



Tuesday, July 19, 2011

## Mining

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### **SEMAFO INC. (SMF-TSX)**

High-Grade Near Surface Mineralization Should Boost Economics

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### **SOLTORO LTD. (SOL-TSX.V)**

Site Visit Highlights Prospectivity of El Rayo

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## Oil & Gas

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### **INSIGNIA ENERGY LTD. (ISN-TSX)**

Activity Picking Up Following a Quiet Second Quarter (wire attached)

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## Marketing

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**Swisher Hygiene (SWI-TSX)** – Toronto July 20

**SEMAFO (SMF-TSX)** – Toronto July 21

**Ghana Mine Tour - Keegan Resources (KGN-TSX), Perseus Mining (PRU-TSX), PMI Gold (PMV-TSX.V), Geodrill Ltd. (GEO-TSX), Azumah Resources (AZM-TSX.V)** – July 25-27

**Sandspring Resources (SSP-TSX.V)** – London August 8-9

**Scorpio Mining (SPM-TSX)** – London August 10-11

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**SEMAFO Inc. (SMF-TSX)**

High-Grade Near Surface Mineralization Should Boost Economics

<b>SEMAFO Inc. (SMF-TSX)</b>						<b>Nana Sangmuah</b>	
Previous Close: \$8.96						(416) 343-3350	
<b>Recommendation: BUY</b>		<b>12-Month Target:</b>				<b>\$14.25</b>	
Potential Return	59.0%	FY/E: Dec-31	REV (\$USm)	EPS (\$US)	CFPS (\$US)	P/CF	
Market Cap (m)	\$2,437	2009A	240.8	0.18	0.38	25x	
52 Week High	\$14.44	2010A	323.3	0.39	0.56	17x	
52 Week Low	\$6.17	2011E	333.5	0.34	0.43	22x	
		2012E	368.3	0.47	0.54	17x	

SEMAFO reported positive infill drill results from the Fofina area within its Mana permit, 12.5km south of the Company's Mana Mill. These holes were completed at a tighter spacing of 25m, consistent with SEMAFO's 2011 goals of converting a chunk of the current inferred resource of 850k oz for the eight zones comprising Fofina, V1-V8 (8.4 Mt).

This holds the potential of delivering Nyafe +5g/t type grades for ore blending purposes that could create an upward bias to current mill headgrades of 2.68g/t. We note significant intercepts including 4.29g/t over 25m (MRC11-420) and 7.49g/t over 7m (MRC11-464), and that 64% of the results released so far seems to confirm a higher grade profile. We highlight that drilling has confirmed the presence of eight zones within the Fofina area, including Fofina and V1-V7.

