

**SOHO RESOURCES CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FEBRUARY 28, 2006**

## AUDITORS' REPORT

To the Shareholders of  
Soho Resources Corp.

We have audited the consolidated balance sheets of Soho Resources Corp. as at February 28, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

May 23, 2006

A Member of SC INTERNATIONAL

**SOHO RESOURCES CORP.**  
**CONSOLIDATED BALANCE SHEETS**

	February 28, 2006	February 28, 2005
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 480,603	\$ 176,270
Prepaid expenses	23,478	-
Receivables	167,081	44,680
	671,162	220,950
<b>Exploration advances</b> (Note 3)	84,140	35,285
<b>Mineral properties</b> (Note 3)	3,750,625	1,182,685
<b>Equipment</b> (Note 5)	29,924	9,256
<b>Deferred financing costs</b>	-	19,375
	\$ 4,535,851	\$ 1,467,551
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 487,173	\$ 367,348
Obligation under share purchase agreement (Note 3)	285,000	308,375
Loan payable (Note 7)	-	15,812
	772,173	691,535
Asset retirement obligation (Note 6)	25,000	-
	797,173	691,535
<b>Shareholders' equity</b>		
Capital stock (Note 8)	17,164,165	13,420,242
Contributed surplus (Note 8)	941,116	367,899
Deficit	(14,366,603)	(13,012,125)
	3,738,678	776,016
	\$ 4,535,851	\$ 1,467,551

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 15)

**Subsequent events** (Note 16)

**On behalf of the Board:**

“Ralph Shearing”  
 \_\_\_\_\_  
 Ralph Shearing

Director “Paul Chung”  
 \_\_\_\_\_  
 Paul Chung

Director

The accompanying notes are an integral part of these consolidated financial statements.

**SOHO RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

	Year ended February 28,	
	2006	2005
<b>EXPENSES</b>		
Amortization	\$ 6,068	\$ 2,573
Business promotion	13,326	9,900
Communications	42,644	22,999
Consulting and financial services	114,230	67,253
Foreign exchange (gain) loss	21,221	(39,085)
Interest and bank charges	5,039	36,500
Investor relations	98,244	91,653
Management fees	90,000	56,484
Office and miscellaneous	41,612	21,768
Professional fees	199,907	253,043
Property investigations	-	6,006
Regulatory fees	20,636	22,852
Rent	41,898	49,915
Stock-based compensation (Note 9)	443,434	345,519
Transfer agent	12,480	6,781
Travel	122,971	66,848
Wages and benefits	61,510	28,944
<b>Loss before other items</b>	<b>(1,335,220)</b>	<b>(1,049,953)</b>
<b>OTHER ITEMS</b>		
Interest income	7,072	-
Loss on disposal of oil and gas properties (Note 4)	-	(330,651)
Write-down of receivables (Note 12)	(39,299)	-
Gain on settlement of debts	12,969	10,886
	<b>(19,258)</b>	<b>(319,765)</b>
<b>Loss for the year</b>	<b>(1,354,478)</b>	<b>(1,369,718)</b>
<b>Deficit, beginning of year</b>	<b>(13,012,125)</b>	<b>(11,642,407)</b>
<b>Deficit, end of year</b>	<b>\$ (14,366,603)</b>	<b>\$ (13,012,125)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares outstanding</b>	<b>53,705,346</b>	<b>40,858,475</b>

The accompanying notes are an integral part of these consolidated financial statements.

**SOHO RESOURCES CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended February 28,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,354,478)	\$ (1,369,718)
Items not affecting cash		
Amortization	6,068	2,573
Accrued interest	-	34,973
Stock-based compensation expensed	443,434	345,519
Gain on settlement of debts	(12,969)	(10,886)
Loss on disposal of oil and gas properties	-	330,651
Write-down of receivables	39,299	-
Unrealized foreign exchange loss	(23,375)	(26,625)
Changes in non-cash working capital items		
Increase in prepaid expenses	(23,478)	-
Increase in receivables	(161,700)	(31,269)
Increase (decrease) in accounts payable and accrued liabilities	(186,332)	62,756
<b>Net cash used in operating activities</b>	<b>(1,273,531)</b>	<b>(662,026)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares	4,075,764	1,409,771
Share issue costs	(191,072)	-
Deferred financing costs	-	(19,375)
Repayments of loans payable	(15,812)	(34,260)
Repayments of related party advances	-	(4,719)
<b>Net cash provided by financing activities</b>	<b>3,868,880</b>	<b>1,351,417</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment purchase	(26,736)	(5,695)
Mineral properties	(2,215,425)	(758,617)
Exploration advances	(48,855)	(35,285)
Oil and gas properties	-	(5,483)
<b>Net cash used in investing activities</b>	<b>(2,291,016)</b>	<b>(805,080)</b>
<b>Change in cash during the year</b>	<b>304,333</b>	<b>(115,689)</b>
<b>Cash, beginning of year</b>	<b>176,270</b>	<b>291,959</b>
<b>Cash, end of year</b>	<b>\$ 480,603</b>	<b>\$ 176,270</b>

**Supplemental disclosure with respect to cash flows (Note 10)**

The accompanying notes are an integral part of these consolidated financial statements.

**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company was incorporated under the laws of British Columbia and its principal business activity consists of acquisition and exploration of resource properties.

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for resource 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.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the on-going assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company have primarily been funded by the issuance of capital stock and loans from related parties. As the Company has a serious working capital deficiency, its 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. These financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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	2006	2005
Deficit	\$(14,366,603)	\$(13,012,125)
Working capital (deficiency)	\$ (101,011)	\$ (470,585)

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Samarkand de Mexico S.A. de C.V. ("Samarkand de Mexico") and its 90% owned subsidiary, Sacramento de la Plata S.A. de C.V. ("Sacramento"), (collectively referred to as the "Company"). All inter-company transactions and balances have been eliminated upon consolidation.

**Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the exchange rates approximating those in effect at the time of the transactions. Translation gains and losses are included in the results of operations for the year.

**Deferred financing costs**

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

**Equipment**

Equipment is recorded at cost less accumulated amortization and is being amortized over its estimated useful lives on the declining balance basis as follows:

Computer equipment	30%
Office equipment	20%
Geological equipment	30%

Leasehold improvements are amortized on a straight-line basis over 5 years.

**Mineral properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**Oil and gas properties**

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs, net of incentives, related to the exploration for and development of oil and gas reserves are capitalized. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Oil and gas properties (cont'd...)**

The Company calculates a "cost ceiling" which limits the net book value of capital costs to the undiscounted and unescalated estimated future net revenues from production of proved reserves based upon year-end prices. This test also accounts for future general and administrative expenses, future site restoration and abandonment costs, financing costs and income taxes, all undiscounted and unescalated. Additional depletion is provided if the net book value of capitalized costs exceeds such future revenue.

