

18 July 2011

## Soho Resources Corp (SOH.V)

**Price: C\$0.10**

Mining Sector

*Soho Resources has emerged from the recession with renewed vigour. The company intends to press ahead with development of its Tahuehueto polymetallic project in Durango, Mexico, where Soho has delineated a substantial mineral resource of gold, silver, zinc, lead and copper in several zones along a large principal structure. A preliminary economic assessment last year yielded robust economics and Soho recently commenced data collection to support a prefeasibility study for a potential open pit and underground mine at Tahuehueto. Although Tahuehueto remains Soho's focus, the company acquired the Jocuixtita silver project in Sinaloa, Mexico, in 2009. Soho intends to continue exploration at Jocuixtita concurrently with development of Tahuehueto.*

### UPDATE

- Soho has a substantial mineral resource delineated at Tahuehueto**

Previous drilling by Soho allowed the company to delineate a significant mineral resource at Tahuehueto. The project currently hosts a measured and indicated, NI 43-101-compliant mineral resource of 7.38 million tonnes, averaging 2.1 grams of gold and 35 grams of silver per tonne, as well as 2.01% zinc, 1.06% lead and 0.28% copper. The deposit hosts a further inferred resource of 4.87 million tonnes, averaging 1.06 grams of gold and 31.8 grams of silver per tonne, as well as 2.26% zinc, 1.23% lead and 0.23% copper. Potential for further discovery remains excellent. Accordingly, we model an additional 7.0 million tonnes of hypothetical mineralisation into our model.
- Soho has commenced prefeasibility data collection at Tahuehueto**

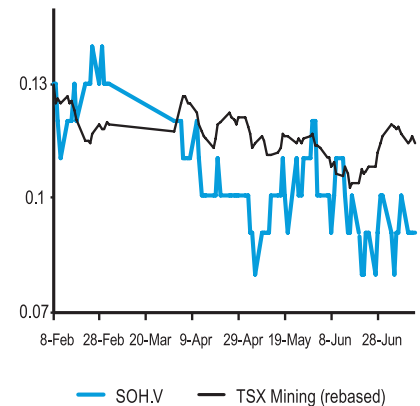
Soho has recently commenced data collection in preparation of a prefeasibility study of Tahuehueto that will be based on a model that includes both open pit and underground mining. We previously noted the potential for conducting open pit mining and are encouraged to see the company's preliminary economic study (PEA), completed last year, incorporate an open pit design at El Creston. The prefeasibility study will pursue the potential for open pit mining further, including a possible second open pit at the Cinco de Mayo zone.

### Hypothesised metals prices

	SOHO PEA	Current Spot	Objective Model*
Gold	965.81	1490.75	1031.40
Silver	15.38	35.08	15.00
Zinc	0.88	0.95	0.91
Lead	0.95	1.11	0.64
Copper	2.92	3.98	2.57

\* 10-year average in constant 2011 dollars

### Price chart (C\$)



### Current fair value of equity

Expected value C\$90.3m

**Value per share C\$0.47**

### Derisked upside potential\*

Our core scenario C\$1.10

Our optimistic scenario C\$1.59

Our pessimistic scenario C\$0.68

Maximum potential C\$2.28

\*potential assuming projects reach permitting

### Company details

Quote

Shares

- TSX SOH.V

- Frankfurt SQ8.F

- OTC QX SOHFF

Hi-Lo last 12-mos. (C\$) 0.15 - 0.04

Shares issued (m) 187.5

Fully diluted (m) 218.8

Market Cap'n (C\$m) 20.6

Website: [www.sohoresources.ca](http://www.sohoresources.ca)

### Analyst:

Will Purcell

will@objectivecapital.co.uk

**Objective Capital Research Limited**

Token House

11-12 Tokenhouse Yard

London EC2R 7AS

Tel: +44-20-7754-5994

Fax: +44-(0)203-137-0076

US toll-free: 1-888-802-7215

editor@objectivecapital.com

Corporate: [www.ObjectiveCapital.com](http://www.ObjectiveCapital.com)

