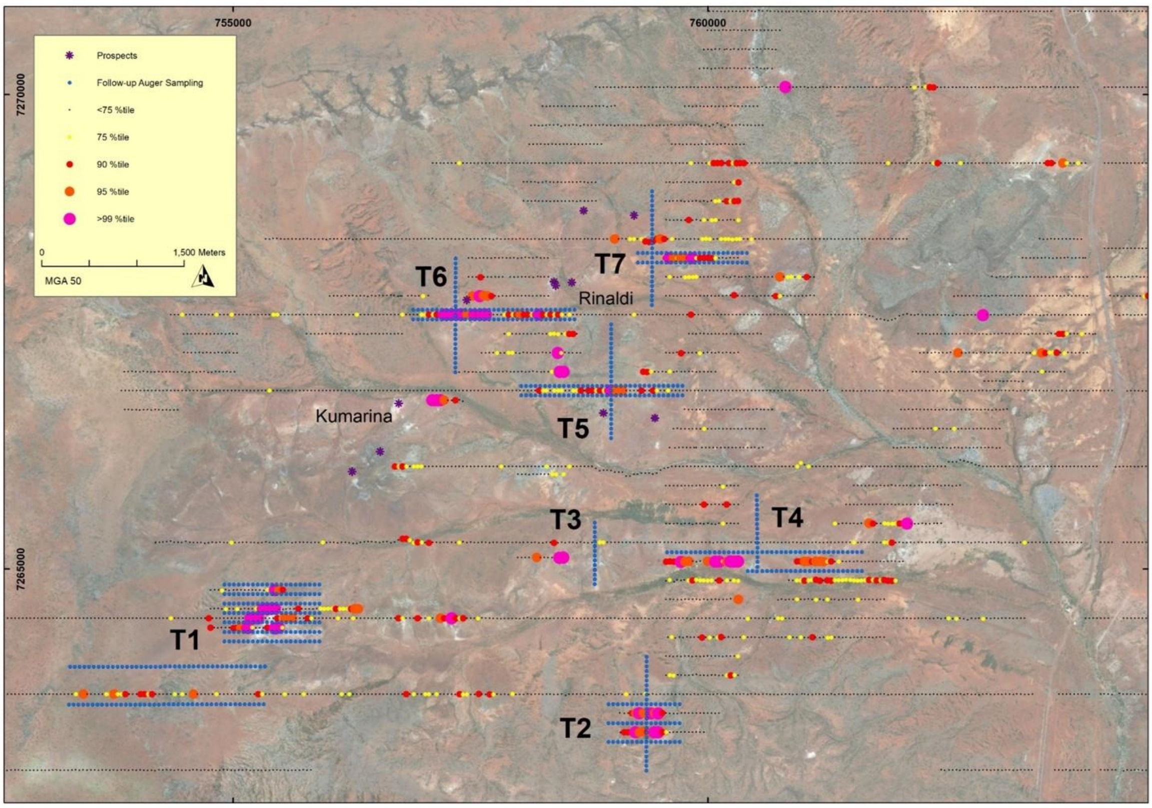

Figure 7. Locations of T1-T7 targets and planned auger drilling (blue dots), E52/1998

The Company plans to more accurately define the nature of the anomalism with infill and transverse auger drilling in the first half of 2018.

At Kumarina East (E52/2930), the company have highlighted a gold Mobile Metal Ion (MMI) geochemistry anomaly coincident with the cratonic margin between the Yilgarn greenstone and the younger Bangemall Basin cover in the south eastern corner of the tenement. The Company also plans to test this target with auger drilling as part of the larger programme for E52/1998.

FINANCIAL POSITION

The net assets of the Group have decreased from $1,186,019 at 31 December 2016 to a net asset deficiency of $1,240,276 at 31 December 2017. This decrease is largely due to the following factors:

- An increase in the provision for environmental rehabilitation; and
- An increase in exploration activities at the Horseshoe Lights and Kumarina projects resulting in an increase in trade creditors.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Group is focused on the exploration and development of its mineral assets and as such needs to issue equity to raise exploration funds. No significant changes in the Group's state of affairs occurred during the year.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No 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.

LIKELY 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 in this regard.

At the Horseshoe Lights Project, there are several un-rehabilitated legacy areas including dumps, stockpiles and tailings storage facilities associated with previous 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 adjusted where required.

REMUNERATION REPORT (AUDITED)

REMUNERATION POLICY

The Board of Directors of Horseshoe Metals Limited is responsible for determining and reviewing compensation arrangements for the key management personnel ("KMP"). 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.

The Board of Horseshoe Metals Limited presently operates a separate Remuneration Committee. The Committee has been in effect since February 2012.

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 (not including share based payments) 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 or as required. The Remuneration Committee considers advice from external stakeholders as required as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Executive Director Remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes). Fixed remuneration is reviewed annually or as required. 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 KMP to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. Actual payments granted to each KMP depend on the extent to which specific operating targets set at the beginning of the financial year are met. It is envisaged that targets 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 KMP in a manner that aligns this element of remuneration with the creation of shareholder wealth. This includes the ability to recognise the efforts of KMP 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 Group and improve the performance of the Group. A Performance Rights Plan for the Group was approved by shareholders on 25 May 2012.

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 are not relevant.

PERFORMANCE CONDITIONS LINKED TO REMUNERATION

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

USE OF REMUNERATION CONSULTANTS

The Group did not employ the services of any remuneration consultants during the financial year ended 31 December 2017.

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. 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.

		NON PERFORMANCE RELATED %	SHARES %	OPTIONS/ RIGHTS %
Director	**Position**			
Mr Michael Fotios	Non-executive Director	100	-	-
Mr Alan Still	Non-executive Director	100	-	-
Mr Neil Porter	Non-executive Director	100	-	-

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.

