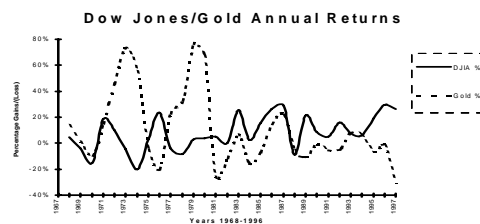




Gold



& Technology Stocks

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Gold Canyon Resources Inc.

Traded: TSX-V – GCU || Initial Recommendation: 2/18/05 – \$0.50 || Price: 12/31/05 - \$0.27 || Shares Outstanding: 28.9 Million || Market Capitalization: \$7.8 Million || Progress Rating: “C” || Tel.: 604-682-3234. Web Address: www.goldcanyon.ca

This company's primary property is the Springpole Gold Project near Red Lake, Ontario. Ten or fifteen years ago, the company was promoting this project as an open-pit bulk mineable target that would have required a lake to be drained. Even if all environmentally concerned folks on earth went to sleep, making permitting a non-issue, the project would have required very, very high gold prices in order to be economic.

When Bob Carrington became Gold Canyon's CEO, he assumed that the company would get rid of Springpole. But when he began examining the data, he found a large number of high-grade intercepts that suggested this project might be economically viable as a high-grade underground mine. Indeed, the more he and other geologists looked at the data the more difficult it became to condemn the project. And so, over the past couple of years, work programs have been designed to explore and develop a high-grade underground gold deposits has commenced.

Recently, Duncan Reismeyer, a former senior management member of Santa Fe Gold (a company that was subsequently acquired by Newmont Mining), has come into the picture as a key member of the Gold Canyon management team. Many years ago, while he was still working for Santa Fe, he argued unsuccessfully with his management team that Springpole could become a highly profitable mine if the project were approached as a high-grade underground mine. Duncan should now be in a position to test his theory about the attractiveness of Springpole as an underground target, and high-grade drill results certainly would seem to be in his favor.

Springpole Averages 1.3 Ounces per Ton and Could Be Huge! – We have reported some very spectacular gold drill assays since we started covering this stock. The primary focus of the company is the East Extension Zone, where Robert Carrington reported the average grade is approximately 1.3 ounces per ton over 6.2-foot intersections. The known proven length of this zone is approximately 870 feet, but it has the potential to extend some 2,700 ft. So far, the deepest hole drilled is to a depth of 500 ft., where it is open. Management believes this epithermal deposit is very similar to some of the very large and famous mines, such as the huge Lihir Mine in Papua New Guinea, the even bigger Grasberg Mine, or the Cripple Creek Mine—where some 754 metric tons of gold were taken out from high-grade veins.

It is my understanding that one or more inclines will be driven into this ore body within the next year. A 10,000-ton bulk sample, if it contains an average grade of 1.3 ounces of gold per ton, would contain a mill head value of something like \$6.5 million, based on \$500 gold. Of course, unless the actual grade is higher than 1.3 ounces per ton (a real possibility, as was true with Goldcorp's Red Lake Deposit), something less than 100% of the 1.3 ounce per ton would be recovered. Also, a fee will have to be paid to the mill, and it will cost something to transport the ore to the mill. However, considering all that, it is thought the net proceeds should pretty much finance the cost of driving a 1,000-ft. incline into the ore body.

One concern I have about this project is a lack of ready infrastructure. There are currently no roads into the mining camp onsite. At present, everything has to be flown on to the site. It is possible the province could help in building a road, once a larger scale project comes into view. There may also be some logging interests here that could come into play politically. But access to the property is certainly one issue that will add to the overall cost of this project, unlike projects that some other companies on our list (for example, Northern Star in Quebec and Pelangio Mines near Timmins in Ontario). Also, the nearest power line is 30 kilometers to the south, so it is fairly certain power will prove to be a higher cost item for this project than for many others.

But as the old adage goes, mines are made not found. Another truism in mining is that sufficiently high grades can overcome virtually all problems. What Springpole has going for it is the potential to develop into another company-making project like Goldcorp's Red Lake Deposit. Folks, this is not a slam-dunk, but it has a real shot. And if it hits big, as it has a chance to do, this \$0.40 to \$0.50 stock could easily become a "10-bagger" on the basis of Springpole alone.

The Cordero Gallium Project

Springpole isn't all Gold Canyon has. It also has the Cordero Gallium Project in northwestern Nevada. What is gallium? Gallium is a soft, silvery metallic element identified by the symbol "Ga." It has an atomic number of 31. Pure gallium is a solid magnetic metal at room temperature. It melts at 30 degrees C (86 F), turning to a bright silvery liquid that begins to boil at 2,403 C (4,357 F)—the widest temperature range of any known metal in liquid state. However, the unusual characteristic of gallium makes it unique and effective in a host of industrial uses.

Most gallium is produced as a by-product of treating bauxite (aluminum ore) and from zinc processing residues. Roughly 95% of gallium is consumed in manufacturing electronic components such as cell phones, DVD players, photocells, integrated circuits, and LEDs (Light Emitting Diodes). There are also some very promising medical applications for this very unique metal, including use for more efficient delivery of cancer-fighting drugs. It seems gallium is becoming increasingly in demand for a host of high-tech applications, and, given its limited supply, its price has risen significantly from its \$16-per-ounce bottom a few years ago. It has hit a high of \$70 per ounce. The average cost of producing this metal is in the \$15 to \$30 per ounce range. While we don't have an exact cost figure for the Cordero Mine, management has suggested in past discussions I have had with them that, given their grades, they should be in the bottom half of this cost structure.

The average grade of gallium on the Cordero is said to be 157 grams/tonne, or just slightly more than five ounces per ton. This would give the company an insitu value of anywhere from \$80 per ton to \$350 per ton, depending on the market price. Lab tests have suggested recover rates of over 90% of the ore.

Progress on this project has been disappointingly slow for your editor. I visited this project a few years ago, and, at that time, early production was envisioned. In talking to Duncan Reismeyer, I found out that one of the problems has been the slowness of labs to carry out bulk testing thanks to their horrendous

workload. The number of qualified labs has been significantly reduced in recent years. Also, there has reportedly been some reluctance on the part of the lab doing the work for Gold Canyon to share their protocol with a third-party lab that needs to independently verify the first lab's results.

In summary, we see the Springpole Project as having the definite possibilities of becoming a relatively large high-grade gold mine. If that picture unfolds, I believe this stock could rise very dramatically, notwithstanding its boring performance since we most recently recommended it. As such, an allocation of up to 5% is recommended for patient investors who do not need to use that investment for grocery money anytime soon. The gallium project is interesting and could also provide a dramatic boost for shareholders, though given the unusual nature of that project, I am most enamored by and confident in the Springpole Project, realizing however that given infrastructure concerns outlined above, success is by no means guaranteed. However, I feel the addition of Duncan Reismeyer could provide a big boost and energizing element for this company.

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