Research: [www.ObjectiveCapital.co.uk](http://www.ObjectiveCapital.co.uk)

## Fair value summary (US\$m)

Scenario	Base	Pessimistic	Optimistic
Property portfolio			
- Tahuehueto	105.4	79.0	140.4
- Jacuixtita	1.5	1.5	1.5
Total	106.9	80.5	141.9
Less: overhead	6.1	6.1	6.1
<b>Expected value of portfolio</b>	<b>100.8</b>	<b>74.4</b>	<b>135.7</b>
Add: other investments	0.0	0.0	0.0
Add: starting cash + new funds	0.7	0.7	0.7
Total current value for firm	101.5	75.1	136.4
Less: bank & other debt	0.0	0.0	0.0
Total value to equity claims	101.5	75.1	136.4
Less: warrants and options	11.2	7.3	15.9
Ordinary equity holders	90.3	67.8	120.5
Value per share (US\$)	<b>0.48</b>	<b>0.36</b>	<b>0.65</b>
Value per share (C\$)	<b>0.47</b>	<b>0.35</b>	<b>0.63</b>

## Expected fair value of Soho Resources

Scenario	Risked mineable resources (m tonnes)	Tahuehueto property value (US\$m)	SOH Valuation (US\$m)	Value per share (C\$)
<b>Base case outlook</b>	<b>8.0</b>	<b>105.4</b>	<b>88.2</b>	<b>0.47</b>
<b>Value for scenarios of further exploration success</b>				
Full proved up	13.9	143.6	121.7	0.65
Optimistic outlook	11.8	140.4	119.0	0.63
Pessimistic outlook	5.2	79.0	66.3	0.35
<b>Value with no further exploration success</b>				
Current resource estimate	4.4	87.1	73.3	0.39

### Notes:

- 'fully proven up' scenario assumes that current mineable resource estimates are upgraded to 'Proven' status

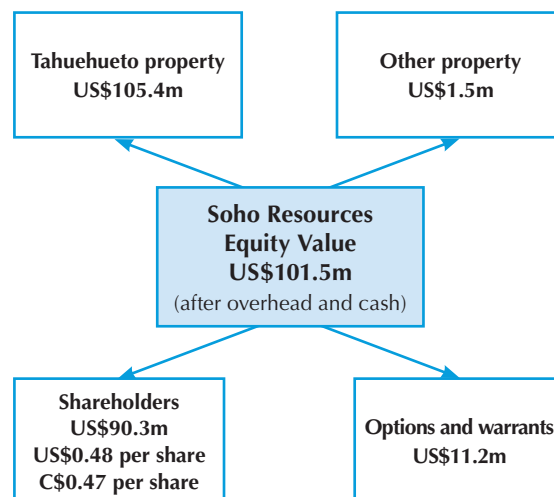
## Sensitivity to market assumptions ...

Long run real gold price (US\$/oz)	660	685	<b>710</b>	735	760
Value (C\$/share)	0.44	0.46	<b>0.47</b>	0.49	0.50
Change in value (%)	-6%	-3%		+3%	+6%
Time for gold price to revert to mean (years)	6	7	<b>8</b>	9	10
Value (C\$/share)	0.43	0.45	<b>0.47</b>	0.49	0.51
Change in value (%)	-9%	-4%		+4%	+8%
Volatility of gold price (%)	20%	<b>25%</b>	30%	35%	40%
Value (C\$/share)	0.45	<b>0.47</b>	0.49	0.52	0.55
Change in value (%)	-3%	+4%	+10%	+16%	+16%
Interest rate (%)	2.9%	<b>3.1%</b>	3.3%	3.5%	3.7%
Value (C\$/share)	0.48	<b>0.47</b>	0.46	0.45	0.44
Change in value (%)	+2%	-2%	-4%	-7%	-7%
Sovereign risk premium (years)	0.00%	0.50%	<b>1.00%</b>	1.50%	2.00%
Value (C\$/share)	0.53	0.50	<b>0.47</b>	0.44	0.42
Change in value (%)	+12%	+6%		-6%	-11%

