

16 May 2008

Soho Resources Corp (SOH.V)

Shareprice: C\$0.15

Mining sector

Soho has completed an NI 43-101-compliant mineral resource calculation for its Tahuehueto project in Durango, Mexico. The inferred resource carries a significant tonnage, but with a lower grade than hypothesised in our initiation note. We believe continued drilling could establish a larger resource with improved grades, which would increase our confidence in exploration success. The effect of this initial resource and increases in precious metal prices is partially offset by continuing inflationary pressures on capital and operating costs, a strong Canadian dollar and decreases in lead and zinc prices. The net effect is a slightly higher valuation of C\$0.27 per share.

KEY POINTS

- An initial mineral resource**

Mine Development Associates has calculated an inferred resource of 6.4 million tonnes, using an unoxidised gold-equivalent cut-off of 2.0 grams per tonne. The resource averages 1.34 grams of gold and 31 grams of silver per tonne, with 0.24 percent copper, 0.78 percent lead and 1.43 percent zinc. This translates to 276,000 ounces of gold, 6.43 million ounces of silver, 33.5 million pounds of copper, 110.5 million pounds of lead and 201.1 million pounds of zinc. Although the tonnage is greater than hypothesised, the average grades are significantly lower, which results in a neutral impact on our valuation.

- Continued drilling yields further encouragement**

Soho continues its aggressive drill programme and assays from several zones continue to yield encouraging assays over significant widths. This supports our hypothesis that additional tonnage will be available at Tahuehueto.

- Higher precious metal prices**

The price of gold surged to an all-time high early this year, topping US\$1,000 per ounce for the first time, before retreating to US\$850 per ounce to start May. The current price, just under US\$900 per ounce, is significantly above the level last fall, at the time of our initiation note. Silver and copper prices are also higher than noted in our initiation note. These increases are only partially offset by lower current prices for lead and zinc.

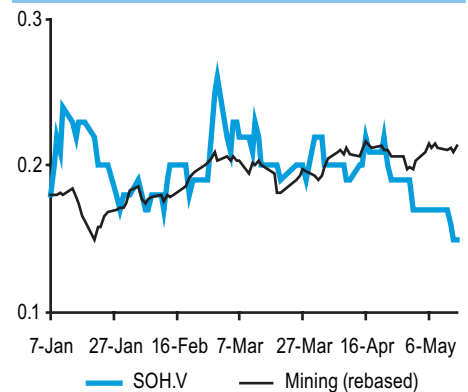
- Potentially higher capital costs**

The mining industry continues to experience cost pressures in excess of general rates of inflation, due to high demand for critical components, the rising price of oil, steel and other key commodities. Although most of these increases were factored into our earlier valuation, our revised model increases the capital cost by C\$2m to account for inflationary pressures above our estimate. This exerts a slight negative influence on our valuation.

- Our core valuation increases to C\$0.27**

These factors are the driving force behind a modest net increase in our base-case valuation to C\$0.27 per share, from the earlier C\$0.25 per share noted in our December 2007 initiation note. Soho's continued drilling offers further upside potential.

Price chart (US\$)



Current fair value of equity

Expected Value US\$27.3m

Value per share C\$0.27

Derisked upside potential*

Our core scenario C\$0.79

Our optimistic scenario C\$1.43

Maximum potential C\$2.27

*potential assuming projects reach permitting

Company details

Quote

Shares
 - TSX SOH.V
 - Frankfurt SQ8.F
 - Pinksheets SHRJF.PK

Hi-Lo last 12-mos. (US\$) 0.65 - 0.15

Shares issued (m) 101.1

Fully diluted (m) 128.8

Market Cap'n (C\$m) 15.0

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COMMENT

Based on current metal prices, gold and zinc each account for approximately one-quarter of the gross rock value, with lead, copper and silver each providing approximately one-fifth of the gross rock value. On a gold-equivalent basis, the current resource represents approximately one million ounces of gold.

Although the resource tonnage exceeds the hypothesised tonnage outlined in our initiation note, the average grades are significantly lower, based on an unoxidised gold-equivalent cut-off of 2.0 grams per tonne. A higher minimum cut-off of 7.0 grams of gold equivalent per tonne will generate the higher average grades assumed in our note, but the stated tonnage declines to 1.05 million tonnes.