REMUNERATION DETAILS FOR THE YEAR ENDED 31 DECEMBER 2017

The following table of benefits and payments details, in respect to the year, the components of remuneration for each member of the key management personnel of the Group.

Table of benefits and payments

	SHORT TERM			POST EMPLOYMENT	SHARE BASED PAYMENTS		
	CASH SALARY FEES	BONUS	NON MONETARY	SUPERANNU-ATION	OPTIONS AND RIGHTS	SHARES AND UNITS	
2017	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Directors							
Mr Michael Fotios	30,000	-	-	-	-	-	30,000
Mr Alan Still	24,000	-	-	-	-	-	24,000
Mr Neil Porter	24,000	-	-	-	-	-	24,000
	78,000	-	-	-	-	-	78,000

	SHORT TERM			POST EMPLOYMENT	SHARE BASED PAYMENTS		
	CASH SALARY FEES	BONUS	NON MONETARY	SUPERANNU-ATION	OPTIONS AND RIGHTS	SHARES AND UNITS	
2016	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Directors							
Mr Michael Fotios	30,000	-	-	-	-	-	30,000
Mr Alan Still	30,000	-	-	-	-	-	30,000
Mr Neil Porter	22,000	-	-	-	-	-	22,000
Mr Brian Rear	-	-	-	-	-	-	-
	82,000	-	-	-	-	-	82,000

Mr Brian Rear resigned on 29 February 2016.
Mr Neil Porter was appointed on 29 February 2016, resigned on 29 November 2016 and was re-appointed on 13 January 2017

OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL

Details of options provided as remuneration and shares issued on the exercise of such options by each key management person of the Group during the financial year is as follows:

31 DECEMBER 2017	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUN-ERATION	EXERCISED	BALANCE AT THE END OF YEAR	VESTED DURING THE YEAR	VESTED AND EXERCISABLE
Directors						
Mr Michael Fotios	-	-	-	-	-	-
Mr Alan Still	-	-	-	-	-	-
Mr Neil Porter	-	-	-	-	-	-
	-	-	-	-	-	-

31 DECEMBER 2016	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUN-ERATION	EXERCISED	OTHER CHANGES	BALANCE AT THE END OF YEAR	VESTED DURING THE YEAR	VESTED AND EXERCISABLE
Directors							
Mr Michael Fotios	-	-	-	-	-	-	-
Mr Alan Still	-	-	-	-	-	-	-
Mr Neil Porter	-	-	-	-	-	-	-
Mr Brian Rear	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

Mr Brian Rear resigned on 29 February 2016.
Mr Neil Porter was appointed on 29 February 2016, resigned on 29 November 2016 and was re-appointed on 13 January 2017.

SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The number of ordinary shares in Horseshoe Metals Limited held by each key management personnel 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 2017				
Directors				
Mr Michael Fotios	37,334,236	-	-	37,334,236
Mr Alan Still	-	-	-	-
Mr Neil Porter	-	-	-	-
	37,334,236	-	-	37,334,236

	BALANCE AT BEGINNING OF YEAR	ON EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
31 December 2016				
Directors				
Mr Michael Fotios*	37,334,236	-	-	37,334,236
Mr Alan Still	-	-	-	-
Mr Neil Porter	-	-	-	-
Mr Brian Rear	-	-	-	-
	37,334,236	-	-	37,334,236

Mr Brian Rear resigned on 29 February 2016.
Mr Neil Porter was appointed on 29 February 2016, resigned on 29 November 2016 and was re-appointed on 13 January 2017.
*Mr Michael Fotios holding has been amended as it was incorrectly stated in the 31 December 2016 Annual Report.

OPTIONS AND RIGHTS GRANTED DURING THE YEAR TO 31 DECEMBER 2017

No options or rights were granted to key management personnel as remuneration in the year ended 31 December 2017.

End of audited section.

Signed in accordance with a resolution of the Board of Directors:

Michael Fotios
Non-Executive Chairman

29 March 2018

ROTHSAY
Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone 9486 7094 www.rothsayresources.com.au

The Directors
Horseshoe Metals Limited
24 Mumford Place
Balcatta WA 6021

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 31 December 2017 financial statements; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

GR Swan

Graham R Swan FCA (Lead auditor)

Rothsay Auditing

Dated 29th March 2018

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 $	2016 $
Other income		-	-
Interest income		-	57
		-	57
Consulting expenses		(78,765)	-
Administrative expenses		(182,583)	(300,779)
Depreciation expense		(14,540)	(15,724)
Directors' remuneration	19	(76,000)	(82,000)
Other expenses		(4,153)	(1,136)
Share based payment expense		-	(94,260)
Care and maintenance		(61,185)	-
Project exploration and evaluation expenses		(467,169)	(374,620)
Provision for Environmental Rehabilitation	12	(1,541,900)	-
Loss before income taxes		(2,426,295)	(868,462)
Income tax expense	4	-	-
Other comprehensive income, net of tax		-	-
Total comprehensive income		(2,426,295)	(868,462)
Total Comprehensive Income attributable to members of the parent entity		(2,426,295)	(868,462)
Loss per share			
Basic and diluted loss per share (cents)	15	(1.25)	(0.47)

