



## **Management's Discussion and Analysis**

For the Period Ended August 31, 2012

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### **Overview**

This Management's Discussion and Analysis (MD&A), dated October 30, 2012, of the financial position and results of operations of Soho Resources Corp. ("Soho") includes its wholly-owned subsidiaries; Samarkand de Mexico S.A. de C.V. ("Samarkand"), Sierra Soleada S.A. de C.V. ("Sierra"), and 531607 BC Ltd.; and its 99% owned subsidiary, Sacramento de la Plata S.A. de C.V. ("Sacramento"), (collectively referred to as the "Company"). The MD&A should be read in conjunction with the condensed consolidated interim financial statements for the period ended August 31, 2012. The condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and as applicable to interim financial statements.

The information in this MD&A contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. (See "Cautionary Notes – Forward-looking Statements" below.)

The Company is in the process of exploring its exploration and evaluation assets (or "mineral properties") and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete development, and upon future profitable production.

All amounts are presented in Canadian dollars, which is the Company's functional currency.

### **Cautionary Notes – Forward-looking Statements**

Certain statements included in this MD&A may contain forward-looking statements that relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. These statements include, but are not limited to, statements concerning the future financial and operating performance of the Company and its search for resource properties; the future prices of natural resource based commodities; the estimation of reserves and resources; the realization of reserve estimates; timing of technical reports, scoping studies, and preliminary economic assessments; expected content of scoping studies and preliminary economic assessments; anticipated working-capital requirements; capital expenditures; costs and timing of future exploration; requirements for additional capital; government regulation of resource operations; environmental risks; title disputes or claims; and limitation of insurance coverage.

Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "proposes", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, general business and economic uncertainties; exploration and resource extraction risks; uncertainties relating to surface rights; the actual results of current exploration activities; the outcome of negotiations; conclusions of economic evaluations and studies; future prices of natural resource based commodities; increased competition in the natural resource industry for properties, equipment and qualified personnel; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; the risk of arbitrary changes in law; title risks; and the risk of loss of key personnel.

The forward-looking statements contained herein are based on a number of assumptions that the Company believes are reasonable, but may prove to be incorrect. These assumptions include, but are not limited to, assumptions that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for natural resource based commodities develops as expected; that the Company receives regulatory approvals for its exploration projects on a timely basis; that the Company is able to obtain financing for its projects on reasonable terms; that the Company's reserve estimates are within reasonable bounds of accuracy and that the geological, operational and price assumptions upon which they are based are reasonable; and that the Company is able to hire the personnel needed to carry out its business plan.

The foregoing lists of factors and assumptions are not exhaustive. The reader should also consider carefully the matters discussed under the heading "Risks Factors and Uncertainties" elsewhere in this MD&A. Forward-looking statements contained herein are made as of the date hereof (or as of the date of a document incorporated herein by reference, as applicable). No obligation is undertaken to update publicly or otherwise revise any forward-looking statements or the foregoing lists of factors and assumptions, whether as a result of new information, future events or results or otherwise, except as required by law. Because forward-looking statements are inherently uncertain, readers should not place undue reliance on them. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

### **Summary of Operations**

Soho's principal business activity is the acquisition and exploration of mineral resource properties. The Company, through its Mexican subsidiaries, has an interest in two mineral exploration properties, the Tahuehueto Project, located in Durango State and the Jocuixtita Property located in Sinaloa State. The Company is a reporting issuer in the provinces of British Columbia and Alberta, Canada, and trades on the TSX Venture Exchange under the symbol "SOH" and on the OTCQX under the symbol "SOHFF". Additional information may be obtained from the Company's web site ([www.sohoresources.ca](http://www.sohoresources.ca)) and SEDAR ([www.sedar.com](http://www.sedar.com)).

At the Tahuehueto Project, Soho has identified at least 12 poly-metallic zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres. Soho has completed more than 49,000 metres of drilling in approximately 254 holes since drilling operations started on the Project in January 2005.

In April 2010 the Company retained Snowden Mining Industry Consultants Inc, ("Snowden") to prepare a NI 43-101 compliant Preliminary Economic Assessment Report (the "PEA") to examine the economic viability of building a mine on the Tahuehueto Project. Snowden's PEA report, dated October 29, 2010, includes recommendations to advance the property through prefeasibility and feasibility studies in order to determine the most economic mining methods for potential future production.

After applying appropriate estimates for capital costs the optimized cash flow yielded the financial outcomes presented in the table below. These are the sum of operating and capital expenditures including vendor royalties, but excluding financing, government royalties and taxes.

<b>Summary of financial model</b>	
Undiscounted cash flow	US\$184,200,000
NPV @ 5% discount	US\$109,600,000
IRR	31%
Payback period	27 months

To determine the feasibility of a profitable project, Snowden recommended that a program of data collection be undertaken followed by a Prefeasibility Study. The program of data collection should include:

- Further drilling and appropriate resource modelling to better define the Resource.
- Geotechnical data collection to improve the definition of slope stabilities and underground geotechnical constraints.
- Metallurgical testing of representative composites that reflect the expected feed grades.
- Ongoing environmental base line data gathering.

The Company has embarked on an exploration and data collection program at Tahuehueto to advance the project towards prefeasibility studies, including:

- Geotechnical slope stability studies at the Cinco de Mayo zone to prove the stability of the above cliff face so the zone may be brought into the open pit mining plan.
- Core drilling as required to upgrade the inferred resource into the measured and indicated resources category. Four infill core drill holes have been completed to date, all in the Cinco De Mayo zone.
- The collection of environmental data required for prefeasibility studies and feasibility studies for future mine planning is ongoing with data continuously being collected.

In connection with these goals, the Company engaged Knight Piésold Ltd a mine engineering and environmental services consulting company to conduct geotechnical and water/waste management design studies for the Tahuehueto Project. Knight Piésold has completed phase 1 of a 2 phase work program. The phase 1 program consisted of: structural mapping; tailings and waste management; and site layout.

Knight Piésold has presented the company with a technical report for the first phase of work. This report contains a recommended Mine Development Concept ("MDC") for the pre-feasibility base case design based on the PEA and the findings of Knight Piésold's geotechnical site review. This MDC envisions a combined tailings and waste rock dump that integrates the waste rock management and the tailings management. The co-disposal facility has been sized to store of 35 M tonnes (20 Mm<sup>3</sup>). This is in excess of the calculated total volume required and the additional volume provides expansion capacity.

Knight Piesold also provided preliminary recommendations for open pit slopes at the Cinco de Mayo zone, based upon findings of initial field inspections of the cliff faces and rock exposures in and around the Cinco De Mayo Zone. Additional geotechnical data collection and further slope stability analyses will be required to confirm this preliminary observation during the Phase 2 engineering study program.

During fiscal 2012 the Company completed 4 more infill diamond drill holes totaling 1,000 metres at Tahuehueto. The information obtained from these drill holes, along with more planned future drilling, will provide necessary data for the preparation of the Prefeasibility Study.

The Company acquired 11 contiguous mining concessions located in the State of Sinaloa, Mexico, the "Jocuxtitita Property". The Jocuxtitita Property covers a cumulative area of 4,103 hectares. Six of these mining concessions covering a 1,573 hectares area are owned by two different vendors and are the subject of two separate purchase and option agreements. The remaining five mining concessions on 2,530 hectares were staked by the Company's subsidiary Samarkand.