Depletion is computed using the unit-of-production method where the ratio of production to proved reserves, before royalties, determines the proportion of depletable costs to be expensed. Undeveloped properties are excluded from the depletion calculation until the quantities of proved reserves can be determined.

The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

This policy was adopted effective March 1, 2004, pursuant to CICA Handbook Section 3110, "Asset retirement obligations".

**Stock-based compensation**

The Company uses the fair value based method of accounting for all stock-based compensation. The Company estimates the fair value at the date of grant using the Black-Scholes option pricing model and expenses the fair value over the period of the vesting. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Income taxes**

Future income taxes are recorded for using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. MINERAL PROPERTIES**

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.

**Tahuehueto Project**

The Company, through its wholly-owned Mexican subsidiary, Samarkand de Mexico, owns 90% of the issued and outstanding capital stock of Sacramento. Sacramento holds a 100% interest in the Tahuehueto mineral property, located in Durango State, Mexico. The property is subject to a 2% net smelter returns royalty.

In 1999, Samarkand was served with statements of claim registered in the civil court of Mazatlan, Sinaloa, Mexico, seeking the rescission of the share purchase agreement whereby Samarkand acquired its interest in Sacramento. The statements of claim were filed by the three vendors of the Sacramento shares. All of the vendors' legal claims, including any subsequent appeals, have been resolved in favor of the Company. The Mexican judicial system determined that the Company was not, and has never been in default of its obligations under the share purchase agreement.

Pursuant to the share purchase agreement, the Company is obligated to make a final payment of US\$250,000 (2006 – Cdn\$285,000; 2005 – Cdn\$308,375) to the vendors of the Sacramento shares.

At February 28, 2006, \$84,140 (2005 - \$35,285) had been advanced to the project for future exploration costs.

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**3. MINERAL PROPERTIES (cont'd...)**

**Tahuehueto Project (cont'd...)**

Mineral property costs incurred on the Tahuehueto Project were incurred as follows:

	2006	2005
Balance, beginning of year	\$ 1,182,685	\$ 409,463
Acquisition costs	-	50,000
Assays, data and maps	265,726	66,105
Asset retirement obligation	25,000	-
Drilling	734,968	67,280
Equipment and supplies	176,131	50,792
Geological consulting	587,002	256,365
Geophysical survey	-	46,108
Insurance	13,819	1,828
Mineral concession taxes, licences, and fees	37,636	14,349
Stock-based compensation	8,389	14,605
Subcontractors and equipment rentals	570,906	155,129
Transportation, travel, and lodging	148,363	50,661
Mineral property costs incurred during the year	2,567,940	773,222
Balance, end of year	\$ 3,750,625	\$ 1,182,685

**4. OIL AND GAS PROPERTIES**

**Gypsy Property**

The Company entered into an agreement with Code America Investments LLC. ("Code America") to acquire certain gas leases, the "Gypsy Property", located in Freestone County, Texas. Code America was a corporation controlled by a former director of the Company. This acquisition included a 12.5% interest in the producing Lane No. 1 gas well and up to a 100% interest in certain other gas leases. The Company paid approximately US\$250,000 and issued 286,630 common shares with a value of \$22,930 as a finder's fee.

**Pebble Creek Property**

The Company entered into a Joint Venture Development Agreement with Code America whereby the Company purchased a 5% working interest equating to a 3.5% Net Revenue Interest in the Pebble Creek Prospect, Shelby County, Texas. The Company paid \$79,837 (US \$58,070) as its pro-rata cost of development to drill, test and complete two initial wells within the project area.

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**4. OIL AND GAS PROPERTIES (cont'd...)**

**Pebble Creek Property (cont'd...)**

In order to fund its pro-rata cost of the development wells, the Company received a loan from BHT-TCM Investment Inc. ("BHT") in the amount of US\$58,070. The loan was secured by the working interest being purchased, had a term of one year and bore interest of 8% per annum. A former director of the Company controls BHT.

The Company disposed of all its oil and gas properties and related loans in December 2004 resulting in a loss of \$330,651. All related agreements were terminated.

Costs were incurred as follows:

	Gypsy Property	Pebble Creek Property	Total
Balance, February 28, 2004	\$ 424,429	\$ 79,837	\$ 504,266
Additions during 2005 Production testing	5,483	-	5,483
	429,912	79,837	509,749
Disposal of oil and gas properties	(429,912)	(79,837)	(509,749)
Balance, February 28, 2005 and 2006	\$ -	\$ -	\$ -

**5. EQUIPMENT**

	2006			2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 62,082	\$55,221	\$ 6,861	\$60,835	\$52,548	\$8,287
Office equipment	32,582	22,113	10,469	21,812	20,843	969
Leasehold improvements	5,086	680	4,406	-	-	-
Geological equipment	9,633	1,445	8,188	-	-	-
	\$109,383	\$79,459	\$29,924	\$82,647	\$73,391	\$9,256

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**6. ASSET RETIREMENT OBLIGATION**

The Company estimates its asset retirement obligation at the Tahuehueto property based on its understanding of its requirements to reclaim the currently disturbed areas. The Company has accrued \$25,000 as a retirement obligation. The asset retirement obligation is considered to be present value.

The asset retirement obligation accrual required management to make significant estimates and assumptions. Actual results could differ from these estimates.

**7. LOAN PAYABLE**

During the year ended February 28, 2006, the unsecured demand loan payable bearing interest at 10% per annum was repaid, including interest.

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Share Amount	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
100,000,000 Class A preference shares with a par value of \$1 per share			
100,000,000 Class B preference shares with a par value of \$5 per share			
Common shares issued:			
Balance as at February 29, 2004	29,665,366	\$ 11,188,525	\$ -
Private placements	9,500,334	1,220,050	-
Private placements – Agents’ fees	156,693	23,504	-
Settlement of debts	2,494,872	467,161	-
Warrants exercised	4,435,269	528,938	-
Options exercised	155,625	45,874	(22,530)
Share issue costs	-	(53,810)	30,305
Stock-based compensation (Note 9)	-	-	360,124
Balance as at February 28, 2005	46,408,159	13,420,242	367,899
Private placements	9,200,000	3,400,000	-
Private placement – Agents’ fees	50,000	25,000	-
Agent unit options exercised	158,296	63,703	(25,728)
Warrants exercised	3,792,846	613,414	-
Share issue costs	-	(406,755)	171,308
Stock-based compensation (Note 9)	-	-	451,823
Options exercised	162,500	48,561	(24,186)
Balance as at February 28, 2006	59,771,801	\$ 17,164,165	\$ 941,116

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**2006 Transactions**

On March 3, 2005 the Company completed a brokered private placement of 3,000,000 units at \$0.50 per unit for total proceeds of \$1,500,000. The Company paid cash of \$112,500 and issued 450,000 Agent's Unit Options as a commission; and issued 50,000 units at \$0.50 per unit as a corporate finance fee. The Agent's Unit Options entitled the Agent to purchase 450,000 units at \$0.50 per unit for a period of two years. Each unit consisted of one common share and one-half of a non-transferable share purchase warrant. Each whole share purchase warrant is exercisable at a price of \$0.60 per share. The Agents' Unit Options and all of the share purchase warrants expire on March 3, 2007. The Agents' Unit Options fair value of \$137,982 was recorded as share issue costs offset to contributed surplus.

