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## Glint in Mexico Mike's eye: rare-earth metals

Potential is big for Gold Canyon Resources, if its site for the rare-earth metal gallium in Nevada proves economical

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Even though I am approached by dozens of companies with ongoing projects around the world, I typically focus most of my attention on Mexican junior-mining stories, and it takes a very special story to get me interested elsewhere. **Gold Canyon Resources Inc.** (GCU-TSX/VEN, \$0.53) is just that sort of company. It controls a 100 per cent interest in the Cordero Project, located in northern Nevada, an emerging play in what could become one of the most important exotic metals: gallium.

My philosophy on playing the junior resource sector is that one must find a company with impressive upside before the market has begun to notice. Gold Canyon has been around for a long time, and currently trades at the extreme lower end of its range. It is a quiet stock that appears to be unknown and underappreciated.

I believe that, due to a number of favorable circumstances, Gold Canyon may be about ready for prime time and will become very attractive for investors. The reason for this sudden surge of interest will come from the growing awareness of the importance of rare-earth elements and exotic metals for essential technical advancements. The timing for this could not be better for the company, since it has recently completed the work necessary to document what could be an enormous tonnage of resources for several metals that are sure to be on the front burner of this coming mania.

The metals are irreplaceable in

the fabrication process for so many of the numerous high-tech gadgets that are all the rage today, and even more breakthroughs are occurring as new technologies are being developed in applications from cell-phones to solar panels. These advancements will absolutely require an increasing supply of these critical metals in order to support commercial production.

However, as the market for these metals continues to grow, supplies are becoming more and more limited. Most exotic metals and REEs are produced in China, and there is some concern that a supply crisis could develop. The limited availability of these metals from outside of China comes largely as a by-product of mines dedicated to producing other more common metals, and therefore output cannot be easily increased to meet the rising demand. As this situation grows more acute, the small handful of companies that produce these metals will become more and more attractive.

At its Cordero Property, Gold Canyon has rapidly advanced the discovery of the gallium resource from just a few high-grade discovery holes in 2004 to where it now stands as the largest primary gallium deposit in North America, occurring along a mineralized trend that has been mapped at surface for over a kilometre and still remains open.

If a mine engineer was to consider an ideal setting for a mineral deposit, the exercise would probably describe the real conditions of the Cordero property. The mineralization begins almost at the sur-

face and extends in a relatively continuous distribution to depth, and across a wide area.

The host rock is heavily oxidized and will be easy to process using modern mining equipment. The arid terrain is flat and gently dipping to the southeast. Road access is excellent, with nearby hydroelectric power, and water supply will not be an issue. There is no other development or sensitive land use encroaching on the project. Lastly, Nevada is a mining-friendly jurisdiction, and the local population is supportive of the prospect of a new mine going into operation.

Cordero certainly appears to be an excellent prospect to develop into an open-pit mine. The benefit from all of the extremely favorable circumstances comes down to the bottom line, since the economic considerations suggest that a very low-cost operation could be envisioned.

Before you reach for your chequebook and pick up the phone to call your broker, there is one big variable remaining that will have a profound outcome on the future potential for the project.

The metallurgical characteristics of the gallium mineralization have not yet been tested to gain insight into the recovery efficiency of a processing plant using conventional technology.

Unlike most other metals, gallium ores often have unique properties that could present challenges to recover the metal. If the mineralization at Cordero proves to be refractory, limiting the net recovery during processing, then the economics for the operation will be impaired with the possibility that the project would be halted indefinitely.

Project geologists are currently awaiting assay data from a recently completed infill-drilling program, and then a comprehensive study will be completed attempting to identify a higher-grade core area within the deposit. Sample material will then be extracted and shipped to a metallurgical testing facility, to be used in a scoping study to investigate the various recovery options. Positive results from this process would be used in a prefeasibility study, representing

the last significant hurdle to a development decision.

**Gold Canyon appears to be undervalued and unknown in the market and could become a huge winner in the months ahead if all the unknown variables are resolved in its favor**

Due to the extremely thin supply for many of the metals hosted within the mineralization at Cordero, several end users have already expressed an interest to Gold Canyon to participate in the project funding if positive economics can be demonstrated. The capital costs for mine construction are expected to be very low.

One should also put some consideration into the value of rare-earth elements that have been encountered at Cordero. The project will live or die based on the economics of the gallium resource, but if mining operations commence the presence of high-value by-product metals such as scandium, neodymium, and yttrium may contribute significant value to the total production and could quite possibly generate revenues that offset the cash operating costs for the entire project. The rare earths are also considered to be in acute demand and highly sought after by industrial consumers that require secure access to supply.

Now most people have probably never heard of the various metals that are emplaced within the deposit at Cordero. But you will be hearing a lot about these metals very soon. Trust me on this.

So the risk-reward scenario for Gold Canyon is very clearly defined at this point. The company controls a very large deposit of a critical metal in great demand, which could have an asset value of hundreds of millions of dollars if it proves to be economic. However, the recovery potential from this deposit is unknown and the possibility remains at this point that this deposit may never be mined.

Investors have been taught to abhor risk; however, the fact is that any

investment bears a certain degree of risk. Just ask those who realized significant losses in the meltdown of the highly rated former blue chip company Enron. The appropriate question is not whether there is a risk built into a junior mining stock, but whether the upside rewards adequately compensate investors for taking on that level of risk.

For Gold Canyon, the downside if Cordero does not advance to development may be a 50 per cent haircut off the current share price, but the upside for a favorable mining operation would probably amount to gains of several hundred per cent. So while this type of speculation may not be suited for widows and orphans, it certainly represents reasonable odds for success that are worthy of an allocation in a high-risk portfolio.

The attractiveness of Gold Canyon is enhanced by the prospects for several other projects controlled by the company, including an advanced-stage gold project in the Red Lake camp of Ontario with a NI 43-101-compliant gold resource in hand, and base metals and uranium projects.

Participating in the junior resource sector often requires something of the character of a riverboat gambler. One must weigh all of the potential outcomes and assign a relative probability to payoff for a unit invested.

The greatest appreciation in value for a resource stock occurs at the discovery level, and I believe the company is on the brink of reporting an enormous deposit at Cordero that stands a very real chance of advancing to development. Control of a profitable mining operation, that may produce metals of great value and in high demand, is the ideal scenario that a micro-cap junior company may aspire to achieve.

Despite this potential, Gold Canyon appears to be undervalued and unknown in the market and could become a huge winner in the months ahead if all the unknown variables are resolved in its favor.

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