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

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	NOTE	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	5	7,657	6,389
Trade and other receivables	6	139,492	81,462
Other assets	7	7,711	7,279
TOTAL CURRENT ASSETS		154,860	95,130
NON-CURRENT ASSETS			
Property, plant and equipment	8	44,180	53,173
Exploration and evaluation expenditure	9	6,508,801	6,508,801
TOTAL NON-CURRENT ASSETS		6,552,981	6,561,974
TOTAL ASSETS		6,707,841	6,657,104
CURRENT LIABILITIES			
Trade and other payables	10	660,380	1,031,631
Borrowings	11	-	2,237
Provisions	12	-	838
TOTAL CURRENT LIABILITIES		660,380	1,034,706
NON-CURRENT LIABILITIES			
Trade and other payables	10	927,990	-
Borrowings	11	583,747	202,279
Provisions	12	5,776,000	4,234,100
TOTAL NON-CURRENT LIABILITIES		7,287,737	4,436,379
TOTAL LIABILITIES		7,948,117	5,471,085
NET ASSETS		(1,240,276)	1,186,019
EQUITY			
Issued capital	13	17,158,393	17,158,393
Reserves	14	-	94,260
Accumulated losses		(18,398,669)	(16,066,634)
TOTAL EQUITY		(1,240,276)	1,186,019

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

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

2017

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	SHARE BASED PAYMENT RESERVE $	OPTION PREMIUM RESERVE $	TOTAL EQUITY $
Balance at 1 January 2017	17,158,393	(16,066,634)	94,260	-	1,186,019
Losses attributable to members of the parent entity	-	(2,426,295)	-	-	(2,426,295)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	(2,426,295)	-	-	(2,426,295)
Shares issued during the year	-	-	-	-	-
Transaction costs	-	-	-	-	-
Expiry of rights and options	-	94,260	(94,260)	-	-
Sub-total	-	(2,332,035)	(94,260)	-	(2,426,295)
Balance at 31 December 2017	17,158,393	(18,398,669)	-	-	(1,240,276)

2016

	ISSUED CAPITAL $	ACCUMULATED LOSSES $	SHARE BASED PAYMENT RESERVE $	OPTION PREMIUM RESERVE $	TOTAL EQUITY $
Balance at 1 January 2016	16,535,893	(15,198,171)	-	-	1,337,722
Losses attributable to members of the parent entity	-	(868,463)	-	-	(868,463)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	(868,463)	-	-	(868,463)
Shares issued during the year	622,500	-	-	-	622,500
Transaction costs	-	-	-	-	-
Expiry of rights and options	-	-	94,260	-	94,260
Sub-total	622,500	(868,463)	94,260	-	(151,703)
Balance at 31 December 2016	17,158,393	(16,066,634)	94,260	-	1,186,019

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

HORSESHOE METALS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 $	2016 $
CASH FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(123,350)	(39,330)
Other Income		-	-
Interest received		-	57
Payments for exploration and evaluation expenditure		(38,298)	(229,077)
Net cash used by operating activities	24	(161,648)	(268,350)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(5,547)	-
Net cash used by investing activities		(5,547)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	13	-	100,000
Proceeds from borrowings		168,463	163,287
Payment for costs of raising capital		-	-
Net cash provided by financing activities		168,463	263,287
Net (decrease)/increase in cash and cash equivalents		1,268	(5,063)
Cash and cash equivalents at beginning of the year		6,389	11,452
Cash and cash equivalents at end of the year	5	7,657	6,389

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

1. REPORTING ENTITY

This financial report includes the consolidated financial statements and notes of Horseshoe Metals Limited and Controlled Entities (the 'Group'). The financial statements were authorised for issue by the Board of Directors on 29 March 2018.

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

The nature of 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 24 Mumford Place, Balcatta WA 6021.

2. BASIS OF PREPARATION

(a) General information

This financial report:

- Has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as applicable to a for-profit entity.
- Has been prepared on a historical cost basis.
- Is presented in Australian dollars, which is the functional currency of the Company and each of its subsidiaries.
- Adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or before 1 January 2017.
- Does not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

(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.

Cash and cash equivalents on hand as at the date of this report was $7,657. The going concern basis is dependent upon the Group raising sufficient funds to pay the Group's debts as and when they fall due.

The Company has executed a loan facility agreement with Michael Fotios and associated entities, including Delta Resource Management and Investmet Limited. The loan facility with M Fotios and associated entities is to be repaid in cash within 7 days of the successful completion of a capital raising. Prior to a capital raising any lender may convert all or some of the outstanding balance of the loan in ordinary shares at the price at which the capital raising is to be completed. Conversion of the loan to ordinary shares is subject to compliance with the applicable laws and regulations including the requirement to seek shareholder approval for a related party transaction. The loan bears interest of 8% p.a. The undrawn loan balance available to the Company as at 31 December 2017 from Michael Fotios and associated entities amounts to $416,253.

In addition, Michael Fotios as chairman of the board of Eastern Goldfields Ltd, Whitestone Minerals Pty Ltd, Delta Resource Management Pty Ltd and Investmet Ltd has confirmed unconditionally that these entities will not call on or demand any repayment of the advances made to the Company up to 31 December 2017 and will only do so if and when the Group’s financial position improves.

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.

Should the Directors not achieve the matters set out above, there is material uncertainty whether the Group 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 Group not be able to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis 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 21 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.

(b) 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.

(c) 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.

(c) Income tax (continued)

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 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.

Horseshoe Metals Limited and its 100% owned Australian resident subsidiary are a consolidated group for tax purposes.

(d) Property, plant and equipment

Each class of property, plant and equipment is stated at historical cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less accumulated depreciation and impairment.

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.

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. Land is not depreciated.

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

- Plant and equipment 5 – 15 years

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

(e) 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

(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 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.

De-recognition

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.

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

(f) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options for immediate are 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.

(g) 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 CGU 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.

(h) Exploration and development expenditure

Exploration, evaluation and development 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 asset is not available for use it is not depreciated or 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. 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.

(i) 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.

(j) 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 includes both current and non-current liabilities.

(k) 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.

(l) Employee benefits

Provision is made for the Group'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 share, right and option schemes. The fair value of the equity to which personnel 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 fair value of the performance rights issued are calculated via a hybrid share option pricing model that simulates the share price as at the expiry date using a Monte-Carlo model. The amount to be expensed is determined by reference to the fair value of the options, rights 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 or rights 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

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 calculations which incorporate various key assumptions.