In May to July 2011 the Company completed Phase 1 of its initial exploration program on the Jocuxtitita Property, drilling 18 holes for a total of 2,846 metres, of which 5 holes were not completed. The Company has received the assay reports for the 13 holes completed, and is evaluating the results and future exploration plans. However, due to an internal dispute amongst local residents at Jocuxtitita, the Company enforced a Force Majeure clause in the option agreements and suspended the January 31, 2012 payment due of US\$150,000. The Company has elected to suspend exploration activities at the Jocuxtitita Project until the dispute amongst local residents is resolved.

At August 31, 2012 the Company had a working capital deficiency of \$1,089,220. The current operations of the Company have primarily been funded by the issuance of capital stock, and loans from related parties. The

Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the future.

On June 1, 2012 the Company completed a non-brokered private placement of 12,500,000 units at \$0.06 per unit, for total gross proceeds of up to \$750,000. Each unit consists of one common share and one-half of a transferable share purchase warrant. Each whole share purchase warrant is exercisable for a period of two years at a price of \$0.10 per share.

During the period ended the August 31, 2012 the Company received cash advances from Directors totalling \$35,000. Subsequent to August 31, 2012 the Company received additional cash advances from Directors totalling \$158,150.

#### Selected Quarterly Financial Information:

Fiscal year	2013		2012				2011	
Fiscal quarter	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Period end date	Aug 31/12	May 31/12	Feb 29/12	Nov 30/11	Aug 31/11	May 31/11	Feb 28/11	Nov 30/10
Loss for the period	\$(204,081)	\$(295,232)	\$(322,621)	\$(462,492)	\$(417,029)	\$(639,026)	\$(668,046)	\$(312,872)
Loss per share	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.00)
Total assets	\$23,486,745	\$23,554,948	\$23,517,501	\$23,429,629	\$23,445,027	\$22,584,742	\$22,771,683	\$20,962,793
Long-term debt	\$163,155	\$157,680	\$168,630	\$164,250	\$175,200	\$176,076	\$176,076	\$680,456

The above Selected Quarterly Financial Information has been prepared in accordance with IFRS International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the IASB. All amounts are presented in Canadian dollars, which is the Company's functional currency.

The losses for each of the 2011, 2012, and 2013 fiscal periods are consistent with the level of business activities during each quarter. The quarterly losses average approximately \$299,000 per period, after excluding debenture expenses, amortization, share-based payments charges, foreign exchange, and interest income.

The Company grants stock options resulting in significant charges for share-based payments. These charges are usually allocated over four fiscal quarters, depending on vesting terms. However, there can still be significant quarterly variations in the number and value of options granted from one period to the next. In fiscal 2011, the quarterly losses include share-based payments charges totaling \$293,168 compared to \$365,525 for the 2012 fiscal year.

The Q4 2011 loss increased compared to the earlier 2011 quarters losses because of \$96,000 in additional expenses associated with the early retirement of the debenture loans and about \$21,000 in additional business promotion and travel. In addition, during the 2011 Q4 6,050,000 stock options were granted, resulting in a large increase in share-based payments charges compared to the previous quarters. The charges for the early retirement of the debentures and share-based payments are non-cash expenses.

The Q1 2012 loss decreased compared to the earlier 2011 quarters losses because of \$96,000 in additional expenses associated with the early retirement of the debenture loans. And during the 2011 Q4 6,050,000 stock options were granted, resulting in a large increase in share-based payments charges compared to the previous quarters. The share-based compensation expense was about \$82,000 less than 2011 Q4, but approximately \$219,000 higher than the comparative Q1 2011 period. Compared to the Q1 2011 period, in the Q1 2012 period, the Company spent approximately \$120,000 more on business promotion and travel, \$47,000 more paid to consultants, and \$21,000 more for regulatory fees. The Company attended more trade shows and investor meeting in Q1 2012 compared to previous quarterly periods. In connection with obtaining listing on the OTCQX US market, the Company incurred higher consulting and regulatory expenses in Q1 2012.

In Q2 2012 the Company's expenditures for business promotion, travel, consultants, and regulatory fees were more consistent with the quarterly amounts spent in the previous fiscal year compared to the unusually higher amounts spent in 2012 Q1.

The Q3 2012 loss increased due to increases in: consulting fees \$30,000; travel \$10,000; and foreign exchange loss \$30,000. These increases were partially offset by a \$28,000 reduction in professional fees and a \$34,000 reduction in share-based payments charges compared to the previous quarter.

In Q4 2012 loss decreased by about \$140,000 compared to the 2012 Q3 period. This was due to decreases in share-based payments, business promotion and travel, and foreign exchange expenses. While interest expense and regulatory fees increased. There was also a reduction in consulting expenses as the Company negotiated some fee reductions with certain consultants.

In Q1 2013 loss decreased by about \$27,000 compared to the 2012 Q4 period. This was due to decreases in share-based payments, business promotion and travel, office, and regulator fees. While interest, office, and foreign exchange expenses increased. There was also a reduction in consulting expenses as the Company negotiated some fee reductions with certain consultants.

The Q2 2013 loss decreased due to decreases in share-based payments, professional fees; and foreign exchange went from a loss to a gain.

The Q3 2011 long-term debt was the Company's 3 year \$500,000 convertible debenture loans plus the estimated reclamation and remediation obligation in connection with environmental and reclamation costs on the Tahuehueto property. In Q4 2011 the Company repaid the \$500,000 debenture loans, thereby reducing the long-term debt. The reclamation and remediation obligation was determined in direct relation to the area disturbed by the Company's drilling activities. During 2010, drilling activities were suspended at Tahuehueto; accordingly no additional reclamation and remediation charge was recorded during the subsequent quarterly periods. The changes in the asset retirement liability are due to foreign exchange adjustments.

During the 2012 fiscal periods the Company carried on some drilling activities on both its mineral properties. This work was designed, performed, and accomplished so as to minimize or avoid any environmental disturbances and therefore any additional estimated reclamation costs.

### **Results of Operations**

The Company incurred \$204,329 in general and administrative expenses during the period ended August 31, 2012. Generally, expenses have been consistent with the comparative 2012 fiscal period, except as noted below. After the exclusion of amortization, share-based payments, and foreign exchange, total expenses decreased by about \$86,500 in 2013 relative to the comparative 2012 fiscal period.

Professional fees include legal, accounting, and audit fees. Legal fees have decreased moderately, while audit and accounting fees have decreased more significantly compared to the previous period. In the comparative 2012 period audit and accounting fees in were higher largely due to the Company's switch over to financial reporting under IFRS, plus an overall increase in the volume of transactions.

Business promotion expenses include fees paid for advertising, development and production of promotional materials, registration fees for trade shows, corporate communication services. Business promotion was unusually high in the comparative 2012 period as a result of attendance at various trade shows and some private promotional meetings. Due to limited cash resources, the Company has curtailed business promotion activities during the current period.

Travel expenses include the costs of vehicles, airfares, accommodation, and meals for a variety of business trips related to securing financing and meetings, as well as attendance at a trade show. Travel expenses have decreased by about \$12,000 as the Company has made fewer trips to trade shows and financial centres.

Communications expense includes the costs of Soho's news releases, office telephones, fax, mobile phones, web site design and maintenance, web hosting and internet access services. These expenses are mostly consistent with the previous year, except for news releases. There were fewer news releases in the 2013 year, and this cost declined accordingly.

Although there was an increase in the rent of the Company's Vancouver office space, this has been partially offset by the Company sub-leasing some surplus office space. This rental revenue has been offset to rent expense.

Salaries and benefits have been consistent with the previous year; there have been no changes in employees or wage rates.

