

Fundamental Research Corp.

Investment Analysis for Intelligent Investors

November 19, 2018

Dynacor Gold Mines Inc (TSX: DNG / OTC: DNGDF) – Q3 Impacted by Grades and Gold Prices

Sector/Industry: Junior Mining

www.dynacor.com

Market Data (as of November 15, 2018)

| | |
|---------------|-------------------|
| Current Price | C\$1.45 |
| Fair Value | C\$3.52 |
| Rating* | BUY |
| Risk* | 3 |
| 52 Week Range | C\$1.41 - C\$2.26 |
| Shares O/S | 39,665,177 |
| Market Cap | C\$57.51 mm |
| Current Yield | 2.8% |
| P/E (forward) | 9.3x |
| P/B | 0.8x |
| YoY Return | -22.9% |
| YoY TSX | -4.7% |

*see back of report for rating and risk definitions



- all the figures are in US\$ unless otherwise specified

Highlights

- Dynacor paid out its first quarterly dividend of C\$0.01 per share in October 2018. Annual dividends of C\$0.04 per share, implies a yield of 2.8%. We estimate the current average dividend yield of major gold producers is 1.0% p.a.
- **Despite a relatively weak Q3, the company reported its 30th consecutive profitable quarter.**
- Production dropped 3% to 19,982 oz due to lower grades. Q3-2018 revenues decreased 9% YoY to \$24 million. Net income declined 44% YoY to \$0.69 million (EPS: \$0.02).
- Management has lowered their 2018 production guidance from 90-94 Koz to 82 koz (koz – thousand ounces).
- Balance sheet remains very strong - at the end of Q3-2018, the company had \$11.13 million in cash and \$18.87 million in working capital, with no debt.
- DNG has budgeted to spend approximately \$2.4 million over the next 24 months on the Tumipampa project.

Key Financial Data (FYE - Dec 31)

| US\$ millions except EPS | 2015 | 2016 | 2017 | 2018E | 2019E |
|---------------------------|---------|---------|----------|----------|----------|
| Revenues | \$78.87 | \$91.30 | \$101.69 | \$103.40 | \$123.35 |
| Net Income | \$3.16 | \$3.29 | \$3.84 | \$4.80 | \$7.55 |
| EPS | \$0.09 | \$0.09 | \$0.10 | \$0.12 | \$0.19 |
| Cash and cash equivalents | \$6.15 | \$6.19 | \$4.85 | \$10.30 | \$12.58 |
| Working Capital | \$13.01 | \$15.74 | \$15.97 | \$19.27 | \$22.70 |
| LT Debt | \$0.00 | \$5.90 | \$0.00 | \$0.00 | \$0.00 |
| ROE | 7.8% | 7.2% | 7.6% | 8.8% | 12.7% |

Q3 Production Down

Despite a 13% YoY increase in tonnage, Q3-2018 production declined 3% YoY to 19,982 oz, due to significantly lower grades. Production in the nine-month period was up 7% YoY due to a strong first half (12% YoY increase).

Production Summary

| | Q3-2016 | Q3-2017 | Q3-2018 | YoY | 2016 (9M) | 2017 (9M) | 2018 (9M) | YoY |
|--------------------|---------|---------|---------|-------|-----------|-----------|-----------|-------|
| Tonnes processed | 18,418 | 20,026 | 22,615 | 12.9% | 48,808 | 53,132 | 66,822 | 25.8% |
| TPD | 214 | 229 | 258 | | 191 | 205 | 259 | |
| Production (Au oz) | 19,131 | 20,521 | 19,982 | -2.6% | 52,463 | 55,831 | 59,664 | 6.9% |

