



eNewsletter

CHF Spotlight

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CEO examining historical Eastern Trend drill core

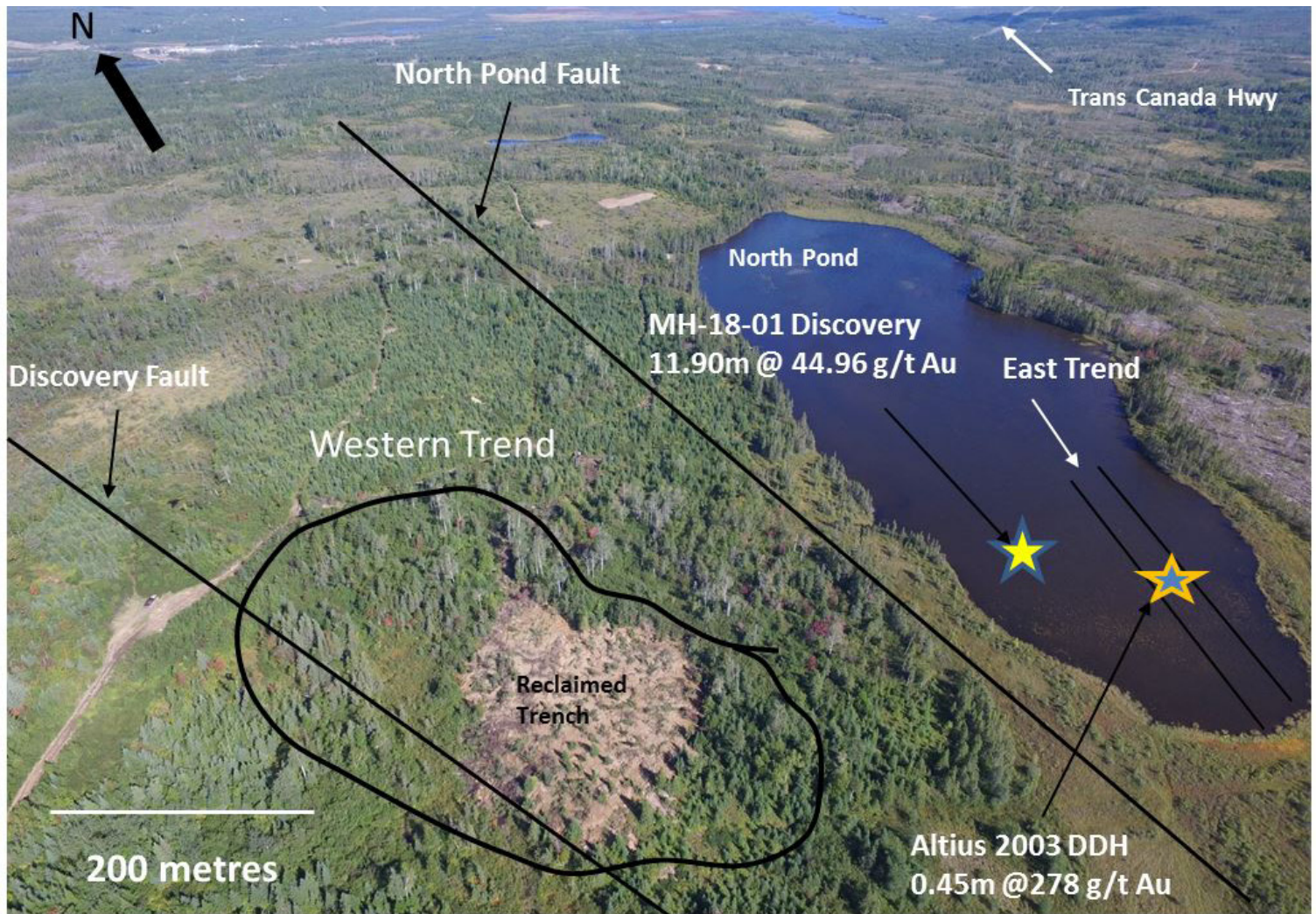
Sokoman Iron: Value in the Ounces to Be Found

Sokoman Iron Corp. (TSX.V: SIC) continues to show its value as an investment in the junior mining sector. The stock price is now near the price of the recent financing but it continues to be well traded indicating investors are still making money or expecting to. Because the Company took advantage of their good results and raised \$3 million, they can move on creating value from their assets. The Company also received \$827,000 in cash from warrants exercised between 5-9c so that the treasury now stands at \$3.7 million while spending only \$250,000 on the Phase 1 drilling program to get those results. They plan to spend \$1.3 million on the

Phase 2 drilling program on the Moosehead project that starts next month.

