

Casey Investment Alert #211

Dynasty Metals & Mining

(V.DMM, PinkSheets: DMMIF, www.dynastymining.com)

BUY— DMM was a new story to us at the Vancouver show last month, and quite a good one. As mentioned in our January 27 CIA, the company has the better part of four million ounces of gold and yet was trading at a market cap of only around C\$60 million at the time of our meeting with management.

Since then, while we've been working on our due diligence, another analyst wrote the company up—giving it a nice bump. But the big upside is still very much intact.

DYNASTY METALS & MINING

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Price	Share: C\$3.08	MCap: C\$68.1million	On: 2/10/06
Shares	SO: 22.1 million	FD: 25.6 million	As of: 1/31/06
Warrants	UnEx: none	n/a	Exp: n/a
Options	Open: 3.5million	est.W. avg. C\$0.90	Exp: 9/06-1/11
Cash	C\$3+ million	Burn: C\$250,000/mo*	As of: 2/10/06

*The company's exploration budget will likely increase after they raise more cash

People

The key person at DMM is the company's president, Robert Washer, who has been exploring in Ecuador for 13 years. He was there when IAMGold (T.IMG) decided to focus on bulk targets, such as their emerging Ecuadorian elephant project, Quimsacocha. This is how he was able to pick up a number of advanced gold vein projects, with extensive workings, drilling, and datasets. Washer has 32 years experience in the mining industry and has been involved in the construction of five gold processing plants. He has also been directly involved in discovering and/or opening six gold mines and locating a new gold field in Ecuador. We don't know Washer well, but in our due diligence we spoke to several explorers whose opinions we respect who do, and their opinions were uniformly positive.

Also bringing significant geological experience to the company is Mark Bailey, MSc. P. Geol, an exploration geologist, with over 27 years of experience. He has been the president and CEO of Minefinders Corporation since 1995. While with Minefinders, Bailey has been responsible for the discovery of resources now totaling more than 3 million ounces of gold and 165 million ounces of silver.

DMM director Yale Simpson, B.Ap.Sc., is a geological engineer with more than 30 years of experience. He is former chairman of Argosy Minerals Inc., and has worked in exploration and development projects in Australia, Africa and eastern Europe for Pennzoil Company, Chevron Exploration, Australmin Holdings and Black Swan Gold Mines Ltd. Yale is also chairman of Exeter Resources, discussed below.

There's also Brian Speechly, a consultant with over 46 years of experience in the mining industry. He is a Fellow of the Australian Institute of Mining and Metallurgy. Speechly has been involved with more than 310 mining projects and is recognized in Australia and overseas as an expert in both underground and open pit mining and design, equipment selection and mining methods.

There are more members of the team, but in the interest of brevity, we'll simply say that we are satisfied the company has the People front covered.

Property

DMM is, above all, a property play. The company has 1.7 million ounces of 43-101-compliant Measured and Indicated gold, and 2.1 million Inferred ounces in two 100% owned projects in southern Ecuador. That's at an average grade of 12 g/t gold.

The first of these is called Jerusalem, which has 585,000 Measured and Indicated ounces at 12.5 g/t and 710,000 Inferred ounces at 11.53 g/t. The concession area covers 2.25 square kilometers (the company has over 1,200 km² throughout Ecuador), containing 12 high-grade gold-silver veins—so far. The project has already seen almost 11,000 meters of diamond drilling, 6,375 meters of tunneling with sampling, and has 725 meters of production-sized access tunneling in place.

There is also known silver-lead-zinc mineralization in the proposed mine area, grading from 90 to 101 g/t silver and 1.95% to 2.79% zinc. What we have here is a classic epithermal vein system in which some areas of veining are polymetallic with base as well as precious metals, while other areas have mostly gold-silver veins. There are high-grade zones in the different vein types, which tends to make for high recoveries and cheaper processing. Early metallurgical testing supports this hypothesis. Management currently envisions three open pits to start the mine, with extensive underground workings to follow. Many of the current veins are open laterally and at depth, and there are several new vein targets to the north of the current focus area. A scoping study on Jerusalem should be completed by the end of this month.

The second project with 43-101-compliant resources is called Zaruma, another high-grade gold vein system, with 1.1 million Measured and Indicated ounces of gold at 13.9 g/t, plus 1.38 million Inferred ounces at 12.72 g/t. Zaruma is a much larger project, the concession covering over 100 km². This is a past-producer, mined from 1905 to 1965, with historic production reported in excess of five million ounces of gold and 20 million ounces of silver. If it's so rich, why did it shut down? Because after 20 years of profitable operation by an American company, the government took the mine over at the end of that company's lease. The local government got 1/3 ownership, the national government got 1/3 ownership, and the workers got the last third. The mine was state of the art at the time. Predictably, the new owners ran it into the ground in short order. Since then one company has not been able to reassemble the whole property—until now.