## Tahuehueto sensitivities to operating assumptions ...

Change in Gold & Silver recovery rate (%)	-5%	-2%	<b>0%</b>	2%	5%
Value (C\$/share)	0.39	0.44	<b>0.47</b>	0.50	0.55
Change in value (%)	-16%	-6%		+6%	+16%
Operating Costs (US\$ per milled tonne)	38	<b>40</b>	42	44	46
Value (C\$/share)	0.50	<b>0.47</b>	0.44	0.41	0.38
Change in value (%)	+7%		-7%	-13%	-20%
Increase in Capital Cost (%)	<b>+0%</b>	+10%	+20%	+30%	+40%
Value (C\$/share)	<b>0.47</b>	0.45	0.44	0.42	0.40
Change in value (%)		-4%	-8%	-11%	-15%

## Components of Soho Resources' entity value



## Tahuehueto valuation (US\$m)

Scenarios for exploration success	Base	Optimistic	Pessimistic
<b>Net value of production</b>	<b>387.9</b>	387.9	387.9
Expected mining success*	<b>72%</b>	88%	59%
<b>Expected net value of production</b>	<b>278.5</b>	343.2	229.6
Add: tax shield on depreciation charge	<b>20.5</b>	20.5	20.5
Less: development & operational capex	<b>86.6</b>	86.6	86.6
<b>Value of mining operations</b>	<b>212.3</b>	277.0	163.5
Probability of putting into production**	<b>54%</b>	54%	54%
<b>Expected value of deposit</b>	<b>114.6</b>	149.6	88.3
Less:			
- expect pre-development costs***	<b>4.4</b>	4.4	4.4
- further exploration costs ****	<b>4.8</b>	4.8	4.8
Expected value of project	<b>105.4</b>	140.4	79.0
effective risk haircut	<b>64%</b>	54%	73%
Ownership	<b>100%</b>	100%	100%
Soho Resources' share	<b>105.4</b>	140.4	79.0

\* portion of reserve/resource expected to be converted to a mineable resource, probability-weighted for our confidence they will be proven-up

\*\* probability of successfully completing pre-feasibility, full feasibility and required permitting and actual construction in realistic timeframe

\*\*\* shown as expected value of being incurred after allowing for likelihood of reaching each development stage

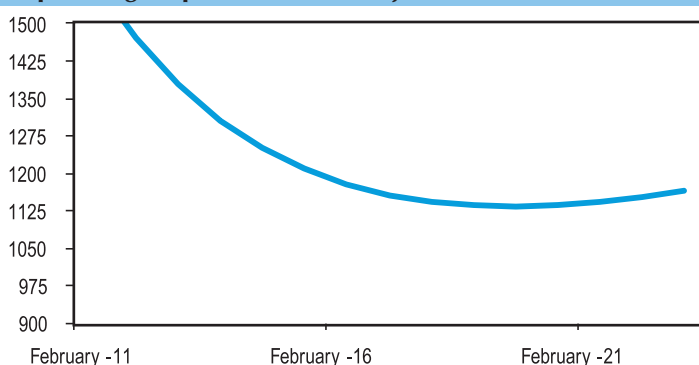
\*\*\*\* present value

## Commodity assumptions

Gold prices are assumed to be mean reverting based on

Historic long run real level at current prices	710 US\$/oz
Avg time to revert to mean	8.0 years
Volatility	25%
Inflationary price growth	2.5%

## Expected gold price (inflation-adjusted) (US\$/oz)



The PEA indicated an internal rate of return of 31 percent and a 27-month payback, based on capital costs of US\$89.1m. The PEA projected cash flow over the life of the project at US\$184.2m, or US\$109.6m when discounted at 5%. The study contemplated a processing rate of 2,750 tonnes per day, in excess of our 2,000-tonne-per-day estimate as a result of the open pit plan. These economics were achieved using conservative metal prices considerably lower than currently prevail, although they are in line with our own estimate.