On December 1, 2005 the Company completed a non-brokered private placement of 4,000,000 units at \$0.20 per unit for total proceeds of \$800,000. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant is exercisable for a period of one year at a price of \$0.30 per share. The Company paid cash of \$31,800 and issued 237,000 non-transferable share purchase warrants as finders' fees. Each share purchase warrant is exercisable for a period of two years at a price of \$0.20 per share. The finders' fees warrants fair value of \$33,326 was recorded as share issue costs offset to contributed surplus.

On February 2, 2006, the Company completed a non-brokered private placement of 2,200,000 units at \$0.50 per unit for total proceeds of \$1,100,000. Each unit consisted of one common share and one non-transferable share purchase warrant. Each share purchase warrant is exercisable for a period of two years at a price of \$0.75 per share.

**2005 Transactions**

On March 20, 2004, the Company issued 7,000,000 units at a price of \$0.11 per unit in a non-brokered private placement for cash proceeds of \$770,000. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant is exercisable into an additional common share at \$0.14 until March 20, 2005. Two directors and a company controlled by a director purchased 1,270,000 of these units.

On October 21, 2004, the Company issued 2,000,334 units at a price of \$0.15 per unit in a brokered private placement for cash proceeds of \$300,050. In connection with this financing the Company issued 50,000 units at \$0.15 per unit as a corporate finance fee; and issued 106,693 units at \$0.15 per unit plus 200,050 Agents' Unit Options as a commission. The Agents' Unit Options entitles the agents to purchase 200,050 units at \$0.22 per unit. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each whole share purchase warrant is exercisable into an additional common share at a price of \$0.22 per share. The Agents' Unit Options and all of the share purchase warrants expire on October 21, 2005. The Agents' Unit Options fair value of \$30,305 is included in contributed surplus.

On January 19, 2005, the Company issued 500,000 units at a price of \$0.30 per unit in a non-brokered private placement for cash proceeds of \$150,000. Each unit consisted of one common share and one-half of a common share purchase warrant. Each whole common share purchase warrant is exercisable into an additional common share at \$0.30 until January 19, 2006. A company controlled by a director purchased all of these units.

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

On March 19, 2004, the Company agreed to a debt settlement for \$46,500 of accounts payable, \$7,884 of interest payable, and \$68,625 of loans payable, for a total debt settlement of \$123,009. The Company issued 1,118,263 units at a price of \$0.11 per unit. Each unit consisted of one common share and one-half of a non-transferable share purchase warrant exercisable into an additional common share at \$0.14 until March 19, 2005.

On October 25, 2004, the Company agreed to a debt settlement for \$69,652 of interest payable and \$274,500 of loans payable, for a total debt settlement of \$344,152. The Company issued 1,376,609 shares at a price of \$0.25 per share.

In February 2005, the Company paid deferred financing costs of \$19,375 relating to a private placement financing completed in March 2005.

**9. STOCK OPTIONS AND WARRANTS**

The Company is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 20% of the issued and outstanding common stock of the Company, on a fixed 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 5 years. The options vest 25% upon the date of grant, and then at a rate of 12.5% every 3 months thereafter.

In December 2005 the Board of Directors approved a new 2006 Stock Option Plan. Under the 2006 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 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors. The 2006 plan is subject to shareholder approval.

**Stock-based compensation**

During the year ended February 28, 2006, the Company granted directors, employees and consultants 2,296,123 (2005 – 3,992,500) stock options. The options vest 25% upon the date of grant, and then at a rate of 12.5% to 25% every 3 months thereafter, until fully vested. The Company granted 669,877 additional options that will become effective on the date of shareholder approval of an increase in the stock option plan, these options have been excluded in these financial statements.

For the year ended February 28, 2006, the total fair value of stock-based compensation granted using the Black-Scholes option pricing model was \$596,946 (2005 - \$658,214). A total of \$443,434 (2005 - \$345,519) was charged to the Statement of Operations and Deficit, \$8,389 (2005 - \$14,605) has been included in Mineral Properties on the Balance Sheet, all offset to contributed surplus. The remaining balance will be recorded in future periods. The weighted average fair value of the options granted during the period was \$0.26 (2004 - \$0.16) per option.

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**9. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock-based compensation (cont'd...)**

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and warrants granted during the year:

	2006	2005
Risk-free interest rate	3.28%	3.44%
Expected life of options/warrants	2-5 Years	1-5 Years
Annualized volatility	110%	99%
Dividend rate	0%	0%

As at February 28, 2006 the Company had outstanding stock options enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,690,000	\$ 0.15	March 18, 2009
30,000	\$ 0.15	June 22, 2009
220,000	\$ 0.15	September 21, 2009
202,500	\$ 0.15	September 29, 2009
100,000	\$ 0.20	November 2, 2009
250,000	\$ 0.25	November 2, 2009
32,500	\$ 0.28	December 15, 2009
50,000	\$ 0.30	February 8, 2010
300,000	\$ 0.25	March 17, 2010
200,000	\$ 0.30	June 27, 2010
150,000	\$ 0.30	September 15, 2010
200,000	\$ 0.30	November 1, 2010
350,000	\$ 0.20	December 1, 2010
1,090,123	\$ 0.30	December 1, 2010
<b>4,865,123</b>		

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**9. STOCK OPTIONS AND WARRANTS (cont'd...)**

Stock option transactions are summarized as follows:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	2,961,875	\$ 0.17	-	\$ -
Granted	2,290,123	\$ 0.29	3,992,500	\$ 0.16
Exercised	(162,500)	\$ 0.15	(155,625)	\$ 0.15
Expired/cancelled	(224,375)	\$ 0.18	(875,000)	\$ 0.15
Balance, end of year	4,865,123	\$ 0.23	2,961,875	\$ 0.17
Options exercisable, end of year	3,376,875	\$ 0.20	1,480,000	\$ 0.16