For valuation purposes, we continue to use our estimated higher grades, which now roughly correspond with a cut-off of 5.0 grams of gold equivalent according to Soho's recent resource calculation. This conservative cut-off nevertheless results in an inferred resource of 1.9 million tonnes, averaging 3.30 grams of gold and 58 grams of silver per tonne, with 2.42 percent zinc, 1.32 percent lead and 0.38 percent copper. We continue to project an additional hypothesised resource of some 8.5 million tonnes, with comparable grades, bringing our modelled available tonnage to 10.4 million tonnes.

This hypothesised tonnage represents Soho's potential to increase its resource through further exploration at depth and along strike at El Creston, Cinco de Mayo and El Rey, and through exploration at several other showings that exist on the Tahuehueto property.

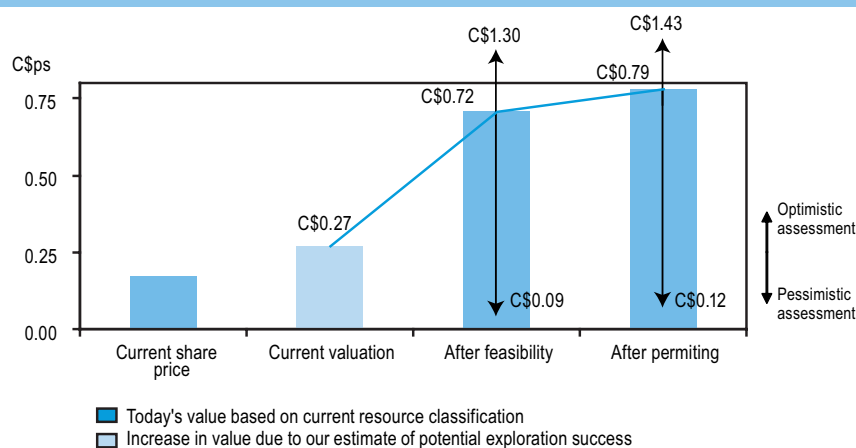
Our revised model ascribes a base-case value to Soho Resources of C\$0.27 per share, with an optimistic assessment of C\$0.49 per share, based on a higher confidence that continued drilling will convert our purely hypothetical tonnage into a mineral reserve. With exploration and development success, our base-case and optimistic valuations for Soho in the pre-production environment rise to C\$0.79 and C\$1.43 respectively.

Soho completed a further 50 drill holes at Tahuehueto since commencing the resource estimate and drilling continues. The company recently reported encouraging assays from several mineralised deposits on Tahuehueto, El Creston, Perdido, Cinco de Mayo, Santiago and Texcalama. At Cinco de Mayo, Soho obtained 4.63 grams of gold and 79.6 grams of silver per tonne over a 5.85-metre true width, with significant values of base metals.

At Santiago, Soho obtained 8.24 grams of gold and 400 grams of silver per tonne over a true width of 1.7 metres. At Texcalama, a 3.7-metre true width yielded 2.47 grams of gold and 44.9 grams of silver, with significant base metal values. At El Creston, a 10.13-metre true width produced 2.26 grams of gold and 97.2 grams of silver per tonne. Several other holes yielded significant mineralisation.

The company will incorporate this data into a new resource estimate, which it expects to commence late this year. Drilling in areas beyond the current resource offers further upside potential, as does the use of a cut-off of 3.0 grams of gold equivalent per tonne in this period of robust metals prices.

What Soho could be worth - now and in the future



Source: Objective Capital

Fair value summary (US\$m)

	Scenario		
	Base	Pessimistic	Optimistic
Property portfolio			
- Tahuehueto	28.3	5.4	51.3
Total	28.3	5.4	51.3
Less: overhead	7.3	7.3	7.3
Expected value of portfolio	21.1	(1.9)	44.0
Add: other investments	0.0	0.0	0.0
Add: starting cash + new funds	7.0	7.0	7.0
Total current value for firm	28.1	5.1	51.0
Less: bank & other debt	0.0	0.0	0.0
Total value to equity claims	28.1	5.1	51.0
Less: warrants and options	0.7	0.0	2.4
Ordinary equity holders	27.3	5.1	48.7
Value per share (US\$)	0.27	0.05	0.48
Value per share (C\$)	0.27	0.05	0.49

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\$)
Base case outlook	4.0	28.3	27.3	0.27
Value for scenarios of further exploration success				
Full proved up	6.7	56.1	53.0	0.53
Optimistic outlook	5.8	51.3	48.7	0.49
Pessimistic outlook	2.3	5.4	5.1	0.05
Value with no further exploration success				
Current resource estimate	0.2	(9.3)	(9.5)	(0.10)

