

DYNARESOURCE INC
Form 10-Q
May 11, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

From the transition period _____ to _____.

Commission File Number 0-53237

DYNARESOURCE, INC.

(Exact name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-1589426
(IRS Employer Identification No)

222 W Las Colinas Blvd., Suite 744 East Tower, Irving, Texas 75039
(Address of principal executive offices)

(972) 868-9066
(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting
Company

Indicate by a check mark whether the company is a shell company (as defined by Rule 12b-2 of the Exchange Act):

Yes No

As of May 10, 2012, there were 10,721,618 shares of Common Stock of the issuer outstanding.

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DYNARESOURCE, INC.

(An Exploration Stage Company)
Consolidated Balance Sheets
March 31, 2012 and December 31, 2011

	2012	2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$2,199,302	\$2,670,933
Foreign Tax Receivable	71,112	34,593
Other Current Assets	50,800	45,134
Total Current Assets	2,321,214	2,750,660
Fixed Assets:		
Mining Camp Equipment and Fixtures (Net of Accumulated Depreciation of \$728,426 and \$705,511)	944,404	967,319
Mining Properties (Net of Accumulated Amortization of \$497,161 and \$484,842)	4,206,206	4,218,525
Total Fixed Assets	5,150,610	5,185,844
Other Assets:		
Investment in Affiliate	70,000	70,000
Other Assets	200,999	178,178
Total Other Assets	270,999	248,178
TOTAL ASSETS	\$7,742,823	\$8,184,682
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	\$36,455	\$73,266
Accrued Expenses	49,332	52,029
Total Current Liabilities		
Long-Term Liabilities	85,7870	125,2950
TOTAL LIABILITIES	\$85,788	\$125,295
Equity:		
Preferred Stock, \$1.00 par value, 10,000 shares authorized 1,000 and 1,000 shares issued and outstanding	\$1,000	\$1,000
Common Stock, \$0.01 par value, 25,000,000 and 12,500,000 shares authorized 10,672,618 and 10,602,868 shares issued and outstanding	106,726	106,029
Preferred Rights	40,000	40,000
Additional Paid In Capital	39,044,531	38,421,114
Other Comprehensive Income	186,701	575,600
Accumulated Deficit	(6,002,516)	(6,002,516)
Accumulated Deficit Since Reentering the Development Stage	(21,941,339)	(21,493,034)
Total DynaResource, Inc. Stockholders' Equity	11,435,103	11,648,193
Noncontrolling Interest	(3,778,067)	(3,588,806)
TOTAL EQUITY	7,657,036	8,059,387

TOTAL LIABILITIES AND EQUITY	\$7,742,823	\$8,184,682
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The accompanying notes are an integral part of these financial statements.

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DYNARESOURCE, INC.

(An Exploration Stage Company)

Consolidated Statements of Operations

For the Three Months Ended March 31, 2012 and 2011

And Cumulative Since Re-entering the Development Stage (January 1, 2007)
through March 31, 2012

	2012	2011	Cumulative Since Reentering the Exploration Stage (January 1, 2007 through March 31, 2012)
REVENUES	\$ 0	\$ 0	\$ 346,726
EXPLORATION EXPENSES (exclusive of depreciation and amortization shown separately below)	234,871	1,663,036	14,675,987
GROSS PROFIT (DEFICIT)	(234,871)	(1,663,036)	(14,329,261)
OPERATING EXPENSES			
Depreciation and Amortization Stock Issued for Services	35,234 0	93,181	2,748,564
General and Administrative	781,755	318,262	7,081,059
TOTAL OPERATING EXPENSES	816,989	446,675	10,588,798
NET OPERATING INCOME (LOSS)	(1,051,860)	(2,109,711)	(24,918,059)
OTHER INCOME (EXPENSE)			
Portfolio Income	250	297	21,613
Currency Translation Gain (Loss)	381,491	474,633	(1,086,248)
Other Income	0	0	2,987
TOTAL OTHER INCOME (EXPENSE)	381,741	474,930	(1,061,648)
NET INCOME (LOSS) BEFORE INCOME TAXES	(670,119)	(1,634,781)	(25,979,707)
Provision for Income Taxes (Expense) Benefit	0	0	38,259
NET INCOME (LOSS)	\$ (670,119)	\$ (1,634,781)	\$ (25,941,448)
Net Loss Attributable to Non-Controlling Interest	221,814	724,230	3,769,897
NET LOSS ATTRIBUTABLE TO DYNARESOURCE, INC. COMMON SHAREHOLDERS	(448,305)	(910,551)	(22,171,551)
Unrealized Loss on Securities Held for Sale	0	0	(735,760)

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Unrealized Currency Translation Gain (Loss)	80,556	6,125	1,052,039
TOTAL COMPREHENSIVE INCOME (LOSS)	(367,739)	(904,426)	(21,855,272)
Comprehensive (Income) Loss Attributable To Non-Controlling Interest	(32,553)	(1,531)	39,395
COMPREHENSIVE LOSS ATTRIBUTABLE TO DYNARESOURCE, INC. COMMON SHAREHOLDERS	\$ (400,292)	\$ (905,957)	\$ (21,815,877)
EARNINGS PER SHARE, Basic and Diluted			
Weighted Average Shares Outstanding Basic and Diluted	10,615,903	9,833,388	
Income (Loss) per Common Share, Basic and Diluted	\$ (0.0631)	\$ (0.1085)	

The accompanying notes are an integral part of these financial statements.

DYNARESOURCE, INC.