**Warrants**

As at February 28, 2006, the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
4,000,000	\$ 0.30	December 1, 2006
1,530,625	\$ 0.60	March 3, 2007
237,000	\$ 0.20	December 1, 2007
2,200,000	\$ 0.75	February 2, 2008
7,967,625		

Warrant transactions are summarized as follows:

	2006		2005	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	4,346,286	\$ 0.17	2,300,000	\$ 0.10
Issued	8,041,148	\$ 0.48	6,481,555	\$ 0.15
Exercised	(3,792,846)	\$ 0.16	(4,435,269)	\$ 0.12
Expired/cancelled	(626,963)	\$ 0.22	-	-
Balance, end of year	7,967,625	\$ 0.48	4,346,286	\$ 0.17

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**9. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Agents' Unit Options**

Agents' unit option transactions and the number of Agents' Unit Options outstanding are summarized as follows:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	200,050	\$ 0.22	-	-
Granted	450,000	\$ 0.50	200,050	\$ 0.22
Exercised	(158,296)	\$ 0.24	-	\$ 0.22
Expired/cancelled	(53,004)	\$ 0.22	-	\$ 0.22
Balance, end of year	438,750	\$ 0.50	200,050	\$ 0.22

On March 3, 2005, the Company issued Agents' Unit Options entitling the Agents to purchase 450,000 units at \$0.50 per unit until March 3, 2007. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each whole share purchase warrant is exercisable at a price of \$0.60 per share.

On October 21, 2004, the Company issued Agents' Unit Options entitling the Agents to purchase 200,050 units at \$0.22 per unit until October 21, 2005. Each unit consists of one common share and one-half of a non-transferable share purchase warrant. Each whole share purchase warrant is exercisable at a price of \$0.22 per share.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2006	2005
Cash paid during the year for interest	\$ 2,207	\$ 16,020
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions during the year ended February 28, 2006 included:

- a) the issuance of 50,000 units as consideration for agents' fees in the amount of \$25,000, and issued 450,000 Agent's Unit Options valued at \$137,982 as a commission.
- b) the issuance of 237,000 warrants valued at \$33,326 as consideration for finders' fees.
- c) the accrual of deferred exploration costs of \$319,126 at February 28, 2006.

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

- d) the application of \$8,389 of stock-based compensation to deferred exploration costs.
- e) the application of \$24,186 and \$25,728 from contributed surplus to capital stock on the fair value of options exercise and agents' options exercised respectively.
- f) the application of \$19,375 of deferred financing costs to share issue costs.
- g) the accrual of asset retirement obligations of \$25,000 included in mineral properties as at February 28, 2006.

Significant non-cash transactions during the year ended February 28, 2005 included:

- a) The issuance of 1,118,263 units to settle \$46,500 of accounts payable, \$7,884 of interest payable, and \$68,625 of loans payable, for a total debt settlement of \$123,009.
- b) The issuance of 1,376,609 shares to settle \$69,652 of interest payable, and \$274,500 of loans payable, for a total debt settlement of \$344,152.
- c) The issuance of 156,693 units as consideration for agents' fees in the amount of \$23,504, in connection with a brokered private placement of common shares.
- d) The disposal of the Company's interest in its oil and gas properties. As consideration, the purchasers agreed to forgive certain debts owed by the Company to the purchasers, in the amount of \$179,098. This transaction was with companies controlled by a former director of the Company.
- e) The application of subscriptions received in advance of \$362,560 to capital stock.

**11. INCOME TAXES**

- a) A reconciliation of income taxes at statutory rates with reported taxes follows:

	2006	2005
Loss before income taxes	\$ (1,354,478)	\$ (1,369,718)
Expected income tax (recovery)	\$ (475,298)	\$ (467,033)
Reconciliation for foreign income tax	(33,950)	(19,326)
Stock-based compensation	169,791	123,074
Other	(25,248)	109,251
Unrecognized benefits of non-capital losses	364,705	254,034
Total income tax recovery	\$ -	\$ -

**SOHO RESOURCES CORP.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2006**

**11. INCOME TAXES (cont'd...)**

b) Significant components of the Company's future income tax assets are as follows:

	2006	2005
Future income tax assets		
Resource property expenditures	\$ 431,000	\$ 1,375,000
Capital loss carryforwards	351,000	357,000
Non-capital loss carryforwards	1,232,000	1,265,000
Financing costs	82,000	15,000
Equipment	<u>11,000</u>	<u>10,000</u>
	2,107,000	3,022,000
Valuation allowance	<u>(2,107,000)</u>	<u>(3,022,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses carried forward of approximately \$3,730,000 which expire through to 2016. Subject to certain restrictions, the Company also has net capital losses and resource expenditures available to reduce taxable income in future years. Future tax benefits, which may arise as a result of these losses and resource expenditures have not been recognized in these financial statements and have been offset by a valuation allowance.

**12. RELATED PARTY TRANSACTIONS**

During the year ended February 28, 2006, the Company entered into the following transactions with related parties:

- a) Paid or accrued interest expense of \$ Nil (2005 - \$4,931) to a company controlled by a former director.
- b) Paid or accrued management fees of \$90,000 (2005 - \$56,484) to a company controlled by a director.
- c) Paid or accrued legal fees \$6,828 (2005 - \$58,875) to a company controlled by a former director.
- d) Paid or accrued consulting fees of \$60,000 (2005 - \$12,220) to a company controlled by a former director.
- e) Paid or accrued fees for investor relations of \$60,000 (2005 - \$40,000) to a company controlled by an officer.
- f) Paid or accrued \$613,020 (2005 - \$Nil) for exploration drilling services to a company controlled by a director.
- g) Paid or accrued \$115,818 (2005 - \$Nil) for exploration equipment rental to a company controlled by a director.

**SOHO RESOURCES CORP.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FEBRUARY 28, 2006

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**12. RELATED PARTY TRANSACTIONS (cont'd...)**

Included in exploration advance at February 28, 2006 was \$9,140 (2004 - \$Nil) advanced to a company controlled by a director pursuant to agreements to provide exploration drilling services and for the rental of certain exploration equipment.

Included in accounts payable at February 28, 2006 was \$64,601 (2005 - \$22,380) for drilling services, management, consulting, investor relations, and legal fees due to companies controlled by directors and officers.

Included in receivables at February 28, 2006 was \$Nil (2005 - \$20,213) relating to shared office costs due from a company with a director in common. During the year ended February 28, 2006 the Company wrote-off related receivables of \$39,299 (2005 - \$Nil).