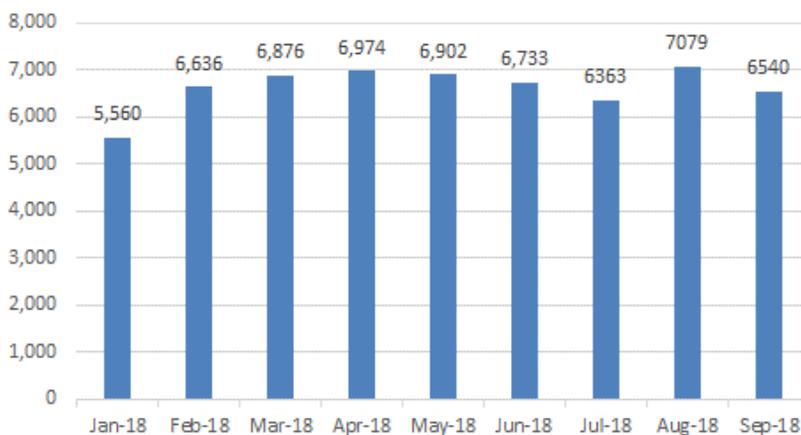
Production in Oz



Source: Company Data

Although Q3 production was weaker than expected, production in August (7,079 oz) was the highest ever monthly production for the company (see monthly production chart below).

Monthly Production (Au oz)



Source: Company Data

Production Forecasts

We expect production to ramp up to 360 tpd (from 260 tpd) next year. The long-term goal remains unchanged, which is to expand capacity to 600 tpd by 2021 (estimated CAPEX of \$7 million). As a result of the weaker quarter, management has lowered their 2018 production guidance from **90-94 Koz to 82 koz. Although this is a significant reduction, the new guidance reflects 2.6% YoY growth, and the highest ever annual production since inception.** We are lowering our 2018 production forecast from 90 Koz to 82 Koz accordingly. We are also lowering our 2019 production forecast from 110 Koz to 99 Koz. Our longer-term forecasts (2022+) are unchanged.