In May 2011 the Company obtained a listing on the OTCQX stock market in the U.S.A. In connection with this listing the Company agreed to pay consulting fees totalling about \$29,000 for a Principal American Liaison ("PAL") to sponsor the OTCQX membership. In addition the Company incurred fees of approximately \$18,000 paid to three consultants to help raise the Company's profile, in conjunction with exploration programs underway at both the Tahuehueto and Jocuixtita Projects, and financial consulting associated with the Company's on-going search for additional sources of financing.

The Company's Tahuehueto project is located in a remote area, a considerable distance from any commercial and business centres. To facilitate the exploration activities on the Tahuehueto property, the Company maintains an office in Durango City, Durango, Mexico. This office oversees the administration of the exploration activities, including the procurement of services, supplies, and equipment from local vendors. As the office exists solely for the benefit of the exploration activities, the costs of maintaining and operating the office have been included with the Tahuehueto deferred exploration costs. These office and administrative costs include personnel salaries, rent, communications, office supplies, and office equipment.

In addition to the Durango office, the Company rents warehouse space primarily for the storage of diamond drill core sample materials extracted from the Tahuehueto property. The sample material, reject samples, and pulps are stored here after delivery from the preparation lab. The warehouse is also used to temporarily store supplies and equipment prior to being shipped to the Tahuehueto project.

If the Company's has large surplus cash balances, it is held in an interest bearing deposit, and drawn upon only as funds are needed for operations. The Company has not recently had sufficient surplus cash balances to earn any significant interest income. The reported interest income is from interest paid to the Company on Mexican IVA tax refunds.

The \$72,787 receivables at August 31, 2012 are refundable IVA and HST taxes (value added taxes) due to the Company from the governments of Mexico and Canada. During the August 31, 2012 fiscal period the Company received approximately \$19,000 of HST refunds and \$316,000 of IVA refunds. Subsequent to August 31, 2012, up to the date of this report, the Company has received an additional HST refund of over \$20,200 and IVA refunds totaling about \$7,000. The Company expects to receive further IVA refunds over the next few months.

Except as may be otherwise indicated, all of the above noted transactions have received regulatory approvals, where required.

Due to limited cash resources, the Company has curtailed exploration activities during the current period. The Company is having discussions with both existing and new investors to raise adequate funding to advance the project following the recommendations in the Snowden PEA report. The Company also suspended exploration activities on its Jocuixtita property. During the period ended August 31, 2012 the Company spent about \$356,000 on exploration compared to \$1,639,500 in the comparative 2011 period.

## **Resource Properties and Investments**

### **Tahuehueto Mine Project, Mexico**

#### **Overview**

Through a 99%-owned Mexican subsidiary, Soho Resources Corp. controls 100% of the Tahuehueto project situated in a historic mining district of northwestern Durango State. The 9,081-hectare property covers at least 12 known mineralized zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometres.

Tahuehueto lies within the prolific Sierra Madre mineral belt, which hosts a series of historic and producing mines and most of Mexico's active exploration and development projects. The project is situated approximately 100 kilometres southwest of silver mines in the Guanacevi region, and about 25 kilometres north of the silver mines at Topia.

Access to the property is by road, about nine hours from Durango City, or by fixed-wing aircraft to a nearby landing strip. The project site is remote, with only a few small villages in this portion of the Municipality of Tepehuanes. Recent initiatives of Mexico's Durango state government provide Soho with the possibility of an alternative and much improved access route for the Tahuehueto project. Scheduled for completion in late 2010, a new two lane paved highway under construction will connect northwestern Durango State to Sinaloa State near Culiacan. This new highway passes close to Topia near Canelas and exits the Sierra Madre Mountains at Tamazula, a mere 45 km from Culiacan, the capital of Sinaloa State. In order to connect to this new highway, Soho will need to construct a new access road of approximately 18 km connecting to existing road infrastructure close to Topia. This would provide direct access to the new highway thereby markedly improving the access to the project.

Spanish explorers were the first to discover the gold-silver veins at Tahuehueto, but were unable to process the sulphide mineralization. Various companies explored the property, starting in the early 1900s, leading to development of underground workings and very limited historic production. Soho acquired rights to the project in 1997, shortly after the Mexican government reformed its mining laws and adopted new policies aimed at attracting foreign investment to the mining sector. The Company was attracted to Mexico because of its vast geological potential and favorable investment climate, and to the Tahuehueto project because of the evidence of a highly mineralized epithermal system, past exploration activity, and excellent potential for significant new discoveries. It was also noted that geologically similar deposits in nearby districts have produced millions of ounces of gold and silver, along with associated base metals in some cases, from multiple zones and structures. One such example is the La Cienega mine, owned and operated by Penoles, Mexico's largest mining company. This large-scale underground mine hosts more than one million ounces of gold in reserves, and also produces silver, lead and zinc. Another is San Dimas District, which hosts several large underground mines that have produced more than 9 million ounces gold and 700 million ounces silver from about 22 structures. Goldcorp Inc. controls the San Dimas district and surrounding mines through its subsidiary Luismin Mines.

### **Ownership and Access Rights**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

In 1997, pursuant to a share purchase agreement, and one amendment thereto, the Company acquired, through its wholly-owned Mexican subsidiary Samarkand de Mexico, 85% of the issued and outstanding capital stock of Sacramento and subsequently acquired an additional 5%. In March 2007 the Company converted a portion of inter-company debt between Samarkand and Sacramento into equity, thereby increasing its ownership in Sacramento to 99%. Sacramento holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. Certain core concessions of the property, comprising approximately 1,535 hectares, are subject to a 1.6% net smelter returns royalty.

On December 4, 2006 the Company settled its outstanding obligation to one of the vendors, Senor Alberto Shade Zavala, and in doing so, as part of the settlement, the Company also purchased Senor Shade's 0.4% net smelter return royalty interest covering a portion of the previous net smelter return held by the vendors, thereby reducing the outstanding net smelter return on the Project to 1.6% from 2%. Total compensation paid by the Company to Senor Shade was US\$50,000, representing his pro-rata portion of the final payments due to the vendors under the original Share Purchase Agreement, plus US\$75,000 and 200,000 common shares priced at \$0.56 per share for the 0.4% net smelter return royalty interest. These shares were issued during the period ended May 31, 2007 at a total value of \$112,000.

Pursuant to the share purchase agreement and its subsequent amendment as referred to above, the Company is obligated to make a final payment of US\$200,000 to the remaining two vendors of the Sacramento shares.

Based upon regional reconnaissance work in and around Tahuehueto, Soho staked additional concessions covering approximately 7,018 hectares to encompass most of the prospective ground in the Tahuehueto district. This staking brings Soho's total Tahuehueto project area to 9,081 hectares.

In May 2006, the Company entered into a Surface Rights Agreement with Comunidad La Bufa, the local community residents' formal legal entity. The Surface Rights Agreement has an initial term of ten years expiring

in May 2016, and is extendable for an additional five years. The agreement covers the core 2,062 original hectares of the project and allows the Company unrestricted access to explore, develop and mine metals within the area covered under the agreement. Sacramento will make annual payments to Comunidad La Bufa over the term of the agreement, at US\$20,000 in the first year with subsequent payments increasing from the previous year's payment by 5% annually. In addition, upon commencement of commercial production the annual payment will be increased by 50% of the previous year's payment.

