

Dynacor Announces Second Quarter Net Income of US \$1.2 Million (\$0.03 per Share)

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MONTREAL, QUEBEC -- ([Marketwire](#) - Aug. 14, 2012) - [Dynacor Gold Mines Inc.](#) (TSX:DNG) (Dynacor or the Company), a company with exploration projects and gold and silver ore processing operations in Peru, is pleased to report that for the three-month period ended June 30, 2012, it recorded a net income of \$1.2 M (\$0.03 per share)(cumulative of \$2.9 M for the six-month period ended June 30, 2012 (\$0.08 per share) compared to a net income of \$2.6 M (\$0.07 per share) and cumulative \$1.2 M (\$0.04 per share) for the same periods in 2011. The unaudited condensed interim consolidated financial statements along with the management discussion and analysis are available on the Company's website www.dynacorgold.com and the documents have been filed electronically with SEDAR at www.sedar.com.

All figures in this press release are in millions of US\$ except where noted. Earnings per share and gross margin per ounce are in US\$.

Q2-2012 HIGHLIGHTS

- Sales of \$20.6 M in Q2-2012 (\$18.1 M in Q2-2011) a 13.8 % increase over Q2-2011;
- Net income of \$1.2 M (\$0.03 per share) (\$2.6 M and \$0.07 per share in Q2-2011) a decrease of \$ 1.4 M;
- Adjusted EBITDA of \$2.2 M compared to \$2.1 M in Q2-2011;
- Operating income of \$1.8 M compared to \$2.0 M in Q2-2011;
- Cash operating margin per ounce of \$246 compared to \$269 in Q2-2011;
- Cash flow from operating activities before changes in working capital items of \$1.4 M in Q2-2012 (\$0.04 per share) (\$1.5 M and \$0.04 per share in Q2-2011);
- Generated record gold production of 5,327 ounces during the month of June;
- 16,086 DMT (dry metric tons) processed (14,886 DMT in Q2-2011) a 8.1 % increase over Q2-2011;
- 12,392 ounces of gold produced (11,808 ounces in Q2-2011) a 5.0 % increase over Q2-2011;
- Exploration drilling campaign at Tumipampa is temporarily delayed until the necessary environmental and exploration permits are granted by the Authorities.

Operating Results

During the three-month period ended June 30, 2012 the Company recorded a net income of \$1.2 M (\$0.03 per share) (cumulative net income of \$2.9 M (\$0.08 per share) for the six-month period ended June 30, 2012) compared to a net income of \$2.6 M in Q2-2011 (\$0.07 per share) and cumulative of \$1.2 M (\$0.04 per share) for the respective periods in 2011 which included a significant non cash gain on revaluation of warrants of \$1.6 M.

During the second quarter of 2012, the Company processed 16,086 DMT of ore compared to 14,886 DMT in Q2-2011 (a 8.1% increase), at an average grade of 0.82 Oz Au/ DMT (23.24 g/t Au) (average grade of 0.85 Oz Au/DMT (24.38 g/t Au) in Q2-2011).

During the period, a total of 12,392 ounces of gold was produced (cumulative of 25,503 ounces for the six-month period ended June 30, 2012) compared to 11,808 ounces in Q2-2011 (cumulative of 21,734 ounces for the six-month period in 2011) a respective increase of 5.0% and 17.3% over the same periods in 2011.

Overall production was slightly below expectations and previous quarter production as the Company chose

to reduce its ore purchases during the month of May, in order to assess the impact of the newly enacted mining laws regarding the status of its suppliers and their compliance with the new laws. Consequently, tonnage of ore processed in May dropped to 3,971 DMT (daily average of 142 tpd). As mentioned in a July 18, 2012 press release, the June production came back to its expected level with a total of 6,368 DMT processed (220 tpd average) which represented an all-time monthly ore processing record.

Total sales for the period amounted to \$ 20.6 M (cumulative of \$ 44.2 M in 2012) compared to \$18.1 M in Q2-2011 (cumulative of \$32.8 M in 2011) an increase of \$2.5 M (13.5%) over Q2-2011 (cumulative increase of \$11.4 M (25.8%) compared to 2011) explained by increased production and higher gold price. The average gold selling price per ounce was at \$1,607 in Q2-2012 compared to \$1,511 in Q2-2011.