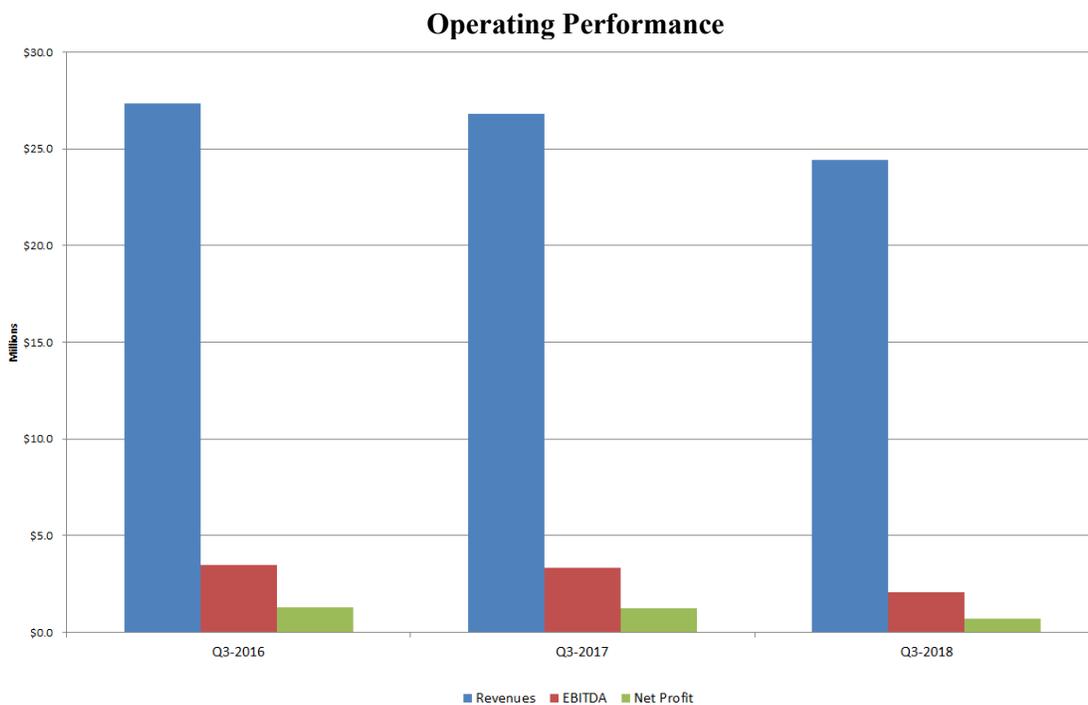
FRC's Long-Term Production Forecasts

| | 2014 | 2015 | 2016 | 2017 | 2018E | 2019E | 2020E | 2021E | 2022E |
|--------------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|
| Tonnes processed | 72,484 | 69,594 | 69,920 | 76,918 | 93,055 | 110,500 | 127,500 | 170,000 | 204,000 |
| TPD | 213 | 204 | 204 | 226 | 255 | 325 | 375 | 500 | 600 |
| Production (Au oz) | 68,923 | 67,604 | 73,476 | 79,897 | 81,961 | 98,677 | 115,056 | 153,408 | 184,090 |

Source: FRC and Company Data

Financials

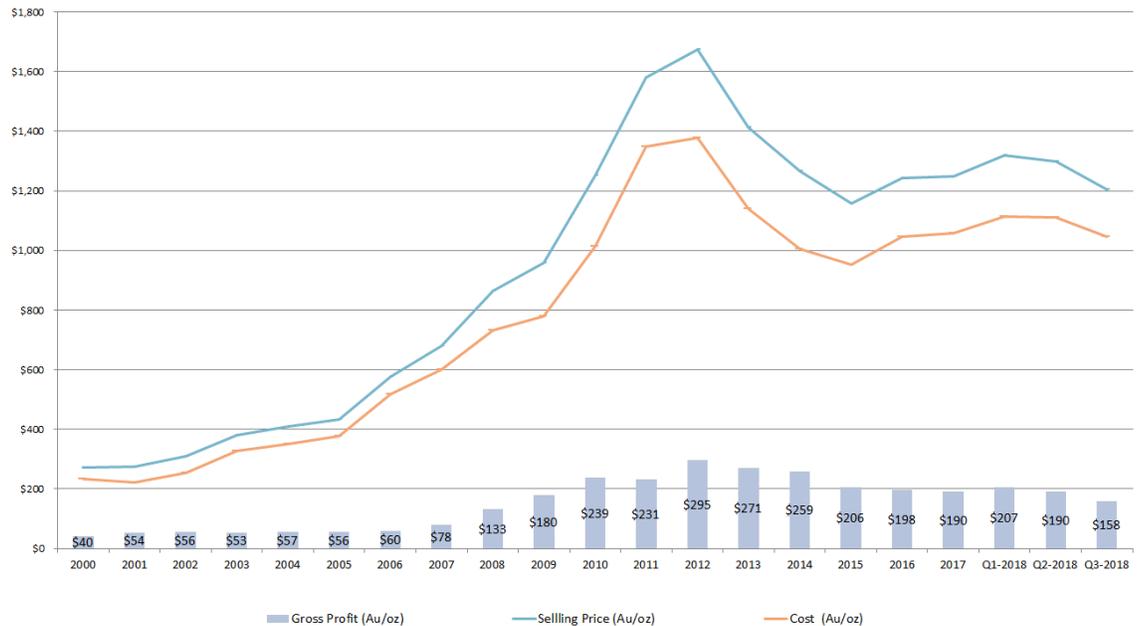
Q3-2018 revenues decreased 9% YoY to \$24 million. The following chart shows a summary of the operating performance:



Source: Company Data

Margins decreased YoY (from \$200 to \$158 per oz) due to lower gold prices.