The potential for higher metals prices provides significant upside potential. The PEA generated particularly robust economics at current metals prices. According to Soho management, the IRR rises to 56 percent and the net present value, discounted at 5%, rises to US\$300m, with capital cost payback within 1.5 years, using spot metal prices as of February 16, 2011.

- **Prefeasibility drilling has commenced at Tahuehueto**

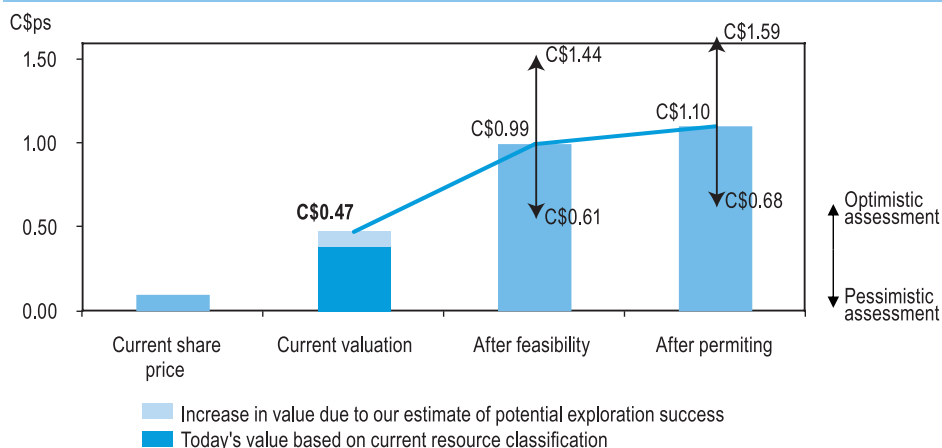
Soho recently recommenced work at Tahuehueto. The company envisages a drill programme designed to provide infill drill data as well as geotechnical information for the prefeasibility study. The company will employ one drill but plans to add a second when funds permit.

The drilling and data collection phase of the prefeasibility programme will take an estimated four months. The engineering and analysis of the data will require a further four months, leaving Soho potentially in a position to complete its prefeasibility study in early 2012.

- **New infrastructure could provide an added boost to a Tahuehueto mine**

The Mexican government is constructing a new paved, two-lane highway that connects northwestern Durango State with Tamazula and Culiacan, and to the Pacific coast via a more direct and easier route than previously existed. Soho's previous plan involved transport of its concentrate over a 185-kilometre gravel road requiring extensive upgrading, thence another 400 kilometres to a Penoles smelter in Torreon. The new route will pare nearly 200 kilometres from the distance and require significantly less capital cost. Further, the new route, via Topio, has the added bonus of putting Tahuehueto within closer reach of Durango's power grid, which is currently about 30 kilometres distant. Soho had initially contemplated acquiring power from Tepehuanes, nearly 200 kilometres distant.

### What Soho could be worth - now and in the future



Source: Objective Capital

- **Successful fundraising will be key to timely advancement of Tahuehueto**  
Although the recession forced Soho well off its timetable, the company has been able to successfully raise exploration funds. Early this year the company sold 30.58 million shares at C\$0.10, with insiders accounting for 4.76 million shares. The placement was well received within the financial community, with investment bankers purchasing another 3.2 million shares for their accounts.

Soho requires more cash within the next several months, if it is to stick to its prefeasibility timetable. Management indicates that successful completion of a private equity placement sufficient to cover costs of the study is an immediate priority. The reception received by Soho's previous placement provides some comfort the company will be able to raise the necessary funds. Further, the company's cash requirements are modest in the short term.

- **Soho is proposing a C\$0.4m budget for its Jocuixtita silver project**  
In mid-2009, Soho acquired a second prospective precious metals property in Mexico, at Jocuixtita, in Sinaloa, Mexico, through the staged payment of US\$1.0m in cash and stock over six years. Several due diligence channel samples collected on the property yielded assays of up to 867 grams of silver per tonne, with encouraging levels of gold, lead and zinc. The samples suggest silver accounts for 50% of the potential rock value at Jocuixtita, with zinc and lead also major contributors.