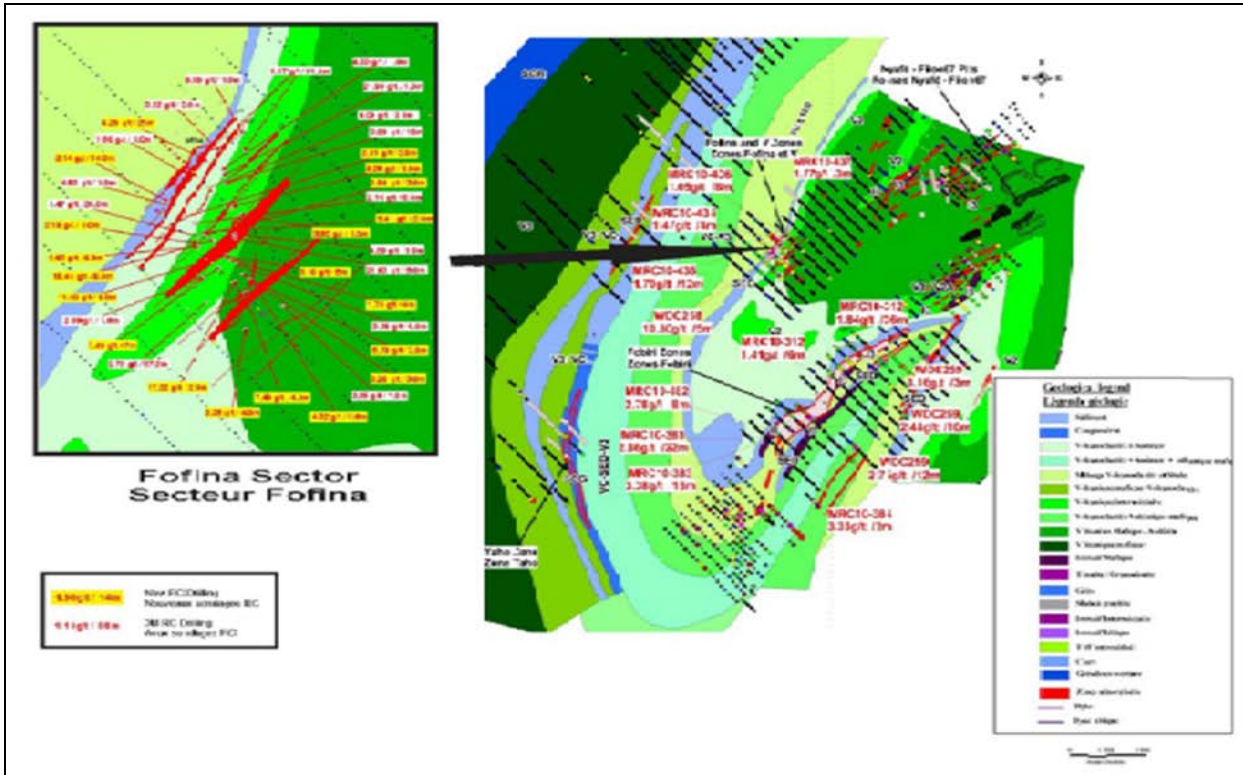
With a current global resource of 6 MMoz on 8km (less than 10%) of strike on its flagship Mana asset, with numerous targets along Mana's 115km trend currently outside the main resource envelope still to be tested (including Yaho, Fofina, Nyafe-Filon, Kona, Wona, Fobiri, and Massala-Saoura), we highlight the potential for more discoveries and further resource growth going forward. Harvesting this potential should be facilitated by SEMAFO's record 2011 drilling campaign, with about 350,000m planned for 2011: 250,000m at Mana; 70,000m at Samira Hill; and 26,000m at Kiniero.

We reiterate our **\$14.25** target and **BUY** recommendation.

**Milestones/Catalysts**

- (1) Addition of new drill rigs – Imminent
- (2) Drilling results from Massala and Saoura – July 2011
- (3) Results from US\$30 MM Mana exploration program – Ongoing
- (4) Kiniero drill campaign – July 2011
- (5) Mana U/G production start-up – Mid to end 2013

Exhibit 1. Fofina – Site of Recent Drill Results



Source: Company reports

**Soltoro Ltd. (SOL-TSX.V)**

Site Visit Highlights Prospectivity of El Rayo

<b>Soltoro Ltd. (SOL-TSX.V)</b>		<b>Jamie Spratt, CFA</b>	
Previous Close:	\$1.18	(416) 343-4204	
<b>Recommendation: NR</b>			
Market Cap (m)	\$58	52 Week High	\$1.29
FYE	31-Dec	52 Week Low	\$0.17

Our recent site visit to the El Rayo project confirms the significant prospectivity of the 40km<sup>2</sup> land package, **indicating the potential for new discoveries and additional resource growth.** Underground workings are throughout the property, hosting fifteen former underground mines and numerous surface workings. We were impressed with management on the ground in Mexico and their strategic approach to exploration. **We believe Soltoro has the right geological team with significant Latin American experience to generate further exploration success.**

Infrastructure and access to the site is solid, with paved roads from Guadalajara about 100km to the east providing ready access and power lines running through the site.