Margins (\$ per oz)



Source: Company Data

EBITDA and net margins also dropped YoY, as shown below.

| Margins | Q3-2016 | Q3-2017 | Q3-2018 | 2016 (9M) | 2017 (9M) | 2018 (9M) |
|---------|---------|---------|---------|-----------|-----------|-----------|
| Gross | 16.9% | 15.8% | 13.1% | 17.2% | 15.0% | 14.5% |
| EBITDA | 12.7% | 12.5% | 8.4% | 11.7% | 10.4% | 9.9% |
| EBIT | 9.9% | 8.7% | 5.9% | 8.9% | 7.7% | 7.8% |
| Net | 4.8% | 4.6% | 2.8% | 4.4% | 3.4% | 4.5% |

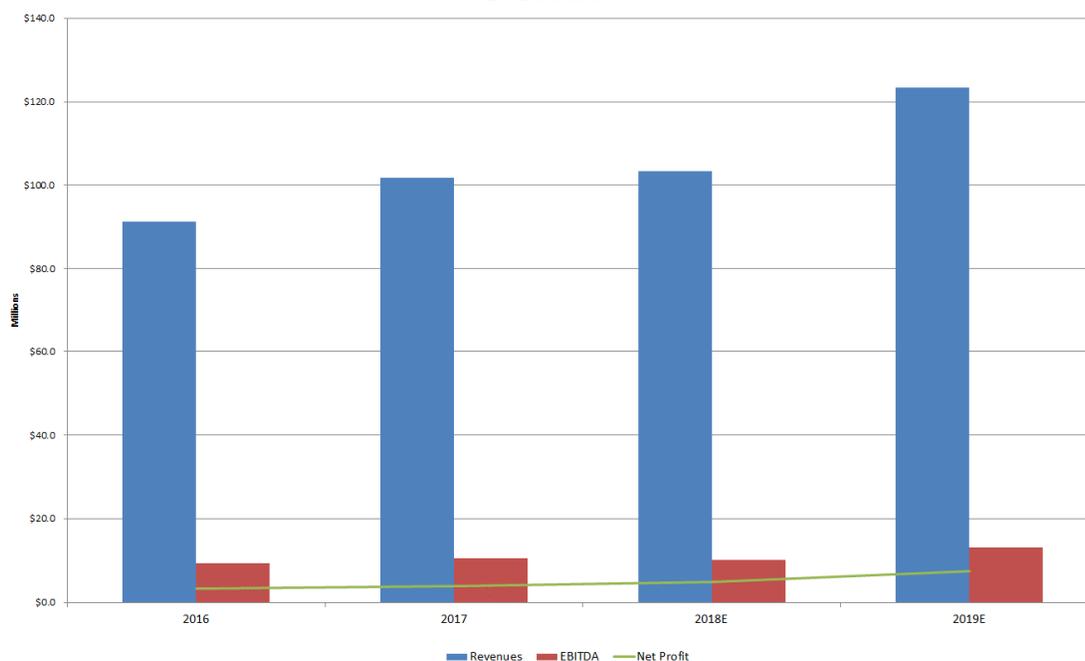
* Note that our gross margin calculations are different from the company’s reported figures as we removed depreciation and amortization included in direct costs in our calculations.

Source: Company Data

EBITDA was down 39% YoY to \$2.05 million. Net income declined 44% YoY to \$0.69 million (EPS: \$0.02). Q3-2018 was the 30th consecutive quarter of profits. For the nine month period, EBITDA was up 3% YoY to \$7.84 million, and net income was up 44% YoY to \$3.56 million (EPS: \$0.09).

The following chart shows our revenue, EBITDA and net income forecasts:

Forecasts



Source: FRC

We are lowering our 2018 revenue forecast from \$112 million to \$103 million (due to lower production and gold price forecasts), and our 2019 revenue forecast from \$144 million to \$123 million (based on a gold price forecast of \$1,250 per oz). We are also adjusting our 2018 net profit forecast from \$5.8 million (EPS: \$0.15) to \$4.8 million (EPS: \$0.12), and our 2019 forecast from \$9.2 million (EPS: \$0.23) to \$7.6 million (EPS: \$0.19).

