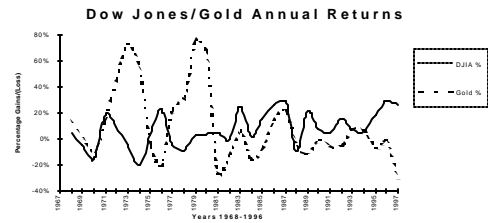




Gold

& Technology Stocks



Weekly Hotline Message

(Now in our 25th Year)

April 7, 2007

Stock Pick of the Week

Dynasty Metals & Mining



Business: Exploring and developing goldmines in Ecuador with production commencing late 2007

Traded TSX- Venture:	DMM
Initial Recommendation 1/14/06:	\$2.11
Price 4/5/07:	\$3.93
Shares Outstanding:	26,307,918
Fully Diluted:	30,080,388
Market Cap:	US\$103 Million
Initial Recommendation 1/14/06:	\$2.11
Gold Resource:	5 million oz.
Progress Rating:	"B"
Telephone:	604-687-0888 Ext 3
Web Site:	www.dynastymining.com

Yes, I know that I talked about this stock only one month ago. And yes, I know that it isn't a penny stock and that with DMM now priced at US\$3.93 we are close to our automatic half-out double. But while I was in Calgary last week, I met with company president, Robert Washer, and the reason I have to bring this story up so soon again is that I believe it is extremely undervalued and that it has an excellent chance to double once again within the next 12 months from its current price of US\$3.93. Let me go over the basic numbers so you can see why I find this stock a compelling buy, even near a double from our initial recommendation and even though it is nearly US\$4.00.

Political Risk in Ecuador

Before I proceed to tell you more about why I am so bullish on DMM, let's talk first about political risk—the one negative concern that I see for this stock. I do not want to downplay this issue, though I think it is very possible that the market is making more out of it than it is. Peer companies in South America are selling in the market for about \$70 per ounce of gold in the ground. Dynasty Metals is selling at around \$23 per ounce in the ground. I believe most of that is a risk premium attributed to a new government in Ecuador and the fears that the new President Correa, could align himself with more leftist, anti-American elements in South America.

That certainly is possible, but by no means a certainty. Ecuador is used to constantly changing governments but life goes on, and as Dynasty Metals notes, if anything, gaining required permits has sped up since the most recent change of government. I would also add that Mrs. Taylor and I recently had dinner in Manhattan with the daughter of an Ecuadorian diplomat at the U.N., and she and her husband both believed that it was impossible to conclude that this government would turn against foreign mining companies. One of the reasons the new government may in fact welcome foreign mining interests, at least in the early stages, is that mining boosts a depressed economy far more than oil and gas production, because mining is labor intense. As such, much of the revenue generated from production stays in the local economy, while most oil and gas revenues, except for taxes imposed on those operations, are repatriated to the investors.

Having said that, we do believe Ecuador represents a higher level of risk than Mexico and Chile and perhaps Argentina and Brazil. But we think that higher level of risk is more than compensated for by this company's lower price, relative to its intrinsic value. And assuming things settle down politically in Ecuador, which I think is a better than even bet, we could see this company's share price move toward that \$70 value per ounce of gold in the ground. On that basis alone, this stock could nearly triple in value. But we see the ultimate upside as much higher than that for several reasons, starting with a premium price gold producers get for ounces in the ground.

\$200 per Ounce for South American Gold Producers

Assuming political risk does not become a problem for Dynasty Metals, the upside price target for this company is well above a triple from its current price of \$3.93. We say that because producing mining companies in South America are now selling at something like \$200 per ounce of gold in the ground. And Dynasty Metals is expecting to begin producing gold at its Zaruma Gold Project during the first quarter of 2008 at a rate of 100,000 ounces per year. In fact, the company has purchased five ball mills and crushing equipment and has commenced construction of a pilot processing plant on the Zaruma Project. The company also has an ongoing exploration and development project underway from underground, where it is less expensive to drill. DMM expects to begin producing gold at a *second plant in Ecuador* in the first quarter of 2009, that also at a rate of 100,000 ounces per year, at a project known as the Jerusalem Gold Project.