The remaining results of the Phase 1 drilling program came in finding more gold and infilling the Western Trend mineralization. The Company is putting all the historical drilling and exploration data to use in order to advance this project. The Phase 2 program is designed to expand the Western Trend zone by 50% and test the extent of the Eastern Trend's high-grade results with step-out drilling.

Figure 1: Moosehead Project with Gold Trends



Source: Sokoman Iron Corp.

The stock ran up to 55c and a market capitalization of around \$33 million on a high-grade hit in the first round of drilling. The second round of results also brought high-grade gold hits, though the stock continues to see a decline. The market capitalization now stands at around \$14 million. What should be the value of the Company's stock with its current assets and results, as well as upcoming results?

My method of valuation of mining companies looks at the stage of the project in its process to become an operating mine. Earlier stage projects should be priced lower than advanced stage; size also plays a role in the value. But at each stage along the path of development the total value of the company's stock should leave enough asset value on the table to allow the next investors who further advance the project to make money too. You can never expect to pay the full value of the asset, or sell it at full value. The concept

of the price value of ounces in the ground applies this principal to resource stocks. You never pay the full price of the commodity in the asset for a resource stock as then there is no value left to pay for the advancement to production.

I look at it this way: how much of the total value of an asset (100%) should you pay for a company at the various stages of advancement? My experience tells me that for a junior mining company at the resource development stage the market will not pay much more than 10% of the *in situ* value with 5% being an average. Variation happens with discovery and disappointment.

Based on this thesis, we can put a valuation range for SIC for its current assets and the work that can be completed with the funds in hand. At the Company's current market cap of \$13.8 million,

\$3.7 million in cash, equates to an enterprise value (EV) of \$10.3 million. This EV discounts an estimated resources size at 5%, of approximately 130,000 ounces, half of this at 10%. These ounce estimates are reasonable initial resource targets based on the drill outlined mineralization zone present on the Moosehead project for the Western Trend alone. The estimates also match up well with the reported finding cost per ounce at Marathon Gold's Valentine Lake project of \$10 per ounce; (\$1.3 million / 130,000 ounces = \$10/oz). The potential range of mineralization based on the drilling to date and various grades for the Western Trend alone is given in Table 1 with their implied in the ground value at 5% discount to the current gold price of C\$1,575 per ounce.

Table 1: Resource and Valuation Potential of the Western Trend Mineralization

Potential Grade	Contained Ounces	Implied Value at 5% Discount
1 g/t	88,415	\$6.96 M
2 g/t	176,830	\$13.93 M
3 g/t	265,245	\$20.90 M
4 g/t	353,660	\$27.85 M
5 g/t	442,070	\$34.80 M

Source: Company data, Consultant's estimates

This data indicates that the current Company value is supported by the expected mineralization in the Western Trend if the average grade is 1.46 g/t. This is in line with the resource grades at the Valentine Lake deposit to the SW along the same structural trend; reported at 1.99 g/t. Many of the results to date in the Western Trend exceed these grade significantly. This includes the recently reported Phase 1 drilling: 3.4 m at 2.6 g/t; 1.45 m at 8.94 g/t; 2.28 m at 42.36 g/t and a spectacular 0.15 m at 1,435.58 g/t (>46 oz/t). These high-grade hits are averaged out in the resource calculations.

The Phase 2 drilling program is designed to expand the Western Trend mineralization by 50%. This would in turn increase the contained ounces by the same amount along with the increase in supported valuation. At 5% this equates to an additional value ranging as presented in Table 2. The Company will only spend \$1.3 million to complete this drilling and potential expansion but it also includes drilling the Eastern Trend, for which no value is currently implied in these scenarios. Based on the values in Table 2, the spending on Phase 2 could support an increase in valuation of \$3.5 to \$17.4 million at grades of 1 to 5 g/t for just the Western Trend. A multiple of 2.7 to 13.4 X, good value for the exploration expenditures.

