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Using their 100% Owned Gold Custom Milling Operation to Generate Cash Flow Working with Different Producers in Peru, Dynacor Gold Mines Inc. Distinguishes Itself from Other Gold Exploration Companies

**Resources
Gold Exploration
(DNG-TSX)**

Dynacor Gold Mines Inc.

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**Mr. Jean Martineau
President and CEO**

BIO:

Director since 1996. He was also a Director of Wesdome Gold Mines (Toronto) from 1999-2007. He was head of public relations for another publicly traded exploration company between 1993 and 1995. He was assistant manager for a paper and pulp mill in South America between 1988 and 1992. Prior to 1988 he worked as a stockbroker for a large Canadian brokerage company.

Company Profile:

Dynacor Gold Mines Inc. is a hybrid gold company with a lower risk business model. Using its 100% owned gold custom milling plant located in southern Peru it generates the cash flow necessary for the exploration of its mining properties. Thus, it avoids diluting its shareholders by repeated financings that characterize junior gold exploration companies. At March 31, 2011, Dynacor has 35.5 million shares issued and outstanding (fully diluted 39.6 million shares) of which

institutions and insiders own approximately 65%.

In 2010, Dynacor Gold generated \$3.1 million of cash flow from operations on record gold sales of \$43.7 million. In 2011, the company expects to increase custom gold milling production by 34% and produce approximately 45,000 ounces of gold (as well as silver (Ag) by-product).

Dynacor Gold Mines owns several mining exploration properties in Peru

a recently discovered gold and copper rich skarn deposit that is more than 4 km long.

Dynacor Gold Mines strives to ensure compliance with the very highest environmental standards and seeks to promote and apply proactive social responsibility in all of its operations.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**



CEOCFO: Mr. Martineau, Dynacor Gold Mines has a rather unique model; would you tell us about your focus?

Mr. Martineau: Dynacor is a gold exploration company, but this company generates its own cash to pay for the exploration. This is where it is a very different exploration company. We do explore for gold in Peru, but beside that we have a gold custom milling operation where we operate a mill and we buy the ore from local producers. You have a lot of different producers in Peru; small and medium range producers. However, they do not have a mill to process the ore. Therefore, we buy the ore

from these guys, process it and sell the gold. Then with the profit we pay for the exploration. That way we avoid the way of diluting the shareholders.

CEOCFO: What is involved in building the milling facility, and how long ago did Dynacor start milling?

including its flagship property, Tumi-pampa. This property is located in the heart of a fast evolving mining region of Peru and is surrounded by senior mining companies whom are developing large scale skarn/porphyry copper/gold mines. Dynacor has a 5.5 million dollar exploration campaign underway on Tumipampa which hosts

Mr. Martineau: We went to Peru in 1996 and we began this custom milling operation in 1998. At that time, gold went down to \$250 and stayed there for quite a long time. We have processed several thousand ounces of gold per year during the first seven years and in the later years we began to increase the production there. How does it work? We buy ore from producers. These are small producers that produce 20 or 30 tonnes per month for example, and they come to the mill with their truckload. There we unload it, crush it and analyze it. From there we calculate the gold content and we pay the producer for this. Then the ore is ours and we process it in the following days. We get the gold, we sell the gold in Lima and from there we get the profit and we pay for the exploration. It is very simple, but we have probably more than fifty to sixty different producers all over the country. We have clients that come from the northern part of Peru, the southern part of Peru; all over the place. Peru is really a mining country, so they produce all over the place and they come to the mill, where we buy directly from them.

CEOCFO: Are there many other mills for producers to consider?

Mr. Martineau: Yes

CEOCFO: Why choose Dynacor's mill?

Mr. Martineau: First of all, we have been there for quite a long time. We have been operating there for thirteen years and when we began there we were one of two or three different mills doing that. Two privately owned in the southern part of Peru, and we came in there. Today, they have maybe twelve to fifteen different million operations of that kind. However, we have been there for quite a long time and we have a very good reputation because when these guys come to the mill with their truckload, we unload it, crush it, get a sample out of it and we split the sample in three parts. We give a part to the center, we analyze one sample, and the third part is put on the side and the center can go to another lab to analyze it, because we analyze that in our own

lab in the mill. This give the producer the opportunity that if he is not satisfied with the grade we give him, he can go in any other lab to have it analyzed and if there is a difference, we take the third sample and we go together to another mill and we are going to pay for this last analysis. However, we never had any problem with this and over the years we have built a good reputation from this. We pay for what they have in their ore, which is not always the case. Sometimes the buyers will give them the grade they have and after that it will say that the grade is a little bit lower, so we always worked on a long-term basis and we never cheated on this. Therefore, we have a good reputation and that is why we have been able to get a very good client base.

