

Growth Stocks Weekly

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Performance: Year ended April 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%

Junior Gold and Natural Resource Sector Report

December 5, 2006

Emerging Gold/Copper Producer

TERRANE METALS CORP. (TRX-TSX Venture)



Daily chart, High C1.39, Low \$0.61, Last Trade \$0.68

Terrane Metals (TRX-TSXv) has been on our radar screen since last May when it started trading as Atlas Cromwell, but we have never made any effort to add a share position to our model portfolio, primarily due to the technicals. This has now changed, and we are accumulating a 75,000-share position in the \$0.65-0.70 area.

The initial asset acquisitions and a funding are complete, and I believe that we have seen the lows for the share price. Assets now in place include the advanced Mt. Milligan gold-copper porphyry project in central British Columbia. It alone offers a strong value proposition. The likely worst case scenario for investors is that we see weakness between now and year-end tax-loss-selling season, offering a compelling buying opportunity.

Long-time subscribers know that we want to follow the guys who get things done, that have the smarts, contacts and funding ability to put the odds in our favour. Terrane has the involvement of players in such familiar success stories as Wheaton River (now Goldcorp), Northern Orion, UrAsia, Endeavour Mining, Bankers Petroleum, etc. Follow the money.

Background

Back in May, Goldcorp (G-TSX; GG-NYSE) announced the acquisition of several properties from Barrick Gold Corporation spun out from Barrick's acquisition of Placer Dome. Shortly thereafter Terrane (as Atlas Cromwell) announced their agreement to purchase several of these gold/copper properties from Goldcorp. These properties did not fit Goldcorp's business model of acquiring strictly gold producing assets. As the copper in the known resource makes up over 60% of these mineral assets it was easier to put them into the hands of the appropriate experienced developers.

Following this acquisition, Terrane ends up with Goldcorp as its 75% controlling shareholder. Goldcorp is not involved in the day-to-day management of Terrane.

The four properties they now control are Mount Milligan, Berg, Maze Lake and Howard's Pass. Terrane also has an option to earn a minimum 51% interest in certain gold properties located in the Toadoggone area of British Columbia from Stealth Minerals Ltd. (SML-TSXv), and an option agreement to acquire a 100% interest in the Christina Jean gold-copper property directly adjacent and contiguous to the Mt. Milligan project.

The Properties

Mount Milligan gold-copper deposit - British Columbia

The Mount Milligan property was fully permitted and approved to start mining back in 1993. It was mothballed by Placer Dome as a result of the bottoming-out of metals prices and their decision to focus only on gold-oriented projects. In an unlikely twist of fate, the man who originally discovered this deposit back in the 1980's is now one of the guys in Terrane. He was astute enough to originally find the property, find a buyer and sell it for a large fortune -- and now he's back in to develop it. All the drilling, engineering and legal hoops to get the permitting through had been done at Placer's cost. We're betting with him!

At year-end 2005 Placer Dome reported that the deposit hosts 3.69 million ounces of gold and 1.12 billion pounds of copper (measured and indicated resource totaling 205,932,000 tonnes grading 0.6 gram per tonne gold and 0.247 per cent copper). However, the deposit contains significantly more gold and copper than that, with estimates of 5.2 to 6 million ounces of gold (depending on cut off grade) and 1.7 billion pounds of copper. There is a 1990 research report on the junior company that sold Mt. Milligan to Placer Dome -- and that's what they say the numbers are. Also, Terrane management is ex-Placer management, and they actually calculated that original smaller number for Placer, representing "big-company conservatism". So there should be a large valuation boost!

Companies with reserve gold ounces in first world countries like Canada could easily be valued at \$150 per ounce, bringing the market cap to \$1.62 per share just for the gold. Add in another \$0.25 per pound of copper and the market cap increases to \$2.44 per share compared to today's closing price of \$0.68.

Another approach - using US\$500/oz gold and \$2/lb copper we calculate a net value of \$12 per tonne. Burns Fry (now Nesbitt Burns) prepared a report in 1990 giving the tonnage at 330 million tonnes, providing a deposit value today of almost \$4 billion dollars. There are 341.7 million fully diluted shares out, of which 240 million are locked up (Goldcorp's interest). Management says the mine will cost \$750 million to build. Assuming a 50:50 equity/debt financing to raise money to build the mine at, say \$1.50, the math says there could be about 742 million shares out fully diluted. That would still support a share value of \$4.27 on just the Mt. Milligan project alone. Production is expected to start in 2010.

Mt. Milligan is easily accessible from the towns of Mackenzie or Fort St James and has excellent infrastructure. Terrane has initiated a diamond drilling program designed to upgrade Inferred resources into the Measured and Indicated categories and to collect bulk samples for metallurgical test work. The program has recently been expanded to a minimum of 10,000 metres. Initial drill results are encouraging. The two-rig drilling program is expected to continue into December and assay results will be released when received. The data will be used as part of a new Bankable Feasibility Study that should fast track the deposit toward mine construction and production. The study should be completed by Q3 2007.