## Exploration Highlights

### NI 43-101 Preliminary Economic Assessment

On October 4, 2010 Soho announced the results of a Preliminary Economic Assessment ("PEA") prepared by Snowden Mining Consultants for its Tahuehueto Project. Results demonstrate the possibility for economic returns using three-year rolling average gold, silver and base metal prices. Highlights are as follows:

<b>Summary of PEA Estimates</b>	
Net cash flow	US\$ 184.2 million
Net Present Value (NPV) 5% Discount Rate	US\$ 109.6 million
Internal Rate of Return (IRR)	31%
Payback period	27 months
Mine life	11 years
Maximum processing rate per annum	1,000,000 tonnes
Capital & startup costs	US\$ 89.1 million

### Metal Selling Prices

Metal	Sell Price – US\$	Source
Gold	965.81/oz	London PM fix price (Centennial Precious Metals, Inc. 2010)
Silver	15.38/oz	London fix price (Silver Institute, 2010)
Copper	2.92/lb	LME grade A cathode spot price, CIF European ports (IMF, 2010)
Lead	0.95/lb	LME 99.97% pure spot price, CIF European ports (IMF, 2010)
Zinc	0.88/lb	LME high grade 98% pure spot price, CIF UK ports (IMF, 2010)

The delivery of these PEA numbers is one of the most significant milestones in the history of the Company and clearly demonstrates the potential economic viability of the Tahuehueto Project. It is important to note that this economic assessment was calculated from the resource as outlined in the most recent 2009, NI 43-101 compliant mineral resource. Very significant upside exploration potential exists within the unexplored portions of the current resource structures, both along strike and down dip, as well as in the many other separate mineralized structures known to occur, but yet unexplored, within the project concessions. Management is confident that with additional exploration and development the projected 11 year mine life outlined in the PEA could be significantly extended.

The PEA was prepared by Snowden in accordance with the requirements of Canadian National Instrument 43-101 "Standards of Disclosure for Mineral Projects" ("NI 43-101"). It contemplates a combination of an open pit operation at the El Creston Zone along with underground operations at Cinco de Mayo, El Creston and El Rey, utilizing mechanized low-cost Long Hole Open Stope ("LHOS") mining methods. Metallurgical test work, as previously disclosed, indicates that sulfide flotation methodology will produce separate copper, lead and zinc concentrates.



As part of their report Snowden completed a preliminary Life of Mine (LOM) schedule for the combined open pit and underground operations. Key findings from this schedule include:

- Potential mine life of greater than ten years, with the mill operating at full capacity from Year 2 to 8
- Potential mill feed over the Life of Mine of 9.0 Mt with average grades of 1.64 g/t Au, 28 g/t Ag, 0.18%Cu, 0.87%Pb and 1.64%Zn
- Cinco de Mayo underground operates over the whole mine life with a steady production rate at or near 300 Kt per annum
- Creston open pit is mined from Years 1 to 8
- El Rey and Creston underground operations commence in Year 6
- A substantial spike in the gold grade during Year 2 of 3.5 g/t

Capital cost estimates are based on a new plant and equipment, published costs for similar projects and information contained in Snowden's database, and including scoping level quotes from contractors and suppliers, or scaling from other projects in similar locations.

Note that:

- Mining costs are based on the use of contractors, therefore the mobile equipment fleet is not included as a capital cost
- All underground development has been treated as an operating cost
- Sustaining capital is provided for at 2.5% of startup costs per annum

In undertaking the economic analysis of the project, Snowden made the following assumptions:

- No provision was made for exploration expenditure attributable to the operation
- No provision was made for environmental bonds, rehabilitation costs or salvage revenues
- No provision was made for project financing arrangements or sales arrangements other than spot price contracts
- No provision was made for depreciation of capital expenditure
- No provision was made for government royalties or taxes
- No provision was made for inflation of costs with time

The PEA developed a number of conclusions and recommendations for future work. It can be concluded from the current study that there is potential for a profitable project to be established at Tahuehueto. An open pit operation is potentially viable at El Creston, whilst resources with potential for economic underground mining exist at Cinco de Mayo, El Creston and El Rey.

Snowden also concludes that there is the possibility for open pit mining at Cinco de Mayo, however, until an assessment of the geotechnical stability of the cliff face above the Cinco de Mayo zone has been completed, the resource contained there has been excluded for open pit mining and all material remains in the underground mine plan.

Metallurgical test work indicates that it will be possible to use flotation to produce separate copper, lead, and zinc concentrates.

The financial modeling assumptions deliver a significant mine life of 11 years at a maximum processing rate of 1 Mtpa (2750 tpd). An IRR of 31% is achieved on cash flow of US\$184.2 Million.

It is recommended that Soho continues with its evaluation of the Tahuehueto Project and progresses towards undertaking a Prefeasibility Study to address the remaining material project uncertainties.

#### Resource estimation recommendations:

- Undertake a study based on the existing data to determine appropriate drill hole spacing and orientation with an aim to increase the confidence in the resource classification to ensure sufficient Measured and Indicated Resource so that upon completion of a Prefeasibility Study these can be converted to Reserves.
- Undertake a drilling program at a spacing and orientation recommended by the drill hole spacing study so that more of the resource can be classified as Measured or Indicated which may then be converted into Reserves after completion of a Prefeasibility Study.
- Review the resource confidence classification criteria for future resource estimates and ensure that all aspects affecting confidence in the resource estimation are considered, including geological understanding, complexity, and continuity, the sample data density and orientation (including sample grades and bulk density data), the data accuracy and precision as established through the QAQC programs, grade continuity including the spatial continuity of mineralization, the quality of the estimates, and the results of the estimation validation.

#### Metallurgical

- Assess the use of alternative depressants and alternative addition rates in the bulk rougher circuit
- Assess alternative depressants in the copper-lead separation stage
- Determine the role of finer primary grinding on zinc selectivity in the bulk rougher flotation stage. That may lead to the use of zinc depressants in the bulk cleaner circuit in an attempt to divert more of the zinc to the zinc concentrate.
- Assess the role of regrinding
- Conduct Work Index testing
- Undertake tests to determine the processing variability between the “fresh” and the “supergene” zones and the effect of randomly comingling of ore types.

#### Other

- Undertake a program of geotechnical logging, testing and analysis so that the potential of an open pit at Cinco de Mayo can be established (which would substantially increase the value of the project), and that better definition of underground and open pit geotechnical design criteria can be achieved
- After completion of the recommended program of data collection, embark on a Prefeasibility Study where construction and operating costs can be defined more accurately so that reserves can be calculated and some trade-off studies undertaken.

With the release of the Preliminary Economic Assessment Soho plans to advance the project through Pre-feasibility and Feasibility toward production. In order to do so, the Company is seeking to add experienced mining engineering and construction personnel to its management team and Board of Directors. Given the favorable results of this current economic assessment and the upside potential contained within the future exploration and development potential of the project, the Company is very confident in its ability to locate and secure additional expertise, dedicated to developing a profitable mining operation at Tahuehueto.

#### **NI 43-101 Resource Calculation**

On May 11, 2009 the Company released the results of the updated NI 43-101 compliant mineral resource estimate. This 2009 resource estimation has been prepared by Scott E. Wilson Consulting, Inc. (“Wilson Consulting”) based in Englewood, Colorado. Wilson Consulting is a full-service mining engineering firm, specializing in all aspects of exploration, mine development, and mine operations. This new resource estimate is an upgrade to the Company’s initial resource estimate announced on April 30, 2008 and is based upon detailed geological modeling of veins and stock-work zones that was not available for the initial resource estimate plus, 71 new drill holes targeting down-dip and along strike extensions of known mineralization outlined in the initial resource report of April of 2008.