(An Exploration Stage Company)

Consolidated Statement of Changes in Stockholders' Equity

For the Three Months Ended March 31, 2012 and the Year Ended December 31, 2011

	Preferred Shares	Preferred Amount	Common Shares	Common Amount	Preferred Rights	Additional Paid In Capital	Treasury Stock	Other Comprehensive Income	Accumulated Deficit	Deficit Since Reentering the Exploration Stage
Stockholders' Equity, January 1, 2011	1,000	\$1,000	9,763,220	\$97,632	\$40,000	\$31,011,472	\$0	\$405,948	\$(6,002,516)	\$(17,223,300)
Sale of Common Shares			565,148	5,652		2,220,005				
Issuance of Common Shares for Services			274,500	2,745		1,158,444				
Common Stock Options Issued						31,476				
Other Comprehensive Income								169,652		
DynaMexico Earn In						3,999,717				
Net Income (Loss)										(4,269,100)
Stockholders' Equity, December 31, 2011	1,000	\$1,000	10,602,868	\$106,029	\$40,000	\$38,421,114	\$0	\$575,600	\$(6,002,516)	\$(21,493,300)
Sale of Common Shares			69,750	697		406,053				
Common Stock Options Issued						217,364				
Other Comprehensive Income								(388,899)		
Net Income (Loss)										(448,305)

Stockholders'
Equity, March
31, 2012

1,000	\$1,000	10,672,618	\$106,726	\$40,000	\$39,044,531	\$0	\$186,701	\$(6,002,516)	\$(21,941,
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The accompanying notes are an integral part of these financial statements.

DYNARESOURCE, INC.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2012 and 2011
And Cumulative Since Re-entering the Development Stage (January 1, 2007)
through March 31, 2012

	2012	2011	Cumulative Since Reentering the Development Stage (January 1, 2007) through March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income (Loss)	\$(670,119)	\$(1,634,781)	\$(25,941,448)
Adjustments to reconcile net loss to cash used by operating activities:			
Issuance of Common Stock for Services	0	93,181	2,748,564
Issuance of Common Stock Options	217,364	0	248,840
Issuance of Preferred Stock for Services	0	0	1,000
Depreciation and Amortization	35,234	35,232	759,175
Loss on Disposition of Assets	0	0	28,006
Change in Operating Assets and Liabilities:			
Decrease in Accounts Receivable	0	0	199,143
(Increase) in Foreign Tax Receivable	(36,519)	(160,982)	(21,907)
(Increase) Decrease in Other Current Assets	(5,666)	(1,527)	115,393
(Increase) in Other Assets	(22,821)	0	(200,999)
(Decrease) in Accounts Payable	(36,811)	(23,098)	(4,949)
(Decrease) in Accrued Expenses	(2,697)	(10,633)	(54,804)
(Decrease) in Deferred Tax Liability	0	0	(38,259)
CASH FLOWS (USED IN) OPERATING ACTIVITIES	(522,035)	(1,702,608)	(22,162,345)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Fixed Assets	0	(631,767)	(1,089,096)
Retirement of Fixed Assets	0	0	20,148
Conversion of Note Receivable to Equity	0	0	750,000
Investment in Affiliate	0	0	(70,000)
Note Receivable to Affiliate	0	0	(750,000)
CASH FLOWS (USED IN) INVESTING ACTIVITIES	0	(631,767)	(1,138,948)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from DynaMexico Earn In	0	4,000,000	17,674,712
Proceeds from Sale of Common Stock	406,750	510,256	6,729,701
Repurchase of Common Stock Options	0	0	(10,000)
Other Comprehensive Income (Loss)	(359,346)	(460,435)	185,346
Purchase of Treasury Stock	0	0	(372,479)

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Sale of Treasury Stock	0	0	472,375
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	50,404	4,049,821	24,679,655
NET INCREASE (DECREASE) IN CASH	(471,631)	1,715,446	1,378,462
CASH AT BEGINNING OF PERIOD	2,670,933	1,277,065	820,840
CASH AT END OF PERIOD	\$2,199,302	\$2,992,511	\$ 2,199,302

SUPPLEMENTAL DISCLOSURES

Non-Cash Issuance of Common Shares for Services	\$0	\$93,181	\$ 2,748,564
Non-Cash Issuance of Preferred Shares for Services	\$0	\$0	\$ 1,000
Non-Cash Conversion of Note Receivable to Equity	\$0	\$0	\$ 750,000
Non-Cash Issuance of Stock Options	\$217,364	\$0	\$ 248,840
Non-Cash Dividend of Property	\$0	\$0	\$ 129,822
Cash Paid for Interest	\$0	\$0	\$ 0
Cash Paid for Income Taxes	\$0	\$0	\$ 0

The accompanying notes are an integral part of these financial statements.

DYNARESOURCE, INC.

(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
March 31, 2012

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

DynaResource, Inc. (The “Company” or “DynaResource”) was organized September 28, 1937, as a California corporation under the name of West Coast Mines, Inc. In 1998, the Company re-domiciled to Delaware and changed its name to DynaResource, Inc. The Company is in the business of acquiring, investing in, and developing precious metal properties, and the production of precious metals.

In 2000, the Company formed a wholly owned subsidiary, DynaResource de Mexico S.A. de C.V. chartered in Mexico (“DynaMexico”). This Company was formed to acquire, invest in and develop resource properties in Mexico. In 2005, the Company formed DynaResource Operaciones de San Jose De Gracia S.A. de C.V. (“DynaOperaciones”), and acquired effective control of Mineras de DynaResource, S.A de C.V. (formerly Minera Finestierre S.A. De C.V.), (“MinerasDyna”). The Company owned 25% of MinerasDyna and acquired effective control of MinerasDyna by acquiring the option to purchase the remaining 75% of the Shares of MinerasDyna. The Company finalized the option and acquisition of MinerasDyna in January 2010, and now owns 100% of MinerasDyna. The results of MinerasDyna are consolidated with those of the Company.