Two rigs are currently turning on the Soledad structure along a potential strike length of 1km, with 15 holes of a 24-hole program still to be either assayed or completed. Results have included some bonanza grade holes (7m grading 1,010g/t and 1.9m grading 2,160g/t), but just as importantly have also delineated mineralization across a strike length of 500m. We also visited the Catarina structure with historic production in the 200-400g/t range dating back to circa 1550 and a historic resource of 5 MMoz resource (at \$5.50 silver). **Both Soledad and Catarina are not currently reflected in the current 58 MMoz resource and have the potential to add a higher grade dimension to the project, as well as incremental ounces to the resource profile. We expect drilling on Catarina to commence by Q3 2011 with the addition of a third drill rig.**

Drilling at the Las Bolas bulk tonnage target structure along a strike length of about 1km has delineated a bulk tonnage resource of 52 MMoz grading 64g/t within an optimized pit shell. However, mineralization at Las Bolas remains open along strike to the northeast and to depth below 260m with the down dip extent of mineralization still in oxides, providing the potential for a deeper sulphide zone.

We also expect the number of regional targets to increase. Soltoro is currently completing a **1,400 sample soil geochemistry program on the property by Q3 2011.** Early indications are showing soil anomalies in a 4km<sup>2</sup> grid to the northeast of Bolas, and this grid will be extended over Soledad and Catarina. Combined with geophysical programs already completed which indicate at least six new regional target areas to be explored, **we see the potential for new discoveries with drilling success on the land package.**

**Overall, our site visit increases our confidence that Soltoro can achieve resource growth towards the 100 MMoz mark.**

**Milestones/Catalysts:**

- (1) Continued drilling on El Rayo as part of planned 15,000m program – Ongoing
- (2) Initial drill results from Chinipas – Q3 2011
- (3) Additional news expected from Victoria, Coyote and Quila projects – Q3 2011

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## Site Visit Notes

### *Location and Infrastructure*

- Soltoro's 58 MMoz El Rayo project is located approximately 100km west of Guadalajara, the capital city of Jalisco State and close to infrastructure.
- The exploration target is volcanic hosted silver-gold deposit that bears similarities to other epithermal silver-gold deposits of Mexico and the United States.
- The El Rayo Project is readily accessed by paved road from Guadalajara. Access is by a four-lane highway from the city of Guadalajara to Ameca, a town of approximately 50,000 inhabitants and located approximately 100km west of Guadalajara. From Ameca, a secondary paved road, 30km west and then 7km north, leads to the village of Guachinango of some 3,000 people. The primary land use in the area is farming. The El Rayo project sits less than 1km south and east of Guachinango and **while this is beneficial from an infrastructure standpoint, we highlight the importance of community relations for the Company as it continues to advance the project.**
- Infrastructure at the site is good, with electrical power lines crossing the property, cell service, and industrial water drawn from local springs. Diamond drilling and RC drilling equipment are available in Guadalajara and are also brought in from other cities in Mexico.

### *Solid Management on the Ground*

- The management team that Andrew Thomson has put in place on the ground in Mexico is solid. Led by Steven Priesmeyer, VP Exploration with 25 years of experience including Queenstake, Monarch Resources, and Mincore, all in Latin America. We believe that this is the team to continue Soltoro's exploration success.

### *Exploration Potential Remains*

- Historical workings primarily at higher elevations are on various parts of the property, providing an indication of potential prospectivity in the valley (Las Bolas, Soledad) where ore would have been more difficult to access using historic underground methods. We visited the historic Catarina mine which was mined at intermittently to a vertical depth of about 75m from the 1550s to the 1930s at estimated Ag grades of 200-400 g/t. Historic mining by the Spanish Conquistadores included silver. Trench and channel sampling at Catarina and an initial six holes completed by Soltoro indicate the potential for wide zones of mineralization (6-45m in width) over a strike length of 500m. With the addition of a third rig by Q3 2011, we expect the Company to commence a more comprehensive, tighter spaced drilling program on Catarina to further explore its potential.
- At Las Bolas, further follow up drilling will be carried out on the deposit to the north-north-east along strike to extend the target and at depth below 260m to test for mineralized sulphide feeder zones to expand the resource.

