

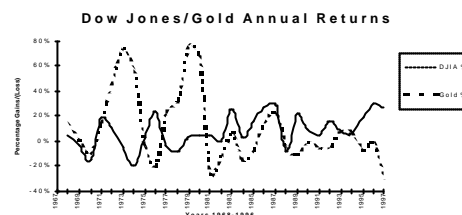
J Taylor's

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# Gold

## & Technology Stocks



Weekly Hotline Message

(Now in our 23<sup>rd</sup> Year)

February 19, 2005

New Buy Recommendation

## Gold Canyon Resources Inc.



Traded Toronto Venture - GCU  
Price 2/18/05: US\$0.503  
Shares Outstanding: 25.5 Million  
Market Capitalization: 12.8 Million  
Fully Diluted: 29.8 Million  
Progress Rating: "C"

We had this stock on our list once before but was persuaded to remove it based on some misinformation from a source that one time had a business relationship with GCU. On the basis of that information and a need to pare back our list, we recommended a sale of this stock.

However on my recent trip to Vancouver I met with the company's CEO, Robert Carrington for a review of the goings on at Gold Canyon. What I found was a very compelling story that definitely told me I had to re-instate this name back into our Model Portfolio.

The asset of greatest interest to me is the company's 100% controlled **Springpole Lake Project**, located in the Red Lake Mining District of Ontario, Canada, approximately 70 miles (115km) east-northeast of the town of Red Lake. The Springpole property consists of approximately 11,400 acres of patented and unpatented mining claims.

Historically this project was modeled as a low-grade bulk mineable deposit containing approximately 1.5 million ounces. However, to mine this project would have required the draining of a lake (environmentally not possible) and the economics simply overall were not feasible even at substantially higher gold prices. When Bob Carrington became involved with this company he anticipated dropping the project. However, upon further examination, numerous high-grade values over good-sized intersections suggested the very real possibility of delineating a viable high grade underground mine. Since prior management always viewed the project as an open pit operation, it was never evaluated as a potential high grade underground mine.

And so management set with a 2004 drill program with that in mind. In 2004, \$1.3 million was spent in exploration of recent re-modeling and drilling, resulting in encountering bonanza grade gold, with **individual drill samples in excess of 45 ounces of gold per ton** (opt Au), and composite drill intercepts up to **8.6 ounces per tonne gold over 5.75 feet** are seen to occur in two major, related structural zones.

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The alteration and geology in the “core area” are similar to that found in the new famous Red Lake mine that has been GoldCorp’s “company maker” property. No promises of course that anything akin to that is in the cards for Gold Canyon, but these drill intercepts are reminiscent of those enormously high grades at Red Lake.

On February 18<sup>th</sup>, management put out a press release discussing the drill program from last summer. Holes BL 282D, 285D, 304D, 305, 306, and 307 tested projections of targets along strike and down dip from the high-grade **Main Trench Zone** where historic surface sampling has identified high-grade gold-bearing structures with some values **in excess of three ounces of gold over widths up to six feet.**

Hole BL 285D, drilled to test down-dip projections of mineralization exposed in surface trenches, intersected structurally controlled gold mineralization grading 0.203 ounce of gold per ton over a 1.6-foot interval in the projected target. Hole BL 307 cut 0.26 oz gold/ton from 53.5 to 55.7 feet. The lower zone, from 161.6 to 163.3 feet, grades 0.508 ounce of gold per ton, and corresponds with the up-dip projection of mineralization encountered in hole BL 282D, as previously announced in November.

In the **Camp zone** Hole BL 308 was drilled to test multiple high-grade targets. Partial results from the shallower portion of this hole were released by the company in its news release issued on Nov. 23, 2004. The deeper targets tested in the latest drill program include a 103.1-foot zone of mineralization from 718.0 feet to 821.1 feet, with an average grade of 0.177 ounce of gold per ton. Contained within this are multiple higher-grade zones including 14.9 feet, from 738.2 to 753.1 feet, with an average grade of 0.248 ounce of gold per ton; 13.2 feet from 760.8 to 774.0 feet, with an average grade of 0.277 ounce of gold per ton; and 4.8 feet from 787.3 to 792.1 feet, with an average grade of 0.290 ounce of gold per ton. In addition, this hole tested a deeper target from 1,308.0 to 1,310.5 feet which averaged 0.635 ounce of gold per ton.