The gross operating margin for the quarter amounted to \$3.0 M (14.8%) compared to \$3.2 M (17.9%) in Q2-2011. This decrease in the gross operating margin is primarily attributable to the impact of the lower grades of ore processed during the first two months of the quarter and higher fixed and variable production costs for the period, mainly depreciation, production supplies and labor.

The gold cash gross operating margin (1) per ounce was at \$246 in Q2-2012 compared to \$269 in Q2-2011 a 4.0% decrease which is attributable to lower gold grade of ore processed and increased fixed and variable production cost allocated to a lower production in May 2012.

(1) Cash operating gross margin is calculated by subtracting the average cash cost of sale from the average selling price and is a non-IFRS financial performance measure with no standard definition under IFRS. It is therefore possible that this measure could not be comparable with a similar measure of another company.

Financial Highlights:

For the three-month periods
ended June 30, For the six-month periods
ended June 30,
(in '\$000) 2012 2011 2012 2011

Sales				
20,579				
18,128				
44,223				
32,786				
Cost of sales	17,537	14,888	37,448	27,322
Gross operating margin	3,042	3,240	6,775	5,464
General and administrative expenses	916	986	1,663	1,723
Operating income	1,819	1,962	4,413	3,190
Net income	1,182	2,566	2,915	1,236
Adjusted Net income (1)	1,045	998	2,702	1,342
Adjusted EBITDA(2)	2,173	2,085	5,047	3,192

Net Cash flow from operating activities before changes in working capital items	1,445	1,514	3,458	2,058
Cash flow from (used for) operating activities	641	(569)	1,712	(853)

Earnings per share				
Basic	\$0.03	\$0.07	\$0.08	\$0.04
Diluted	\$0.03	\$0.07	\$0.08	\$0.03

Reconciliation of Net income to Adjusted net income (1)				
Net income	1,182	2,566	2,915	1,236
Revaluation of warrants (137)	(1,568)	(213)	106	
Adjusted net income	1,045	998	2,702	1,342

Reconciliation of Net income to Adjusted EBITDA (2)				
Net income	1,182	2,566	2,915	1,236
Income taxes	806	797	1,711	1,379
Financial expenses	51	114	106	223
Depreciation	271	176	528	248
Revaluation of warrants (137)	(1,568)	(213)	106	
Adjusted EBITDA	2,173	2,085	5,047	3,192

(1) Adjusted net income: is a non-IFRS financial performance measure with no standard definition under IFRS. It is therefore possible that this measure could not be comparable with a similar measure of another company. The Company uses this non-IFRS measure to compare the results without considering the non-cash effect generated by the change in value of the warrants which can vary from a period to another due to its nature.

(2) Adjusted EBITDA: "Adjusted Earnings before interest, taxes, depreciation and amortization, revaluation of warrants" is a non-IFRS financial performance measure with no standard definition under IFRS. It is therefore possible that this measure could not be comparable with a similar measure of another company. The Company uses this measure as an indicator of the cash generated by the operations and allows investor to compare the profitability of the company with others by canceling effects of different assets bases, effects due to different tax structures as well as the effects of different capital structures.

CASH FLOW FROM OPERATING, INVESTING AND FINANCING ACTIVITIES AND WORKING CAPITAL

Operating Activities

Cash flows generated by operating activities before changes in working capital items amounted to \$1.4 M during the second quarter of 2012 (\$0.04 per share) (cumulative of \$3.5 M for the six-month period and \$0.10 per share) compared to \$1.5 M (\$0,04 per share) and cumulative \$2.1 M and (\$0.06 per share in 2011). This increase is due to the plant capacity increase realized in Q3 and Q4 of 2011.

Changes in working capital items during the quarter amounted to \$0.8M (cumulative \$1.7 M for the six-month period) (\$2.1 M in Q2-2011 and cumulative \$2.9M for 2011) and were composed of increase in trade receivables of \$ 2.3 M, reduction of current tax assets of \$0.7 M, increase in inventory of \$0.2 M and an increase in accounts payable and accrued liabilities of \$1.0 M.