## 2009 Tahuehueto Resource Calculation Highlights

### Measured and Indicated Resources 7,377,000 Tonnes

- 2.10 g. Au/t            498,000 ounces Au
- 34.97 g. Ag/t        8,294,000 ounces Ag
- 0.28% Cu            45,339,000 lbs. Cu
- 1.06% Pb            172,738,000 lbs. Pb
- 2.01% Zn            326,653,000 lbs. Zn

### Inferred Resource 4,868,000 Tonnes

- 1.06 g. Au/t            166,000 ounces Au
- 31.77 g. Ag/t        4,971,000 ounces Ag
- 0.23% Cu            24,935,000 lbs. Cu
- 1.13% Pb            132,417,000 lbs. Pb
- 2.26% Zn            242,241,000 lbs. Zn

The Tahuehueto Resource is categorized into Measured, Indicated and Inferred Resources as follows:

Category		Tonnes (,000's)	Gold (Au)		Silver (Ag)		Copper (Cu)		Lead (Pb)		Zinc (Zn)	
			g/t	Oz. (,000's)	g/t	Oz. (,000's)	Cu%	Lbs. (,000's)	Pb%	Lbs. (,000's)	Zn%	Lbs. (,000's)
Measured	26%	3,254	2.40	251	36.30	3,798	0.28	20,439	1.10	79,228	2.07	148,759
Indicated	34%	4,123	1.87	248	33.92	4,496	0.27	24,900	1.03	93,511	1.96	177,894
Total M&I	60%	7,377	2.10	498	34.97	8,294	0.28	45,339	1.06	172,738	2.01	326,653
Inferred	40%	4,868	1.06	166	31.77	4,971	0.23	24,935	1.23	132,417	2.26	242,241

The cutoff grades used to determine the above mineral resources were 2 grams per ton AuEQ for sulfide mineralization and 3 grams per ton AuEQ for oxide mineralization since the potential costs to extract oxide material may be higher than the cost to process sulfide mineralization. Approximately 10% of the resource is oxide mineralization and therefore only a minor part of the resource.

The metal prices used to determine the gold equivalent grade for cutoff purposes only were \$800 per ounce for gold, \$12.00 per ounce for Silver, \$2.10 per pound for copper, \$0.65 per pound for lead and \$0.70 per pound for zinc. Gold-equivalent grades are used for cutoff purposes only.

Mineral resources that are not mineral reserves do not have demonstrated economic viability. Converting resource estimates into economic reserves may be materially affected by the inability to obtain required environmental and other regulatory approval, environmental or operating permits and may also be materially affected by global economic conditions such as the price of gold, silver, copper, lead, zinc, the price of oil and other commodities utilized in the mine production. Unknown geologic or hydrologic conditions or other unknown factors may also materially affect converting resource estimates into reserves.

Please refer to the Company's web site at [www.sohoresources.ca](http://www.sohoresources.ca) for the full details of both the preliminary economic estimate and the resource estimate report.

### Exploration Activities

Soho's exploration programs have significantly enhanced the overall potential of the Tahuehueto property. To date Soho has completed more than a cumulative total of 49,000 metres of drilling in approximately 254 drill holes at Tahuehueto to define priority zones occurring within a district-scale epithermal system traced for at least six kilometres at Tahuehueto. The bulk of 2007/2008 drilling was focused on resource definition within five priority zones.

The Company will, when properly funded, embarked on an exploration and data collection program at Tahuehueto to advance the project through prefeasibility studies, including:

- Geotechnical slope stability studies at the Cinco de Mayo zone to prove the stability of the above cliff face so the zone may be brought into the open pit mining plan.
- Core drilling as required to upgrade the inferred resource into the measured and indicated resources category. Four infill core drill holes have been completed to date, all in the Cinco De Mayo zone.
- Pre-feasibility level engineering design of mine facilities including waste rock and tailing's facilities and infrastructure.

Knight Piésold Ltd., a specialized international consulting company offering engineering and environmental services in mining, environment, hydropower, water resources, and roads & construction services around the world has been retained by Soho to conduct geotechnical and water/waste management design studies for the Tahuehueto Project. This work is the first step towards completing a prefeasibility study for the Tahuehueto Project as the Company advances the project towards a production decision. Knight Piésold commenced an initial phase of work that concentrates on high priority items identified in the PEA. Knight Piésold's studies will include, a geotechnical assessment of the proposed El Creston open pit, geotechnical input and assessment to the possible open pit at Cinco de Mayo (not included in the PEA), plus the investigation of one or more, Mine Development Concepts ("MDC") where each MDC would be a combination of alternative mine access points, plant-site locations, waste rock and tailings storage facility locations and water management concepts, to ultimately arrive at an overall optimum MDC.

Knight Piésold has completed phase 1 of a 2 phase work program. The phase 1 program consisted of the following work:

#### Structural Mapping

- Underground structural mapping data reduction and analysis.
- The identification of design sectors and preliminary design slopes for the El Creston open pit is complete.
- The SiroVision analysis of the cliffs above the El Creston open pit. The stability model shows it is reasonable to develop an open pit in the Cinco de Mayo area.on-going. (SiroVision is a proprietary high resolution digital camera technology used to evaluate mine site geotechnical and geo-mechanical structures.)

#### Tailings and Waste Management

- The identification of potential tailings storage facility sites.
- The calculation of potential tailings storage facilities capacity and sizing.
- The development of presentation figures showing the potential tailings management options.

#### Site Layout

- The general site layout plan and 3D image showing site roads, plant site, open pit, waste rock dumps and tailings storage facility.

Knight Piésold has presented the company with a technical report for the first phase of work. This report contains a recommended Mine Development Concept ("MDC") for the pre-feasibility base case design based on the PEA and the findings of Knight Piésold's geotechnical site review. This MDC envisions a combined tailings and waste rock dump that integrates the waste rock management and the tailings management. The co-disposal facility has been sized to store of 35 M tonnes (20 Mm<sup>3</sup>). This is in excess of the calculated total volume required and the additional volume provides expansion capacity.

Knight Piesold also provided preliminary recommendations for open pit slopes at the Cinco de Mayo zone, based upon findings of initial field inspections of the cliff faces and rock exposures in and around the Cinco De Mayo Zone. Additional geotechnical data collection and further slope stability analyses will be required to confirm this preliminary observation during the Phase 2 engineering study program.

During the development of the MDC, Knight Piésold identified several additional areas that could potentially improve the mine economics as follows:

- The development or partial development of the Cinco de Mayo zone by open pit methods.
- The development of a combined tailings/waste rock dump in the valley immediately below the El Creston pit. A preliminary storage capacity evaluation and layout has been completed. This preliminary analysis shows sufficient capacity exists in the valley to store the combined waste rock and tailings. The potential benefits of this relocation are a reduced haul distance for waste, a reduced watershed catchment area to be managed, and the containment of major surface disturbances to within one valley.
- The development of a plant site and dry stack tailings storage facility (“TSF”) on the relatively flat ground to the west of Cinco de Mayo deposit. The capital costs at this site for mill and initial TSF construction are expected to be lower than the capital costs in the steeper slope area closer to the deposits. However, the operating costs are expected to be higher due to the greater distance from the Cinco de Mayo and El Creston deposits. A desktop trade off study to evaluate the impact of capital and operating costs should be completed to evaluate the economic value of a mill site located further from the deposit.

Phase 2 of Knight Piezold's work will build on data gathered in Phase 1 to complete investigations and engineering studies relating to waste & water management and environmental management for a 43-101 compliant Pre-Feasibility Study. Phase 2 work, to be initiated when funding permits, will consist of Geotechnical and Hydrogeological Investigations, Tailings Management Design, Waste Rock Dump Design, Site-wide Water Management and Environmental Management.