In January 2008, DynaMexico issued 15% of its outstanding common shares to Goldgroup Resources Inc. (“Goldgroup”), in exchange for \$3,000,000 USD cash contribution for exploration expenditures at the San Jose de Gracia property (“SJG”), and in August 2008, DynaMexico issued an additional 10% of its outstanding common shares to Goldgroup in exchange for an additional \$3,000,000 USD cash for exploration expenditures, and in March 2011, DynaMexico issued an additional 25% of its outstanding common shares to Goldgroup in exchange for an additional \$12,000,000 USD cash for exploration expenditures (See Note 6 below). Through December 31, 2011 and March 31, 2012, Goldgroup has contributed \$18,000,000 USD to DynaMexico, and it currently owns 50% of the outstanding common shares of DynaMexico.

The Company produced approximately \$7,637,150 in revenues from production activities conducted during the years ended December 31, 2003 through 2006, and suspended this activity voluntarily to concentrate its efforts on exploration and development. In accordance with that decision, as of January 1, 2007, the Company reentered the Exploration Stage and has presented its cumulative results since reentering the Exploration Stage, in accordance with Accounting Standards Codification (“ASC”) 915 “Development Stage Entities”, and will continue this presentation until it again has revenues from operations.

The Company chose to become a voluntary reporting issuer in Canada in order to avail itself of Canadian regulations regarding reporting for mining properties, more specifically, National Instrument 43-101 (NI 43-101). This regulation sets forth standards for reporting resources in a mineral property and is a standard recognized in the mining industry.

Significant Accounting Policies:

The Company’s management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense. The accounting policies used conform to generally accepted accounting principles which have been consistently applied in the preparation of these financial statements.

The financial statements and notes are representations of the Company's management which is responsible for their integrity and objectivity. Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

Basis of Presentation:

The Company prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States.

Principles of Consolidation:

The financial statements include the accounts of DynaResource, Inc. as well as DynaResource de Mexico, S.A. de C.V., DynaResource Operaciones S.A. de C.V. and Mineras de DynaResource S.A. de C.V. All significant inter-company transactions have been eliminated. All amounts are presented in U.S. Dollars unless otherwise stated.

Foreign Currency Translation:

The functional currency for the subsidiaries of the Company is the Mexican peso. As a result, the financial statements of the subsidiary have been re-measured from Mexican pesos into U.S. dollars using (i) current exchange rates for monetary asset and liability accounts, (ii) historical exchange rates for nonmonetary asset and liability accounts, (iii) historical exchange rates for revenues and expenses associated with nonmonetary assets and liabilities and (iv) the weighted average exchange rate of the reporting period for all other revenues and expenses. In addition, foreign currency transaction gains and losses resulting from U.S. dollar denominated transactions are eliminated. The resulting re-measured gain or loss is reported as a separate component of stockholders' equity (comprehensive income (loss)).

The financial statements of the subsidiary should not be construed as representations that Mexican pesos have been, could have been or may in the future be converted into U.S. dollars at such rates or any other rates.

Relevant exchange rates used in the preparation of the financial statements for the subsidiary are as follows for the periods ended March 31, 2012 and December 31, 2011 (Mexican pesos per one U.S. dollar):

		March 31, 2012
Current exchange rate:	Pesos	12.78
Weighted average exchange rate for the quarter ended:	Pesos	12.98
		December 31, 2011
Current exchange rate:	Pesos	13.97
Weighted average exchange rate for the year ended:	Pesos	12.42

Cash and Cash Equivalents:

The Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. At March 31, 2012, the Company had a balance of \$1,238,200 that was in excess of the FDIC insurance limit and \$515,978 which is currently insured in full under the FDIC's temporary unlimited coverage on non-interest bearing transactions accounts, which expires on December 31, 2012. The carrying amount approximates fair market value.

Accounts Receivable and Allowances for Doubtful Accounts:

The allowance for accounts receivable is recorded when receivables are considered to be doubtful of collection. No allowance has been established as all receivables were deemed to be fully collectable.

Foreign Tax Receivable:

Foreign Tax Receivable (IVA) is comprised of recoverable value-added taxes charged by the Mexican government on goods and services rendered. Under certain circumstances, these taxes are recoverable by filing a tax return. Amounts paid for IVA are tracked and held as receivables until the funds are remitted. The total amount of the IVA receivable as of March 31, 2012 and December 31, 2011 are \$71,112 and \$34,593, respectively.

Inventory:

As the Company ceased mining production in 2006, there is no inventory as of March 31, 2012 and December 31, 2011.

Fixed Assets:

Fixed assets are carried at cost. Depreciation is provided over each asset's estimated useful life. Upon retirement and disposal, the asset cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the determination of the net income. Expenditures for geological and engineering studies, maintenance and claim renewals are charged to expense when incurred. Additions and significant improvements are capitalized and depreciated.

Mining Properties:

The Company is an 'Exploration Stage' company as defined in "SEC Industry Guide 7". Mining properties consist of 33 mining concessions covering approximately 69,121 hectares, at the San Jose de Gracia property, the basis of which are deferred until the properties are brought into production, at which time they will be amortized on the unit of production method based on estimated recoverable reserves. The Company has elected to expense a minimal amount of amortization due to the effects of exploration activities on the recoverable reserves. If it is determined that the deferred costs related to a property are not recoverable over its productive life, those costs will be written down to fair value as a charge to operations in the period in which the determination is made. The amounts at which mineral properties and the related deferred costs are recorded do not necessarily reflect present or future values.

The recoverability of the book value of each property will be assessed annually for indicators of impairment such as adverse changes to any of the following:

- estimated recoverable ounces of gold, silver or other precious minerals;
- estimated future commodity prices;
- estimated expected future operating costs, capital expenditures and reclamation expenditures.

A write-down to fair value will be recorded when the expected future cash flow is less than the net book value of the property or when events or changes in the property indicate that carrying amounts are not recoverable. This analysis will be completed as needed, and at least annually. As of the date of this filing, no events have occurred that would require write-down of any assets. As of March 31, 2012, no indications of impairment existed.

Exploration Costs:

Exploration costs not directly associated with proven reserves on the mining concessions are charged to operations as incurred. Exploration, development, direct field costs and administrative costs are expensed in the period incurred.