CEOCFO: Why is the milling profitable whether gold is low or high, and

Today we can calculate probably around \$225 dollars per ounce, so this year we expect to generate probably a cash margin of close to \$10 million, so free cash to invest in exploration will be probably around \$3.5 million and we expect to increase that substantially next year. - Mr. Jean Martineau

how does the pricing and cost model work?

Mr. Martineau: When we buy the gold our price is based on the international gold price, so if the price today is \$1,500, we have quite a long formula based on this price, and we are going to process the ore in the following days. So our risk is adjusted for some days and if the price goes up or down, our margin will not move, because we buy it based on the international price. Sure when the price was \$350 our margin was lower than what it is today. When the price increased substantially we are able to increase our margin, but on the short-term basis, we just pay based on the international price, so we are not really affected by the actual gold price.

CEOCFO: So, very minimal, if any risk involved for Dynacor!

Mr. Martineau: That is correct. Besides that, we do not have our own mine producing, but we buy enough from 50 to 60 different small companies and miners, so it is very diversi-

fied. It is coming all over the country and as it is based on the international price, so we do not have any risk there. That is why this company is very different from any other exploration company.

CEOCFO: Would you tell us a little about Dynacor's exploration projects?

Mr. Martineau: We have three properties in Peru, the oldest one is Acari and we have Tumipampa, which is the flagship property today. We also have Casaden in the north, close to Yannacoha Gold Mine, but we are working mainly on the Tumipampa property. It is a property that we bought in 2000, and we came in there because we could identify several high grade gold veins. We were quite interested by that. This is a property where the Spanish worked 500 years ago, so there was traces of these operations. We came in there and in the exploration work we discovered a skarn on the northern part of our Tumipampa property. A skarn is a huge geological structure and it is a copper/gold skarn, so it is huge. In addition, we are surrounded by several other skarns of that type, like Las Bambas Las Chankas, Aquira is another one, and Constancia, which was discovered by Norsemont and these skarns have between 350 million tonnes and 1.1 billion tonnes for the extra Las Bambas. What we have identified on the property looks like a skarn of that type. These skarns are usually between 0.5% and 1% copper and some gold in there that we have identified on the surface. We did more than 1,000 surveys and sampling channels and grab samples and we have the results, which looks the same as these skarns. We have a lot of results giving us a copper grade between 0.5% and 1% copper, but we have usually a higher gold grade than these other skarns probably because we have these high grade gold veins just on the southern part of the skarn. Therefore, we are focusing on the Tumipampa property. We did several drilling campaigns, and we did surveys of sampling. We began another drilling campaign this year in January

and now we are just finalizing geo-physical study. We expect to resume the drilling campaign early this fall.

CEOCFO: Are you looking at any additional properties?

Mr. Martineau: Not really, but we are always opened to it if we have an offer for other properties. We will look at that for sure, but we are not actually actively looking for other properties because this Tumipampa property is very interesting. We are concentrated on that property now because we have there three kinds of deposits. We have the possible skarn deposit, we have the high grade gold veins, we have identified up to fifteen of these veins and we have disseminated zones, which we have not studied. So we have a lot of work to do there. We also have the Casaden Property in the north, which we did not have time and money up till now to really explore.

CEOCFO: Does Dynacor own the properties 100%?

Mr. Martineau: Yes, we own all the properties we have 100%. We just have royalty to pay on a very small part of the Tumipampa property, but we can buy it back for \$1.75 million. At the end we will have 0.25% royalty to pay on this and it is quite low; it is on just a very small part of the property. Besides that we own our Casaden, Tumipampa and Acari properties 100% without any other type of royalty or NSR.

CEOCFO: Does Dynacor also own the milling operation 100%?