Key estimates - share based payments

The Group measures the cost of equity-settled transactions with personnel by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model in the case of options and, in the case of performance rights, a hybrid share option pricing model that simulates the share price as at the expiry date using a Monte-Carlo model. The valuation involves making key estimates such as volatility and expected exercise date.

Key Estimates - provisions 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 $6,508,801.

(q) New accounting standards for application in future periods

There are a number of new Accounting standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early. These standards are not expected to have a material impact on the Group in the current or future reporting periods.

4. 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:

	2017	2016
	$	$
Statement of comprehensive income		
Current income tax	-	-
Current income tax charges/(benefits)	-	-
Deferred tax expense		
Relating to the origination and reversal of temporary differences	-	-

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

	2017	2016
	$	$
- Loss for the year at 30%	(727,888)	(260,539)
Add:		
Tax effect of:		
- share based payments	-	27,278
- entertainment and other permanent differences	-	-
- impairment	-	-
- non-assessable income	-	-
- temporary differences not recognised	462,750	(27,716)
- tax losses not brought to account as DTA	265,318	260,977
	-	-

At 31 December 2017 the Group had unused tax losses for which no deferred tax asset has been recognised in the amount of approximately $7,691,857 (2016: $7,426,539). The availability of these losses is subject to satisfying Australian taxation legislation requirements. The deferred tax asset attributable to tax losses has not been brought to account in these financial statements because the Directors believe it is not presently appropriate to regard realisation of the future income tax benefits probable.

5. CASH AND CASH EQUIVALENTS

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

	2017	2016
	$	$
Cash at bank	7,657	6,389
Short-term bank deposits	-	-
	7,657	6,389

6. 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.

	2017	2016
	$	$
Other receivables	139,492	81,462
	139,492	81,462

The Group expects the above trade and other receivables to be recovered within 12 months of 31 December 2017 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).

7. OTHER ASSETS

	2017	2016
	$	$
CURRENT		
Prepayments	7,711	7,279
	7,711	7,279

8. PROPERTY, PLANT AND EQUIPMENT

	2017	2016
	$	$
Plant and equipment		
At cost	219,663	214,116
Accumulated depreciation	(175,483)	(160,943)
	44,180	53,173

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:

	PLANT AND EQUIPMENT	TOTAL
	$	$
Balance at 31 December 2017		
Balance at the beginning of year	53,173	53,173
Additions	5,547	5,547
Depreciation expense	(14,540)	(14,540)
31 December 2017	44,180	44,180
Balance at 31 December 2016		
Balance at the beginning of year	68,897	68,897
Additions	-	-
Depreciation expense	(15,724)	(15,724)
31 December 2016	53,173	53,173

9. EXPLORATION AND EVALUATION EXPENDITURE

The following table details the movement in deferred exploration and evaluation expenditure reported in the statement of financial position during the year ended 31 December 2017.

	2017	2016
	$	$
Carrying amount at beginning of year	6,508,801	6,508,801
Expenditure	-	-
Shares issued for tenements	-	-
Impairment	-	-
	6,508,801	6,508,801

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.

In the ordinary course of business, companies involved in resource exploration and development are often subject to plaints, with respect to exploration licences and mining leases (“tenements”). The Company is currently aware of three such plaints over its tenements. The Company considers the plaints to be without merit and is working to have the plaints dismissed.

10. TRADE AND OTHER PAYABLES

	2017	2016
	$	$
CURRENT		
Trade payables	499,254	924,983
Directors' Fees Payable	46,000	46,000
Other payables	115,126	60,648
	660,380	1,031,631
NON-CURRENT		
Related party creditors [1]	927,990	-
[1] Reconciliation of carrying amount of related party creditors		
Eastern Goldfields Limited	128,892	-
Whitestone Mining Services Pty Ltd	566,229	-
Delta Resource Management	188,030	-
Michael Fotios Family Trust	11,629	-
Investmet Limited	33,210	-
	927,990	-

11. BORROWINGS

	2017	2016
	$	$
CURRENT		
Hire purchase	-	2,237
	-	2,237
NON-CURRENT		
Loan – Delta Resource Management Pty Ltd	113,171	78,597
Loan – Eastern Goldfields Limited	17,948	12,098
Loan – Investmet Limited	385,048	107,992
Loan – Whitestone Mining Services Pty Ltd	66,765	3,497
Loan – Michael Fotios	720	-
Loan – Redbank Copper Limited	95	95
	583,747	202,279

The Company has executed a loan facility agreement with Michael Fotios and associated entities, including Delta Resource Management and Investmet Limited. The loan facility with M Fotios and associated entities is to be repaid in cash within 7 days of the successful completion of a capital raising. Prior to a capital raising any lender may convert all or some of the outstanding balance of the loan in ordinary shares at the price at which the capital raising is to be completed. Conversion of the loan to ordinary shares is subject to compliance with the applicable laws and regulations including the requirement to seek shareholder approval for a related party transaction. The loan bears interest of 8% p.a. The undrawn loan balance available to the Company as at 31 December 2017 from Michael Fotios and associated entities amounts to $416,253.

12. PROVISIONS

	2017	2016
	$	$
CURRENT		
Employee entitlements	-	838
	-	838
NON-CURRENT		
Environmental rehabilitation	5,776,000	4,234,100
	5,776,000	4,234,100

	ENVIRONMENTAL REHABILITATION	EMPLOYEE BENEFITS	TOTAL
	$	$	$
At 1 January 2017	4,234,100	838	4,234,938
Additions during the year	1,541,900	-	1,541,900
Paid during the year	-	(838)	(838)
Write backs	-	-	-
Balance at 31 December 2017	5,776,000	-	5,776,000

Rehabilitation obligations in relation to the Horseshoe Lights Mining Lease M52/743 exist. The majority of the outstanding rehabilitation obligations are associated with the flotation tailings dam, the waste dumps and the plant and camp sites.