Free cash flows were \$6.87 million in the first nine months of 2018, versus \$7.01 million in the same period in the previous year. **Funds flow from operations were \$0.15 per share in the first nine months of 2018, versus \$0.15 in the same period in the previous year.**

| Cash Flows (\$, mm), except per share items | 2016 (9M) | 2017 (9M) | 2018 (9M) |
|---|---------------|---------------|---------------|
| Funds Flow from Operations | \$5.38 | \$5.77 | \$5.87 |
| Cash Flow from Operations | \$3.07 | \$7.93 | \$8.73 |
| Cash Flow from Investing | (\$9.18) | (\$0.92) | (\$1.86) |
| Cash Flow from Financing | \$6.93 | (\$2.60) | (\$0.57) |
| Foreign Exchange Rate Adj. | \$0.02 | \$0.04 | (\$0.02) |
| Net Change in Cash | \$0.84 | \$4.45 | \$6.28 |
| Free Cash Flows | (\$6.10) | \$7.01 | \$6.87 |
| Funds Flow from Operations / Share | \$0.14 | \$0.15 | \$0.15 |

Source: Company Data

At the end of Q3-2018, the company had \$11.13 million in cash and \$18.87 million in working capital, with no debt. DNG's profitability ratios continue to exceed gold industry averages (see table below).

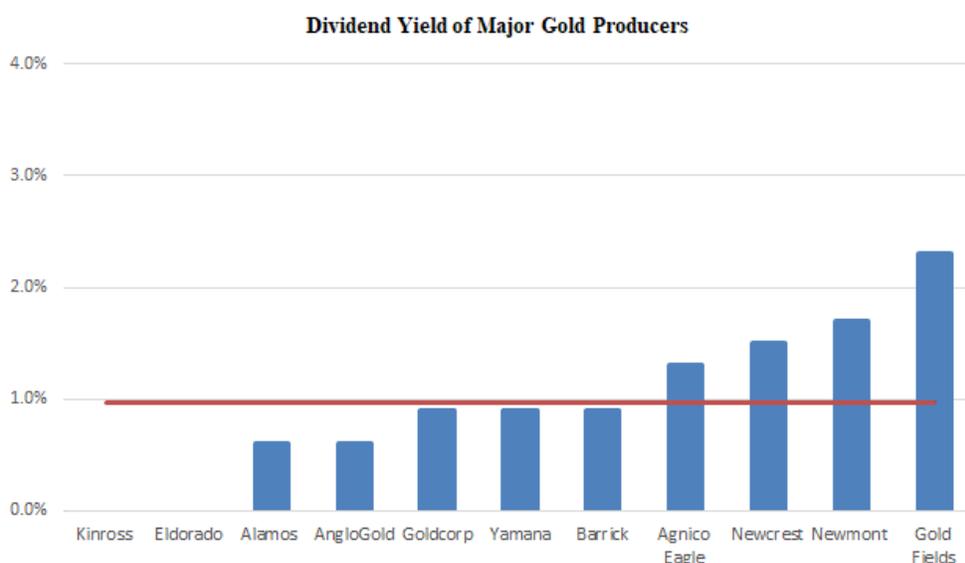
| Liquidity Analysis (\$, mm) | 2015 | 2016 | 2017 | Q1-2018 | Q2-2018 | Q3-2018 | Gold Industry Average |
|-----------------------------|---------|---------|---------|---------|---------|---------|-----------------------|
| Cash And Equivalents | \$6.15 | \$6.19 | \$4.85 | \$8.55 | \$10.82 | \$11.13 | |
| Working Capital | \$13.01 | \$15.74 | \$15.97 | \$17.66 | \$18.67 | \$18.87 | |
| Current Ratio | 4.48 | 5.09 | 4.91 | 5.11 | 5.15 | 4.35 | 1.40 |
| Debt / Capital | 0.00% | 10.91% | 0.00% | 0.00% | 0.00% | 0.00% | 33.10% |
| LT Debt / Capital | 0.00% | 10.91% | 0.00% | 0.00% | 0.00% | 0.00% | |

| Profitability Analysis | 2015 | 2016 | 2017 | Q1-2018 | Q2-2018 | Q3-2018 | Gold Industry Average |
|------------------------|------|------|------|---------|---------|---------|-----------------------|
| Return on Avg Assets | 6.8% | 5.8% | 6.2% | 10.4% | 7.9% | 4.3% | 2.6% |
| Return on Avg Equity | 7.8% | 7.2% | 7.6% | 12.0% | 9.2% | 5.0% | 1.0% |

Source: Company Data

Dividends

The first dividend was paid in October 2018 to shareholders of record on September 20, 2018. Annual dividends of C\$0.04 per share, implies a yield of 2.8%. The average dividend of major gold producers is just 1.0% p.a. (see chart below).