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

**13. SEGMENTED INFORMATION**

The Company operates primarily in one reportable operating segment, being the acquisition and exploration of resource properties in Mexico. Geographical information is as follows:

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	2006	2005
Capital assets are located in:		
Canada	\$ 29,924	\$ 9,256
Mexico	3,750,625	1,182,685
	<hr/>	<hr/>
	\$3,780,549	\$1,191,941

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**14. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligation under share purchase agreement and loans payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**Financial risk**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**15. COMMITMENTS**

The Company rents its office premises under an operating lease until July 2010. The operating lease commitment, including rent plus estimated common area costs, is approximately \$55,000 per annum.

The Company also leases office equipment under an operating lease until July 2009, at a cost of \$2,100 per annum.

**16. SUBSEQUENT EVENTS**

Subsequent to February 28, 2006, the Company:

- a) Issued 1,024,125 common shares pursuant to the exercise of share purchase warrants, for cash proceeds of \$347,575.
- b) Issued 357,500 common shares pursuant to the exercise of stock options, for cash proceeds of \$53,625.
- c) The Company completed a private placement of 9,200,000 units at \$0.60 per unit for total proceeds of \$5,520,000. In connection with this financing the Company issued 276,000 units as finders' fees at a price of \$0.60 per unit for a total value of \$165,600. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant is exercisable at a price of \$0.80 per share and expires on May 16, 2008.
- d) Issued 51,887 common shares for cash proceeds of \$25,944 and issued 25,943 share purchase warrants pursuant to the exercise of Agent's Unit Options. Each share purchase warrant is exercisable at a price of \$0.60 per share and expires on March 3, 2007.
- e) Granted 300,000 stock options to consultants that will become effective on the date of shareholder approval of an increase in the 2006 stock option plan (Note 9).
- f) Granted 300,000 stock options to a director that will become effective on the date of shareholder approval of an increase in the 2006 stock option plan (Note 9).



**Management’s Discussion and Analysis**

For the Period Ended February 28, 2006

**Overview**

This Management’s Discussion and Analysis (MD&A) of the financial position and results of operations of Soho Resources Corp. (“Soho”) includes its wholly-owned subsidiary Samarkand de Mexico S.A. de C.V. (“Samarkand”) and its 90% 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 audited consolidated financial statements for the fiscal year ended February 28, 2006. 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. The forward-looking statements are only made as of the date of this MD&A, June 21, 2006.

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for resource 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.

**Summary of Operations**

Soho’s principal business activity is the acquisition and exploration of resource properties. The Company, through its Mexican subsidiaries, owns a majority interest in a mineral exploration and mining project located in Durango State, Mexico. 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”. 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)).

In the spring of 2004, the Company began an exploration program on its Mexican Tahuehueto mineral property. This program consisted of induced polarization geophysical surveying, geological mapping and sampling and grid establishment, and detailed sampling of exploration adits in several zones. During June 2005 the Company completed a 4,000 meter reverse circulation drill program to drill test possible extensions along mineralised trends and follow up induced polarization anomalies delineated during previous exploration. In June 2005 the Company commenced a 5,000 meter diamond core drilling program which was completed in December 2005. The Company has re-commenced exploration activities in mid-January 2006.

During the year ended February 28, 2006 the Company has raised \$4,075,764 through equity private placements and the exercise of previously outstanding warrants and stock options.

At February 28, 2006 the Company had a working capital deficiency of \$101,011. The 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.

**Selected Annual Financial Information:**

	2006	2005	2004
Loss for the year	\$(1,354,478)	\$(1,369,718)	\$(957,233)
Loss per share	\$(0.03)	\$(0.03)	\$(0.04)
Total assets	\$4,535,851	\$1,467,551	\$1,225,233
Long-term debt	\$25,000	-	-

In fiscal 2004 the Company was successful in its defence of a lawsuit by the vendors of Sacramento. This confirmed the Company’s ownership of the Tahuehueto property. The Company incurred certain additional legal and accounting fees associated with this property.

Also in fiscal 2004, the Company made an investment in ADS Drilling Services Inc. ("ADS"), a USA oil and gas drilling services company. This investment proved to be unprofitable, and the Company wrote off its investment, incurring a loss of \$323,000.

In fiscal 2005, the loss for the year includes a stock-based compensation charge of \$345,519 for the fair value of stock options granted during the year, in accordance with Canadian generally accepted accounting principles. There were no options granted in the previous two fiscal years, and accordingly no stock-based compensation charge.

During fiscal 2005 the Company realized a loss on disposal of \$330,651, and a decrease of \$509,749 in assets in connection with the disposition of its oil and gas properties.

Also in fiscal 2005 the Company did not incur any new debt financing, and settled most of its existing debt by way of cash or the issuance of shares. This resulted in no new loan bonuses, and a reduction in interest expense. Generally, other expenses increased as a result of the increase in the Company's exploration and financing activities. During the same time, deferred exploration and acquisition costs relating to the Company's mineral property asset increased by \$808,507, and cash reserves decreased by \$115,689, compared to the prior year.

In fiscal 2006, the Company's general expenses increased by approximately \$285,000. Included in this amount is an increase in stock-based compensation of \$98,000, plus increased consulting fees, communications, wages and travel expenses totalling \$155,000. These expenses have all increased due to the general increase in the business and financing activities associated with the exploration of the Company's Tahuehueto property. Management fees increased \$34,000 because the management agreement was only in place for about 7 months in the 2005 fiscal year.

Total assets increased approximately \$3,000,000 in 2006 as a result of a further \$2,500,000 of deferred exploration expenditures on the Tahuehueto property, plus increased cash of \$300,000 as a result of two private placement financings and the exercise of warrants during the last quarter.

#### Selected Quarterly Financial Information:

	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Feb 28/06	Nov 30/05	Aug 31/05	May 31/05	Feb 28/05	Nov 30/04	Aug 31/04	May 31/04
Loss for the period	\$(537,246)	\$(275,716)	\$(281,362)	\$(260,154)	\$(269,073)	\$(608,949)	\$(235,781)	\$(255,915)
Loss per share	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.00)	\$(0.00)
Total assets	\$4,535,851	\$3,629,591	\$2,923,407	\$3,097,663	\$1,467,551	\$1,417,672	\$1,515,343	\$1,435,075
Long-term debt	-	-	-	-	-	-	-	-

The fiscal 2005 Q1, Q2, and Q3 losses and total assets have been amended from the amounts previously reported as a result of adjustments relating to the calculation of stock-based compensation. The Q1 and Q2 losses increased by \$108,371 and \$54,689 respectively, the Q3 loss decreased by \$14,027, and the Q3 total assets increased by \$998 as a result of these adjustments.