The carrying amounts of the mining concessions are reviewed at each calendar year end to determine whether there is any indication of impairment or at other times if indications of impairment exist.

As of March 31, 2012, no indications of impairment existed.

Advertising Costs:

The Company incurred no advertising costs for the three months ended March 31, 2012 and 2011.

Income Taxes:

Income from the corporation is taxed at regular corporate rates per the Internal Revenue Code. Although the Company has tax loss carry-forwards (see Note 5), there is uncertainty as to utilization prior to their expiration. Accordingly, the future income tax asset amounts have been fully offset by a valuation allowance.

Use of Estimates:

In order to prepare financial statement in conformity with accounting principles generally accepted in the United States, management must make estimates, judgments and assumptions that affect the amounts reported in the financial statements and determines whether contingent assets and liabilities, if any, are disclosed in the financial statements. The ultimate resolution of issues requiring these estimates and assumptions could differ significantly from resolution currently anticipated by management and on which the financial statements are based.

Comprehensive Income:

ASC 220 "Comprehensive Income" establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The Company's comprehensive income consists of net income and other comprehensive income (loss), consisting of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations. For the periods ended March 31, 2012 and December 31, 2011, the Company's components of comprehensive income were foreign currency translation adjustments and unrealized losses on securities held for sale.

Revenue Recognition:

The Company recognizes revenue in accordance with ASC 605-10, "Revenue Recognition in Financial Statements",. Revenue is recognized when persuasive evidence of an arrangement exists, delivery or service has occurred, the sale price is fixed or determinable and receipt of payment is probable.

Revenues earned from the sale of precious metal concentrates are recognized as the title to the material is passed to the buyer upon delivery.

Earnings per Common Share:

Earnings (loss) per share are calculated in accordance with ASC 260 "Earnings per Share". The weighted average number of common shares outstanding during each period is used to compute basic earnings (loss) per share. Diluted earnings per share are computed using the weighted average number of shares and potentially dilutive common shares outstanding. Dilutive potential common shares are additional common shares assumed to be exercised. Potentially dilutive common shares consist of stock options and are excluded from the diluted earnings per share computation in periods where the Company has incurred a net loss, as their effect would be considered anti-dilutive.

There were no potentially dilutive common stock equivalents as of March 31, 2012, therefore basic earnings per share equals diluted earnings per share for the year ended March 31, 2012. The Company had 215,250 options outstanding at March 31, 2012. As the Company incurred a net loss during the year ended March 31, 2012, the basic and diluted loss per common share is the same amount, as any common stock equivalents would be considered anti-dilutive.

As the Company incurred a net loss during the three months ended March 31, 2011, the basic and diluted loss per common share is the same amount. As of March 31, 2011, the Company had zero stock options outstanding that could potentially have a dilutive effect on basic earnings per share in the future.

Recently Issued Accounting Pronouncements:

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position or cash flow. See Note 12 for a discussion of new accounting pronouncements.

Reclassifications:

Certain prior year balances have been reclassified to conform to current year presentation.

NOTE 2 – FIXED ASSETS

Fixed assets consist of the following at March 31, 2012 and December 31, 2011:

	2012	2011
Mining camp equipment and fixtures	\$ 1,224,540	\$ 1,224,540
Transportation equipment	268,253	268,253
Lab equipment	14,306	14,306
Machinery and equipment	43,187	43,187
Office furniture and fixtures	76,895	76,895
Office equipment	11,673	11,673
Computer equipment	33,976	33,976
Sub-total	1,672,830	1,672,830
Less: Accumulated depreciation	(728,426)	(705,511)
Total	\$ 944,404	\$ 967,319

Depreciation has been provided over each asset's estimated useful life. Depreciation expense was \$22,915 and \$20,232 for the three months ended March 31, 2012 and 2011, respectively. The Company acquired a tractor during 2011 that was not in service as of March 31, 2012, and therefore, has not yet been depreciated.

NOTE 3 – MINING PROPERTIES

Mining properties consist of the following at March 31, 2012 and December 31, 2011:

	2012	2011
San Jose de Gracia (“SJG”):		
Mining Concessions	\$ 4,703,367	\$ 4,703,367
Less: Accumulated Amortization	(497,161)	(484,842)
Total Mining Properties	\$ 4,206,206	\$ 4,218,525

Amortization expense was \$12,319 and \$15,000 for the three months ended March 31, 2012 and 2011, respectively.

NOTE 4 – INVESTMENT IN AFFILIATE

Through March 31, 2012 the Company loaned a total of \$805,760 USD to DynaResource Nevada, Inc. (“DynaNevada”), a Nevada Corporation, which maintains one operating subsidiary in Mexico, DynaNevada de Mexico, SA de CV. (“DynaNevada de Mexico”). The terms of the Note Receivable provided for a “Convertible Loan”, repayable at 5% interest over a 3 year period, and convertible at the Company’s option into common stock of DynaNevada at \$.25 / Share. DynaNevada is a related entity (affiliate), and through its subsidiary DynaNevada de Mexico, has entered into an Option agreement with Grupo Mexico (IMMSA) in Mexico, for the exploration and development of approximately 3,000 hectares in the State of San Luis Potosi (“The Santa Gertrudis Property”). DynaNevada de Mexico completed the Option with IMMSA in March 2010, so that DynaNevada de Mexico now owns 100% of the Santa Gertrudis Property. In June, 2010, DynaNevada de Mexico acquired an additional 6,000 hectares in the State of Sinaloa (the “San Juan Property”).

