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## Dynasty Metals & Mining

(V.DMM, PK.DMMIF, www.dynastymining.com)

### BUY—

Dynasty is working on a portfolio of highly prospective gold and copper projects in Ecuador, ranging from very early-stage grassroots projects to the advanced Jerusalem and Zaruma gold projects.

The share price has appreciated substantially this year, but pulled back sharply on the recent gold correction. There may also be a perceived elevation of political risk in Ecuador, caused by the government's recent legal row with Occidental Petroleum, which resulted in the latter losing its concession. If so, that's understandable but probably premature, as this is one event with one company, and you need at least two points to draw a line. That the stock has already begun to recover is no surprise, given that the company has 4.6 million ounces of gold in Jerusalem, Zaruma, and the Dynasty Gold belt. The only surprise is that the market didn't notice this company before this year—an error the company is correcting with an expanded Investor Relations program.

A recently announced pre-feasibility on Jerusalem projected only US\$25 million in direct capital costs, including site preparation and mine development for a 300,000-tonnes-per-annum mill and treatment facility and mining equipment. Operating costs were projected at US\$195/oz, throwing off US\$150 million before taxes and royalties.

If the economics look this good in the pre-feasibility due out soon on the Zaruma project, which is roughly twice as large as Jerusalem, the company should be a moon shot from current levels. The low capital expenditures are especially important, giving the company the option to pursue production itself or possibly sell to a mid-tier looking for something turnkey.

On top of the development story, there's plenty of exploration upside. The company recently announced rock chip samples grading up to 52 g/t gold and 991 g/t silver on its Copper Duke project, one of eight porphyries DMM has identified on the 50 km Dynasty Gold Belt. Two drills are turning—this is a solid speculation with downside protection in the form of established resources in the ground and plenty of upside coming from the company's many projects.

### DYNASTY METALS & MINING

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Price	Share: C\$5.06	MCap: C\$113.3 M	On: 5/31/06
Shares	SO: 22.4 M	FD: 26.1 million	As of: 4/11/06
Warrants	UnEx: none	n/a	Exp: n/a
Options	Open: 3.7 million	Est.Wt Avg. C\$0.90	Exp: 9/06-2/11
Cash	C\$2 Million*	Burn: C\$250,000/mo.**	As of: 4/11/06

\*DMM just completed a C\$10 million financing at C\$5—just shares, no warrants—on May 17.

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

As far as the political risk is concerned, we're not convinced that the flap with Occidental Petroleum constitutes a shift in government policy. We'll keep a close eye on developments, of course, but for now we think the political risk discount on Ecuador's mining sector may be overstated.

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