Holes BL 310 and BL 311 were drilled from nearly the same location as was BL 309, but were drilled at 45- and 62-degrees down to the south. Both of these holes successfully intersected the projected target zones. Hole BL 310 intersected material **grading 0.881 ounce of gold per ton** from 95.3 to 97.0 feet. This hole also encountered two broad zones of mineralization extending from 327.0 to 388.8 feet and 448.4 to 497.0 feet. The upper zone averaged 0.063 ounce of gold per ton, and contained higher grade gold mineralization over the interval from 377.6 to 380.6 feet, which graded 0.231 ounce of gold per ton, while the lower zone, from 448.4 to 497.0 feet, averaged 0.100 ounce of gold per ton, and included 3.5 feet from 464.4 to 467.0 feet, with a grade of 0.319 ounce of gold per ton. Hole BL 310 was bottomed in mineralization at 497 feet grading 0.056 ounce of gold per ton. Hole BL 311 intersected 9.0 feet from 442.0 to 451.0 feet, which graded 0.237 ounce of gold per ton. Intermittent, but discontinuous sampling, suggests that hole BL 311 may well have encountered the same zone of widespread mineralization as hole BL 310.

Hole BL 312, drilled easterly of BL 310 and BL 311, intersected a very broad zone of anomalous gold mineralization, with the 43.0-foot interval from 121.0 to 164.0 feet containing an average grade of 0.060 ounce of gold per ton.

In the East Extension zone, Holes BL 313, 314, 315, 316, 317, 318, 319, and 320 were drilled to test portions of the East Extension zone. Hole BL 313 was drilled as an up-dip test of mineralization intersected in holes BL 296 and BL 315 as previously announced in Stockwatch. BL 313 intersected alteration but no significant gold values within the projected target zone. Hole BL 316 was drilled below BL 315, to test the down-dip extension of mineralization encountered in that hole. This hole was bottomed short of the target and will be deepened during the winter 2005 drilling program. Hole BL 317 successfully tested up-dip projections mineralized structures encountered in hole BL 295 during the winter 2004 drill campaign. Hole BL 317 encountered mineralization grading 0.431 ounce of gold per ton

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over the interval from 238.6 to 239.7 feet. This interval corresponds closely with the interpreted projection of mineralization in hole **BL 295 which graded 0.727 ounce of gold per ton over 2.5 feet**

The principal target of BL 320 was a down-dip projection of the large, high-grade zones encountered in holes BL 292 and BL 319, **which assayed 1.264 ounces of gold per ton over 10.1 feet, and 3.173 ounces of gold per ton over 19.6 feet respectively**. As the hole entered the target zone it encountered one anomalous gold value from 202.0 to 203.3 feet, which assayed 0.121 ounce of gold per ton. The hole then passed into a large lamprophyre dike nearly 45 feet in core length. The company will drill a deeper offset of BL 320 to test for the down-dip extension of this mineralization. Hole BL 320 also tested down-dip extensions of other mineralization encountered in both BL 292 and BL 319. This mineralization was encountered over the interval from 157.0 to 162.0 feet, which graded 0.243 ounce of gold per ton. Hole BL 320 also encountered previously unknown mineralization over the interval from 104.5 to 109.0. This 4.5-foot interval graded 0.584 ounce of gold per ton.

Like some of the big winners on our list, (NovaGold and IMA come to mind) the assays are so consistently high that they become almost boring to report. But if you stop and look at these values, you have to get excited because needless to say, these values are very strong and provide the basis for optimism that a high grade gold deposit may well be in the making. If that turns out to be true, there is no way this stays a \$0.50 stock. They are at this very moment preparing to continue drilling this winter so over the weeks to come, we may be treated with some more exciting assays.