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- The current program at El Rayo is 15,000m from being completed by Q4 2011 and the Company will add a third rig by Q3 2011, which will likely start by drilling the historic Catarina structure.
- We also expect the number of regional targets to increase. Soltoro is currently completing a 1,400 sample soil geochemistry program on the property by Q3 2011. Early indications are showing soil anomalies in a 4km<sup>2</sup> grid to the northeast area of Bolas, and the grid will be extended over Soledad and Catarina. Combined with geophysical programs already completed which indicate at least six new regional target areas to be explored, we expect the number of regional targets to increase, providing the potential for new discoveries with drilling success on the land package.

### *Geology*

- The El Rayo Project area is situated within the east trending Trans Mexican Volcanic Belt (TMVB) in central Mexico, which is comprised of a volcanic arc similar to the Sierra Madre Occidental (SMO), but which is somewhat older than the TMVB.
- The Las Bolas deposit consists of a tabular body of a silver-bearing hematite-quartz vein breccia striking to the northeast and dipping to the northwest at 40 degrees. The mineralized vein breccia is approximately 40m thick with silver-bearing hematite-quartz stockwork occurring in the hanging wall. The vein breccia has been drill-tested for more than 300m down dip from the surface and for over 1,000m along strike. The Highway Zone is interpreted to be the faulted extension of the Las Bolas mineralized zone, which has been offset to the east along a west-northwest-trending fault.
- At Soledad, mineralization is hosted within an intermediate to mafic volcanic unit consisting of massive flows and interbedded fragmental units of similar composition. The mineralization is associated with strongly hematite-altered structures in association with quartz-calcite veins as part of wider intervals of highly sheared and brecciated volcanic wall rocks. Minor amounts of visible sulphides, including chalcopyrite and pyrite and their oxidation products, are also present.
- Geological thinking on the project looking at regional structural features is that the El Rayo area sits within the area of a collapsed Caldera.

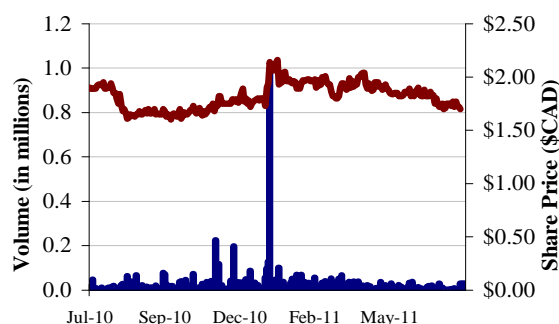
Estimates - Dec 31 YE	2010	2011E	2012E
<b>Production:</b>			
Gas (mmcf/d)	13.2	15.8	16.5
Liquids (b/d)	<u>696</u>	<u>1,000</u>	<u>1,256</u>
Total boe/d	2,903	3,625	4,000
<b>Financial:</b>			
FD CFPS	\$0.45	\$0.70	\$0.98
FD EPS	(\$0.47)	(\$0.25)	(\$0.17)

<b>Assumptions</b>			
WTI (US\$/bbl)	\$79.45	\$90.00	\$95.00
AECO (C\$/mcf)	\$3.76	\$3.80	\$4.25

<b>Valuation</b>			
P/E (x)		-6.7	-10.1
EV/DACF (x)		4.0	2.8
EV/boe Production		\$25,489	\$23,098
Target EV/DACF (x)			4.2

<b>Market Data</b>			
52-week High-Low		\$2.18 —	\$1.60
Shares Outstanding Basic / Float (mm)		30.7 /	14.1
Major shareholder - Tricap Partners 54%			
Market Capitalization (millions)			\$52.1
Enterprise Value (millions)			\$92.4
Potential Return			85%

<b>Financial Data</b>	
2011E Net Debt (millions)	\$40.3
2011E Debt/Q4/10E annualized CF	1.9x
2011E EPS/CFPS	n/a



Source: Capital IQ

### Company Profile

Insignia Energy is an oil and natural gas exploration and production company with core areas in Alberta.