Soho has commenced its first phase of exploration at Jocuixtita. The proposed programme includes geological mapping of exposed mineralisation and drilling, commenced in late May, at two main zones, La Salvadora and El Carmen. These features, the sites of Soho's due diligence grab samples, lie 700 metres apart along a 3,000-metre structure. The budget for the proposed first phase of the 2011 exploration programme is C\$0.4m.

- **Our valuation has increased despite major shifts in its individual components**  
Clearly, the recession exerted a powerful negative influence on all resource companies and Soho placed its projects on care and maintenance. Nevertheless, the requirement to fund the company through and in the immediate wake of the recession resulted in significant shareholder dilution. Since mid-2009, the company's shares outstanding rose nearly 50%, from 125.9 million to 187.5 million shares, with a further potential overhang of 31.2 million share purchase options and warrants. This dilution has a correspondingly direct negative impact on our valuation.

The US dollar has weakened against its Canadian counterpart by approximately 15 per cent since our previous valuation of Soho in mid-2009. The company's revenues and most of its expenses are valued in US dollars, whilst its stock trades in Canadian dollars, with a resulting negative impact on our valuation. This is partially mitigated by lower interest rates.

On June 22, Soho arranged a non-brokered private placement of up to 15 million shares priced at C\$0.10. One-half share purchase warrant will accompany each share, exercisable at C\$0.13 during the first year and C\$0.175 during the second year. The funds to be raised are to cover continuing prefeasibility data collection at Tahuehueto, to expand a drilling programme at Jocuixtita from 2,000 metres to 3,000 metres, and for general corporate expenses.

All other major factors appear positive. Metals prices have risen substantially since mid-2009 and are at or near new all-time highs. Although we model all metals prices as reverting toward their long-term, inflation-adjusted means, our model now reflects significantly higher metals prices than earlier.

In particular, the price of gold, which has averaged US\$1,450 per ounce this year, is more than double the long-term inflation-adjusted mean of US\$710 per ounce. Although we see nothing material to suggest a quantum shift in the gold market that would prevent the price reverting toward its long-term mean, the lengthy mean time to revert and comparatively low volatility rates suggest continuing inflation could keep the real price the long-term average (US\$710) when expressed in current dollars. In fact, our modelling suggests the price will remain above US\$1,100 per ounce when expressed in future dollars.

Further, should metals prices hold near current levels or continue to rise, the value ascribed to Tahuehueto would increase significantly.

We have decreased our capital cost estimate from US\$150m to US\$100m, based on the company's PEA, which incorporates contract mining, negating the need to procure and maintain a substantial fleet of surface and underground vehicles and equipment. Further, the PEA treated all underground development as an operating expense, reducing capex further. Our estimate nevertheless reflects a greater degree of conservatism than the PEA assumed.

Our operating cost estimate has declined from US\$50 per tonne to US\$40 per tonne to reflect the impact of open pit mining versus the previous model, which assumed mining would be entirely by underground methods.

- ***Our valuation of Soho rises to C\$0.47 per share***

Based on these developments, our base-case valuation of Soho Resources increases from C\$0.35 to C\$0.47 per share, a quite encouraging result given the substantial shareholder dilution incurred since mid-2009. In fact, our more optimistic assessment, which assumes higher probabilities of exploration success, increases to C\$0.63 from C\$0.44 per share.

Further, the upside potential of Soho becomes apparent at future stages of development. Assuming success at all stages through feasibility and permitting, our base-case and optimistic assessments rise to C\$1.10 and C\$1.59 respectively, compared with our earlier estimates of C\$0.85 and C\$1.22 respectively.