The losses for each of the 2005/2006 fiscal periods compared to the 2004 fiscal period have increased generally as a result of the increased business activities associated with new equity financings and the exploration of the Company's Tahuehueto mineral property.

During the period ended May 31, 2005, the Company raised approximately \$1,928,000 in cash by the issuance of 6,040,976 common shares and equity units, before paying cash commissions of \$112,500.

In the third quarter ended November 30, 2005 the Company received \$112,543 from the issuances of shares pursuant to the exercise of options and warrants, and raised a further \$640,000 by way of share subscriptions received in advance for a private placement financing completed on December 1, 2005. During this quarter the Company spent a further \$633,903 on the exploration of its Tahuehueto mineral property.

During the 2006 Q4 period the Company engaged two new consultants, increasing consulting and investor relations fees by \$27,000. Also during this quarter, management and consultants made several trips to the USA, eastern Canada, Mexico and Europe to promote the Company's business and obtain financing. These trips resulted in increased travel costs of \$95,000.

Also during the 2005/2006 fiscal periods, the Company granted stock options resulting in new charges to the Statement of Operations not incurred in the previous fiscal 2004 quarters. In fiscal 2005, the quarterly losses include stock-based compensation charges totaling \$345,519 and \$443,434 in the year ended February 28, 2006 for the fair value of stock options granted. A large part of the 2006 options were granted in the Q4 period resulting in a \$120,000 increase in stock-based compensation expense compared to the expense incurred in each of the first three quarters of fiscal 2006. There were no options granted in the 2004 fiscal year, and accordingly no stock-based compensation charge.

In the 2006 Q4 period, total assets increased approximately \$906,000. This is primarily a result of the Company incurring a further \$538,000 of deferred exploration costs, a net increase in exploration advances of \$15,300, an increase in prepaid and receivables of \$29,400, and a net increase in cash of approximately \$330,000. During the same time, deferred financing costs and equipment decreased by \$6,100.

During the 2006 Q4 period the company received gross cash proceeds of \$1,365,000, excluding the \$640,000 share subscriptions received in Q3 as mention above, and issued 6,623,750 shares pursuant to private placement financings, and the exercise of options and warrants.

Subsequent to the year ended February 28, 2006, the Company has raised approximately \$5,962,000 in cash by the issuance of 10,683,152 common shares and equity units, excluding any finders' fee shares.

In the quarter ended November 30, 2004, the net loss includes a write-down of \$330,922 associated with the subsequent disposal of its oil and gas properties in December 2004.

## **Resource Properties and Investments**

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

#### **Overview**

Through a 90%-owned Mexican subsidiary, Soho Resources Corp. controls 100% of the Tahuehueto project situated in a historic mining district of northwestern Durango State. The 2,062-hectare property covers at least 12 known mineralized zones hosted within a structurally controlled epithermal system that has been traced for more than six kilometers.

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 the Company's on-site landing strip, which is currently being upgraded. The project site is remote, with only a few small villages in this portion of the Municipality of Tepehuanes.

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 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, 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 mine and surrounding district through its subsidiary Luismin Mines.

## **Exploration Highlights**

Soho's exploration programs have significantly enhanced the overall potential of the Tahuehueto property. The Company is particularly encouraged by the strength of the mineralization, the continuity and number of structures, and the widths of the mineralized veins within the structures tested to date. Since December 2004 the Company has drilled approximately 90 holes totaling 9,000 metres. Analytical results for these holes are available for viewing on the Company's web site.

At El Creston, the most exposed and currently the largest and most advanced zone, drilling and sampling programs have revealed evidence of at least a 2.5-km mineralized structure with potential over a minimum 4-km length, while returning positive results, including some "bonanza-type" grades. Significant results include: 15.43 grams gold and 61.57 grams silver per tonne, 0.39% copper, 1.85% lead and 3.84% zinc over 12.8 metres from Hole RC-18; and 7.2 grams gold, 52.08 grams silver, 0.42% copper, 1.07% lead and 2.68% zinc over 11.94 metres from DDH 05-29. Several recent drill holes returned significant gold and silver values while also extending the important El 1225 ore-shoot. The highlight was an 8.54-metre intersection of 12.5 grams gold and 79.2 grams silver per tonne.

Ongoing drilling is aimed at defining indicated and inferred resources at this important polymetallic zone, which is believed to be related to several other prospective zones that are yet to be fully explored.

Soho has also encountered success while exploring other known zones at Tahuehueto. An underground channel-sampling program returned significant values for precious and base metals from the prospective El Rey zone, situated about 465 metres east of El Creston. The program also demonstrated good continuity of mineralization within the zone, and potential for expansion along strike, and down and up-dip.

The underground channel-sampling program at El Rey was the first ever conducted by the Company to test the zone, which had been previously developed on four levels. Channels were cut every 4 metres across the structure from Level 1. A total of 98 samples were collected in 38 channels over a strike length of 152 metres. Samples collected at El Rey averaged 1.92 grams gold and 220 grams silver per tonne, plus 0.019% copper, 4.09% lead and 7.16% zinc, with an average width of 1.23 metres. The best assay values to date from El Rey are 8.98 grams gold, 3,900 grams silver, 0.6% copper, 19.1% lead and 28.7% zinc.

A recent channel-sampling program at Level 2 confirmed mineralization trending for than 173 metres, with an average grade of 0.86 gram gold, 208.3 grams silver, 0.19% copper, 3.07% lead, and 5.27% zinc over an average width of 1.72 metres. Initial sampling programs from Level 3 also returned positive results, while two holes drilled from Level 2 intersected targeted mineralization at depth, 50 metres below Level 4.

The El Rey zone remains open for expansion and will be further tested from three additional levels, some larger than Level 1. Rehabilitation work to access Level 4 and a portion of Level 3 will be carried out in the coming months. As at El Creston, ongoing drilling at the priority El Rey zone is aimed at defining indicated and inferred resources.

A surface channel-sampling program was conducted at the Santiago Zone, situated more than 1 km northeast of the El Creston Zone. The program returned gold and silver values that also confirmed the potential of the northeastern portion of the Tahuehueto project. Unlike El Creston, which hosts gold-silver mineralization with associated base metals, Santiago is one of several gold-silver zones in the northeastern portion of the Tahuehueto project that are yet to be fully explored.

Highlights of the program include: 3.11 grams gold and 76.65 grams silver over 15 metres; 3.64 grams gold and 25.05 grams silver over 18 metres; and 4.94 grams gold and 194.97 grams silver over 4.5 metres.