In fact, much of the drilling in this area is best carried out in the winter because some of the target areas are swampy or under water so the only time drill rigs can be easily moved onto the properties is during the winter freeze up. The winter drill program began on Feb. 16<sup>th</sup>. The company has been advised that a drill will be on the property next week and will be used to conduct exploration in the Sandy Point area of the property, where surface samples from the summer 2004 program returned values to 0.55 ounce of gold per ton.

What we know about this property is that high-grade targets have barely been touched to date. In my view, this property has a very strong potential to host what could be a remarkable high grade gold deposit. As work continues and assuming high-grade values akin to those mentioned above continue to be reported, this stock should fly.

### **The Cordero Gallium Project**

There is an extensive discussion of gallium on the company's website which can provide you with all the information you could want on this high-tech metal. Briefly, gallium (Ga) is a bluish to silvery-white metal that looks like aluminum, but is nearly as heavy as iron. It has an atomic number of 31. It is located between zinc (Zn) and germanium (Ge) and below aluminum in the periodic table of the elements. Gallium substitutes for these and other similarly positioned metals on the periodic chart in many industrial applications.

Gallium is magnetic and an excellent conductor of heat and electricity. Its crystals exhibit greater anisotropic electrical resistance than any other metal. Gallium displays various semiconductor properties when combined with aluminum, antimony, arsenic, indium, nitrogen, or phosphorous. During the last 15 years, gallium compound semiconductors have revolutionized electronics applications such as analog/digital integrated circuits and photovoltaics; optoelectronics (light based electronics) uses such as fiber optics, light emitting diodes and lasers; and communications areas such as microwave amplifiers, cell phones, satellites and radar. As gallium-arsenide based uses have accelerated and matured, newer revolutionary advances in gallium-nitrides promise to secure gallium as the technological metal of the future.

Gallium while similar to aluminum in appearance, has unique physical, chemical and electrical properties that make it crucial to the computer, communications, and electronics markets. Today, its largest single

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use is in gallium-arsenide compound semiconductors. Integrated circuits used in cell phones, power converters and microwave amplifiers, satellite and dishes, and missile guidance systems, account for about one-half of current demand. The emerging field of optoelectronics is better suited to take advantage of Gallium's unique properties with unrivalled light gathering and emitting applications in LED's, blue lasers, fiber-optics, light and heat detection photocells, and night vision devices. Newly developed medical treatments use gallium nitride to scavenge aluminum from bones and other tissues to reverse bone loss and treat Alzheimer and Parkinson's diseases.

The price of gallium has risen over the past several years from \$500/Kilogram to over \$3500/Kilogram. It did come back down into the \$550 to \$650/kilogram range but it is about the only metal that appreciated during the brief business downturn a couple of years ago. According to management, demand continues to outstrip primary production from mining and secondary scrap recoveries. Excess inventory overhangs have been filling the gap between production of virgin gallium and physical demand, which even during the global slowdown increased in the 10% to 20% per year range. Moreover, there are a host of new application for this unique metal.

As unique as gallium is, equally unique is the company Cordero property. There simply are no other known deposits that can become primary gallium mines. Because the market for this metal is quite small, in theory at last, management believes it could produce enough of this metal on the world markets to suppress its price. The recent discovery of high grade gallium mineralization, principally along the M-Fault at Cordero, could potentially represent an important new metal discovery in the U.S. **Surface sampling and reverse circulation drilling has identified an area approximately 1000 feet wide and over 6000 feet long and 400 ft. deep, which hosts gallium concentrations to 430 grams per metric tonne.** Actually, it is believed the depth deposit most likely extends to considerably greater depth. If my arithmetic is correct, that amounts to an in ground value of around \$236 per tonne assuming gallium sold at the low end of its recent price range.