On December 31, 2010, the Company exercised its option to convert the note receivable and other receivable from DynaNevada into shares of common stock at a rate of \$.25 per share. The Company received 3,223,040 shares, which represents approximately 19.95% of the outstanding shares of DynaNevada. At the time of the exchange, DynaNevada’s net book value was approximately \$695,000, consisting of \$30,000 cash and the remainder unproven mining properties. DynaNevada has a contingent liability arising from the purchase of one of the mining properties, which Management believes has no merit. Based upon the above, Management estimated the value of the Company’s DynaNevada shares as of March 31, 2012 and December 31, 2011 to be \$70,000. Management believes the impairment is temporary, and therefore an unrealized loss of \$735,760 has been recorded in other comprehensive income.

NOTE 5 – INCOME TAXES

The Company has adopted ASC 740-10, “Income Taxes”, which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable (deferred tax liability) or benefit (deferred tax asset). Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The cumulative tax effect at the expected tax rate of 34% (blended for U.S. and Mexico) of significant items comprising the Company’s net deferred tax amounts as of March 31, 2012 and December 31, 2011 are as follows:

Deferred Tax Asset Related to:

2012	2011
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Prior Year	\$7,008,203	5,004,276
Tax Benefit for Current Year	227,840	2,003,927
Total Deferred Tax Asset	7,236,043	7,008,203
Less: Valuation Allowance	(7,236,043)	(7,008,203)
Net Deferred Tax Asset	\$0	\$0

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The net deferred tax asset and benefit for the current year is generated primarily from the cumulative net operating loss carry-forward which is approximately \$28,500,000 at March 31, 2012, and will expire in the years 2025 through 2031.

The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at March 31, 2012.

NOTE 6 – MATERIAL AGREEMENTS

Financing/Sale of Stock of Subsidiary:

On September 1, 2006 the Company and DynaMexico signed a “Stock Purchase and Earn In Agreement” (“Earn In”) between DynaResource and DynaMexico, (“Seller”) and Goldgroup Mining, Inc. (formerly Goldgroup Resources, Inc.), of Vancouver, British Columbia (“Goldgroup”), (“Buyer”), and Together, (“the Parties”).

The Earn In provided for Goldgroup to contribute \$18,000,000 on or before March 15, 2011 in exchange for fifty per cent (50%) of the total outstanding common shares of DynaMexico, the 100 % owner of the San Jose de Gracia Project in northern Sinaloa Mexico (“SJG”). The remaining balance of the \$18,000,000 to be contributed was completed on March 14, 2011 and Goldgroup now owns 50% of the outstanding common shares of DynaMexico.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Company paid \$0 and \$12,500 to Dynacap Group, Ltd. (an entity controlled by officers of the Company) for consulting and other fees in the three months ended March 31, 2012 and 2011, respectively.

In addition, the Company has issued its stock to the following directors and consultants for the periods ended March 31, 2012 and December 31, 2011, respectively:

	2011	2010
Directors	\$ 0	\$ 85,500
Consultants	\$ 0	\$ 1,075,689
Totals	\$ 0	\$ 1,161,189

The above stock transactions were expensed as compensation in the financial statements.

NOTE 8 – STOCKHOLDERS’ EQUITY

Preferred Stock:

The Company is authorized to issue 10,000 shares of its Series A Preferred Stock, having a par value of \$1.00 per share. Holders of the Series A Preferred Stock have the right to elect a majority of the Board of Directors of the Company. In October 2007, the Company issued 1,000 shares of Series A Preferred Stock to its CEO. An aggregate of 1,000 shares of Series A Preferred Stock were outstanding at March 31, 2012 and December 31, 2011, respectively.

Common Stock:

The Company is authorized to issue 25,000,000 common shares at a par value of \$0.01 per share. These shares have full voting rights. At March 31, 2012 and December 31, 2011, there were 10,672,618 and 10,602,868 shares outstanding, respectively. No dividends were paid in 2012 or 2011.

Preferred Rights:

The Company issued "Preferred Rights" and received \$158,500 in 2003 and \$626,000 in 2002, for the rights to percentages of revenues generated from the San Jose de Gracia Pilot Production Plant. This has been reflected as "Preferred Rights" in stockholders' equity. As of December 31, 2004, \$558,312 was repaid and as of December 31, 2005, an additional \$186,188 has been repaid, leaving a current balance of \$40,000 and \$40,000 as of March 31, 2012 and December 31, 2011, respectively.

Stock Issuances:

During the three months ended March 31, 2012, the Company issued 69,750 common shares for cash.

During 2011, the Company issued 565,148 common shares for cash.

During 2011, the Company also issued 274,500 shares for \$1,161,189 of consulting services. Included in this amount was 20,000 shares issued to directors for \$85,500 in services.

Treasury Stock:

Treasury stock is accounted for by the cost method.

Options and Warrants:

The Company had 215,250 options or warrants outstanding at March 31, 2012.

During the three months ended March 31, 2012, 190,250 options were issued, none were exercised and none expired. The Company recorded expense related to the issuance of these options in accordance with the Black Scholes option pricing model.

During 2011, 25,000 options were issued, none were exercised and none expired. The Company recorded expense related to the issuance of these options in accordance with the Black Scholes option pricing model.

NOTE 9 – EMPLOYEE BENEFIT PLANS

During the periods ended March 31, 2012 and December 31, 2011, there were no qualified or non-qualified employee pension, profit sharing, stock option, or other plans authorized for any class of employees.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Company is required to pay taxes in order to maintain their concessions. Additionally, the Company is required to incur a minimum amount of expenditures each year for all concessions held. The minimum expenditures are calculated based upon the land area, as well as the age of the concessions. Amounts spent in excess of the minimum may be carried forward indefinitely over the life of the concessions, and are adjusted annually for inflation. Based on Management's business plans, they do not anticipate any issues in meeting the minimum annual expenditures for the concessions, and the Company retains sufficient carry forward amounts to cover over 20 years of the minimum expenditure (as calculated at the 2010 minimum, adjusted for annual inflation of 4%).

In September 2008, the Company entered into a 37 month lease agreement for its corporate office. In August, 2011 the Company entered into a one year extension of the lease through August 31, 2012. In The Company paid rent expense of \$11,520 and \$12,776 related to this lease for the three months ended March 31, 2012 and 2011.