Source: S&P Capital IQ / FRC

Stock Options and Warrants

Dynacor currently has 1.33 million options (weighted average exercise price of C\$1.77) and nil warrants outstanding. None of the options are in the money.

Tumipampa

DNG has completed a geophysical survey on the project, results of which will enable the company to identify drill targets. The company is contemplating a 4,300 m drill program. The company has budgeted to spend approximately \$2.4 million over the next 24 months.

Valuation and Rating

We are adjusting our fair value estimate to C\$3.52 per share (from C\$3.75 per share) primarily because we lowered our near-term EPS forecasts.

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The value of the company is dependent on gold prices.
- Ability to ramp up production.
- Long-term consistent ore supply.
- Heavy rainfall (such as in Q1-2017) may impact operations.
- The company does not enter into hedging contracts.
- Exploration success.

| Income Statement | | | | |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| US\$ millions except EPS | 2016 | 2017 | 2018E | 2019E |
| Sales | 91.30 | 101.69 | 103.40 | 123.35 |
| Other Revenue | | | | |
| Total Revenue | 91.30 | 101.69 | 103.40 | 123.35 |
| Cost of sales | 76.74 | 86.23 | 88.64 | 104.60 |
| Cost Of Goods Sold | 76.74 | 86.23 | 88.64 | 104.60 |
| Gross Profit | 14.56 | 15.46 | 14.75 | 18.75 |
| G&A | 4.12 | 3.86 | 4.65 | 5.67 |
| Selling and Others | 1.12 | 1.13 | 0.00 | 0.00 |
| Total | 5.24 | 4.98 | 4.65 | 5.67 |
| EBITDA | 9.32 | 10.48 | 10.10 | 13.07 |
| Depreciation & Amort. | 2.49 | 2.06 | 2.32 | 2.29 |
| EBIT | 6.84 | 8.42 | 7.78 | 10.78 |
| Interest | -0.79 | -1.33 | -0.20 | 0.00 |
| Currency Exchange Gains (Loss) | | | -0.20 | |
| Other | 0.03 | | -0.01 | |
| EBT Excl. Unusual Items | 6.08 | 7.10 | 7.38 | 10.78 |
| Unusual Items | -0.51 | -0.33 | | |
| EBT Incl. Unusual Items | 5.57 | 6.77 | 7.38 | 10.78 |
| Income Tax | 2.28 | 2.92 | 2.58 | 3.23 |
| Net Income | <u>3.29</u> | <u>3.84</u> | <u>4.80</u> | <u>7.55</u> |
| Basic EPS | \$0.09 | \$0.10 | \$0.12 | \$0.19 |