## Activity Picking Up Following a Quiet Second Quarter

The Company has kicked off its second half drilling program as it is currently drilling at Caroline. After better-than-expected performance in Q1, ISN did not drill any new wells in Q2, but rather focused on completing a couple of the Q1 wells. Thus, we expect Q2 volumes to be down by about 5% in Q2. Insignia continues to have a drilling inventory that will provide many years of activity, mainly focused on its Pouce Coupe property in northwest AB, but will focus on its Pembina Cardium oil and Caroline liquids rich natural gas plays for now. We reiterate our **BUY** rating for ISN and a 12-month target price of **\$3.15**.

### 1. Sticking To The Plan

ISN implemented a capital spending program of \$15-\$17 million for H2/11 earlier this year and has not wavered from that plan. The goal is to increase its exposure to oil and liquids rich natural gas. The Company plans to drill five (4.0 net) wells in H2/11 with a focus at Pembina and Caroline.

### 2. H2/Program Underway

The Company is currently drilling a well at Caroline, which is a high impact liquids-rich natural gas play that can deliver 500 boe/d wells. That rig will then move to Pembina to drill a Cardium oil well. A high impact gas well at Pouce Coupe is scheduled for late this year.

### 3. 2011 Exit Target in Sight

With the sizeable production additions that can come from both the Caroline and Pouce Coupe areas, ISN maintains the ability to reach 4,000 boe/d by the end of 2011.

### 4. Discount Valuation Remains

ISN continues to trade at a relatively low EV/DACF multiple of only 4.2x our 2012 forecasts, which is based on a production figure that the Company may reach by the end of this year.

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Target Price Calculator: We are valuing ISN using a DACF multiple approach based on 2012E.

Key Risk to Target Price: Please refer to the risks disclosed in the initiating report dated June 16, 2009.



**Insignia Energy Ltd.**

**ISN-TSX**

<b>Recommendation</b>	<b>BUY</b>	<b>Current price</b>	<b>\$1.70</b>
<b>12-month target price</b>	<b>\$3.15</b>	<b>Projected return</b>	<b>85%</b>
<b>Share Information</b>		<b>Valuation</b>	
Market cap (\$mm)	\$52	Enterprise value (\$mm)	\$92
Shares O/S – basic (mm)	30.7	EV/2012E production (\$/boe/d)	\$23,098
Shares O/S – float (mm)	14.1	EV/proved reserves (\$/boe)	\$14.98
Shares O/S – f.d. (mm)	35.1	EV/2P reserves (\$/boe)	\$6.31
52-week range	\$2.18 - \$1.60	YE'10 NAV <sub>10</sub> BT (\$mm) (per FD share)	\$3.54
		Price/NAV <sub>10</sub> BT	48%

<b>PRODUCTION</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>VALUATION MULTIPLES</b>	<b>2011E</b>	<b>2012E</b>
Oil & Liquids (bbl/d)	696	1,000	1,256	EV/DACF	4.0x	2.8x
Natural Gas (mmcf/d)	13.2	15.8	16.5	P/CF (Fully Diluted)	2.4x	1.7x
<b>boe/d (6:1)</b>	<b>2,903</b>	<b>3,625</b>	<b>4,000</b>	Target EV/DACF		4.2x
% Natural Gas	76%	72%	69%			
Production Growth	98%	25%	10%	<b>CAPITAL PROGRAM</b>	<b>2010</b>	<b>2011E</b>
Production Growth Per Share	33%	25%	10%	Development Capex (\$mm)	\$32	\$26
				% of cash flow	229%	121%
						<b>2012E</b>

<b>COMMODITY PRICES</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>BALANCE SHEET</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>
WTI (US\$/bbl)	\$79.45	\$90.00	\$95.00	Net Debt (WC Surplus) (\$mm)	\$36	\$40	\$36
AECO (C\$/mcf)	\$3.76	\$3.80	\$4.25	D/CF	2.6x	1.9x	1.2x

