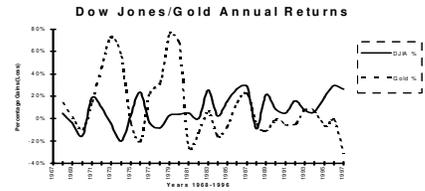




Gold

Energy & Tech Stocks



Weekly Hotline Message

(Now in our 30th Year)

November 30, 2012

Dynacor Gold Mines



In this kind of market, Dynacor is a favorite of mine. It is growing organically so it issues few shares. That doesn't make the parasitic investment bankers of Canada happy, but it's good for average hard-working folks like you and me. Dynacor has only about 35 million shares outstanding and with strong and growing earnings, I think its shares can rise even in this stinky market. It should do that well or better in the current quarter. In fact, the company just put out this past week increased guidance of 58,000 ounces of gold production in 2012 after hitting a record 6,169

ounces in October. And just recently Trapeze Asset Management, a large Quebec investment firm, set a target price of \$2.50 for Dynacor. Here is what Trapeze Asset Management had to say about one of my favorite stocks.

“Dynacor is not only an outcast, but was actually recently a cast-off. We added to our position for most clients in June, buying the remainder of a sizeable position in a fire-sale from a hedge fund that went out of business last quarter, with a stink bid of \$.37. The company just reported earnings of \$.08 this quarter alone and the share price jumped to \$1.20. Dynacor mills gold for gold miners in Peru. It has a stable business with margins that don't fluctuate dramatically, even with the price of gold. The company has the highest retention rate of millers in its region, and when the Peruvian government tightened its regulations, Dynacor was able to win business from other non-compliant competition. While the most recent quarter had higher than normal grades, from excellent throughput and the ability to accept higher quality business moving away from competition, we still expect at least \$.05 per quarter of earnings. And, by the middle of next year, we expect the company to have built a second larger mill which should expand earnings power to well over \$0.25 per share annually. While the stock price has risen dramatically since June, it is still too low.

“There is unpopular and there is unknown. Dynacor has been off the radar screen. No analysts cover the company. It operates far afield, in Peru. Its earnings, previously insignificant, have now visibly ramped up to a sustainable meaningful level from production growth. September was a record month of production of 5,757 ounces (over 50% more than last year's Q3 run rate). The market has taken notice and we expect more to follow.

The company also has its own potential gold exploration property where it expects to begin drilling shortly, which could also add substantial value. Based on milling alone though, the company should have a value closer to \$2.50 per share, double today's share price."

Following is a radio show interview I had with Jean Martineau of Dynacor Gold Mines on Nov. 20th. This is a company that continues to under promise and over deliver on the upside. They have just recently increased their guidance for 2013

My Oct. 20, 2012 Radio Interview with Jean Martineau



Jay Taylor: Welcome back to *Turning Hard Times into Good Times*. I'm your host, Jay Taylor. And I'm really, really pleased to have Jean Martineau with me. He's the president and CEO of one of our sponsors, namely, Dynacor Gold Mines, and Dynacor trades on the Toronto Exchange under the symbol DYN. You could buy it in the United States, as I have, under the symbol DNGDF. Only \$35.8 million shares outstanding. It's got a market capital of around \$43 million and it earned \$2.78 million, nearly \$2.8 million, or \$0.08 a share in the third quarter of this last year.

Welcome, Jean! Welcome to *Turning Hard Times into Good Times*.

Jean Martineau: Thank you very much! Good morning there, Jay!

Jay: Well, it's a good morning out there where you are in Vancouver; we are quite deep into the afternoon here in New York. You are a lucky guy in Vancouver, the most beautiful city in North America, I think. But anyway, let's get on with Dynacor, because you guys are having some tremendous success. Eight cents a share in the last quarter, can you repeat that this quarter?

Jean: Well, I think so Jay. This quarter has been over our expectation because of new rules that came in Peru in April of this year and now we have access to more producers with a much higher grade and we were a bit surprised to get so good ore there. So we've got a very, very good Q3 and we expect Q4 would be probably around the same like Q3.

Jay: Aha! So now how many ounces of gold will you produce this year?

Jean: Well, our target as you know was put in January at 60,000 ounces of gold. And we have got a very good first quarter, and the second quarter was a little bit lower, because we had to stop buying for 15 days. Midyear this year, we were 25 something but with the third quarter, we are already at 42,000 ounces, so we expect to be finally pretty close to 60,000 ounces of gold for this year, maybe 59, so we are going to be quite over our budget for this year.