The company plans to carry out additional drilling and exploration to get this potential resource up to Canadian National Standards 43-101 so it can promote the project to investors. However based on what I have been able to learn, given low cost mining assumptions and assuming gallium recovery rates in the 70% to 80% range, the project should be very profitable with the company allocating production to a level intended not to sharply reduce gallium production levels with potential production lasting over at least a 20 year mine life. Capital costs should not exceed \$25 million and again assuming 70% to 80% recovery rates, management believes it can produce this metal at a cost considerably below the \$325/kilo cost of the lowest cost producer, namely the Chinese.

Importantly, most major infrastructure is present on the property including industrial power, well water, and excellent access. An excellent work force is available in near by McDermitt, where many of the inhabitants have prior experience in Nevada's mining industry.

## MANAGEMENT

**Robert Carrington is the Chief Executive Officer** of the Company and has been a Director of the Company since 2002. Mr. Carrington has a degree in Economic Geology from the Mackay School of Mines, University of Nevada at Reno. He graduated in 1978. The Company will continue to benefit from Mr. Carrington's 26 years of experience in the mining business; during those years he worked on projects throughout the world.

**Akiko Levinson is the President and Chairwoman** and has served as a Director of the Company since 1991. Mrs. Levinson has been actively involved in the gold community for over 20 years and has held positions with several publicly traded mining companies. As a widow of Gold Canyon's former Chairman and President (Michael), Akiko is committed to bringing Gold Canyon's projects forward together with the other directors and officers of the Company.

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**Ivan Obolensky has been a Director of Gold Canyon** since 1996 - Mr. Obolensky joined Shields & Company in 1990. Previously, he was with Jesup, Josephthal & Co. and Sterling Grace & Co where he was Senior Vice President of Research. Mr. Obolensky has more than 40 years experience in research and publishing and continues to provide advisory services to several foundations. He is a frequent guest on CNBC, CNNfn, and Bloomberg TV, and is often quoted in various financial publications. Mr. Obolensky has specific expertise in the areas of Aerospace, Oil & Gas, Metals and Minerals, Publishing and High Technology industries. He is a graduate of Yale University.

**Ron Schmitz has been a Director of Gold Canyon** since 1997. Mr. Schmitz is the President and owner of ASI Accounting Services Inc., which has been in business for 10 years providing accounting and administration services to public companies listed on the TSX Venture and OTC-BB. Mr. Schmitz is a director of several public and private companies but devotes the majority his time to the administration of Gold Canyon.

**Bojan Zabev has been the Vice President of Exploration** since 1998. In 1969, Mr. Zabev received his Bachelor of Science, Geological Engineering from the University of Zagreb, Croatia. He's a Senior Geologist with over 30 years of Canadian and International exploration and mining experience in gold and base metals.

**Ken D. Faulkner - Business and Corporate Development**; Ken has been involved in the investment business since 1981 in various capacities including as a Broker until 1999. During this period of time he was instrumental financing original projects such as Golden Star Resources, QLT Quadralogics, Newalta, International Freegold and many others. Since 1999 Ken has been involved, as a consultant, for various companies seeking advice and implementation with regard to mergers, acquisitions, financing, and public relations.

## **SUMMARY & CONCLUSION**

Like all junior mining firms, this company's shares carry with them a high level of risk. However, with two exciting and seemingly viable mineral deposit at fairly advanced stages and given the high grades of both properties and apparently extensive mineralization, it is not unreasonable to anticipate some very exciting developments for this company that would figure to warrant a much, much higher share price. The Springpole Lake gold property is in a prolific gold bearing area of Canada where legendary high grade deposits frequently lead to highly robust economics. The Cordero Gallium property is highly unique in that it is about the only primary gallium deposit known in the world. Certainly more work needs to be done before we can "bank on" this asset for shareholders, but at this juncture the grades are sufficiently high and it seems mining and processing cost sufficiently low to potentially enable Gold Canyon to be a key player in this market that is essential for new and evolving technologies. Major upside potential for investors who buy this stock at its current level appears to be very possible but again and as always we strongly suggest you limit your exposure to no more than 5% of your overall portfolio. (250) 862-0724 and/or [www.goldcanyon.ca](http://www.goldcanyon.ca).

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