If the economics for these projects were good, or if much higher than current gold prices were needed to make a profit, you might ignore values paid for current producers. But the preliminary economic valuations look very strong for the company's first two mines slated to commence production during the next two years. Here is a summary of projected economics for the Zaruma and the Jerusalem gold projects:

Zaruma:

- Total resource of just under 2.5 million ounces includes 702,100 measured, 408,100 indicated, and 1,383,400 as inferred
- Annual production is about 100,000 ounces of gold per year with 87% recovery rates
- Production costs are expected to be about \$59 per tonne and \$181 per ounce of gold production
- Capital costs are expected to be about \$25 million
- With only 1.5 million of the 2.5 million ounces recovered, and at \$500 gold, the project should generate \$767 million in revenues and provide an operating profit of \$277 million over a 14.5-year mine life
- The internal rate of return is projected to be 115.95%

Keep in mind that as more of the inferred resource becomes measured and indicated, the mine life may well be extended. Moreover, there would seem to be major upside exploration potential, and with success in developing a larger resource, production could conceivably be ramped up to much higher levels. Only 90% of the gold-bearing trend has yet been explored!

Jerusalem:

- Total resource of 1,295,230 ounces of gold includes 239,730 measured, 345,370 ounces indicated, and 710,130 inferred
- Initial capital is expected to be about \$25 million
- Annual production is 104,000 ounces with 87% metal recoveries
- Operating cost per ounce is \$188
- It is an eight-year mine life with a one-year payback
- At \$500 gold and \$7.50 silver, the project would provide an internal rate of return of 149% and a non-discounted pre-tax profit of US\$297,060,000

As with the Zaruma Mine, there is believed to be very large-scale upside potential for the Jerusalem Mine. Only about a third of the known gold-bearing structure has yet been explored.

Additional Projects

On the basis of the above-noted two advanced-stage gold projects alone, we think this stock is hugely undervalued. However, DMM has another advanced exploration gold target and an area play known as the Dynasty Copper Gold Belt where there are several large scale exploration targets. .

Dynasty Goldfields – This project includes a gold-silver system covering an area that measures 13 kilometers by 4 kilometers. A 43-101 compliant resource of 667,676 ounces of gold has been established here from 6.4 million tonnes.

This project will no doubt be given more attention once the company gets its first mine into production, but suffice it to say that it can be expected to add more value to DMM as it is developed.

Dynasty Copper/Gold Belt – This project is a new large-scale gold field that covers more than 30 square kilometers. Eight large copper-gold porphyry-style systems have been identified to date that are associated with stockworks and some high-grade gold-silver vein swarms. Management believes this target has the potential to host one or more large-scale bulk tonnage copper-gold-silver mines. Given the enormous size of this target and the potential to host one or more really large-scale deposits, I would not be surprised to see DMM connect with a major joint venture partner here as management focuses on getting its gold projects producing efficiently.

SUMMARY & CONCLUSION

We see the potential for large percentage gains from DMM's current price of around \$3.93. Political risks, which should not be ignored, have caused this stock to sell considerably below its peers. Remove the political risk and we think the stock could be selling right now upward to US\$10. As noted above, South American producers are selling at something like \$200 of value in the ground. With a current 5 million ounces, as DMM goes into production, and assuming political risks turn out to be a non issue, we could see this company with a market cap of \$1 billion, compared to its current market cap of US\$103 million. In addition, DMM's value could soar even higher if it is able to build ounces in the ground from its enormous exploration potential. But aside from that, on the basis of what it already has, and on successful implementation of its business plan to put two mines into production over the next two years, and assuming a benign political environment, we could see this stock as a potential 10-bagger even from its current price.

Of course we cannot merely assume political risks away. Concern over the direction of foreign interests in Ecuador is a legitimate concern. But that is just one more reason why we always urge subscribers not to allocate more than 5% of their portfolios into any one stock. Do that, and if things blow up in Ecuador, your fortunes will not be devastated by unhappy Ecuadorian politics. By the same token, a 5% allocation in a stock with such substantial upside potential can sweeten returns considerably.

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