Jay: Well, Jean, this is one of the things that I appreciate about your management of that company, and that is, your consistency and under-promising and over-delivering. Now, I know, you are always cautious about taking too much credit for things and I know that this is another thing that I like about—you're not out there pounding your chest saying "how great I am," but you basically work extremely hard, you keep sort of a low profile, just work hard and you've formed a great relationship with the Peruvian people over the last number of years. You've been there since 1996 I believe, haven't you been?

Jean: Yes, yes, I have been there. We began in 1996 in Peru exactly.

Jay: So 60,000 ounces this year; what are you expecting to be able to do next year?

Jean: Well, we are truly processing at 220 tons per day. It was planned at 50,000 ounces of gold. Now with the new rules in Peru, we are going to be close to 60,000. Next year, we are going to build a mill of 300 tons per day. We expect to begin this operation by mid 2013. So for next year the target will be probably around 67,000 to 68,000

ounces of gold. And at 300 tons per day on a four-year basis, we should produce about 75,000 ounces of gold.

But actually we can't buy everything that is offered to us, so at 300 tons per day, if I have a mill tomorrow at 300 tons per day, it's going to be running full capacity. So next year, in the second half, I don't know where exactly we are going to be but we are going to be at least at 300 tons per day, maybe a little bit over that. Because we will be able to operate, for a little while at least, two mills there. So 300 tons per day for the second half of 2013 is minimum there. So I am quite comfortable to say that next year, we should produce at least 67,000 or 68,000 and working hard, we hope to process a bit more than that.

Jay: Your operation in Peru at this time is not a mining operation per se; what you do is you process ore from licensed mining operations, small operations around Peru. And I understand that, in fact, the government clamped down on some illegal operations, the use of some substances that are not healthy for the environment.

In fact that may have benefited you with having more ore than you can handle as a result of that.

Jean: It's exactly what it is, because effectively, we don't produce actually. We are more an exploration company with a mill where we process ore that we buy in market, and part of that ore was processed in an illegal operation in the past, using mercury for example, and the government just came down on that.

So we have access to much more ore actually and with higher grade, because the highest grade was going to these operations with mercury in the past, and so that's why our grade is much higher. And there is a lot available in the market actually. So that's why we want to build that mill as fast as possible. So we expect to be in operation with this mill by mid 2013 now.

Jay: You may be keeping the older mill in production for a little while longer?

Jean: Well, let's say that we start a mill in July at 300 tons per day, we may buy 350 or 400 tons per day, we will still have the old mill with fully licensed. We can't operate that mill for many, many years again, because we are going to have problems for trading pounds in the future but we may run this mill for another year or two years without any problem. So we are going to have something like 520 tons per day operational capacity there. I don't say that we are going to go to 500 tons, that's a bit optimistic, but it's quite possible that we can buy more than 300 tons per day.

Actually we are evaluating this market and I know that today we could buy more than what we buy actually. And so we could process easily 300 tons per day. How many more than that? I don't know, but it's quite possible, we will see in the coming months.

Jay: Would you have the capability of expanding that newer mill beyond 300 tons per day if you had a need to do so?

Jean: Well, it has been designed for that. In fact, we are going to build a new mill with three ball mills, 160-ton-per-day capacity each one, and this mill has been designed and will be built to be able to duplicate that production.

When it's going to be fully implemented, we should have four ball mills, 250 tons for each one, so it's going to be a full capacity of 600 tons per day.

When are we going to be there? This is something that we have to evaluate, but by mid next year we are going to be at 300 tons per day, and possibly add a third mill in the second half of 2013. So we may be at 450 already by the end of next year or beginning of the following year, and at 300 tons per day, we are going to produce about 75,000 ounces of gold per year; at 450 it's going to be around 100,000 ounces of gold per year.

And then when you look at the margins here, the margin is about \$300 per ounce actually. We use only 250, but it's increasing with the production and the grade. So now we are getting pretty good margin there. At 100,000 ounces per year, it's going to be quite a good earnings per share. As you saw the last quarter was \$0.08 per share; if we do the same in the fourth quarter, we are going to be at \$0.22 to \$0.24 per share for this year. If you double that, 220 to 450 for example, it's quite interesting numbers here.

Jay: Yes, it is, in fact, it's pretty easy numbers. If you do 100,000 ounces with \$250 per ounce margin, well, it's \$25 million, as you say. Pretty good numbers! And here is the point that I'd like to really hammer home to people: one of the reasons that I like your company so much, Jean, is that, you avoid dilution. You're growing organically, you're not going out and offering brokers a bunch of cheap stock to raise some capital, you have been growing your company slowly but surely, methodically, cash-flow positive, building up, and that leads me then to what I think is possibly the real blue sky story, which is your Tumipampa Project.

