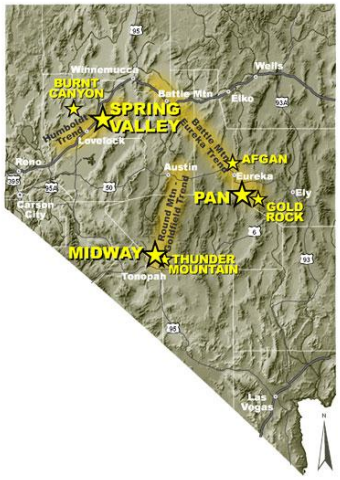
Today's Notes:

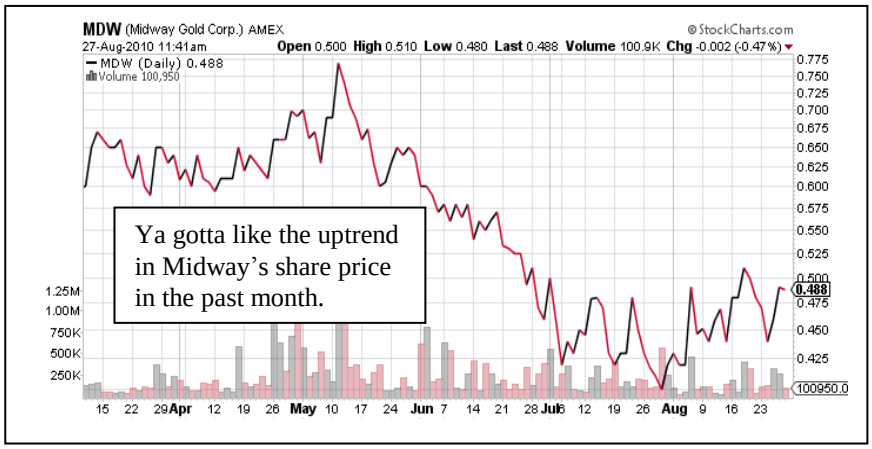
1. Midway Gold (Christopher Berry, MBA)

1. MIDWAY GOLD – An Undervalued Gold Pipeline

Midway Gold (MDW: TSXV, MDW: NYSE.A) is a name we've written about in the past and after a conference call we conducted with Management last week, we wanted to update everyone on several of their projects and plan to move to production.

The company has eight gold projects located exclusively in Nevada (with the exception of Golden Eagle in Washington State), The focus is now on Pan, Gold Rock, Spring Valley, and Midway.





The stock has been under pressure for much of the summer, but after speaking with CEO Dan Wolfus and COO Ken Brunk, we're convinced that the company has both the right team, the best properties and the proper plan in place to realize the true value of their assets.

The PAN Project, located on the Battle Mountain-Eureka trend, tops Midway's priority list with a plan to begin production by 2013. This should allow ample time for permitting. There is a NI 43-101 report on PAN which shows 677,000 oz Au in the Measured, Indicated, and Inferred categories with another 452,000 oz Au in reserve. Management is confident they will demonstrate "significant growth" in these resource numbers as they move to production, perhaps by doubling them in the most recent 43-101. The strip ratio is 1.49 to 1. 860. Shallow holes have been drilled on the PAN property (200 to 400 feet). The

company's goal is to produce between 300,000 and 500,000 oz of gold per year from its project pipeline in the future.

The project has a positive Net Present Value of $49 million with 20% contingency cost allowance and 2 months of working capital allowance. The IRR should be about 23 to 25%. Naturally if gold remains at its current level or moves higher, as we expect, these NPV and IRR metrics will prove too low.

A few project specifics:

Au Price per Oz (assumed)	**$950**
IRR	**25%**
Discount Rate	**5%**
Cap Ex	**~$60M**
All in cost per Oz	**$670**
NPV	**$49M**

We've highlighted the $49M NPV to make one point very clear – **Using this assumption for the price of gold, the NPV for this single project is larger than the market cap for the entire company ($43M undiluted) and approximates the company's market cap on a fully diluted basis ($50M)**.

A second nearby project, larger than PAN, will improve PAN's economics substantially. The property is called Gold Rock with an historic resource of 300,000 oz of higher grade (1 to 1.5 gram per ton) gold. The company believes it will mine this resource ~ 18 months following PAN. An immediate advantage Midway will realize is the leverage in using infrastructure already in place for PAN once Gold Rock goes into production. This will lower production costs going forward.

With three other projects in Midway's pipeline, the company appears substantially undervalued at current levels and with its pure play on gold production.

At a $1,200 per oz gold price, the valuation is more robust with a 41% IRR, and $109M NPV (assuming the same discount rate of 5%).

Spring Valley (SV) is a 43-101 compliant joint venture with Barrick which currently hosts 1.8 million oz Au (inferred) and the company believes SV will expand to 3,000,000 to 5,000,000 oz Au with more exploration and drilling. Drilling on the property is currently taking place with the goal of expanding the size of the resource. The key term of the joint venture is that Barrick must spend $30,000,000 for a 60% earn-in position. Barrick has spent $9 million on SV. The $30 million must be spent by 2013.

We think production at SV could begin around the 2016 timeframe. Barrick seems to be finding more gold and we think the grades will improve at depth. Spring Valley is on the Black Ridge fault zone which has yielded significant gold production historically. The company appears to be extending the SV resource by stepping out to the north east with considerable success.

Average gold grades appear to be about 1/10th of an ounce. We believe that Barrick, needing to rebuild its gold inventory pipeline, will begin permitting when the SV resource increases to 3 million ounces. At the current rate of discovery, that timeframe is probably not too far in the future.

The Midway project, ("gonna be a nice one"), is a high-grade epithermal deposit from which the company hopes to be producing 100,000 oz Au annually in the future. A plan of operations for an underground mine has been submitted to the BLM and is under review. Midway probably resembles Nevada's Pipeline project most closely.

Though SV and Midway aren't likely to be in production for several years, it is clear that Midway has a full and golden pipeline and is undervalued at current price levels. This stock demonstrates the essence of Discovery Investing - high-quality assets, experienced management, a favorable entry point regarding the stock price, and patience. These should reward shareholders handsomely in the future. The company is positioned to benefit from having their projects in an extremely mining-friendly locale (Nevada was ranked # 10 in the most recent Fraser report) underpinned by a strong gold bull market.

There is a fourth Midway gold project, Golden Eagle, in the State of Washington, which we shall review in a future MN.

We also wish to point out that Terraco Gold (TEN, TSXV) borders Midway's Spring Valley property to the north. As with Midway, we have owned Terraco Gold for several years. There was a great market reaction to Midway's recent Spring Valley drill program announcement in both Midway and Terraco shares. We believe that the Black Ridge fault zone may go north through the Terraco property. Terraco shares traded up 25% on 400,000+ shares Friday. Terraco stock is now trading at 16.5 cents.

We own shares in Midway Gold and Terraco Gold.