A total of 124 samples were collected from 8 channels cut across the Santiago Zone, which has an exposed potential length of 180 metres and was sampled along a length of 128 metres. The zone ranges in width from 16.5 metres to 7 metres, with widths diminishing down-slope as the zone disappears under cover, and remains open in both directions, as well as down-dip. Additional mapping, channel sampling and drilling are planned to test the zone, which may be an extension of the nearby Perdido zone.

## **Expanded 2006 Program – Goals and Objectives**

Soho intends to use the proceeds of a \$5.52-million, institution-led private-placement financing to accelerate the pace of exploration at Tahuehueto. This major financing combined with highly encouraging results of recent exploration programs have allowed the Company to set new growth-oriented objectives that better reflect the

property's potential for multiple deposits and discoveries. The initial goal was to define resources at El Creston, but the focus has since broadened to include other priority zones that will be tested in an expanded \$3.8-million work program planned for the balance of 2006. This shift in strategy is aimed at adding value to the property through a program specifically focused on defining resources as efficiently as possible.

At least 18,000 metres of drilling using two diamond drills are now planned to test five mineralized structures. The primary goal of the expanded program is to outline indicated and inferred resources at the advanced El Creston Zone through 5,500 metres of drilling, and also at the El Rey Zone, where 3,500 metres of drilling are planned. Another important goal is to define inferred resources at three other zones, with 2,000 metres of drilling planned for Cinco de Mayo, 4,000 metres for El Creston South Extension, and 3,000 metres at the Santiago Zone.

Soho also plans to carry out a regional program that will include geological and structural mapping and airborne geophysical surveys to better determine the extent and potential of other zones at Tahuehueto. The results of this regional work will be added to the growing geological database that will guide future exploration program.

To support the accelerated work program, camp facilities will be upgraded and expanded, along with infrastructure such as the airstrip and access roads. These improvements will set the stage for future development and pre-production programs, and also demonstrate the Company's long-term commitment to Tahuehueto and surrounding district.

### **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 state authorities to ensure citizens are kept informed of our 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 schools and improve electrical, water supply and sanitation facilities. Local hiring and procurement policies have been adopted to ensure that benefits flow to the communities and region surrounding the project.

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

#### **Directors**

At the Company's Annual General Meeting held on August 4, 2005, shareholders elected the following individuals as directors of the Company:

Ralph Shearing  
Marek Kreczmer  
Paul Chung

Jose Abraham Urias Romero declined to be re-elected as a director due to other business commitments. Ralph Shearing, Marek Kreczmer, and Paul Chung were appointed to the Company's audit committee.

On January 10, 2006 Mr. Otto Jelinek was appointed as a director of the Company. Mr. Jelínek is a former Canadian Member of Parliament and Cabinet Minister, and most recently retired from his position as the Regional Chairman of Deloitte Central Europe.

On May 16, 2006 Mr. Marek Kreczmer resigned as a director of the Company to facilitate the appointment of Mr. Mark Backens as a director. Mr. Backens has more than 20 years of industry experience in engineering, mine operations, project development, property evaluation, and corporate development. He is presently employed with Macquarie North America Ltd., and previously held positions with Meridian Gold, Placer Dome and Goldcorp. Mr. Backens holds a B.Sc. degree in geological engineering from the South Dakota School of Mines, and is a member of AIME's Society of Mining Engineers, and the Canadian Institute of Mining and Metallurgy.

Mr. Kreczmer has been appointed to the Company's Advisory Board. Mr. Backens has been appointed to the audit committee, replacing the position held by Mr. Kreczmer.

## **Management Agreements**

In July 2004 the Company entered into an agreement with Frank Port and Seaport Capital Inc., a company controlled by Mr. Port, to provide business development and investor relations services to the Company for a monthly fee of \$5,000. This agreement may be terminated by 30 days written notice. In addition Mr. Port was appointed an officer of the Company in the position of Vice-president Corporate Development.

In September 2004 the Company entered into a management services agreement with Ralph Shearing and CMB Investments Ltd., a company controlled by Mr. Shearing, to provide general management services to the Company for a monthly fee of \$7,500. Mr. Shearing is the CEO and a Director of the Company.

Both of these agreements have received regulatory approval.

In March 2005 the Company entered into a consulting services agreement with Jose Abraham Urias Romero and Urias Management & Investments Corp., a company controlled by Mr. Urias, to provide general consulting services to the Company, including its Mexican subsidiaries, for a monthly fee of \$5,000. Mr. Urias is a former director of the Company.

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.

## **Financing Activities**

During the year ended February 28, 2006, pursuant to private placement financings, and the exercise of options and warrants, the company received gross cash proceeds of \$4,075,764 and issued 13,313,642 shares, excluding any shares issued for agent's fees, at an average price of \$0.31.

Subsequent to the year ended February 28, 2006, pursuant to a private placement financing, and the exercise of options and warrants, the company received gross cash proceeds of \$5,962,144 and issued 10,683,512 shares at an average price of \$0.56. This includes 50,000 shares issued for cash proceeds of \$15,000, subsequent to May 23, 2006 being the date of the auditors report, pursuant to the exercise of stock options.

Details of the above mentioned share issuances are available in the notes to the Company's audited financial statements for the year ended February 28, 2006.

Proceeds from the warrant, options, and private placement financings were utilized in the Company's Mexican operations and for general working capital purposes. All of the above financing transactions have received regulatory approval where applicable.

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

### **Capital Stock**

	Number of Shares	Amount
Common shares issued:		
Balance as at February 28, 2006	59,771,801	\$17,164,165
Private placements	9,200,000	5,520,000
Private placement – Finders' fees	276,000	165,600
Agent's unit options exercised	51,887	25,944
Warrants exercised	1,024,125	347,575
Options exercised	407,500	68,625
Share issue costs	-	(165,600)
Balance as at June 21, 2006	70,731,313	\$23,126,309

## Warrants

As at June 21, 2006, the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
1,393,443	\$ 0.60	March 3, 2007
3,225,000	\$ 0.30	December 1, 2006
151,000	\$ 0.20	December 1, 2007
2,200,000	\$ 0.75	February 2, 2008
9,476,000	\$ 0.80	May 16, 2006
16,445,443		

## Stock Option Plan

A 2003 Stock Option Plan was approved by a majority of disinterested shareholders on September 4, 2003, at the Company's annual general meeting. The number of shares reserved for issuance under the 2003 stock option plan is set at 4,865,123.