In July 2013 the Group successfully applied for participation in the State Government of Western Australia's Mine Rehabilitation Fund (“MRF”) administered by the Department of Mines and Petroleum (“DMP”). Through this application process a calculation of rehabilitation costs is determined by the DMP and this was used to establish the Group’s contribution amount to the MRF.

As at 31 December 2017, the Board reviewed the rehabilitation provision, using the MRF methodology. The review determined that there was a likely cost to rehabilitate the Horseshoe Lights Mine site of $5,776,000. The provision was increased to reflect this.

The provision is measured at the present value of management's best estimate of the costs required to settle the obligations. 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.

13. CONTRIBUTED EQUITY

	2017	2016
	$	$
Ordinary shares 194,652,190 (31 December 2016: 194,652,190)	18,212,638	18,212,638
Share issue costs written off against issued capital	(1,054,245)	(1,054,245)
	17,158,393	17,158,393

MOVEMENT IN ORDINARY SHARES

	No.	$
Balance at 1 January 2016	169,752,190	17,590,138
Issue of shares via a private placement	24,900,000	622,500[1]
Balance at 31 December 2016	**194,652,190**	**18,212,638**
Balance at 31 December 2017	**194,652,190**	**18,212,638**

[1] Of the $622,500 shares issued via a private placement, $522,500 was issued to extinguish debt, while $100,000 was received as cash.

14. RESERVES

Option premium reserve

On 31st March 2017, 12,450,000 options exercisable at $0.045 expired unexercised. Consistent with *AASB 2-Share-Based Payment*, an amount of $94,260 was offset against accumulated losses, representing costs previously expensed through profit and loss.

15. EARNINGS PER SHARE

	2017	2016
	$	$
Earnings used to calculate overall earnings per share	(2,426,295)	(868,463)

(a) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

	2017	2016
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	194,652,190	184,583,338
Anti-dilutive options on issue not used in EPS calculation	-	-

16. COMMITMENTS

EXPLORATION EXPENDITURE COMMITMENTS

	2017	2016
	$	$
Payable:		
- no later than 1 year	401,879	421,200
- between 1 year and 5 years	574,005	1,222,800
- greater than 5 years	40,493	524,400
	1,016,377	2,168,400

17. 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 Group'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 and 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.

15 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	2017	2016
	$	$
Financial Assets		
Cash and cash equivalents	7,657	6,389
Trade and other receivables	139,492	81,462
Total financial assets	147,149	87,851
Financial Liabilities		
Trade and other payables	1,588,370	1,031,631
Borrowings	583,747	204,517
Total financial liabilities	2,172,117	1,236,148

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 Board of Directors is responsible 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.

Mitigation strategies for specific risks faced are described below:

SPECIFIC FINANCIAL RISK EXPOSURES AND MANAGEMENT

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

(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 Group'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. 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.

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**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial liabilities due for payment:								
Trade and other payables	1,588,370	1,031,631	-	-	-	-	1,588,370	1,031,631
Borrowings	-	2,237	583,747	202,279	-	-	583,747	204,517
Total contractual outflows	1,588,370	1,033,868	583,747	202,279	-	-	2,172,117	1,236,148

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

(c) 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.

	2017		2016	
	NET CARRYING VALUE	**NET FAIR VALUE**	**NET CARRYING VALUE**	**NET FAIR VALUE**
	$	**$**	**$**	**$**
Financial assets				
Cash and cash equivalents	7,657	7,657	6,389	6,389
Trade and other receivables	139,492	139,492	81,462	81,462
Total financial assets	147,149	147,149	87,851	87,851
Financial liabilities				
Trade and other payables	1,588,370	1,588,370	1,031,631	1,031,631
Borrowings	583,747	583,747	204,517	204,517
Total financial liabilities	2,172,117	2,172,117	1,236,148	1,236,148

18. OPERATING SEGEMENTS

For management purposes, the Group is organised into one main operating segment, which involves the exploration of minerals and evaluation of 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.

19. REMUNERATION 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:

	2017	2016
	$	**$**
Short-term employee benefits	78,000	82,000
Post-employment benefits	-	-
Share-based payments	-	-
	78,000	82,000

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 2017.

20. AUDITORS' REMUNERATION

	2017	2016
	$	$
Remuneration of the auditor of the Group, Rothsay Consulting for:		
- auditing or reviewing the financial statements	36,200	21,000

21. CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%) 2017	PERCENTAGE OWNED (%) 2016
Subsidiaries:			
Murchison Copper Mines Pty Ltd	Australia	100	100

22. CONTINGENT ASSETS AND LIABILITIES

In the opinion of the Directors, the Group did not have any contingencies at 31 December 2017 (31 December 2016: nil).

23. RELATED PARTY TRANSACTIONS

At 31 December 2017 Horseshoe Metals Limited had a loan receivable from its subsidiary in the amount of $10,664,755 (2016: $10,548,747). 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.

The Company has executed a loan facility agreement of $1,000,000 with Michael Fotios and associated entities. During the year, Michael Fotios and associated entities lent money to the Company. Loan balances outstanding at 31 December 2017 include:

- Delta Resource Management: $113,171 (2016: $78,597)
- Eastern Goldfields Limited: $17,948 (2016: $12,098)
- Investmet Limited: $385,048 (2016: $107,992)
- Whitestone Mining Services Pty Ltd: $66,764 (2016: $3,497)
- Michael Fotios: $720 (2016: nil)
- Redbank Copper Limited: $95 (2016: $95)

Michael Fotios is the Non-Executive Chairman of, and significant shareholder in, the Group.