Another factor to consider is that British Columbia has had a big change in provincial government attitude about mining. In the '90s the province was not open to mining, yet Placer went through the hoops and got it permitted for production anyway. We have a completely different climate today, and to renew their permits should be easy.

Berg copper-molybdenum-silver deposit - British Columbia

Terrane owns 100% of the Berg porphyry copper-molybdenum-silver deposit, having recently purchased the

remaining 49% from Kennecott. For US\$1 million and a 1% net smelter royalty fee they acquired an additional 1 billion pounds of copper, providing control over 2.1 billion pounds of copper at the Berg.

The Berg deposit was discovered in the 1960s. By 1980, a total of 93 diamond drill holes totaling 16,908 metres had been completed. This work defined a geological resource, at a 0.25-per-cent copper cut-off of 238 million tonnes grading 0.40 per cent copper, 0.052 per cent MoS₂ and 2.84 grams per tonne silver containing 2.1 billion pounds of copper, and substantial resources of molybdenum and silver. These historical resource estimates predate the implementation of NI 43-101 guidelines and so are not compliant with current accepted reserve and resource classifications per the Canadian Institute of Mining and Metallurgy.

The Berg deposit is about 20 kilometres northwest of Imperial Metals' Huckleberry copper-molybdenum-silver mine. Huckleberry has been in production since 1997 and has milled an average of 19,500 tonnes per day. In 2005, Huckleberry produced nearly 74 million pounds of copper and nearly 540,000 pounds of Molybdenum.

Terrane plans to further develop the Berg deposit with a drilling program.

Other properties – Nunavut & Yukon

The other two properties in the Terrane portfolio includes a 100% interest in the Maze Lake gold project in Nunavut, and a residual interest in the Howards Pass zinc-lead-silver properties in the Yukon controlled by Pacifica Resources (PAX-TSXv). There's also an option to earn a minimum 51% interest in certain gold properties located in the Toadoggone area of British Columbia from Stealth Minerals Ltd. (SML-TSXv), and an option to acquire a 100% interest in the Christina Jean gold-copper property directly adjacent and contiguous to the Mt. Milligan project, approximately 10 kilometres southeast of the main deposits.

Management

Technical management is mainly ex-Placer Dome people with years of production or development experience.

Robert Pease, PGeo, FGAC; President, CEO and Director

He has been continuously employed by the Placer Dome group for the past 24 years. Since 2002, he was the general manager, Canada exploration and global major projects, where he was responsible for managing all aspects of Placer Dome's Canadian exploration, and overseeing the geological aspects of advanced stage, major exploration and development projects worldwide.

Edward Farrauto, CGA, Chief Financial Officer

Mr. Farrauto has over 19 years experience as a senior financial officer in private and public companies. His experience encompasses financial and regulatory compliance and public company management.

Jeffrey Franzen, MSc, PEng, director

Mr. Franzen has over 30 years of experience in mineral exploration, mine development and operations. He is a registered professional engineer in the province of British Columbia.

Douglas Leishman, PGeo, FGAC, ARSM, director

Mr. Leishman is a geological consultant and was formally the director of geology and exploration for Endeavour Financial Ltd., a financial advisory firm focused on the mineral industry. Prior to joining Endeavour, he was a senior mining analyst with Yorkton Securities Inc. in Vancouver.

John Reynolds, PC, director

Mr. Reynolds has served as both an MLA in British Columbia and as a member of parliament in Ottawa. Prior to his recent retirement from federal politics he was the official opposition house leader for the Conservative Caucus. Previously he had been leader of the opposition in the House of Commons for the Canadian Alliance Caucus. He is currently a member of the Queen's Privy Council for Canada and a senior strategic adviser for the law firm Lang Michener LLC.

As an interesting sidenote, Franzen was one of key geologists who developed Mt. Milligan more than 15 years ago at Continental Gold (he was also a director), which Placer Dome bought for \$20 per share in 1990.

Conclusion

Development stage assets offer a lot of leverage for investors. On the basis of the Mt. Milligan Project and the Berg copper-moly-silver properties alone we can see a market cap several multiples higher than current, with the added

factor that the resources on both of these projects can be enlarged and we give no value for the other properties. And the company has another strong asset in the Berg property that should add even more value down the road.

The mainly ex-Placer management team and the involvement of Endeavour Financial, the Vancouver-based mining-focused merchant bank we like to follow closely, adds significantly to our comfort level. After completing a new feasibility on Mt. Milligan next year, Terrane has several options including a sell-off of the project or to finance it themselves into production. Either way, shareholders should benefit significantly from the created value.

Website: www.terranemetals.com

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