Notes:

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

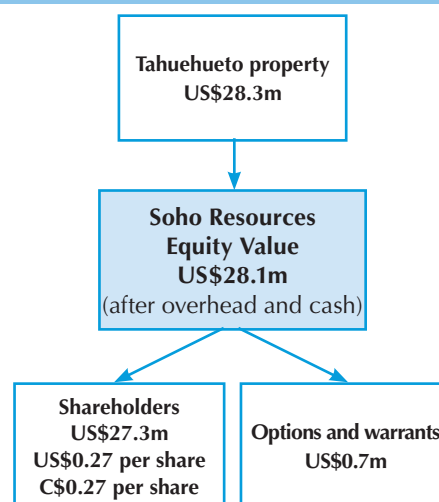
Sensitivity to market assumptions ...

Long run real gold price (US\$/oz)	500	525	550	575	600
Value (C\$/share)	0.23	0.25	0.27	0.30	0.32
Change in value (%)	-16%	-8%		+8%	+15%
Time for gold price to revert to mean (years)	6	7	8	9	10
Value (C\$/share)	0.24	0.26	0.27	0.29	0.30
Change in value (%)	-12%	-6%		+6%	+11%
Volatility of gold price (%)	20%	25%	30%	35%	40%
Value (C\$/share)	0.26	0.27	0.30	0.32	0.36
Change in value (%)	-7%		+8%	+18%	+31%
Interest rate (%)	+3.7%	+3.8%	+3.9%	+4.0%	+4.1%
Value (C\$/share)	0.28	0.28	0.27	0.27	0.26
Change in value (%)	+3%	+2%		-2%	-3%
Sovereign risk premium (years)	0.00%	1.00%	2.00%	3.00%	4.00%
Value (C\$/share)	0.27	0.23	0.19	0.16	0.13
Change in value (%)		-16%	-30%	-42%	-53%

Tahuehueto sensitivities to operating assumptions ...

Change in Gold & Silver recovery rate (%)	-10%	-5%	0%	5%	10%
Value (C\$/share)	0.18	0.23	0.27	0.32	0.36
Change in value (%)	-33%	-16%		+16%	+32%
Operating Costs (US per milled tonne)	59.85	63.00	66.15	69.30	72.45
Value (C\$/share)	0.27	0.27	0.27	0.27	0.27
Change in value (%)	+0%		+0%	+0%	+0%
Increase in Capital Cost (%)	+0%	+10%	+20%	+30%	+40%
Value (C\$/share)	0.27	0.24	0.21	0.18	0.15
Change in value (%)		-11%	-23%	-34%	-46%

Components of Soho Resources' entity value



Tahuehueto valuation (US\$m)

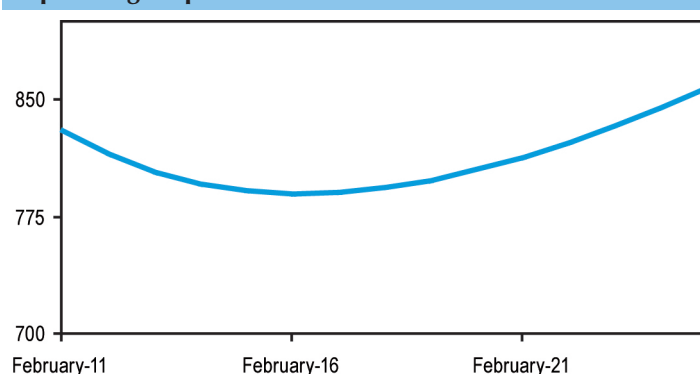
Scenarios for exploration success	Base	Optimistic	Pessimistic
Net value of production	215.1	215.1	215.1
Expected mining success*	64%	86%	43%
Expected net value of production	137.8	184.0	91.5
Add: tax shield on depreciation charge	26.5	26.5	26.5
Less: development & operational capex	88.6	88.6	88.6
Value of mining operations	75.6	121.8	29.4
Probability of reaching mine development	50%	50%	50%
Expected value of deposit	37.6	60.6	14.6
Less:			
- expect pre-development costs**	2.2	2.2	2.2
- further exploration costs ***	7.1	7.1	7.1
Expected value of project	28.3	51.3	5.4
effective risk haircut	75%	60%	90%
Ownership	100%	100%	100%
Soho Resources's share	28.3	51.3	5.4