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 19.

24. CASH FLOW INFORMATION

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

	2017	2016
	$	$
Net loss for the period	(2,426,295)	(868,462)
Non-cash flows in profit:		
- share based payments	-	94,260
- depreciation	14,540	15,724
- impairment of property, plant and equipment	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	(58,030)	70,300
- (increase) in other assets	(432)	-
- increase in trade and other payables	556,739	648,905
- increase in borrowings	210,768	-
- increase in provisions	1,541,062	-
Cashflow from operations	(161,648)	(39,273)

25. SHARE-BASED PAYMENTS

No share-based payments were made during the year ended 31 December 2017 (2016: $616,760).

26. EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

No 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.

27. PARENT ENTITY

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

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

	2017 $	2016 $
Statement of Financial Position		
Assets		
Current assets	18,794	112,266
Non-current assets (i)	12,803,023	12,692,706
Total Assets	12,821,817	12,804,972
Liabilities		
Current liabilities	(289,246)	(584,211)
Non-current liabilities	(978,865)	(159,493)
Total Liabilities	(1,268,111)	(743,704)
Net Assets	**11,553,706**	**12,061,268**
Equity		
Issued capital	17,158,393	17,158,393
Retained earnings	(5,604,687)	(5,097,125)
Reserves	-	-
Total Equity	**11,553,706**	**12,061,268**
Statement of Comprehensive Income		
Total comprehensive income	(507,562)	(555,545)

(i) Included in non-current assets is a loan receivable from the subsidiary in the amount of $10,664,755 (2016: $10,548,747)

CONTINGENT LIABILITIES

The parent entity did not have any contingent liabilities as at 31 December 2017 or 31 December 2016.

CONTRACTUAL COMMITMENTS

The parent entity did not have any commitments as at 31 December 2017 or 31 December 2016 other than as disclosed in Note 16.

HORSESHOE METALS LIMITED

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 23 to 48, are in accordance with the *Corporations Act 2001* and:

   (a) comply with International Financial Reporting Standards and Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 31 December 2017 and of the performance for the year ended on that date of the Company and consolidated group;

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 2017, comply with Section 300A of the Corporations Act 2001, and

4. the Directors have been given the declarations by the Non-Executive Chairman and Chief Financial Officer pursuant to Section 295(5) of the Corporations Act 2001.

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

MICHAEL FOTIOS
Non-Executive Chairman

Perth Western Australia
Dated this 29th day of March 2018

ROTHSAY

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HORSESHOE METALS LIMITED

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Horseshoe Metals Limited ("the Company") and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended on that date and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the Company.

In our opinion the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 (b) in the financial report which outlines the reasons for preparing the accounts on a going concern basis. We note the Group had $7,657 in cash at 31 December 2017 and a deficiency in equity of $1,240,276. In the event the Group is unable to raise additional funds and does not receive the continuing support of related parties, there is a material uncertainty as to whether the Group may be able to continue as a going concern and therefore it may be unable to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Exploration and evaluation expenditure

The group has incurred significant exploration and evaluation expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditure represents a significant asset of the Group we considered it necessary to assess whether facts and circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.

In doing so we carried out the following work in accordance with the guidelines set out in AASB 6 *Exploration for and Evaluation of Mineral Resources*. Our procedures included but were not limited to the following:

- We obtained evidence that the Group has rights to explore in the areas represented by the capitalised exploration and evaluation expenditure by obtaining confirmation of the Group's tenement holdings;

- We enquired of management regarding work programs to ensure that further expenditure on exploration on the tenements in the Group's areas of interest was planned;

- We enquired of management and reviewed ASX announcements to ensure that the Group had not decided to discontinue activities in any applicable areas of interest;

- We obtained an understanding of the key processes associated with management's review of the carrying value of capitalised exploration and evaluation expenditure and challenged management's assertion that the carrying amount of the capitalised expenditure was likely to be recovered in full from successful development or sale.

We have also assessed the appropriateness of the disclosures included in Notes 1 and 9 to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 the 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 gives a true and fair view and is free from material misstatement whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatementt, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/Home.aspx

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2017.

In our opinion the remuneration report of Horseshoe Metals Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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 conducted in accordance with Australian Auditing Standards.

Rothsay

Rothsay Auditing

Dated 29th March 2018

GR Swan

Graham R Swan FCA
Partner

HORSESHOE METALS LIMITED

ANNUAL MINERAL RESOURCE STATEMENT

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%[1]	$98,900
Horseshoe Lights	E52/2042	10 blocks	22.54	100%[1]	$70,000
Horseshoe Lights	L52/42	0.26 ha	0.003	100%[1]	-
Horseshoe Lights	L52/43	2.3 ha	0.023	100%[1]	-
Horseshoe Lights	L52/44	3.8 ha	0.038	100%[1]	-
Horseshoe Lights	L52/45	3.0 ha	0.03	100%[1]	-
Horseshoe Lights	L52/66	15.0 ha	0.15	100%[1]	-
Kumarina	M52/27	9.7 ha	0.097	100%	$10,000
Kumarina	E52/1998	42 blocks	130.79	100%	$126,000
Kumarina	E52/2930	69 blocks	215.05	100%	$103,500
TOTAL			**378,601**		**$408,400**

Notes:

1. Horseshoe Gold Mine Pty Ltd (a wholly owned subsidiary of Grange Resources Limited) 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.

In accordance with ASX Listing Rule 5.21, the Company reviews and reports its Mineral Resources at least annually. The date of reporting is 31 December each year, to coincide with the Company's end of financial year balance date. If there are any material changes to its Mineral Resources over the course of the year, the Company is required to promptly report these changes.