The Company continues to collect environmental data required to support prefeasibility studies and feasibility studies for future mine planning is ongoing with data continuously being collected.

### **Environment and Community**

Soho conducts its exploration and development activities in a socially and environmentally progressive manner consistent with the principles of Sustainable Development. Particular emphasis is placed on establishing good relationships with community leaders and residents, as well as state authorities to ensure citizens are kept informed of the Company's exploration activities.

As the Tahuehueto project advances from exploration and development to the pre-feasibility stage, environmental baseline studies will lay the foundation for more detailed programs examining all aspects of potential mine development to ensure the highest standards of environmental protection. The Company will continue to comply with all regulations and closely monitor its activities to minimize damage to the ecosystem.

Soho participates in a range of social initiatives in support of local communities, and has already helped to establish a local school and improve electrical, water supply and sanitation facilities. Soho established a medical clinic on the project site which services the crew and is available to the local populace. Local hiring and procurement policies have been adopted to ensure that benefits flow to the communities and region surrounding the project.

### **Jocuxtita Property, Mexico**

#### **Ownership and Access Rights**

The Jocuxtita Property consists of eleven contiguous mining concessions covering a cumulative area of 4,103 hectares located near to the town of San Ignacio and is approximately 120 km north from the city of Mazatlan, State of Sinaloa, Mexico. The property is road accessible from San Ignacio and is close to all necessary infrastructures for further development.

Six of the mining concessions cover a contiguous area that encompasses 1,573 hectares. These six mining concessions are owned by two different vendors and are the subject of two separate purchase and option agreements. The remaining five mining concessions on 2,530 hectares adjacent to the concessions mentioned above, were staked by the Company's subsidiary Samarkand, and therefore are owned directly by Samarkand. Samarkand entered into one agreement with Esteban Hernandez Rodriguez and Erelinda Acuña Acuña (the “Hernandez Option”) and a second agreement with Luis Saul Quintero Triana (the “Quintero Option”). Both agreements grant Samarkand the right to explore and acquire a 100% interest in the respective concessions. In

order to maintain the right to explore and exercise the Hernandez Option and Quintero Option, Samarkand must make cumulative payments totaling US\$1,010,000 (US\$810,000 over a period of six years in the case of the Hernandez Option and US\$200,000 over a period of three years in the case of the Quintero Option). Up to a maximum of US\$372,660 of the option payments may be made by payment of Soho shares. To the date of this report, the Company has paid the vendors US\$145,000 (US\$100,000 under the Hernandez Option and US\$45,000 under the Quintero Option), and issued 375,780 Soho shares valued at US\$20,000.

For the Hernandez Option, the vendors maintain a 2% NSR royalty on the applicable concessions. Samarkand may acquire 1.75% of the 2% NSR by making a cash payment of US\$612,500 to the vendors of the Hernandez Option. For additional details on the schedule of payments please visit the Company's website at [www.sohoresources.ca](http://www.sohoresources.ca).

Due to an internal dispute amongst local residents the Company enforced a Force Majeure clause in the option agreements and suspended the January 31, 2012 payment due of US\$150,000. During the year ended February 28, 2011, the Company paid the vendors US\$75,000 and issued 480,483 common shares valued at \$49,730 (US\$50,000). The Company has elected to suspend exploration activities at the Jocuixtita Project until the dispute amongst local residents is resolved.

In May 2011, the Company entered into a Surface Rights Agreement with Ejido Veranos, the local community residents' formal legal entity. The Surface Rights Agreement has an initial term of thirty years expiring in May 2041. The agreement covers the core 3,020 hectares of the project and allows the Company unrestricted access to explore, develop and mine metals within the area covered under the agreement. Under the terms of this agreement the Company must pay an annual fee based on the area occupied, and adjusted annually for inflation. The fee due for the 2012 fiscal year of MXN\$174,493 (Cdn\$14,030) was paid in June 2011. In addition, upon commencement of commercial production the annual payment will be increased by 263% of the previous year's payment. Fees for the 2013 fiscal year have not yet been determined, nor paid as the Company is not carrying on exploration activities at this time.

### **Jocuixtita Exploration Activities**

The Jocuixtita Property hosts a number of northwest and cross cutting northeast, trending epithermal vein structures mineralized with silver, gold, lead and zinc. The principle structure hosting the El Carmen – La Salvadora – El Eden historic mine workings has been traced over a minimum of 3 km of strike length.

During May to July 2011, Soho conducted a first phase exploration program at the Jocuixtita project consisting of geological mapping, surface and underground sampling followed by a diamond core drilling program using a small drill rig drilling BTW thin-wall sized drill core. Thirteen drill holes were completed reaching their target depth while five holes failed to reach their target depth and were abandoned due to difficult ground conditions that the small diamond drill was unable to overcome.

Significant results were obtained in 11 of the 13 holes completed. Highlights of some of the weighted average drill intersection assay results are as follows,

- **JCX-09:** from 85.7m to 96.5m - 10.8 meter width grading 165.38 g/t silver including 1.0m grading 1,050g/t (1.05 kg/t) silver and 0.73g/t gold plus, a second deeper intersection from 116-121.4m depth for 5.4m width grading 295.63 g/t Silver, including 1.0m of 1,500 g/t (1.5kg/t) Silver
- **JCX-18:** from 39.0m to 44.25m - 5.25 meter width grading 350.84 g/t Silver, 0.41 g/t Au including 1.7m grading 989 g/t silver and 1.13g/t gold plus **JCX-17:** from 43.3m to 49.0m - 5.70 meter width grading 138.74 g/t silver including 2.2m grading 292g/t silver, a second deeper intersection from 70.0-82.0m depth for 12m width grading 183.95 g/t Silver, including 3.0m of 409.12 g/t and 0.68g/t gold
- **JCX-07:** from 157.7m to 167.6m - 9.95 meter width grading 159.54 g/t Silver including, 6.10m grading 230 g/t silver.

A complete list of all significant weighted average drill hole assay intervals, a drill hole location map, and a completed list of all individual assay results for all holes can be viewed at the Company's web site at the following addresses:

- Assay Drill Results: <http://www.sohoresources.ca/index.php?nav=77>,
- Drill Hole Location Map: <http://www.sohoresources.ca/index.php?nav=71>

This first phase drilling program tested the EL Carmen and La Salvadora zones that are separated by approximately 700 m along a principle northwest - southeast trending structure. The EL Carmen zone appears to be the best mineralized area based upon the limited amount of drilling conducted to date. Within the EL Carmen area there are at least two crosscutting structures named Ano Nuevo and El Caballo both trending northeast – southwest. These two structures have returned high grade assays. Future drilling programs, when funding permits, will follow up these structure, further explore both the EL Carmen and La Salvadora zones as well as explore the other unexplored areas of the Jocuixtita Project.

The Company will continue attempts to identify and acquire additional high quality exploration projects that will allow continued corporate growth. This search is primarily being conducted in Mexico but the Company would not rule out acquisitions in other jurisdictions depending upon the quality of a potential acquisition opportunity.

