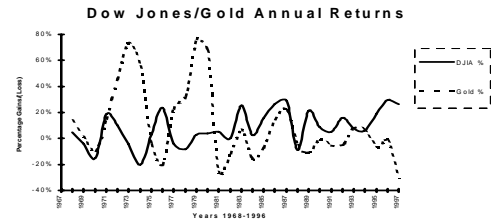




Gold

& Technology Stocks



Weekly Hotline Message

(Now in our 23rd Year)

November 5, 2005

Stock Pick of the Week

Gold Canyon Resources Inc.



Traded TSX-V: GCU

Initial Recommendation: 2/18/05 - \$0.50

Price 11/5/05: \$0.32

Shares Outstanding: 28.9 million

Fully Diluted: 33.2 million

Market Capitalization: \$11.3 million

Progress Rating: "C"

Like so many junior gold stocks covered in these pages, Gold Canyon shows so much promise, but very little of that has been reflected in its share price over the past

couple of years. Why hasn't it?

To try to answer that question, I accepted a luncheon invitation on November 4 in New York, where the company came to tell its story to various potential institutional investors. While at lunch, I had a chance to sit next to Duncan Riesmeyer, a former senior management member of Santa Fe Gold, a company that was subsequently acquired by Newmont Mining. Mr. Riesmeyer has only recently come out of retirement to join Gold Canyon's management team. Not to take anything away from Robert Carrington, the current president of Gold Canyon, Mr. Riesmeyer may provide the spark that gets this company moving forward at something faster than the snail's pace we have seen since we recommended this stock. Moving a company forward, especially one like Gold Canyon with not one but two fairly advanced-stage projects, takes a huge amount of energy and diverse talents, not to mention growing amounts of time to deal with meaningless and costly regulatory requirements in this post-Bre-X, post-Enron, post-9/11 world.

Springpole Averages 1.3 Ounces per Ton and Could Be Huge!

Although Gold Canyon has an interesting gallium project in northwestern Nevada, the property that caused us to include this stock on our list was the Springpole Property near Red Lake, Ontario. Ten or fifteen years ago, this project was an ill-perceived bulk-tonnage, open-pit project that, by all counts these days, would have been an environmental disaster. And quite frankly, the economics would have been very difficult, even at \$800 or \$1,000 gold.

Here is where Mr. Riesmeyer comes into the picture. 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. As is so often true of large mining companies, decisions of whether to go forward with a project are often governed by the need to approach something in a big way, not to mention political decisions with short-term profit/bonus ramifications. For whatever reason, Riesmeyer was overruled by the corporate powers that be. Huge amounts of money and massive drill data have been gathered by prior operators of the property, and when it became obvious that the project would not fly as an open-pit operation, without even considering Riesmeyer's model for this project, the mining community has looked unfavorably on Springpole ever since.

To Robert Carrington's credit, when he was hired as president of Gold Canyon, his first inclination was to recommend to Gold Canyon that they drop this open-pit project. But once he began to review certain high-grade drill data, he began to see it had real potential as an underground deposit. With the geologist who first envisioned Springpole as a high-grade underground mine on the project and the guy who may know more about this property's potential now on the Gold Canyon team, I'm encouraged to think we may begin to see some very good things happen on this property sooner rather than later.

Not only does Mr. Riesmeyer offer intellectual input into the understanding of the project, but he also brings with him a personality that is hard driving and quite the opposite of the very amiable Robert Carrington. In my conversation with Duncan over lunch, he was very clear about what he wanted to see happen at Springpole, and that is for this project to begin generating some cash, and soon—"not 10 years from now," he remarked.

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.

Indeed, it is management's opinion that this property has the potential to host four or five million ounces of gold from various deposits on the property. Structurally, several zones parallel to the East Extension Zone have been identified that are mineralized with gold. These could very well host significant high-grade gold mineralization as well. But for now, the company's immediate plans are to drive a decline into the East Extension Zone and take out 9,000 to 10,000 tons of 1.3-oz.-per-ton material, not only to bulk test this ore, but to also gain an access to the deposit for future mining. A milling facility has been identified that will be available to test this ore. The major concern with high-grade free milling gold deposits like this is being able to calculate grades accurately because of a nugget effect present with this high-grade Springpole ore. A bulk sample helps to provide a better assurance of grade, because it eliminates the hit or miss aspect of drill holes, even when they are tightly spaced. In addition, an incline driven toward the ore zone will not only provide infrastructure for future mining but may also enable more efficient underground exploration drilling, especially if this deposit extends to considerable depth.

Another reason management believes it needs to extract a high-grade bulk sample is because of the Springpole's past unflattering reputation as a low-grade open-pit project. It is thought a bulk sample that

displays something like the 1.3-oz.-per-ton average grade that management anticipates may help the mining community change its view of the project.

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 \$5.85 million, based on \$450 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. 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 cent 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 Riesmeyer, 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.

Actually, I learned at the luncheon on Thursday that just to the north side of the caldera that hosts the Cordero Gallium Deposit is a significant uranium deposit. The owners of that deposit are quite interested in the possibility of constructing a combined gallium/uranium recovery plant. Knowing how difficult environmentalists have made the construction of any wealth-creating manufacturing plants in America, I would not hold my breath waiting for this project to unfold. However, I have to believe environmental issues will eventually be solved here, because this project is definitely of importance to the United States. We are the second-largest consumer of gallium, yet we rely 100% on foreign imports. The Cordero is the only deposit in the world that is considered to have sufficiently high gallium values for it to be a stand-alone gallium mine. Somehow, given the dramatic rise in commodity prices and an American economy that has managed to rid itself of most basic wealth-creating industries, I get the feeling a more pragmatic political/environmental regime cannot be far away.

SUMMARY

The Springpole Project has 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 Riesmeyer could provide a big boost and energizing element for this company. 604-682-3234 and/or www.goldcanyon.ca.

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