The following is a schedule of minimum lease payments required under the existing lease as of March 31, 2012:

Year Ended December 31:	Amount
2012	\$ 19,200
2013 and beyond	0
Total	\$ 19,200

NOTE 11 – NON-CONTROLLING INTEREST

The Company's Non-controlling Interest recorded in the consolidated financial statements relates to a 50% interest in DynaResource de México, S.A. de C.V. Changes in Non-controlling Interest for the three months ended March 31, 2012 and the year ended December 31, 2011 were as follows:

	Three Months Ended March 31, 2012	Year ended Dec 31, 2011
Beginning balance	\$ (3,588,806)	\$ (1,923,300)
Operating income (loss)	(221,814)	(1,624,783)
Other comprehensive income (loss)	32,553	(40,723)
Ending balance	\$ (3,778,067)	\$ (3,588,806)

The Company began allocating a portion of other comprehensive income (loss) to the non-controlling interest with the adoption of FASB 160 as of January 1, 2009.

NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-05, “Comprehensive Income – Presentation of Comprehensive Income.” ASU No. 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. It requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December, 2011, the FASB issued ASU 2011-12, “Comprehensive Income – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05” to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update, which are to be applied retrospectively, are effective for fiscal years, and interim periods within those years, beginning December 15, 2011, The Company is currently evaluating the impact that the adoption will have on their consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet – Disclosures about Offsetting Assets and Liabilities.” ASU 2011-11 requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments and will be applied retrospectively for all comparative periods presented. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company is currently evaluating the impact that the adoption will have on their consolidated financial statements.

NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In September 2006, the guidance for fair value measurements and disclosure was updated to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. This guidance does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The provisions of the updated guidance were adopted January 1, 2008. In February 2008, the FASB staff issued an update to the guidance which delayed the effective date for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company adopted the updated guidance for the Company’s nonfinancial assets and liabilities measured at fair value on a nonrecurring basis on January 1, 2009. The adoption of updated guidance did not have a material impact on the Company’s financial position, results of operations or cash flows.

In October 2008, the guidance was further updated to provide guidance on how the fair value of a financial asset is to be determined when the market for that financial asset is inactive. The guidance states that determining fair value in an inactive market depends on the facts and circumstances, requires the use of significant judgment and, in some cases, observable inputs may require significant adjustment based on unobservable data. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when determining fair value of an asset in an inactive market. The guidance was effective upon issuance. The Company has incorporated the principles of updated guidance in determining the fair value of financial assets when the market for those assets is not active.

In April 2009, the guidance was further updated to provide additional guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying circumstances that indicate when a transaction is not orderly. The provisions of this updated guidance were adopted April 1, 2009. The adoption of the guidance did not have an impact on the Company’s fair value measurements.

The ASC guidance for fair value measurements and disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs – Quoted prices for identical instruments in active markets.

Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs – Instruments with primarily unobservable value drivers.

As of March 31, 2012 and December 31, 2011, the Company's financial assets are measured at fair value using Level 3 inputs, with the exception of cash, which was valued using Level 1 inputs. There were no financial liabilities as of March 31, 2012.

Fair Value Measurement at March 31, 2012 Using:

	December 31, 2011	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and Cash Equivalents	\$2,199,302	\$2,199,302	\$-	\$ -
Investment in Affiliate	70,000	-	-	70,000
	\$2,269,302	\$2,199,302	\$-	\$ 70,000

Fair Value Measurement at December 31, 2011 Using:

	December 31, 2010	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and Cash Equivalents	\$ 2,670,933	\$ 2,670,933	\$ -	\$ -
Investment in Affiliate	70,000	\$ -	\$ -	\$ 70,000
	\$ 2,740,933	\$ 2,670,933	\$ -	\$ 70,000

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth on the forward looking statements as a result of the risks set forth in the Company's filings with the Securities and Exchange Commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.

General

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this annual report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this annual report as the Exchange Act. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management. When we make forward-looking statements, we are basing them on our management's beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this annual report. Factors that can cause or contribute to these differences include those described under the headings "Risk Factors" and "Management Discussion and Analysis and Plan of Operation."

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statement you read in this annual report reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this annual report. The Company expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any change in its views or expectations. The Company can give no assurances that such forward-looking statements will prove to be correct.

IMPORTANT NOTE REGARDING CANADIAN DISCLOSURE STANDARDS

The Company is an "OTC Reporting Issuer" as that term is defined in BC Instrument 51-509, Issuers Quoted in the U.S. Over-the-Counter Markets, promulgated by the British Columbia Securities Commission. Accordingly, certain disclosure in this annual report has been prepared in accordance with the requirements of securities laws in effect in Canada, which differ from the requirements of United States securities laws. In Canada, an issuer is required to provide technical information with respect to mineralization, including reserves and resources, if any, on its mineral exploration properties in accordance with Canadian requirements, which differ significantly from the requirements of the United States Securities and Exchange Commission (the "SEC") applicable to registration statements and reports filed by United States companies pursuant to the Securities Act or the Exchange Act. As such, information contained in this annual report concerning descriptions of mineralization under Canadian standards may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the SEC and not subject to Canadian securities legislation. This annual report may use the terms "measured mineral resources", "indicated mineral resources" and "inferred mineral resources". While these terms are recognized and required

by Canadian securities legislation (under National Instrument 43-101, Standards of Disclosure for Mineral Projects), the SEC does not recognize them. United States investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted to reserves. In addition, “inferred mineral resources” have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of a measured mineral resource, indicated mineral resource or inferred mineral resource will ever be upgraded to a higher category. Under Canadian securities legislation, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, although they may form, in certain circumstances, the basis of a “preliminary economic assessment” as that term is defined in National Instrument 43-101, Standards of Disclosure for Mineral Projects. U.S. investors are cautioned not to assume that any part or all of any reported measured mineral resources, indicated mineral resources, or inferred mineral resources referred to herein or in the Technical Report are economically or legally mineable.