Table 2: Western Trend Resource Expansion Potential and Supported Valuation

Potential Grade	Additional Ounces	Implied Value at 5% Discount
1 g/t	44,208	\$3.48 M
2 g/t	88,430	\$6.97M
3 g/t	132,622	\$10.45 M
4 g/t	176,830	\$13.93 M
5 g/t	221,035	\$17.40 M

Source: Consultant's estimates

The Eastern Trend recent results of 11.90 m at 44.96 g/t in MH-18-01 brought the attention and strength to SIC. This hole includes a second interval of 8.95 m at 4.2 g/t. The hole was testing the up-dip extension of a 2003 hit of 278 g/t over 0.45 m. The plan in Phase 2 is to do ~15 m step outs around MH-18-01 to expand these two higher-grade mineralization intervals. The two zones are averaging 10 m in their thickness and at various average grades could define mineralization and support values as given in Tables 3 and 4.

Table 3: Eastern Trend Resource Expansion Potential and Supported Valuation - Upper Vein

Potential Grade	Additional Ounces	Implied Value at 5% Discount
10 g/t	9,645	\$0.76 M
20 g/t	19,290	\$1.52M
30 g/t	28,935	\$2.28 M
40 g/t	38,580	\$3.04 M
50 g/t	48,225	\$3.80 M

Source: Consultant's estimates based on 30,000 t outlined

Table 4: Eastern Trend Mineralization Potential and Supported Valuation – Lower Vein

Potential Grade	Additional Ounces	Implied Value at 5% Discount
5 g/t	4,825	\$0.38M
7.5 g/t	7,235	\$0.57M
10 g/t	9,645	\$0.76 M
12.5 g/t	12,055	\$0.95 M
15 g/t	14,470	\$1.14 M

Source: Consultant's estimates based on 30,000 t outlined

These values illustrate the high-grade hits, and step outs could support additional mineralization defined ranging from 14,470 to 62,695 ounces based on the grades presented in these scenarios. These values, as well as the others presented before, are simple estimates and not exact expectations. These finds would support additional value in the Company ranging from \$1.14 to \$4.94 million at a 5% discount for the grades used.

supported valuation is expected to increase by significant amounts, in excess of 50%, based on the planned Phase 2 drilling program. This program could also deliver additional high-grade intercepts that supported the market interest to increase the Company's value by greater than 200% from its current levels. In addition, the Company will still hold over \$2.2 million in cash to create additional value through drilling and discovery on the Moosehead and its other regional projects.

Investment Thesis

This scenario analysis shows that the Moosehead project at its current state supports the market valuation of the Company. This

The Company continues to show value from its Moosehead project that hosts several mineralized zones that will allow the Company to develop a resource base to support and grow its market valuation.



Timothy Froude, P. Geo.
President, CEO & Director

Timothy Froude, P. Geo. President and CEO, Sokoman Iron Corp.

Tim is a graduate of Memorial University of Newfoundland and has been active in the mineral exploration business for over 30 years. Over that time, he has worked with a number of highly regarded firms including Inco Ltd. where he spent nearly 10 years working on projects in North America and overseas and was part of the team that discovered the Bobby's Pond massive sulphide

deposit in Central Newfoundland. Tim is also directly responsible for the discovery of the Valentine Lake gold deposit in Central Newfoundland, currently under advanced stage exploration by Marathon Gold. Over the course of his career, Tim has worked for a number of successful junior companies including Altius Minerals Corporation, Comerstone Resources, Crosshair Exploration & Mining Corporation and Golden Dory Resources, the latter three companies as VP of Exploration. He also spent 1 year serving as Executive Director of the Newfoundland and Labrador Chamber of Mineral Resources, now Mining NL. Tim now serves as President and CEO of Sokoman Iron Corp.



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Ron Wortel is a mining and finance industry professional with over 25 years of project evaluation and investment experience. Mr. Wortel worked on the sell side with several investment banks

covering the junior mining sector before moving over the buy side. As EVP of Mining Investments for a well-known mining investment fund, he helped place over \$1 billion into Canadian mining exploration. This unique experience allows Ron to understand what makes for a great project and Company in the Canadian junior markets and share this knowledge with others.

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This article was outsourced at of cost of \$2500.00 CDN. Cathy Hume, CEO of CHF, sits on the Board of Directors of Sokoman Iron Corp. and also owns equity in the Company.