## Risked mineable resource assumptions

Reserves		Probability	Tonnes (m)
Proven		90%	0.0
Probable		50%	0.0
<b>Total</b>		<b>0%</b>	<b>0.0</b>
Resources	Conversion	Probability	Tonnes (m)
Measured	80%	90%	3.3
Indicated	80%	50%	4.1
Inferred	80%	10%	4.9
Hypothesised	80%	0%	7.0
<b>Total</b>	<b>80%</b>	<b>28%</b>	<b>19.2</b>
Mineable resource			Tonnes (m)
<b>Mineable resource</b>			<b>15.4</b>
Risked mineable resource			Tonnes (m)
Current classification			4.4
<i>Scenarios for exploration success</i>			
- base case			8.0
- optimistic case			11.8
- pessimistic case			5.2
<b>Notes:</b>			
- mineable resource have been estimated as reserves plus the portion of resources that would be expected to convert to reserves considering deposit type and likely grade variability			
- risked mineable resource refers to the various classes of resource/reserve weighted by their assumed confidence level			

## Proforma Tahuehueto property profit and loss

Proforma P&L (US\$m)	Year ending February							
	'13	'14	'15	'16	'17	'18	'19	'20
<b>Gross revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>122.1</b>	<b>169.1</b>	<b>159.0</b>	<b>144.1</b>	<b>143.3</b>	<b>130.4</b>
Operating costs	0.0	0.0	41.3	68.6	68.7	67.9	69.1	68.4
<b>Operating profit</b>	<b>0.0</b>	<b>0.0</b>	<b>80.8</b>	<b>100.5</b>	<b>90.3</b>	<b>76.2</b>	<b>74.2</b>	<b>61.9</b>
Depreciation	6.0	6.0	7.3	8.4	8.5	8.5	8.6	8.7
Administrative costs	0.0	0.0	0.9	1.7	1.8	1.8	1.9	1.9
<b>EBIT</b>	<b>-6.0</b>	<b>-6.0</b>	<b>72.5</b>	<b>90.4</b>	<b>80.1</b>	<b>65.8</b>	<b>63.7</b>	<b>51.4</b>
<i>Assumptions</i>								
Capital costs (US\$m)	60.0	40.0	1.3	2.4	2.5	2.5	2.6	2.7
Tonnes ore mined (millions pa)	0.0	0.0	0.7	1.0	1.0	1.0	1.0	1.0
Payable metal								
- Gold (000 oz)	0	0	38	54	52	47	47	43
- Silver (000 oz)	0	0	782	1,117	1,073	983	983	894
- Zinc (000 lb)	0	0	33,163	47,376	45,481	41,691	41,691	37,901
- Lead (000 lb)	0	0	17,714	25,306	24,294	22,269	22,269	20,245
- Copper (000 lb)	0	0	4,005	5,722	5,493	5,035	5,035	4,577

Source: Objective Capital

# Financials

## Profit and loss

Year ending February (C\$m)	2009E	2010E	2012E	2013E	2014E	2015E
<b>Revenues</b>	—	—	—	—	—	<b>119.3</b>
COGS	—	—	—	—	—	(41.3)
Gross profits	—	—	—	—	—	78.0
Administrative Costs	(1.3)	(1.4)	(1.4)	(1.4)	(1.5)	(1.5)
<b>EBITDA</b>	<b>(1.3)</b>	<b>(1.4)</b>	<b>(1.4)</b>	<b>(1.4)</b>	<b>(1.5)</b>	<b>76.5</b>
Depreciation & amortisation	(0.0)	—	—	(5.9)	(5.9)	(7.1)
EBIT	(1.3)	(1.4)	(1.4)	(7.3)	(7.3)	69.4
Interest	0.0	(0.0)	0.1	(3.2)	(7.9)	(7.5)
EBT	(1.3)	(1.4)	(1.3)	(10.5)	(15.3)	61.9
Tax paid	—	0.5	0.5	3.6	5.2	(21.1)
<b>Earnings</b>	<b>(1.3)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(6.9)</b>	<b>(10.1)</b>	<b>40.9</b>
Dividends	—	—	—	—	—	—
<b>Retained earnings</b>	<b>(1.3)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(6.9)</b>	<b>(10.1)</b>	<b>40.9</b>