Now at Tumipampa, tell our listeners, you also have a gold resource there; it's not a 43-101 resource, is that right?

Jean: Well, we have some historical resources there. It's called historical today because we need to do more drilling there, but there was about over 200,000–250,000 ounces of gold historical there.

So we have to verify there, do more drilling. But we uncovered 15 gold veins there on the property, high-grade gold veins. The main one is Manto Dorado, which is on a surface of 6.8 meters wide with a grade of about 5–6 grams per ton. So we are going to begin the exploration there in two phases. First, it's going to be a cross-cut through the Manto Dorado to go underground, have access underground to demineralization, do some metallurgical tests, sampling, and then underground reading just to confirm these historical resources and continue this cross-cut to the Rosa Vein, which is the main vein after Manto Dorado.

And as I said, we have identified up to 15 veins today on this property. So with this cross-cut, we expect to cross other underground on uncovered veins there.

So that's going to be first part, and the second part will be to drill the skarn, the copper-gold skarn that we identified on the property. It is a skarn of 4.2 kilometers long by 1.5 kilometers wide, and two years ago we did drilling there. Two years ago and also last year, we did seven holes on the four targets of this skarn.

Last summer, we did a geophysical study, and we identified that the fourth target is the major one. So this year, we are going to begin with eight drill holes theoretically on this target number four and from there we will see what we have there and continue after this. We should begin the drilling pretty soon and we are going to begin with two machines because we are late in this process now. So we are going to begin with two drilling machines and one cross-cut there, and we are going to be quite busy in the coming months.

And in the meantime, to be sure that we have access to the property 12 months a year, because there is a rainy season going from January to April, we built a second road coming from the eastern part of the property. So we are going to have access with two roads and the second road is much better. We are going to have access 12 months a year, and once we begin drilling, the chances are that we won't stop there.

Jay: Jean, you mentioned that you are not mining, per se, now, but you are processing ore and making a lot of money with that. Do you expect then to be a mining company as well at Tumipampa, that is, for the gold that's there?

Jean: Well, it's our objective here. I always said that we are an exploration company but our goal in the mid term is to be a producer. So in Tumipampa, with these gold veins in the southern part of the property, it's something that we expect to put in production, and as soon as possible. That's why we go already with underground cross-cut there to prepare for future production there.

So that is something we have planned. We are going to define resources, hopefully by the end of next year, and then we are going to be able to see when we could begin some production there, but that's exactly what we want to do.

On the skarn, we are going to have to drill there for several years, because a skarn like this will need several hundred thousand meters of drilling, but for the veins, it's something that we can get in production quite fast; it may be in a couple of years from now that we can start an operation there. And that's exactly what we want to do. This ore processing operation was just something on a short-term basis to generate the cash to do the exploration and not dilute the company.

But once we are in production there, the margin will be much higher. This ore processing is something that we can continue in the future, but in the beginning it was to generate the cash to avoid the dilution that almost all the exploration companies experienced. And you know what it is, you end up after some years with 100 million or 200 million shares and you don't have much in front of you.

Jay: Exactly, and that's one of the reasons that I have really enjoyed what you're doing there. Now, one last question, we do have to go now, because our time is up. With respect to Tumipampa, I would like you to tell our listeners a little bit about that area you have. What are some of the other major projects that are around there? I mean, you're in elephant country there potentially, and if you find something really big there, Jean, I think it's probably something that a major is going to have to put under production, right?

Jean: Well, sure. This kind of skarn, if it's what we hope, may be something like 500 million tons, these are huge projects and you need billions of dollars to put them in production. So are we going to sell it or are we going to need big partners to put it in production?

So there are several options that we can sell it and can keep a percentage in that royalty. We are going to have to sit down and see what we can do with this. But what we want to do is put it in production. Regarding the skarn, as you said, we will probably need help there. We can just sell with a bigger campaigning and start it too.

Jay: Very good! Thank you, Jean! We are out of time. People can follow your work at Dynacor?

Jean: At dynacor.com. Everything is there and on the stock exchange—DNG, on Toronto Stock Exchange.

Jay: Right, and it can be purchased down in the United States as well under the symbol DNGDF.

Jean: Exactly!

Jay: Thank you very much, Jean, for being with us today, and for updating us on your company. It is an exciting story.

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