As at June 21, 2006, the following share purchase options were outstanding:

Number of Shares	Exercise Price	Expiry Date
1,475,000	\$ 0.15	March 18, 2009
120,000	\$ 0.15	September 21, 2009
190,000	\$ 0.15	September 29, 2009
100,000	\$ 0.20	November 2, 2009
250,000	\$ 0.25	November 2, 2009
32,500	\$ 0.28	December 15, 2009
50,000	\$ 0.30	February 8, 2010
300,000	\$ 0.25	March 17, 2010
200,000	\$ 0.30	June 27, 2010
150,000	\$ 0.30	September 15, 2010
150,000	\$ 0.30	November 1, 2010
350,000	\$ 0.20	December 1, 2010
1,090,123	\$ 0.30	December 1, 2010
4,457,623		

In December 2005 the Board of Directors approved a new 2006 Stock Option Plan. Under the 2006 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 5 years. Vesting is not required but may be set on an individual basis as determined by the board of directors. The 2006 plan is subject to shareholder approval.

As at June 21, 2006, the following share purchase options were granted under the 2006 Plan, but are subject to shareholder approval:

Number of Shares	Exercise Price	Expiry Date
519,877	\$ 0.30	December 1, 2010
150,000	\$ 0.38	January 5, 2011
100,000	\$ 0.55	April 13, 2011
500,000	\$ 0.63	May 17, 2011
<b>1,269,877</b>		

### **Agents Unit Options**

In connection with private placement financings, the Company granted non-transferable Agent Unit Options entitling the Agents to purchase units, each unit consisting of one common share and one-half of a non-transferable share purchase warrant.

As at June 21, 2006, the following agent unit options were outstanding:

Number of units	Unit Exercise Price	Number of Underlying Whole Warrants	Underlying Whole Warrant Exercise Price	Expiry Date
386,863	\$ 0.50	193,431	\$ 0.60	March 3, 2007

### **Liquidity**

At February 28, 2006, the Company had a working capital deficiency of \$101,011. Since February 28, 2006 the Company has secured additional financing from a private placement, and the exercise of warrants and stock options, for total net cash proceeds of \$5,962,144. These financings have eliminated the working capital deficiency that existed at the year end, and have provided funds both for the Company to continue its exploration program 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.

### **Investor Relations**

Soho had engaged Windward Communications Ltd. to work with investors, brokers, analysts and the media. Windward also coordinated the Company's attendance at trade shows, conventions and other presentations in both the United States and Great Britain. With the Company re-activating its Mexican affairs, Windward was being paid a fee of US \$3,500 per month. In January 2005 the Company terminated its agreement with Windward, and re-engaged Windward at a reduced service level. As consideration the Company granted Mr. Kelly Boatright, the principal of Windward, 50,000 stock options exercisable at \$0.30 per share expiring on February 8, 2010. These options have a fair value of \$19,750.

In addition to other management services, Frank Port is currently handling investor relation activities. (See above section on Management Agreements)

### **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 wrote-off receivables in the amount of \$39,299 due from a company related to Soho by a common director, Ralph Shearing. This receivable related to office rent and other expenses charged for shared office accommodation.

CMB Investments Ltd.(CMB), a company controlled by a director, charged the Company a total of \$90,000 for management services. This is compensation for time spent on administrative, financial, and operational affairs of the Company. As the overall level of the Company's business activities has increased during the past year, in September 2004 Soho entered into a management services contract with CMB. Under the terms of this agreement, CMB is charging Soho a management fee in the amount of \$7,500 per month.

The Company engaged a Mexican law firm, controlled by Mr. Urias, a former director, to provide general corporate legal services to the Company's Mexican subsidiaries. During the 2005 fiscal year, the Company paid \$6,828 with respect of these legal services. In addition, the Company paid consulting fees in the amount of \$60,000 to a company controlled by Mr. Urias, for general administrative and consulting fees in connection with the Mexican subsidiaries.

The Company also paid fees for investor relations of \$60,000 to a company controlled by Mr. Port, an officer of the Company.

The Company had experienced past difficulties in securing drilling contractor services, with the appropriate equipment, on a timely basis. As a result, in April 2005, the Company entered into an agreement with Mexcore S.A. de C.V. ("Mexcore"), a Mexican based drilling company a company controlled by Mr. Shearing, a director. Mexcore had a suitable diamond drill and heavy equipment available to meet the Company's immediate needs. Pursuant to this agreement, the Company has agreed to pay Mexcore for drilling services rendered, and equipment rental, under terms and at rates consistent with those charged by third parties within the drilling industry.

In connection with the Mexcore agreement, the Company paid Mexcore an exploration advance of \$126,147 (US\$100,000). During the year ended February 28, 2006, Mexcore has charged the Company \$613,020 for drilling services and \$115,818 for equipment rental. At the period end there remains an exploration advance balance of \$9,140 to be applied against future Mexcore invoices pursuant to the agreement.

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.

### **Results of Operations**

The Company incurred \$1,335,220 in general and administrative plus interest expenses during the year ending February 28, 2006. Generally, expenses increased as a result of the increase in business activities compared to the prior fiscal period.

Professional fees include legal, accounting, and audit fees. Legal and accounting fees increased as a result of the increase in corporate filings, contracts, agreements, and the new 2006 Stock Option Plan. These transactions also account for the increase in regulatory fees as the Company was required to submit many of these transactions to regulatory authorities for approvals. There were also legal and accounting fees relating to the successful conclusion of the Mexican litigation.

Consulting fees include fees paid for corporate communication services and financial consulting associated with the Company's on going search for additional sources of financing.

Communications expense includes the costs of Soho's office telephones, fax, mobile phones, web site design and maintenance, web hosting and internet access services.

Wages and benefits increased as the Company hired a second full time administrative assistant.

Travel expenses include the costs of vehicles, airfares, accommodation, and meals for a variety of business trips related to securing financing and meetings connected with the Tahuehueto property.

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

## **Critical Accounting Estimate**

### **Asset Retirement Obligation**

The Company estimates its asset retirement obligation at the Tahuehueto property based on its understanding of its requirements to reclaim the currently disturbed areas. The Company has accrued \$25,000 as a retirement obligation. The asset retirement obligation is considered to be present value.

The asset retirement obligation accrual required management to make significant estimates and assumptions. Actual results could differ from these estimates.

### **Internal Controls**

Management maintains a system of disclosure controls and procedures, which are designed to ensure that information required to be disclosed by the Company is recorded, processed, summarized and reported on a timely basis. Based on an evaluation performed for the year ended February 28, 2006, the Company's certifying officer has concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance of the achievement of these objectives.

Management has not made any change in the Company's system of internal controls over financial reporting during the most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Financial Instruments**

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, obligation under share purchase agreement, loans payable and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

On Behalf of the Board of Directors of  
Soho Resources Corp.

*"Ralph Shearing"*

Ralph Shearing,  
CEO  
June 21<sup>th</sup>, 2006