* portion of reserve/resource expected to be converted to a mineable resource, probability-weighted for our confidence they will be proven-up
 ** shown as expected value of being incurred after allowing for likelihood of reaching each development stage
 *** present value

Commodity assumptions

Gold prices are mean reverting	
Long run level	5.50 US\$/lb
Avg time to revert	8.0 years
Volatility	25%
Inflationary price growth	2.0%

Expected gold price



Financials

Profit and loss					
Year ending February (C\$m)	2007A	2008E	2009E	2010E	2011E
Revenues	0.1	0.1	0.1	0.1	0.1
COGS	—	—	—	—	—
Gross profits	0.1	0.1	0.1	0.1	0.1
Administrative Costs	(2.4)	(1.4)	(1.4)	(1.5)	(1.5)
EBITDTA	(2.3)	(1.3)	(1.3)	(1.4)	(1.4)
Depreciation & amortisation	—	(0.1)	(0.1)	(0.1)	(0.3)
EBIT	(2.3)	(1.4)	(1.4)	(1.5)	(1.7)
Interest	—	0.1	0.2	0.2	0.2
EBT	(2.3)	(1.3)	(1.2)	(1.3)	(1.5)
Tax paid	—	—	0.4	0.4	0.5
Earnings	(2.3)	(1.3)	(0.8)	(0.8)	(1.0)
Dividends	—	—	—	—	—
Retained earnings	(2.3)	(1.3)	(0.8)	(0.8)	(1.0)

Cashflow statement					
Year ending February (C\$m)	2007A	2008E	2009E	2010E	2011E
EBIT	(2.3)	(1.4)	(1.4)	(1.5)	(1.7)
Depreciation	—	0.1	0.1	0.1	0.3
Stock-based Compensation	1.0	—	—	—	—
(Increase) decrease in receivables	—	—	(0.0)	(0.0)	(0.0)
(Increase) decrease in inventory	—	—	—	—	—
Increase (decrease) in payables	(0.6)	—	—	—	—
Net cash from Ops	(1.9)	(1.3)	(1.3)	(1.4)	(1.4)
Tax paid	—	—	0.4	0.4	0.5
Dividends	—	—	—	—	—
Net interest recieved (paid)	—	0.1	0.2	0.2	0.2
New equity	7.0	11.5	5.0	2.0	5.0
New (deposits) borrowings	—	—	—	—	—
Capital expenditure	(4.3)	(7.0)	(3.0)	(3.0)	(3.0)
Net cash from financing	2.7	4.6	2.6	(0.4)	2.7
Net increase (decrease) in cash	0.8	3.3	1.3	(1.7)	1.3

Balance sheet					
Year ending February (C\$m)	2007A	2008E	2009E	2010E	2011E
Fixed assets at NAV	9.2	16.1	19.0	21.9	24.6
Cash	1.3	4.6	5.9	4.2	5.5
Receivables	0.7	0.7	0.7	0.7	0.7
Inventory	—	—	—	—	—
Less Payables	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Net current assets	0.5	3.8	5.1	3.4	4.7
Less loans	—	—	—	—	—
Capital employed	9.7	19.9	24.1	25.3	29.3
Represented by					
Shares in issue	24.6	36.0	41.0	43.0	48.0
Add retained profit					
Prior periods	(13.4)	(14.8)	(16.1)	(16.9)	(17.7)
This period	(1.4)	(1.3)	(0.8)	(0.8)	(1.0)
Shareholders' funds	9.7	19.9	24.1	25.3	29.3

Source: Objective Capital

Risked mineable resource assumptions

Reserves	Probability	Tonnes (m)
Proven	90%	0.0
Probable	50%	0.0
Total	0%	0.0

Resources	Conversion	Probability	Tonnes (m)
Measured	80%	90%	0.0
Indicated	80%	50%	0.0
Inferred	80%	10%	1.9
Hypothesised	70%	0%	8.5
Total	72%	2%	10.4

Mineable resource	Tonnes (m)
Mineable resource	7.5

Risked mineable resource	Tonnes (m)
Current classification	0.2

Scenarios for exploration success

- base case	4.0
- optimistic case	5.8
- pessimistic case	2.3

Notes:

- 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

Source: Objective Capital

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