The current resource is the product of 100,000 meters of channel samples and 15,000 meters of drilling, outlining a similar epithermal system to that of Jerusalem, but much larger. Management believes known high-grade ore shoots may be extended along strike and at depth (one of these returned 49.32 g/t Au over 0.8 m in drill hole RM11), and there are many veins yet to be drill tested. Also, over 1,700 km of aeromagnetic data have been collected and new geophysical targets have been identified. A scoping study on this project is expected soon as well, following that on Jerusalem.

Because these veins are narrow but high grade, the company can build smaller plants, say, in the 1,000 tpd range, greatly reducing capital expenditures, and still produce something on the order of 100,000 ounces per year from the combined operations.

The company has also discovered what it calls the Dynasty Copper-Gold Belt, a NE extension of the Peruvian Copper-Gold that contains numerous porphyry deposits, right up to Peru's border with Ecuador. DMM has staked up a huge tract of land some 20 km wide and 90 km long. Eight large copper-gold porphyry systems have been identified in the belt thus far, some associated with high-grade gold-silver vein swarms and some with disseminated mineralization in channel samples. DMM has punched 58 holes into the various targets, with the majority of the holes cutting multiple quartz-sulphide veins and quartz stockworks. This has confirmed gold-silver mineralization at Papayal-Cerro Verde where vein widths average 0.6 to 7 meters, grading 0.1 to 141.5 g/t gold. One drill hole hit 3.3 meters of 97 g/t gold. An initial resource calculation is underway.

The company has other prospects, and is still actively exploring for more, but the plan for 2006 is to focus on advancing these three areas. The corporate goal is to build resources up to 6 million ounces of gold within a year to a year and a half. While that's a very aggressive goal, the long and short of it should be a lot of news over the coming year.

And who knows? Maybe they'll meet their target. If so, and if the market was to value DMM at the usual \$100+ per ounce of Measured and Indicated gold in the ground, DMM's market cap would head north of \$600 million. Even if they only succeed at moving all their current resources into the Measured and Indicated categories, or the reserve categories, the company could see its market cap rise to \$380 million—more than five times the current market cap. Why is it so cheap? The answer lies in the Promotion section below. The point here is this stock could double as a simple function of the company getting its story out. But the company will also be very busy adding to the story all year.

Promotion

Speaking of getting the story out, the first thing we asked when we realized what DMM has was, "How is it possible we've never heard of this before?" They laughed, and said they had been getting that same question from many analysts at the Vancouver show. The answer, management says, is that they deliberately kept a low profile while staking up all the ground they wanted, which took them a couple years. They didn't need any money (they have all their properties 100% with no property payments due, though there is a small 1% NSR on Jerusalem and NSRs from 0 to 3% on portions of Zaruma... but those won't come into play until cash starts flowing). So they kept things quiet and didn't promote. Now that they have locked up the land they wanted, and they have substantial resources to show the market, they are out in force. Evidence of that is that the company recently hired Scott F. Gibson & Company, a Vancouver investor relations firm. The fact that you are reading this recommendation before the story becomes well known gives you a serious leg up.

Politics

This is probably the weakest link in this play. Ecuador has been politically stable for some time, but is known as a hotbed of green activism, and can be a tricky place to do business. As with Argentina, however, the receptivity of native populations to mining varies from region to region. So, it's a plus for DMM that their largest gold resources are in a long-term historic mining district, where people still living remember the gold old days of mine jobs aplenty. At Zaruma the company is building a pilot plant, almost as much to create jobs and build community relations as to test ore processing. Smart.

Paper and Phinancing

As mentioned above, the company was fortunate to start out in Ecuador with a lot of cash, so they are in the enviable position of having a major land position and two advanced projects, with only 22 million shares issued and outstanding, and an incredibly low 25 million fully diluted figure, with all shares free trading.

With over C\$3 million in the till, the company doesn't need to finance any time soon, but plans to do so, to lock in recent share price gains and accelerate its exploration programs. With that facility in hand, some aggressive M&A activity would be no surprise, either.

Price

If you are already long DMM under C\$3, after our January 27 heads-up, good for you—after doing your own homework you must have come to the same conclusion we did. If you haven't yet taken a position, there's no need to chase the price—but given that the story is starting to get out, you don't want to wait too long, either. There is so much upside potential here, that even paying 10 or 20 percent over the current market will probably work out fine.

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