In completing the annual review for the year ended 31 December 2017, the historical resource factors were reviewed and found to be relevant and current. The Company's projects have not been converted to any active operation yet and hence no resource depletion has occurred for the review period.

HORSESHOE LIGHTS PROJECT - MINERAL RESOURCE STATEMENT

A summary of the Minerals Resources at the Horseshoe Lights Project as at 31 December 2015 is shown in Table 1 below. The Mineral Resource Estimate for the Horseshoe Lights in-situ deposit was completed by independent resource industry consulting group CSA Global Pty Ltd, following the completion of drilling by the Company in May 2013. There have not been any material changes to the resource model as a consequence of later drilling by the Company. Accordingly the Mineral Resource Estimate remains unchanged as at 31 December 2017. The total Measured, Indicated and Inferred Mineral Resource Estimate is **12.85 million tonnes @ 1.00% Cu, 0.1 g/t Au and 1.9 g/t Ag** for **128,600 tonnes Cu, 36,000 oz Au and 793,400 oz Ag** (using a cut-off grade of 0.5% Cu).

An updated Mineral Resource Estimate for the Horseshoe Lights flotation tailings was completed by the Company and announced to ASX on 26 February 2015. The total Inferred Mineral Resource Estimate is **1.42Mt @ 0.48% Cu, 0.34g/t Au and 6.5g/t Ag for 6,800 tonnes Cu, 15,300 oz Au and 294,800 oz Ag** (using a cut-off grade of 0% Cu). There have not been any material changes to the resource model as a consequence of later activities by the Company. Accordingly the Mineral Resource Estimate remains unchanged as at 31 December 2017.

HORSESHOE METALS LIMITED

ANNUAL MINERAL RESOURCE STATEMENT

An updated Mineral Resource Estimate for the Horseshoe Lights sub-grade ore (M15) stockpiles was completed by the Company and announced to ASX on 9 March 2015. The total Inferred Mineral Resource Estimate is **243,400t @ 1.10% Cu, 0.17g/t Au and 4.7g/t Ag for 2,650 tonnes Cu, 1,300 oz Au and 36,700 oz Ag** (using a cut-off grade of 0% Cu). There have not been any material changes to the resource model as a consequence of later activities by the Company. Accordingly the Mineral Resource Estimate remains unchanged as at 31 December 2017.

TABLE 1
HORSESHOE LIGHTS PROJECT
SUMMARY OF MINERAL RESOURCES
AS AT 31 DECEMBER 2017

Location	Category	Tonnes (Mt)	Cu (%)	Au (g/t)	Ag (g/t)	Cu metal (tonnes)	Au metal (oz)	Ag metal (k oz)
In-situ Deposit (0.5% Cu cut-off grade)	*Measured*	*1.73*	*1.04*	*0.0*	*0.5*	*18,000*	*1,900*	*28.8*
	Indicated	*2.43*	*0.95*	*0.0*	*0.7*	*23,200*	*3,400*	*52.2*
	Inferred	*8.69*	*1.01*	*0.1*	*2.6*	*87,400*	*30,700*	*712.4*
	Total	**12.85**	**1.00**	**0.1**	**1.9**	**128,600**	**36,000**	**793.4**
Flotation Tailings	**Inferred**	**1.421**	**0.48**	**0.34**	**6.5**	**6,800**	**15,300**	**294.8**
M15 Stockpiles	**Inferred**	**0.243**	**1.10**	**0.17**	**4.7**	**2,650**	**1,300**	**36.7**
					TOTAL	**138,050**	**52,600**	**1,124.9**

Note: At 0% Cu cut-off grade unless otherwise stated

KUMARINA PROJECT - MINERAL RESOURCE STATEMENT

A summary of the Minerals Resources at the Kumarina Project is shown in Table 2 below. A Mineral Resource Estimate was completed on the Rinaldi Prospect at the Kumarina Project by independent resource specialists H & S Consultants Pty Ltd in 2013, following the completion of drilling by the Company in December 2012.

There have not been any material changes to the resource model as a consequence of later drilling by the Company. Accordingly the Mineral Resource Estimate remains unchanged as at 31 December 2017.

At a cut-off grade of 0.5% Cu, the Measured, Indicated and Inferred Mineral Resource estimate is **835,000 tonnes @ 1.3% Cu** for 10,600 tonnes of contained copper.

TABLE 2
KUMARINA PROJECT
SUMMARY OF MINERAL RESOURCES
AS AT 31 DECEMBER 2017

Location	Category	Tonnes (t)	Cu (%)	Cu metal (tonnes)
Rinaldi Prospect (0.5% Cu cut-off)	*Measured*	*415,000*	*1.46*	*6,100*
	Indicated	*307,000*	*1.16*	*3,500*
	Inferred	*114,000*	*0.9*	*1,000*
	Total	**835,000**	**1.3**	**10,600**

The Group is not aware of any new information or data that materially affects the information as previously released and all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

GOVERNANCE ARRANGEMENTS AND INTERNAL CONTROLS

The Group has ensured that the Mineral Resources quoted are subject to good governance arrangements and internal controls. The Mineral Resources reported have been generated by independent external consultants where appropriate who are experienced in best practices in modelling and estimation methods. The consultants have also undertaken reviews of the quality and suitability of the underlying information used to determine the resource estimate. In addition, management carries out regular reviews and audits of internal processes and external contractors that have been engaged by the Group.

HORSESHOE METALS LIMITED

ANNUAL MINERAL RESOURCE STATEMENT

Competent Persons Statement

The information in this Annual Report that relates to Exploration Results is based on information compiled by Mr Craig Hall, BSc. (Hons) who is a Member of the Australian Institute of Geoscientists and the Australasian Institute of Mining and Metallurgy. Mr Hall is a consultant to Horseshoe Metals Limited. Craig Hall 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Hall consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. Mr Hall also consents to the content of this Annual Mineral Resource Statement as a whole.