Investing Activities

During the period the Company invested \$0.5 M (cumulative \$0.9 M for the six-month period) (\$0.4 M and cumulative \$0.9 M in 2011) in the acquisition of property, plant and equipment mainly for an expansion of the tailing pond (\$0.4 M) and additional machinery and equipment at the plant and laboratory (\$0.1 M). Payments of costs related to the asset retirement obligations in the amount of \$85,000 were also made during the period.

Additions to exploration and evaluation assets amounted to \$0.1 M (cumulative \$0.3 M in 2012) (\$0.2 M and cumulative \$0.5 M in 2011) and were mostly comprised of capitalized salaries for the preparation of drilling platforms and costs related to road construction at Tumipampa.

Financing Activities

At the end of the quarter, the Company paid the quarterly interest on the outstanding loan in accordance with the terms of the CA \$1.2 M loan agreement.

During the period, no stock options were exercised (cumulative of 90,000 stock options exercised in the six-month period ended June 30, 2012 for total proceeds of \$29,788)

Liquidity and Working Capital

As at June 30, 2012, the Company's working capital amounted \$9.1 M including \$2.5 M in cash as compared \$7.9 M, including \$2.1 M in cash as at December 31, 2011.

2012 OUTLOOK

Ore processing

The Company objectives for 2012 were established and published as follows:

- Operate its processing plant at its full capacity of 220 tpd during most of 2012. This should represent a total plant throughput of approximately 75,000 tons of ore;
- Using a grade 0.71 ounce per DMT and an average price of \$1,650 per ounce for 2012, this throughput

should produce over 49,000 ounces of gold and sales of gold and silver of approximately \$85 million;

The actual results of the processing activities for six months as at June 30, 2012, are mostly in line with the 2012 yearly forecasts as follows;

- Total of 33,643 DMT of ore processed at June 30, under the expected level mainly due to reduction of purchases in May 2012;
- Total of 25,502 ounces of gold produced is just above the year to date forecast;
- Sales of \$44.2 M is currently above estimated forecasts;

Unless there are unforeseen circumstances, the Company is confident that it will meet and even surpass its annual production guidance of approximately 50,000 ounces in 2012.

New mill in Chala

The situation regarding the construction of the new \$4.5 M 300 tpd mill is unchanged since our last financial report. The Company has filed applications for the environment and construction permits, which it expects to obtain before the end of 2012. Construction of the new mill, which should be funded through a combination of debt and working capital, will begin upon reception of the necessary permits and the Company expects it to be in operation in 2013.

Exploration

The planned 2012 program is temporarily delayed since the Company has been waiting for the Authorities to issue the necessary environmental and exploration permits since last February. However, the Company is now confident it will be able to start its drilling program shortly.

The original exploration program for 2012 on the Tumipampa exploration property was planned as a two part program as follows;

- In zone 4, in the skarn, a drilling program of 4,100 meters - 9 holes to be drilled;
- A first 300 meter long cross cut through the Manto Dorado and Rosa Vein to be excavated in order to prepare an underground drilling program of 2,000 meters with the objective to obtain a NI 43-101 Resource estimation in 2013;

The total program is budgeted at \$2.3 M and management currently expects to finance 100% of the exploration campaign using auto-generated cash flow from its ore processing operations.

ABOUT DYNACOR GOLD MINES INC.

[Dynacor](http://www.dynacorgold.com) is a gold exploration and mining company active in Peru through its subsidiaries since 1996. The Company differentiates itself from pure exploration companies as it also generates income and cash flow from its wholly owned ore processing plant in Peru. The Company's assets include six exploration properties, including the Tumipampa property, along with its recently upgraded 220 tpd ore processing mill at Acari. Dynacor's mill produces gold from the processing of ore purchased from local producers. Dynacor's strength and competitive advantage comes with the experience and knowledge the Company has developed while working in Peru. Its pride remains in maintaining respect and positive work ethics toward its employees, partners, suppliers and local communities.

FORWARD LOOKING INFORMATION

Certain statements in the foregoing may constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Dynacor, or industry results, to be materially different from any future result, performance or achievement expressed or implied by such forward-looking statements. These statements reflect management's current expectations regarding future events and operating performance as of the date of this news release.

Website: <http://www.dynacorgold.com>

Twitter: <http://twitter.com/DynacorGold>

Facebook: <http://www.facebook.com/pages/Dynacor-Gold-Mines-Inc/222350787793085>
Shares outstanding: 35,760,167

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