### **Corporate, General, and Administrative**

#### **Directors and Officers**

At the Company's Annual General Meeting (the "AGM") held on November 3, 2011, shareholders elected the following individuals as directors of the Company:

Ralph Shearing  
John Lynch  
Yao Sun  
John Anderson

Arthur Freeze  
William Howald  
Lianxi Zhang

At a subsequent directors meeting, the following director and officer appointments were made:

Audit Committee – Ralph Shearing, William Howald, and John Lynch  
Human Resources & Compensation Committee – Arthur Freeze, John Lynch, John Anderson  
Advisory Board – Paul Chung and Jack Miller  
President and Chief Executive Officer – Ralph Shearing  
Chief Financial Officer - Donald Crossley  
Vice President Asia Pacific Region – Yao Sun

In December 2011, Mr. Miller resigned his position on the advisory board, and Mr. Barry Clark was appointed Vice-president of Corporate Development. Mr. Clark resigned from the Company effective June 11, 2012.

#### **Management Agreements**

In October 2007 the Company entered into an employment contract with Ralph Shearing to provide general management services to the Company for a monthly fee of \$13,333 and was granted 400,000 share purchase options. Mr. Shearing is the CEO and a Director of the Company. In January 2009, in light of the poor junior capital markets and the Company's restricted cash resources, Mr. Shearing agreed to temporarily reduce his monthly salary by 25% to \$10,000 per month.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of \$3,000 per month.

On December 1, 2011 the Company entered into a consulting agreement with Regal Barrington LLC, a company controlled by Barry Clark, an Officer of the Company, to provide general management, business development, and financial services to the Company for a monthly fee of \$8,333. In connection with this agreement Mr. Clark was appointed Vice-president of Corporate Development. This agreement was terminated effective June 11, 2012.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties. These agreements have received regulatory approval where required.

### **Financing Activities**

The Company completed a non-brokered private placement of 12,500,000 units of the Company. Each unit is priced at \$0.06 per unit for total gross proceeds of \$750,000. A value of \$437,500 has been allocated to warrants to reflect the residual value of the warrant portion of the unit. Each unit is comprised of one common share of the Company and one half of a two year transferable share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one additional common share of the Company at \$0.10 within two years of its date of issuance. At February 29, 2012, the Company had received subscription payments of \$350,000 relating to this private placement financing and during the period ended May 31, 2012 the Company received the remaining \$400,000 proceeds to completed this private placement.

In connection with this financing; the Company paid finder's fees by issuing 600,000 units valued at \$36,000, with the same terms as the private placement units; and incurred additional share issue costs of \$14,007.

During July and August 2012, Directors advanced the Company \$35,000. These cash advances are unsecured, non interest-bearing and has no fixed terms of repayment.

Subsequent to August 31, 2011 the Company received cash advances totalling \$158,150 from Directors. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

### **Share Capital, Warrants, and Stock Options**

#### **Share Capital**

At October 30, 2012, there have been no changes in the issued share capital from the information provided in the August 31, 2012 financial statements:

#### **Warrants**

At October 30, 2012, there have been the following changes in the warrants outstanding from the information provided in the August 31, 2012 financial statements:

	Number of Warrants	Weighted Average Exercise Price
Balance as at August 31, 2012	35,115,000	\$ 0.14
Expired	<u>(6,000,000)</u>	\$ 0.10
Balance as at October 30, 2012	<u>29,115,000</u>	<u>\$ 0.14</u>



As at October 30, 2012 the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
15,290,000	\$ 0.15	January 24, 2013
7,275,000	\$ 0.175	August 9, 2013
6,550,000	\$ 0.10	June 1, 2014
<b>29,115,000</b>		

### Stock Option Plan

A 2011 Stock Option Plan was approved by the shareholders on November 3, 2011, at the Company's AGM. Under the 2011 plan, the Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company, on a rolling basis. Options may be granted at an exercise price of no less than a 25% discount of the market price on the date of the grant, or such higher price as determined by the board of directors. Options can be granted for a maximum term of 10 years. Vesting is not required but may be set on an individual basis as determined by the board of directors.

On May 1, 2012, the Company granted 450,000 stock options to a director, an officer, and a consultant at an exercise price of \$0.10 per common share, expiring on May 1, 2017.

At October 30, 2012, there have been the following changes in the stock options outstanding from the information provided in the August 31, 2012 financial statements:

On September 1, 2012, the Company granted 400,000 stock options to an employee, and a consultant at an exercise price of \$0.10 per common share, expiring on September 1, 2017.

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2012	12,915,000	\$ 0.11
Granted	400,000	\$ 0.10
Expired/cancelled	<u>(450,000)</u>	\$ 0.10
<b>Balance, October 30, 2012</b>	<b>12,865,000</b>	<b>\$ 0.11</b>

As at October 30, 2012 the following stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
3,465,000	\$0.10	March 20, 2014
425,000	\$0.10	May 1, 2014
550,000	\$0.10	September 1, 2015
500,000	\$0.10	December 1, 2013
325,000	\$0.10	December 1, 2015
5,025,000	\$0.115	February 1, 2016
50,000	\$0.10	April 1, 2016
575,000	\$0.10	August 1, 2016
500,000	\$0.10	October 1, 2016
600,000	\$0.10	December 1, 2016
450,000	\$0.10	May 1, 2017
400,000	\$0.10	September 1, 2012 <sup>(1)</sup>
12,865,000		

### **Liquidity**

At August 31, 2012, the Company had a working capital deficiency of \$1,089,220.

On June 1, 2012, the Company completed a non-brokered private placement of 12,500,000 units. Each unit is priced at \$0.06 per unit for total gross proceeds of \$750,000. At May 31, 2012, the Company had received subscription payments of \$350,000 relating to this private placement financing and subsequently received the remaining \$400,000 proceeds completing this private placement. These funds were used for general and administrative expenses, and to fund exploration work at both the Tahuehueto and Jocuixtita mineral properties.

During July and August 2012, Directors advanced the Company \$35,000. These cash advances are unsecured, non interest-bearing and has no fixed terms of repayment.

Subsequent to August 31, 2011 the Company received cash advances totalling \$158,150 from Directors. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

These financing will provide funds both for the Company to continue its exploration activities and for general working capital purposes. However the Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable operations in the near future. Due to financial market conditions affecting the junior resource public company markets, the Company may not be able to secure additional financing.

### **Investor Relations**

The Company does not have any investor relations agreements. All investor relations activities are currently handled by employees of the Company.

### **Related Party Transactions**

In addition to certain related party transactions mentioned above, the Company had additional significant transactions with related parties, as are summarized below.

The Company's related parties consist of individuals who are executive officers and/or directors of the Company, or are directly related to a director of the Company, as follows:

Name	Nature of transaction
Ralph Shearing, CEO, Director	Salary
Donald Crossley, CFO	Professional fees
John Anderson, Director	Consulting fees
Yu Sun, related to a director	Salary
John Lynch, Director	Loans and Interest
Lianxi Zhang, Director	Loans and Interest

The Company incurred the following fees and expenses in connection with compensation of individuals who are key management and directors.

	August 31, 2012	August 31, 2011
Interest on loans	\$ 15,949 <sup>(1)</sup>	\$ -
Professional fees	59,500	78,125
Salaries and benefits	78,000	78,000
Share-based payments	8,956	254,127
	\$ 162,405	\$ 410,252

(1) Excluding \$20,751 charged to interest expense in the period ended August 31, 2012 for the amortized value of loan bonus shares issued in fiscal 2012.

Trade and other payables include the following amounts owed to related parties:

	August 31, 2012	February 29, 2012
Consulting fees	\$ 10,000	\$ 10,000
Interest payable	25,093	9,327
Salaries	59,000	56,000
	\$ 94,093	\$ 75,327

During the year ended February 29, 2012, the Company received a cash advance of \$30,000 from a director. And during the current period the Company received additional cash advances of \$35,000 from directors of the Company. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment

Subsequent to August 31, 2011 the Company received cash advances totalling \$158,150 from Directors. These cash advances are unsecured, non interest-bearing and have no fixed terms of repayment.