The information in this report that relates to the Horseshoe Lights Project In-situ Mineral Resources is based on information compiled by Mr. Dmitry Pertel, who is a member of the Australian Institute of Geoscientists. Mr. Pertel is an employee of CSA Global Pty Ltd. The information was previously issued with the written consent of Mr Dmitry Pertel in the Company's 30 June 2013 Quarterly Report released to the ASX on 31 July 2013. The Company confirms that:

(a) the form and context in which Mr. Dmitry Pertel's findings are presented have not been materially modified.
(b) it is not aware of any new information or data that materially affects the information included in the 31 July 2013 ASX announcement and that all the material assumptions and technical parameters underpinning the estimate in the 31 July 2013 ASX announcement continue to apply and have not materially changed.
(c) it is uncertain that following evaluation and/or further exploration work that the historical estimates will be able to be reported as mineral resources in accordance with the JORC Code.

The information in this report that relates to the Horseshoe Lights Project flotation tailings and surface stockpiles Mineral Resources is based on information compiled by a previous employee of Horseshoe Metals Limited, and reviewed by Mr Craig Hall. The information was previously issued in announcements released to the ASX on 26 February 2015 and 9 March 2015. The Company confirms that:

(a) the form and context in which these findings are presented have not been materially modified.
(b) it is not aware of any new information or data that materially affects the information included in the 26 February 2015 and 9 March 2015 ASX announcements and that all the material assumptions and technical parameters underpinning the estimates in the 26 February 2015 and 9 March 2015 ASX announcements continue to apply and have not materially changed.
(c) it is uncertain that following evaluation and/or further exploration work that the historical estimates will be able to be reported as mineral resources in accordance with the JORC Code.

The information in this report that relates to the Kumarina Project (Rinaldi Prospect) Mineral Resources is based on information compiled by or under the supervision of Mr Robert Spiers, who is a member of the Australian Institute of Geoscientists. Mr Robert Spiers is an independent consultant to Horseshoe Metals Limited and a full time employee and Director of H&S Consultants Pty Ltd (formerly Hellman & Schofield Pty Ltd). The information was previously issued with the written consent of Mr Robert Spiers in the Company's 30 June 2013 Quarterly Report released to the ASX on 31 July 2013. The Company confirms that:
(a) the form and context in which Mr Robert Spiers' findings are presented have not been materially modified.
(b) it is not aware of any new information or data that materially affects the information included in the 31 July 2013 ASX announcement and that all the material assumptions and technical parameters underpinning the estimate in the 31 July 2013 ASX announcement continue to apply and have not materially changed.
(c) it is uncertain that following evaluation and/or further exploration work that the historical estimates will be able to be reported as mineral resources in accordance with the JORC Code.

HORSESHOE METALS LIMITED

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Additional information required by the ASX Limited Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 1 March 2018.

A. Distribution of equity security holders

Ordinary shares:

HOLDING	NUMBER OF SHARES	NUMBER OF HOLDERS
1 - 1,000	10,409	39
1,001 - 5,000	298,798	99
5,001 - 10,000	877,860	100
10,001 - 100,000	13,514,431	341
100,000 and over	179,950,693	179
	194,652,190	758

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Options do not carry any voting rights.

There were 395 holders of less than a marketable parcel of ordinary shares, being 26,316 shares as at 1 March 2018.

B. Twenty largest shareholders

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

		NUMBER HELD	% OF ISSUED SHARES
1	Whitestone Minerals Pty Ltd	15,000,000	7.71
2	Mr Michael Fotios <Michael Fotios Family A/C>	12,294,642	6.32
3	Botsis Holdings Pty Ltd	11,000,000	5.65
4	Ralmana Pty Ltd	8,000,000	4.11
5	Investmet Limited	6,054,589	3.11
6	Mr Philip Colin Hammond & Ms Betty Jeannette Moore <MGB Superannuation Fund A/C>	5,791,667	2.98
7	Wyllie Group Pty Ltd	5,756,420	2.96
8	Hengolo Pty Ltd <CL Readhead Super A/C>	5,473,978	2.81
9	Ms Betty Jeanette Moore + Mr Philip Colin Hammond <BJM Superannuation Fund A/C>	4,200,000	2.16
10	Delta Resource Management Pty Ltd	3,665,005	1.88
11	Tarney Holdings Pty Ltd <DP + FL Waddell Family A/C>	3,550,917	1.82
12	JP Morgan Nominees Australia Limited	3,444,406	1.77
13	Fabral Investments Pty Ltd	3,119,500	1.60
14	Mr Matthew James Mulcahy	3,000,000	1.54
15	Redima Pty Ltd	3,000,000	1.54
16	Mr Joe Leuzzi + Ms Sally Leuzzi	2,640,000	1.36
17	Investmet Limited	2,600,000	1.34
18	Sunemar Pty Ltd <NA + SD Marston S/F A/C>	2,577,495	1.32
19	Garic Pty Ltd	2,500,000	1.28
20	Mr Andrew William Spencer <Spencer Super Fund A/C>	2,152,119	1.11
		105,820,738	**54.36**

C. Substantial shareholders

The number of substantial shareholders and their associates are set out below:

SHAREHOLDER	NO. OF SHARES	% OF ORDINARY SHARES
Mr Michael George Fotios and associated entities	37,334,236	21.99%
Botsis Holdings Pty Ltd	11,000,000	5.65%

D. Unquoted securities

As at 1 March 2018, the Company had no unquoted securities on issue.

E. Corporate Governance

The Company's Corporate Governance Statement is located on its website at www.horseshoemetals.com.au

F. On-market buy-back

There is no current on-market buy-back.