Michael A. Berry, Ph.D.

**Today's Notes:**

**1. Terraco Gets Engaged**

## 1. Terraco Gold: "You Find a Mine Where There's Been a Mine"

Terraco Gold Corp (TSX VENTURE: TEN) announced that it had entered into a binding letter agreement With Western Standard Metals Limited (TSX VENTURE: WSM) as of October 29, 2010.

Under terms of this agreement Terraco plans to acquire all the outstanding shares and warrants of WSM in an all share transaction. We think it will benefit both the shareholders of Terraco Gold and Western Standard Minerals. Terraco will issue .75 of a common share of its stock for each share of Western Standard Minerals. The warrants and options of Western Standard will be adjusted accordingly in the transaction. Terraco will issue approximately 61,000,000 shares to complete this transaction. At today's price of $.44 per share the value of 61 million shares is approximately $27 million. This will buy 60% of Western Standard Minerals. Post transaction Terraco will have 102.3 Million Shares outstanding, 150 million on a fully diluted basis.

This deal is subject to due diligence by both sides and an independent fairness opinion. There is a breakup fee in the event that the deal does not come to fruition. Both Boards have approved the terms of the arrangement. It must also be approved by 66% of the shareholders of Western Standard. Management of Terraco and Western Standard expect to have a definitive transaction drawn up by early December and to have this approved by WSM shareholders by early January.

Terraco's Chief Executive Todd Hilditch each said,

***"Combining with Western creates a strong platform to implement our business plan and continue an aggressive exploration program on the combined companies' advanced and earlier stage properties."***

Western chairman said Zahir ("Zip") Dhanani,

***"This transaction delivers excellent value to our shareholders while allowing them to share in the upside of an impressive portfolio of exploration projects through their Terraco shares. The Terraco management team, led by Todd Hilditch, has experience, skills and access to capital in order to advance its projects into production. We look forward to our continued involvement as shareholders of Terraco."***

Yesterday the shares of Terraco sold off substantially (18%) before recovering at market close to trade down six cents (13%). There seemed to be concern, as always, in the potential dilution inherent in this transaction. One must recognize that with this transaction the combined company, which will retain the name Terraco Gold, will have in its portfolio a measured and indicated resource of almost 900,000 ounces of gold. The Almaden property, located in Idaho, has been a mine since 1939. Between 1939 in 1978 it produced Mercury. In subsequent years several exploration companies explored it, drilling 60,000 m of reverse circulation holes in 887 holes in gold exploration. High grade molybdenum has also been discovered. These programs have defined a sizeable, low grade gold resource. The resource is open-pittable and heap-leachable.

A previous study in 1997 indicated a recovery rate of 63% but many observers believe that this recovery rate can be increased. Most of the property is located on patented ground which means the permitting should be much simpler than on federal land. WSM had suggested a production date of 2015. Drilling has been only to a depth of 300 feet and the resource is still open along strike for several hundred meters and also at depth.

If we were to take one million ounces of gold in measured and indicated at today's price of $1,354 per ounce, I estimate an in-situ value of approximately $100 million using a 10% valuation rule of thumb for measured and indicated gold resources. The new company will have 150 million shares outstanding fully diluted, upon successful completion of the transaction. At Terraco's current share price of $.44 per share, this represents a market capitalization of proximally $66 million. We are not taking any credit for the value of warrants or options that may accrue to Terraco. In their most recent website Western Standard suggests that there are $12.5 million worth of warrants and options to be exercised.

We think this deal stands alone as attractive to both companies. However having spoken with several geologist who have known the Almaden project over the years and have assessed the significant amount of drilling that has taken place, most observers believe there is significant potential for the discovery of a Hollister (~4 million ounces) or Midas (7.6 million ounces of gold) type mine. Deeper drilling may identify high-grade and perhaps Bonanza gold and silver ore shoots. The Almaden resource appears to be similar to mines in northern Nevada such as the Midas, that have the potential to host Bonanza grade gold zones in feeder zones below the disseminated gold discovered to date.

So the real value of this transaction is not necessarily in the measured, indicated and inferred resources that currently exist at Almaden. It is instead in the potential for much higher grade, larger ore shoots that may be the feeder systems for this resource. Therefore when assessing the merits of the deal we must remember that both Terraco and Western Standard are still incubator discovery companies. They are still both involved in the discovery process. Terraco itself has a very valuable property in its Moonlight which sits directly above Midway's Spring Valley property where Barrick and Midway have identified over 2,000,000 ounces of gold resource. The Moonlight property may also be on a trend called the Black Ridge fault which hosts a number mines including Coeur's Rochester mine.

The value of this transaction for Terraco shareholders are as follow:

1) The combination provides the company with a measured and indicated gold resource.
2) The Almaden property has at least $12 million worth of drilling in more than 800 drill holes over the past years.
3) It increases the Terraco property pipeline significantly with an advanced project.
4) The Almaden resource is a 43-101 compliant measured resource of 239,000 ounces and 625,000 ounces indicated. There is an additional 84,000 ounces of gold inferred. The ore body is open along strike and at depth.
5) CEO Todd Hilditch was instrumental in the successful arrangement of the buyout of Salares Lithium by Talison and we think he provides strong leadership for this effort.
6) There is the opportunity for the discovery of bonanza grade gold mineralization such as occurred in other mines including the Midas and the Hollister.
7) Ken Snyder (a consultant to Terraco Gold) and Charles Sulfrian are experienced geologists with excellent discovery track records in whom we place a great deal of trust.

There may be selling in the stock due to the perception that the dilution borne by the Terraco shareholders is not value-creating. We do not agree with this. We plan to be buyers of the stock on any significant share weakness. We currently own a significant position in Terraco Gold and we are paid advisors to this company. This deal does not close for 60 days so we cannot conclude that it is a done deal. Nevertheless we think this proactive stance by the management and directors of Terraco Gold is exactly the appropriate approach for shareholder value creation. As always please perform your own due diligence. Incubator discovery companies are risky, but we think this one has several of the merits to make it a much more valuable situation for investors, property and management.