On September 29, 2011, a Director loaned the Company US\$100,000. This loan is for a term of one year, bears interest at 10%, and a loan bonus was paid by the issuance of 297,000 shares of the Company. Effective September 29, 2012, the Director agreed to extend the term of this loan by one year.

On November 10, 2011, a Director loaned the Company \$100,000. This loan is for a term of one year, bears interest at 10%, and a loan bonus was paid by the issuance of 286,000 shares of the Company. On December 21, 2011, the same Director loaned the Company an additional \$100,000. This loan is also for a term of one year, bears interest at 10%, and a loan bonus was paid by the issuance of 286,000 shares of the Company.

In February 2009 the Company entered into a consulting agreement with John Anderson, a Director of the Company, to provide general management and financial services to the Company for a monthly fee of \$2,000.

Included in accounts payable at August 31, 2012 was \$10,000 for consulting fees due to John Anderson. This agreement was temporarily suspended effective March 1, 2011, and terminated in August 2011.

The Company has an employment contract with Mr. Ralph Shearing, who is the CEO and a director of the Company. Under the terms of the employment contract, Mr. Shearing is paid a salary of \$10,000 per month. During the period ended August 31, 2012 the Company paid or accrued a salary of \$60,000 with respect to this employment contract. At August 31, 2012 there is \$20,000 of salaries payable under this agreement.

On April 1, 2010, the Company entered into an employment contract with Mr. Yu Sun, who is related to Mr. Yao Sun, a Director of the Company. Under the terms of the employment contract, Mr. Yu Sun will assist the Company with its business development plans in China and is paid a salary of \$3,000 per month. During the period ended August 31, 2012 the Company paid or accrued a salary of \$9,000 with respect to this employment contract. At August 31, 2012 there is \$39,000 of salaries payable under this agreement.

The Company paid professional fees of \$59,500 to Mr. Donald Crossley, an officer of the Company. Mr. Crossley is a chartered accountant and the chief financial officer of the Company, and as such provides the company with general management, administrative, financial, and accounting services.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

### **Risk Factors and Uncertainties**

The Company's ability to generate revenue and profit from its natural resource properties, or any other resource property it may acquire, is dependent upon a number of factors, including, without limitation, the following:

#### **Precious and Base Metal Price Fluctuations**

The Company's ability to finance its mineral property acquisition, exploration and eventual development is dependent upon the market price of certain precious and base metals. The price of such metals has fluctuated widely and is affected by numerous economic and political factors, consumption patterns, speculative activities, levels of supply and demand, increased production due to new mine developments and productivity, metal substitutes and stock levels. These fluctuations may result in the Company not receiving an adequate return on invested capital or the investment retaining its value.

#### **Operating Hazards and Risks**

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards, risks and liabilities normally incidental to exploration, development and production of precious and base metals. The Company presently carries liability insurance; however any liabilities arising from its operations may have a material, adverse effect on the Company's financial position.

#### **Exploration and Development**

There is no known body of commercial ore on the Company's mineral properties. Development of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involves a high degree of risk and few exploration properties are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in any commercially viable discoveries.

Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes and the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals and environmental protection.

#### **Calculation of Reserves and Mineralization and Precious and Base Metal Recovery**

There is a degree of uncertainty attributable to the calculation of reserves and mineralization and corresponding grades being mined or dedicated to future production. In addition, there can be no assurance that precious or other metal recoveries in small-scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

#### **Government Regulation**

Operations, development and exploration on the Company's properties are affected to varying degrees by government regulations relating to such matters as environmental protection, health, safety and labour; mining law reform; restrictions on production; price controls; tax increases; maintenance of claims; tenure; and expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations.

#### **Environmental Factors**

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. Environmental legislation is evolving and requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation will not adversely affect the Company's operations. Environmental hazards may exist on the Company's properties, which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

#### **Climate Change**

The Company's current business and exploration activities are not a significant contributor to the greenhouse gases that are commonly believed to be responsible for climate change and a source of adverse weather patterns. The Company does not currently believe climate change will have a significant impact on its future operations. However there is no assurance that future changes in the environment resulting from climate change will not adversely affect the Company's operations.

#### **Title to Assets**

Although the Company has or will receive title opinions for any properties in which it has a material interest, there is no guarantee that title to such properties will not be challenged or impugned. The Company has not conducted surveys of the claims in which it holds direct or indirect interests and therefore, the precise area and location of such claims may be in doubt.

The Company's claims may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects.

#### **Off Balance Sheet Arrangements**

The Company has no off balance sheet arrangements.

#### **Changes in Accounting Policies**

##### **New standards, interpretations and amendments – effective in fiscal 2013**

##### **Income taxes**

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes*; that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

## **New standards, interpretations and amendments – not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of August 31, 2012 and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the financial statements of the Company.

### **Financial instruments disclosure**

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets*. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

### **Consolidated financial statements**

On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 – *Consolidated and Separate Financial Statements* and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### **Financial Instruments**

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety with IFRS 9 – *Financial Instruments* ("IFRS 9") in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. In November 2009 and October 2010, phase 1 of IFRS 9 was issued and amended respectively, which addressed the classification and measurement of financial assets and financial liabilities.

IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as FVTPL, financial guarantees and certain other exceptions. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### **Disclosure of Interests in Other Entities**

IFRS 12, "Disclosure of Interests in Other Entities", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013. Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IAS 27 (2011), "Separate Financial Statements" and IAS 28 (2011), "Investments in Associates and Joint Ventures".

### **Fair Value Measurement**

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The new converged fair value framework is effective for annual periods beginning on or after January 1, 2013.

## **Presentation of Financial Statements**

In June 2011, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" to: (a) require companies to group together items within other comprehensive income ("OCI") that may be reclassified to the statement of comprehensive loss; and (b) require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). The amendments also reaffirm existing requirements that items in OCI and income or loss should be presented as either a single statement or two separate statements. The amended standard is effective for annual periods beginning on or after July 1, 2012.

## **Financial Instruments: Presentation**

The IASB amended IAS 32, "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2014.

## **Financial Instruments**

### **Fair values**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash is measured at Level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

### **Financial instrument risk exposure and risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

The fair values of the Company's receivables, accounts payable and accrued liabilities, and due to related party approximate their carrying values. The Company's other financial instrument, being cash, is measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

#### **Credit risk**

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

#### **Interest rate risk**

The Company has cash balances. The Company's current policy is to invest excess cash in investment-grade short-term demand deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks. The Company is exposed to interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

#### **Foreign currency risk**

The Company is exposed to foreign currency risk on currency fluctuations related to monetary items with a settlement currency other than Canadian dollars. The Company operates in foreign jurisdictions which use both the United States Dollar ("US\$") and the Mexican Peso ("MXN\$") as the main settlement currencies. The Company does not use derivative instruments to reduce upward and downward risk associated with foreign currency fluctuations. The effect of a 1% change in foreign exchange rates would be approximately \$3,400.

#### **Commodity price risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

#### **Capital Risk Management**

The Company manages common shares, stock options, and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash on hand.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.



In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account. Cash consist of cash on hand, balances with banks and investments in highly liquid instruments. The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents and the fair value approximates carrying value.

There have been no changes to the Company's approach to capital management during the year ended August 31, 2012. The Company is not subject to externally imposed capital requirements.