Company

DynaResource, Inc., the Company described herein, is a Delaware corporation, with offices located at 222 W. Las Colinas Blvd., Suite 744 East Tower, Irving, Texas 75039. It can be reached by phone at (972) 868-9066 and by fax at (972) 868-9067.

History

The Company was incorporated in the State of California on September 28, 1937, under the name West Coast Mines, Inc. In November 1998, the Company re-domiciled from California to Delaware and changed its name to DynaResource, Inc. The Company is in the business of acquiring, investing in, and developing precious metal properties, and the production of precious metals.

Through its 50% owned Mexican subsidiary, DynaResource de México, S.A. de C.V. (“DynaMéxico”), the Company owns a portfolio of mining concessions that currently includes its interests in the San José de Gracia (SJG) Project in Sinaloa State, in northern Mexico. The SJG District covers 69,121 hectares (170,802 acres) on the west side of the Sierra Madre Mountains.

DynaResource owns a 50% common stock interest in DynaMéxico, and the remaining 50% common stock interest is held by Goldgroup Mining Inc. A wholly owned subsidiary of the Company, Mineras de DynaResource S.A. de C.V. (“MinerasDyna”), entered into an operating agreement with DynaMéxico on April 15, 2005 and, as a consequence of that agreement, is the named exclusive operating entity for the SJG Project.

In 2005, the Company formed another wholly owned subsidiary, DynaResource Operaciones, SA de C.V. (“DynaOperaciones”). DynaOperaciones entered into a personnel management agreement with MinerasDyna and, as a consequence of that agreement, is the exclusive manager of personnel for the SJG Project.

Licenses and Concessions

The SJG District is comprised of 33 mining concessions covering 69,121 hectares (171,802 acres) and is located within the Sierra Madre gold-silver belt, where the majority of hydrothermal deposits in Mexico are located. The Company’s concessions, all of which are formally held by DynaMéxico, are granted by the Mexican government, or acquired from previous owners. The Company’s concessions are comprised of a combination of exploration concessions and development concessions, are filed in the Public Registry of Mining, and are scheduled to expire from 2028 through 2058. The concessions can be renewed prior to the expiry dates. The table below contains a listing of the mineral concessions currently held by DynaMéxico.

DynaMexico plans to apply for certain operating licenses and additional permits as part of its pre-production activities for the San Jose de Gracia property. The licenses and permits would be issued by the host government, whether state or federal.

Current Mining Concessions - San José de Gracia

Claim Name	Claim Number	Staking date	Expiry	Hectares	Taxes / ha (pesos)
AMPL. SAN NICOLAS	183815	22/11/1988	21/11/2038	17.4234	111.27
AMPL. SANTA ROSA	163592	30/10/1978	29/10/2028	25.0000	111.27
BUENA VISTA	211087	31/03/2000	30/03/2050	17.9829	63.22
EL CASTILLO	214519	02/10/2001	01/10/2051	100.0000	31.62
EL REAL	212571	07/11/2000	06/11/2050	2037.9479	63.22
EL REAL 2	216301	30/04/2002	29/04/2052	280.1555	31.62
FINISTERRE FRACC. A	219001	28/01/2003	27/01/2053	18.7856	31.62
FINISTERRE FRACC. B	219002	28/01/2003	27/01/2053	174.2004	31.62
GUADALUPE	189470	05/12/1990	04/12/2040	7.0000	111.27
LA GRACIA I	215958	02/04/2002	01/04/2052	300.0000	31.62
LA GRACIA II	215959	02/04/2002	01/04/2052	230.0000	31.62
LA LIBERTAD	172433	15/12/1983	14/12/2033	97.0000	111.27
LA NUEVA AURORA	215119	08/02/2002	07/02/2052	89.3021	31.62
LA NUEVA ESPERANZA	226289	06/12/2005	05/12/2055	40.0000	7.6
LA UNION	176214	26/08/1985	25/08/2035	4.1098	111.27
LOS TRES AMIGOS	172216	27/10/1983	26/10/2033	23.0000	111.27
MINA GRANDE	163578	10/10/1978	09/10/2028	6.6588	111.27
NUEVO ROSARIO	184999	13/12/1989	12/12/2039	32.8781	111.27
PIEDRAS DE LUMBRE 2	215556	05/03/2002	04/03/2052	34.8493	31.62
PIEDRAS DE LUMBRE 3	218992	28/01/2003	27/01/2053	4.3098	31.62
PIEDRAS DE LUMBRE No.4	212349	29/09/2000	28/09/2050	0.2034	63.22
PIEDRAS DE LUMBRE UNO	215555	05/03/2002	04/03/2052	40.2754	31.62
SAN ANDRES	212143	31/08/2000	30/08/2050	385.0990	63.22
SAN JOSÉ	208537	24/11/1998	23/11/2048	27.0000	111.27
SAN MIGUEL	183504	26/10/1988	25/10/2038	7.0000	111.27
SAN NICOLAS	163913	14/12/1978	13/12/2028	55.5490	111.27
SAN SEBASTIAN	184473	08/11/1989	07/11/2039	40.0000	111.27
SANTA MARIA	218769	17/01/2003	16/01/2053	4.2030	31.62
SANTA ROSA	170557	13/05/1982	12/05/2032	31.4887	111.27
SANTO TOMAS	187348	13/08/1986	12/08/2036	312.0000	111.27
TRES AMIGOS 2	212142	31/08/2000	30/08/2050	54.4672	63.22

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FINISTERRE 4	231166	18/01/2008	17/01/2058	2142.1302	5.08
FRANCISCO ARTURO	230494	06/09/2007	27/03/2057	62481.3815	5.08
TOTAL				69,121.4010	

The San Jose de Gracia mining property surrounds the area of San Jose de Gracia, Sinaloa State, Mexico. San Jose de Gracia is located on the west side of the Sierra Madre Mountains in the Sierra Madre Gold-Silver Belt, approximately 100 kilometers inland from Los Mochis, Sinaloa Mexico and approximately 200 kilometers north of Mazatlan, Sinaloa.