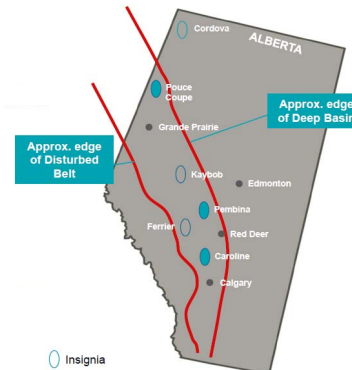
<b>FINANCIAL</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>RESERVES (6:1)</b>	<b>2009</b>	<b>2010</b>
Cash Flow (\$mm)	\$13.8	\$21.5	\$30.0	Proved (mmboe)	5.4	6.2
CFPS Basic	\$0.45	\$0.70	\$0.98	Proven Reserve Growth/share	603%	14%
<b>CFPS Fully Diluted</b>	<b>\$0.45</b>	<b>\$0.70</b>	<b>\$0.98</b>	Proven RLI (years) <sup>1</sup>	6.6	5.1
Earnings (\$mm)	(\$14.43)	(\$7.74)	(\$5.18)			
<b>EPS Fully Diluted</b>	<b>(\$0.47)</b>	<b>(\$0.25)</b>	<b>(\$0.17)</b>			

<b>CASH FLOW SENSITIVITIES (Per Share)</b>	<b>2012E</b>	<b>2010</b>	<b>2011E</b>
WTI +/- US\$1.00/bbl	\$0.01	13.3	14.7
AECO +/- \$0.10/mcf	\$0.01	630%	10%
Oil +/- 100 bbl/d	\$0.07	16.2	12.1
Gas +/- 1 mmcf/d	\$0.02		

<b>NETBACKS (\$/boe)</b>	<b>2010</b>	<b>2011E</b>	<b>2012E</b>	<b>FINDING COSTS<sup>2</sup></b>	<b>2009</b>	<b>2010</b>
Revenue	\$35.74	\$39.18	\$45.33	Proved F&D (\$/boe)	\$28.50	\$25.14
Royalties	(\$4.18)	(\$5.84)	(\$8.16)	Proved Reserve Recycle Ratio	0.5x	0.6x
Transportation	(\$1.33)	(\$1.33)	(\$1.35)	P+P F&D (\$/boe)	\$17.99	\$23.19
Operating Costs	(\$13.28)	(\$11.67)	(\$11.67)	P+P Reserve Recycle Ratio	0.7x	0.7x
Operating Netback	\$16.95	\$20.34	\$24.15			
G&A	(\$2.94)	(\$2.97)	(\$2.73)			
Interest	(\$0.98)	(\$1.19)	(\$0.92)			
Cash Taxes	\$0.00	\$0.00	\$0.00			
Cash Flow Netback	\$13.03	\$16.17	\$20.50			

**MANAGEMENT TEAM**  
 Jeff Newcommon - President and CEO  
 Glen Fischer - COO  
 Danny Geremia - CFO  
 Steve Mackay - VP Exploration

**SERVICE PROVIDERS**  
 Banker: National Bank  
 Engineer: GLJ



<sup>1</sup> Reserve life based on subject year Q4 avg production.

<sup>2</sup> FD&A includes future development capital, acquisition and dispositions.

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**Sell:** Overvalued and expected to decline from the current price over the next 12-18 months.

**Under review:** Pending additional review and/or information. No rating presently assigned.

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The analyst has visited the Company's mining operations in West Africa. Partial payment or reimbursement was received from the issuer for the associated travel costs.

Within the last 24 months, Clarus Securities Inc. has managed or co-managed a private placement of securities of this company.

Within the last 24 months, Clarus Securities Inc. has received compensation for investment banking services with respect to the securities of this Company.

**Soltoro Ltd. (SOL-TSX.V)**

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