

Sherridon's Value Can Be Seen in HudBay Deal

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Sometimes, a misconception by the market can lead a strong, well managed company, to be undervalued. Worse still for an investor, a misconception can often hide facts and figures that would show the potential for value growth at the company. In late 2009, **Halo Resources (TSX: V:HLO)** entered into an option agreement with **HudBay Minerals (TSX: HBM)** allowing HudBay to earn a 67.5% joint venture interest in part of their flagship Sherridon Volcanogenic Massive Sulphide (VMS) property, and since this point the market has generally seemed to misconceive the nature of this agreement.

This option agreement was on 1.1 square kilometers of the Sherridon property. The total Sherridon property is around 200 square kilometers in size. This option agreement effectively has very minimal 'dilution' of future revenue and cash flows from the property, representing only a tiny portion of the total land package that Halo hold. Furthermore, rather than somehow decreasing the value of the property, if anything it should act as an indicator to the market for the potential of the property. If just one square kilometre of the property was able to raise C\$6.3 million in work commitments and payouts, not even considering the value of the metal in the ground, then consider the potential multiplier for a property 200 square kilometers in size.

Let us consider then, the implications of this. With a share price around C\$0.30, Halo has a current market cap of C\$7 million. Halo plans to advance exploration across the district, with HudBay's success in the area (27 deposits mined in the Flin-Flon area over the past 8-10 years, averaging a size of 3.5 million tonnes) an indicator of the potential, with Halo hoping to find a few similar near surface deposits and eventually building milling facilities on the site to service the Sherridon district.

This brings the need of course, for possible finance raising efforts, expected in the not too distant future in order to fund their own drill program. The HudBay option agreement has another advantage in addition to the cash and work commitments, in that it allows HudBay to 'see for themselves' so to speak, that Sherridon has the type and levels of mineralization they are interested in. If and when that does prove to be the case, further interest in other areas of the Sherridon property could not be ruled out.

To understand this potential value of Sherridon, we need to take a look at the property in a little more depth. The property covers an area of around 20,900 hectares, consisting of five primary copper, zinc and gold deposits. The leases covering two of these deposits, Cold Lake and Lost Lake, are covered under HudBay's option agreement.

Separately, HudBay recently exercised its back-in option on another of these deposits, Jungle Lake, and in doing so will require HudBay to expend over C\$2 million, earning them a 51% interest. The Lost and Cold deposits are currently the main focus however, with drilling and metallurgical sampling currently underway, for at least the next few weeks. This followed on from a round of drilling in January, as well as an internal assessment of the economic viability of

proceeding with the project, that showed further exploration was indeed worthwhile. By January 2011, HudBay expects to have come to a decisive conclusion of whether or not to continue with the next stage of engineering.

The property is host to the past producing Sherridon mine, which produced 7.7 million tonnes of ore between 1933 and 1950, grading 2.46% copper and 0.8% zinc. It is located in the Pas Mining Division in Manitoba, Canada, and as previously highlighted, covers a 200 square kilometer area near the community of Sherridon.

The Cold Lake Deposit contains high-grade copper and zinc mineralization, and 15 diamond drill holes confirmed this continued along strike for 400 meters (m), although this remains open along strike and at depth. In 2008 a NI 43-101 compliant resource estimate was conducted, and showed Cold Lake has an Indicated resources of 0.36 million tonnes grading 0.83% copper, 1.72% zinc, 0.41 grams per tonne (g/t) gold and 9.9g/t silver, with an Inferred resources of 1.2 million tonnes grading 0.7% copper, 1.4% zinc, 0.3g/t gold and 9.0g/t silver. Much of this was found near surface, lending itself well to open pit mining. This NI 43-101 report is currently in the process of being updated, with the new resource estimates expected in the next few weeks. Cold was recently the subject of the best ever Sherridon drill interception, which showed 2.7% copper, 4.1% zinc, 2.6g/t gold and 47g/t silver, over 17.3m, going some way to indicate the potential for this latest resource estimate to be upgraded.

The Lost Lake deposit was discovered by Halo following up on a geophysical anomaly discovered in 2007, and has a 500m strike identified so far. This too was the subject of the NI 43-101 report, which showed it has an Inferred resource of 2.2 million tonnes grading 0.9% copper, 2.7% zinc, 0.6g/t gold and 8.9g/t silver. Again much of this resource is near-surface and amenable to open pit mining, and again this resource estimate is in the process of being updated.

It is also worth noting that the drilling and metallurgical sampling on Lost and Cold, conducted in late 2009 and early 2010, returned copper and zinc recoveries in the range of 85% - 88%, copper concentrate grades of between 26.5% to 28%, and zinc concentrate grades of 25% to 31%. Gold and silver assays were not included however, and when they are conducted in this latest program, Halo expect levels at Lost Lake particularly, to significantly enhance the economics of the project. Lost can also offer an insight into the broader potential of the Sherridon area. Lost is located less than one kilometer from the 'head frame' of the historical producing site; an indication of exactly how little exploration was done on the project originally. With that as the case, the potential for as yet unknown discoveries and deposits is quite clear.

Although these deposits are the subject of the HudBay option agreement, they are also likely to show the quickest returns for Halo, with HudBay expected to go into production at the site within a year or so. When this does happen, Halo begin to receive 30% of the cash flow generated, and jump a significant risk hurdle by moving from an exploration company to a producer. Furthermore the details of Lost and Cold may give us some insight into additional mineralization found across Sherridon. An airborne survey has found geophysical anomalies that extend the Cold-Lost corridor to the north and to the west by several kilometers.

Also, just this month ground geophysical surveys found anomalies that are now additional targets, found one kilometer (km) to the east of the Lost deposit – out of the HudBay joint

venture area. This effectively confirms the Cold–Lost deposit expands into the area 100% owned by Halo, a classic example of how the market is misconceiving the HudBay option agreement. The large majority of Sherridon is still 100% owned by Halo, and as with this example, this is likely to include a lot of mineralization and yet-undiscovered deposits. In themselves these are likely to offer further business ventures for Halo going forward, and as Bloom puts it, “there is more than one way to cut a pie”.

One last thing to consider when looking at Halo, is that although their current focus is on the Sherridon property, they do hold a broader gold portfolio. Significantly, this includes the Red Lake Gold Property in Ontario, a 15 square kilometer property located 25km west of the Red Lake Mines, in joint venture with Goldcorp. Although this is a grassroots project, Halo have recently earned their interest in the Tribute Bridget Lake claims, and are around 75% way to exercising their option with Goldcorp. Recent field programs identified samples with up to 172g/t gold, 6% nickel and 2% cobalt, and a drill program is now planned on the project in the next month.

With Halo, the option agreement with HudBay was not only a clever move to quickly and at comparatively low cost to the company, develop the property into production as early as possible, but the cash HudBay were willing to put up, for only one of 200 square kilometers of Sherridon, goes a long way to showing the potential for the rest of the property. With a collection of news flow expected over the coming months, including a NI 43-101 resource update, Halo is a company well worth keeping an eye on.

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