| Balance Sheet | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| US\$ millions | 2016 | 2017 | 2018E | 2019E |
| ASSETS | | | | |
| Cash And Equivalents | 6.19 | 4.85 | 10.30 | 12.58 |
| Accounts Receivable | 5.22 | 7.53 | 6.82 | 7.40 |
| Others | 0.98 | 0.43 | | |
| Inventory | 6.98 | 7.09 | 6.98 | 7.84 |
| Prepaid Exp. | 0.22 | 0.15 | 0.31 | 0.37 |
| Total Current Assets | 19.59 | 20.05 | 24.41 | 28.19 |
| Property, Plant & Equipment | 26.07 | 23.24 | 22.92 | 24.12 |
| Other Intangibles | 17.05 | 17.44 | 18.44 | 19.94 |
| Deferred Tax Assets, LT | 0.75 | 0.34 | 0.34 | 0.34 |
| Total Assets | 63.46 | 61.07 | 66.11 | 72.60 |
| LIABILITIES | | | | |
| Accounts Payable | 3.56 | 3.82 | 4.88 | 5.23 |
| Lease | 0.29 | 0.27 | 0.27 | 0.27 |
| Loans | | | | |
| Current Income Tax / Others | | | | |
| Total Current Liabilities | 3.85 | 4.08 | 5.14 | 5.50 |
| Long-term Debt | 5.90 | | 0.00 | 0.00 |
| ARO | 5.22 | 4.37 | 4.37 | 4.37 |
| Lease | 0.30 | 0.23 | 0.23 | 0.23 |
| Total Liabilities | 15.27 | 8.68 | 9.74 | 10.09 |
| Share Capital | 19.95 | 20.16 | 20.36 | 20.36 |
| Retained Earnings/Deficit | 24.85 | 28.70 | 32.32 | 38.28 |
| Comprehensive Inc. and Other | 3.39 | 3.54 | 3.69 | 3.86 |
| Total Common Equity | 48.19 | 52.39 | 56.38 | 62.51 |
| Total Equity | 48.19 | 52.39 | 56.38 | 62.51 |
| Total Liabilities And Equity | 63.46 | 61.07 | 66.11 | 72.60 |

| Cash Flow | | | | |
|---------------------------------------|--------------------|---------------------|--------------------|--------------------|
| US\$ millions | 2016 | 2017 | 2018E | 2019E |
| Net Income | 3.29 | 3.84 | 4.80 | 7.55 |
| Depreciation & Amort. | 2.63 | 2.87 | 2.32 | 2.29 |
| Depreciation & Amort., Total | 2.63 | 2.87 | 2.32 | 2.29 |
| (Gain) Loss From Sale Of Assets | -0.04 | 0.33 | | |
| Deferred income tax recovery | -0.26 | | | |
| Interest on term facility | 0.25 | 0.97 | | |
| Asset retirement obligation | 0.07 | 0.12 | | |
| Receivable withheld | | | | |
| Share-based compensation | 0.20 | 0.14 | 0.15 | 0.17 |
| Deferred share unit expense | -0.03 | 0.11 | | |
| Others | 0.04 | 0.24 | | |
| Change in Acc. Receivable | | -2.31 | 0.70 | -0.58 |
| Change In Inventories | | -0.11 | 0.11 | -0.86 |
| Change in Acc. Payable | | 0.26 | 1.06 | 0.35 |
| Change in Other Assets | | 0.62 | 0.27 | -0.06 |
| Total change in non-working capital | -2.83 | -1.25 | 2.15 | -1.15 |
| Cash from Ops. | 3.32 | 7.37 | 9.42 | 8.86 |
| Property, plant and equipment | -8.80 | -0.70 | -2.00 | -3.50 |
| Sale of property, plant and equipment | 0.09 | 0.42 | | |
| Revaluation and exploration assests | -1.32 | -0.60 | -1.00 | -1.50 |
| Invest. in securities | - | | | |
| Other Investing Activities | - | | | |
| Cash from Investing | -10.03 | -0.89 | -3.00 | -5.00 |
| Total Debt Repaid | -0.96 | -7.03 | | |
| Issuance of Common Stock | 7.00 | 0.09 | 0.20 | |
| Redemption of warrants | 1.35 | | | |
| Other Financing Activities | 0.15 | -0.93 | -1.17 | -1.59 |
| Cash from Financing | 6.76 | -7.87 | -0.97 | -1.59 |
| Foreign Exchange Rate Adj. | 0.00 | 0.04 | 0.00 | 0.00 |
| Net Change in Cash | <u>0.05</u> | <u>-1.35</u> | <u>5.45</u> | <u>2.28</u> |

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any “forward looking statements” are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. “FRC” does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by DNG to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, DNG has agreed to a minimum coverage term including four updates. Coverage cannot be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time.

The distribution of FRC's ratings are as follows: BUY (72%), HOLD (7%), SELL / SUSPEND (21%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscribe.php> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.