Historical Production

SJG reports 1,000,000 Oz. gold historical production from a series of underground workings. 471,000 Oz. Au is reported produced at the La Purisima area of SJG, at an average grade of 66.7 g/t; and 215,000 Oz. Au is reported produced from the La Prieta area, at an average grade of 27.6 g/t. Mineralization at SJG has been traced on surface and underground over a 15 square kilometer area.

1997-1998 Drilling – Exploration Programs

A drill program was conducted at SJG in 1997 - 1998 by a prior majority owner. Approximately 6,172 meters drilling was completed in 63 core drill holes. Significant intercepts, including bonanza grades, outlined the down dip potential of the Northeast section (150 Meter NE to SW extent of the Drilling) of the Los Hilos to Tres Amigos Trend of SJG. Surface and underground sampling in 1999 - 2000 confirmed high grades in historic workings and surface exposures throughout the project area. These high grades outline the presence of ore shoots developed within the veins. The ore shoots appear to be controlled by dilational jogs and/or vein intersections. A total of 544 samples were collected in 1999-2000, and assayed an average 6.51 grams/ton gold.

Pilot Production Activities

DynaMexico, conducting activities through its operating sister companies MinerasDyna and DynaOperaciones, mined high-grade veins at the San Pablo area of SJG from mid 2003 to June 2006. 18,250 Oz. gold was produced and sold from mill feed tonnage of 42,000 tons, at an average grade of approximately 15-20 g/t. Production costs were reported at approx. < \$ 175. / Oz. Au in this small scale, pilot production operation.

Mined Tonnage	42,500 tons
Production (Oz Au)	18,250 Oz
Average Grade	15-20 g/t
Recovery Efficiency (Plant)	85%
Recovery in Concentrate (Sales)	90%
Production Cost (Average, 4 Years)	\$175 / Oz

The small scale mining and production activities at SJG consisted of improvements to an existing mill, including the installation of a gravity / flotation processing circuit, and initial test runs with tailings were completed in 2002. Actual mining at the higher grade San Pablo area of the property commenced in March 2003.

Suspension of Production Activities

The Company initiated the test production activity in 2003 at the time gold prices were depressed, and when exploration funding opportunities, while available, were deemed to be too dilutive by Company management. While the test production was considered successful (see results in the table above), a small scale production activity was not expected to provide the necessary capital in order to explore a project the size of SJG.

The earlier, limited-scope production activity has provided significant benefits in terms of confirming production grades, metallurgy and process, efficiency of recoveries, and production costs – all of which is valuable for larger scale production plans.

Earn In / Option Agreement – Financing of Drilling – Exploration Programs

As gold prices continued to appreciate into 2006, exploration financing opportunities increased and the Company negotiated and entered into an Earn In / Option Agreement with Goldgroup Mining Inc., dated September 1, 2006. The terms of the Earn In / Option Agreement provided for Goldgroup to furnish \$18,000,000 USD financing to DynaMexico for exploration expenditures at SJG, in exchange for a 50% share interest in DynaMexico.

National Instrument 43-101 (“NI 43-101”) Mineral Resource Estimate

The Company received from DynaMexico on February 14, 2012 a National Instrument 43-101 (“NI 43-101”) Mineral Resource Estimate for San Jose de Gracia. The NI 43-101 Mineral Resource Estimate was prepared by Mr. Robert Sandefur, BS, MSc, P.E., a Qualified Person as defined under NI 43-101, and a senior reserve analyst for Chlumsky, Armbrust & Meyer LLC, Lakewood, CO (“CAM”). The Mineral Resource Estimate concentrates on four separate vein systems at SJG: Tres Amigos, San Pablo, La Union, and La Purisima. The Mineral Resource Estimate includes Indicated Resources at: (1) Tres Amigos of 893,000 tonnes with an average grade of 4.46 g/t, totaling 128,000 Oz. Au; and, (2) San Pablo of 1,308,000 tonnes with an average grade of 6.52 g/t, totaling 274,000 Oz. Au. The estimate also includes an Inferred Resource of 3,953,000 tonnes in aggregate for the four vein systems, with an average grade of 5.83 g/t, totaling 741,000 Oz. Au. The resource estimate is reported using a 2.0 g/t cut off, with the effective date of February 6, 2012 (the 2012 “DynaMexico-CAM SJG Mineral Resource Estimate”).

Mineral Resource and Classification for San Jose de Gracia Project

Cutoff	ORE		GRADE				TRES AMIGOS VEIN				
	tonnes	Au g/t	Ag g/t	Cu%	Pb%	Zn%	Au oz	Ag oz	CONTAINED		
									Cu Kgs.	Pb Kgs.	Zn Kgs.
0.00	1,166,000	3.747	9.0	0.186	0.050	0.327	140,000	337,000	2,165,000	578,000	3,815,000
0.50	1,166,000	3.747	9.0	0.186	0.050	0.327	140,000	337,000	2,165,000	578,000	3,815,000
1.00	1,128,000	3.845	9.2	0.189	0.051	0.334	139,000	333,000	2,137,000	570,000	3,774,000
1.50	1,019,000	4.124	9.7	0.200	0.053	0.351	135,000	319,000	2,038,000	537,000	3,572,000
2.00	893,000	4.458	10.3	0.210	0.056	0.367	128,000	297,000	1,875,000	499,000	3,276,000
2.50	758,000	4.853	10.8	0.218	0.059	0.385	118,000	263,000	1,652,000	450,000	2,917,000
3.00	608,000	5.366	11.3	0.220	0.061	0.386	105,000	221,000	1,338,000	374,000	2,349,000