

1. Terraco Gold: Catching Up

1. Terraco Gold: Higher Grade, Larger Resource

Two weeks ago Kate and I visited Terraco Gold's Almaden property 13 miles east of Weiser, Idaho. Our hosts were Senior Geologist Charles Sulfrian and Project Geo Bill Snoddy. We drove north 78 miles in I-85 from Boise for about 1 hour and then east to Weiser and into property to the east. Easy access – good infrastructure and a property where there has been a mine in the past.



Terraco acquired the property last year for 38.41 million shares and 22.75 million Terraco warrants. At that time the property had a resource of almost 1 million ounces of gold as follows.

- Measured resource of 239,000 ounces of gold;
- Indicated resource of 625,000 ounces of gold;
- Inferred resource of 84,000 ounces of gold; and
- **Total gold resource of 948,000 ounces.**

This is a hot spring property and some of the gold is encased in silica making for difficult recovery. The property was discovered in the 1940s and hosted a mercury mine till the mid-1970s. Then a succession of companies drilled over 800 shallow (down to 300 feet) holes (mostly rotary air blast or RAB). The average grade was .7 grams per ton (GPT).

Because the drill holes were RAB, the company's management speculated that grades should be higher – some loss of grade due to rotary air blast technology.

Terraco Gold has drilled 13 holes on the property. Yesterday the company announced the results of 6 of those diamond drill holes.

They were impressive:

Here is an example of hole 759C drilled from a site called "Stinking Water" so named for its sulphur aroma.

- Hole TAL-759C (located at Stinking Water) intersected 50.9 m averaging 1.09 grams per tonne ("gpt") gold from 10.7 m to 61.6 m (167 feet averaging 0.032 Troy ounces per short ton ("opt") gold from 35 to 202.2 feet), including:
 - 4.6 m averaging 1.824 gpt gold to 61.6 m;
 - 10.7 m averaging 1.163 gpt gold to 30.5 m, with 4.6 m averaging 2.198 gpt gold to 30.5 m;
 - 13.7 m averaging 1.118 gpt gold to 50.3;
 - 8.3 m averaging 1.954 gpt gold to 61.6 m, with 1.5 m averaging 5.27 gpt gold to 56.4 m.

Now the average grade of the deposit is listed as .7 grams per ton (GPT). You can see above assays of up to 5.27 gpt in sections of hole 759C. The overall 51 meter average for that hole was 1.09 gpt, a 55% increase in grade over Almaden's 43-101 resource average. Of course it is not fair to compare one hole's grade to the overall total. It is fair to say that the use of core drilling appears to have increased the grade of the near surface deposit.

We think it is possible that the overall grade of the deposit could increase 10 to 15% as a result of the better ability of core drilling to capture all the minerals. A 10 to 15% increase in grade would add up to ~150,000 ounces of gold to the resource. That remains to be seen as the company drills further. It is clear however from the Stinking Water drill result described above that higher grade gold does exist in the deposit. 759C is a significant finding and we understand that the company will follow up on that hole.

The drilling has turned up another positive in the Almaden story. Almost all previous drilling was shallow down to about 300 feet. Terraco reports that by drilling deeper they are discovering more significant gold.

"Terraco has identified deeper gold mineralization than previously discovered which will help target follow-up drilling aimed at potential feeders. Assays include encouraging results that show mineralization in zones ranging from 0.425 gpt gold through 0.635 gpt gold and up to 0.984 gpt. The zones are up to 3 times deeper than that previously discovered."

These discoveries and an open pit mine plan should increase the gold resource even further. While a million ounces of gold is significant the real prize that the company has not yet found is the feeder system for all this near surface lower grade gold. That task remains in the future. By the way there are still an additional 5 holes that remain to be assayed and reported. These holes could increase the size of the deposit significantly.

Still the real prize, the high grade feeder zone, awaits more discovery drilling. Most observers believe that there must be a zone here. Dr. Ken Snyder and Charles Sulfrian are two world renown geologists with extensive discovery track records (see the Ken Snyder mine) . Both believe that the feeder zone is there and that this team will find it.

There is one further point that few people realize. The EU has place mercury as number 4 of 14 critical metals to the Eurozone. It is therefore possible that mercury, in abundance at the Almaden site could be a valuable by product.

Regarding the recent Almaden announcement, Todd Hilditch, President and CEO of Terraco, said:

“Terraco’s drilling program continues to be very encouraging. Announced assay results show higher than expected grades in the near surface gold resource. Our drilling indicates new, deeper zones of gold mineralization and will provide our geologists with a better geological understanding of the area. This important data will help us develop better, deep feeder targets in areas previously unexplored.”

The following picture was taken in the original mercury pit during our visit. Here you can see the nature of the geothermal sinters. The very first drill hole **Hole TAL-751C intersected 53.3 metres averaging 1.083 gpt ("grams per tonne") gold**. This intercept includes the following (announced June 2011):

- 27.4 m averaging 1.595 gpt gold
- 12.2 m averaging 2.225 gpt gold



We also expect that Terraco Gold will drill its highly attractive Moonlight property this year – though time in northern Nevada is growing short. The company has mapped the North Ridge fault zone and understands where it traverses the throughout its Moonlight property.

All Discoveries take time and the ultimate arbiter is the drill.

Terraco is now moving forward aggressively with the drill. Currently shares are trading \$.25 Canadian. This seems cheap to us for a company with a 1 million ounce gold

resource (~60% recoverability?). We are not sure of the recoverability yet. That will await further metallurgical testing.

The company has 161.3 million shares outstanding on a fully diluted basis making Terraco's market capitalization approximately C\$40 million. With a growing gold resource the market cap seems quite cheap. It will be interesting to see the next resource estimate from Almaden and the drill results from Moonlight.

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