## Cashflow statement

Year ending February (C\$m)	2009E	2010E	2012E	2013E	2014E	2015E
EBIT	(1.3)	(1.4)	(1.4)	(7.3)	(7.3)	69.4
Depreciation	0.0	—	—	5.9	5.9	7.1
Stock-based Compensation	0.3	—	—	—	—	—
Gains & Writedowns	(0.0)	—	—	—	—	—
(Increase) decrease in receivables	0.1	—	—	—	—	(17.9)
(Increase) decrease in inventory	(0.0)	—	—	—	—	(5.0)
Increase (decrease) in payables	0.1	—	—	—	—	6.2
<b>Net cash from Ops</b>	<b>(0.9)</b>	<b>(1.4)</b>	<b>(1.4)</b>	<b>(1.4)</b>	<b>(1.5)</b>	<b>59.9</b>
Tax paid	—	0.5	0.5	3.6	5.2	(21.1)
Dividends	—	—	—	—	—	—
Net interest recieved (paid)	0.0	(0.0)	0.1	(3.2)	(7.9)	(7.5)
New equity	1.3	0.7	10.0	40.0	40.0	5.0
New (deposits) borrowings	—	—	—	90.0	30.0	(50.0)
Capital expenditure	(0.8)	(0.5)	(5.0)	(58.6)	(39.1)	(1.3)
<b>Net cash from financing</b>	<b>0.5</b>	<b>0.7</b>	<b>5.5</b>	<b>71.7</b>	<b>28.2</b>	<b>(74.8)</b>
<b>Net increase (decrease) in cash</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>4.1</b>	<b>70.3</b>	<b>26.7</b>	<b>(14.9)</b>

## Balance sheet

Year ending February (C\$m)	2009E	2010E	2012E	2013E	2014E	2015E
Fixed assets at NAV	20.3	20.8	25.8	78.6	111.8	106.0
Cash	0.3	(0.5)	3.7	74.0	100.7	85.7
Receivables	0.1	0.1	0.1	0.1	0.1	18.0
Inventory	0.0	0.0	0.0	0.0	0.0	5.0
Less Payables	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(6.9)
<b>Net current assets</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>3.1</b>	<b>73.4</b>	<b>100.1</b>	<b>101.8</b>
Less loans	—	—	—	(90.0)	(120.0)	(70.0)
<b>Capital employed</b>	<b>20.0</b>	<b>19.8</b>	<b>28.9</b>	<b>62.0</b>	<b>91.9</b>	<b>137.8</b>
<i>Represented by</i>						
Shares in issue	38.2	38.9	48.9	88.9	128.9	133.9
Add retained profit						
Prior periods	(16.8)	(18.1)	(19.0)	(19.9)	(26.8)	(36.9)
This period	(1.3)	(0.9)	(0.9)	(6.9)	(10.1)	40.9
<b>Shareholders' funds</b>	<b>20.1</b>	<b>19.9</b>	<b>29.0</b>	<b>62.1</b>	<b>92.0</b>	<b>137.9</b>

Source: Objective Capital

We are pleased to bring you this report on **Soho Resources Corp.**



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As always, I welcome your comments and feedback on our research!

Gabriel Didham, CFA  
Objective Capital

### Will Purcell

Will has been involved in the resource sector for 30 years in a variety of roles. Since the late 1990s, he has been active in assessed mineral resource investment projects. Will has a B. Math degree from the University of Waterloo in Ontario.

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**Objective Capital Research Limited**

Tel: +44-20-7754-5994

Fax: +44-(0)203-137-0076

[sales@objectivecapital.com](mailto:sales@objectivecapital.com)

US Toll-Free:

1-888-802-7215

For Marketing & Sales:

Token House

11-12 Tokenhouse Yard

London EC2R 7AS

Corporate: [www.ObjectiveCapital.com](http://www.ObjectiveCapital.com)

Research: [www.ObjectiveCapital.co.uk](http://www.ObjectiveCapital.co.uk)