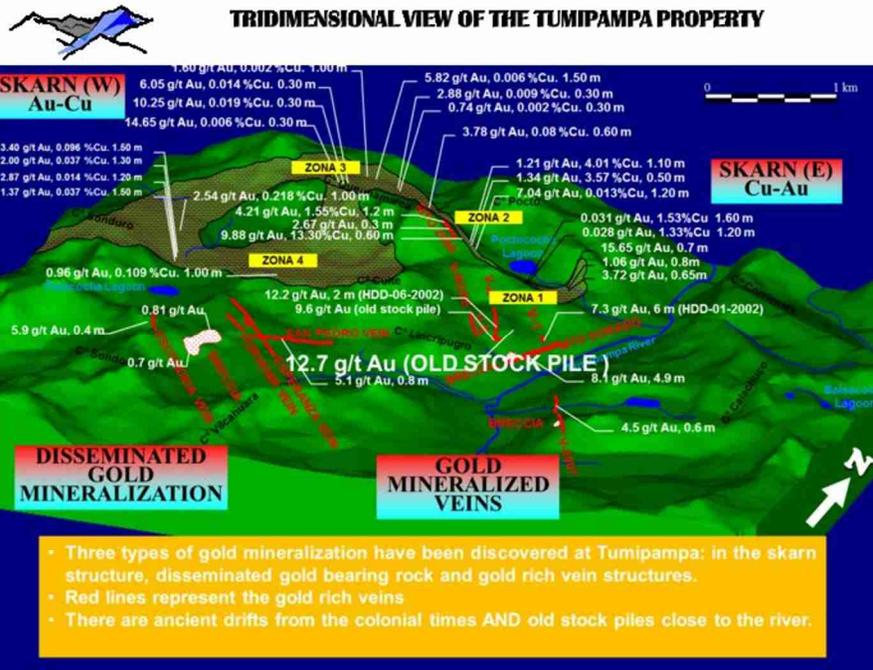
Mr. Martineau: Yes, we own 100% of the milling operation.

CEOCFO: What is the financial picture like at Dynacor Gold Mines today?

Mr. Martineau: The financial situation is pretty good. We have in cash of \$3

or \$4 million. We generated a pretty good margin. Actually our margin should be somewhere between \$200 and \$250 per ounce, but we were much lower than that at the beginning of 2010. We have been able to increase that because as I have explained the gold price increased substantially. Therefore, today we can calculate probably around \$225 dollars per ounce, so this year we expect to generate probably a cash margin of close to \$10 million, so free cash to invest in exploration will be probably around \$3.5 million and we expect to increase that substantially next year.

When you are an exploration company, you raise money in the markets, you spend it and you have to come back to the market to continue your exploration works. It is what we do not have to do in Dynacor. We do not have to go to the market to raise money because we generate our own cash, so the risk there is very low because we buy the ore based on the international gold price. In addition, we buy it from a lot of different providers, so there is no risk. We generate our own cash, so we do not have to dilute. This is a very good situation. If you look the actual price based on



the revenue and the profit we are generating, the price is quite a good buy actually. Besides that, we have a very interesting exploration property, which is that Tumipampa, where we have a possibility to identify the very large skarn deposit. We have as I said, taken more than one thousand samples on the surveys, and the results are just very interesting, so

everything is indicating that we have a couple of gold skarn, which may be a huge structure. If that is the case, when we look at the skarns around Tumipampa, these skarns have between 350 and 1.1 billion tonnes, it will be of very high value. Two of these skarns have been sold in the recent years for around \$500 million, so it is a lot of money. Besides that, on the southern part of the property we have identified 15 high grade gold veins, which we can put into production ourselves in the coming years, so there we will produce our own ore. These are the reasons Dynacor is a very interesting investment at this point.

CEOCFO: Has the investment community paid attention to Dynacor?

Mr. Martineau: We have several institutional shareholders in Dynacor. We have been able to attract some new ones recently and I mean in the last five or six months, but it is still a small company. I mean we have 35 million shares, fully diluted is 39 million, but we are working on this. It is more and more known, but we have a very special situation here, but it is quite new for many investors.

CEOCFO: In closing, why should potential investors pay attention to Dynacor today?

Mr. Martineau: There are several reasons. First, as I explained we are an auto finance exploration company.



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