

DYNARESOURCE INC  
Form 10-Q  
November 19, 2014

**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 September 30, 2014

**OR**

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

From the transition period \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-30371

**DYNARESOURCE, INC.**

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

Edgar Filing: DYNARESOURCE INC - Form 10-Q

Delaware 94-1589426  
(State or other jurisdiction of incorporation or organization) (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:

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 November 17, 2014 there were 13,815,274 shares of Common Stock of the issuer outstanding.



TABLE OF CONTENTS

PART I.	FINANCIAL STATEMENTS	
ITEM 1.	Financial Statements	3-6
	Notes to Financial Statements	7-18
ITEM 2.	Management's Discussion and Analysis and Plan of Operation	19-40
		40
ITEM 3.	Quantitative and Qualitative Disclosure About Market Risk	
ITEM 4.	Controls and Procedures	40
PART II.	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	41
ITEM 2.	Unregistered Sales of Securities and Use of Proceeds	42
ITEM 3.	Default Upon Senior Securities	42
ITEM 4.	Mine Safety Disclosures	42
ITEM 5.	Other Information	42
ITEM 6.	Exhibits and Reports on Form 8-K	42

CERTIFICATIONS

EXHIBIT 31.1	CHIEF EXECUTIVE OFFICER CERTIFICATION	
EXHIBIT 31.2	CHIEF FINANCIAL OFFICER CERTIFICATION	
EXHIBIT 32.1	CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350	



**DYNARESOURCE, INC.****Consolidated Balance Sheets**

	September 30, 2014 (unaudited)	December 31, 2013 (audited)
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$244,986	\$1,143,344
Accounts Receivable	0	0
Inventories	213,000	0
Foreign Tax Receivable and Other Current	691,922	296,038
Total Current Assets	1,149,908	1,439,382
 Mining Equipment and Fixtures (Net of Accumulated Depreciation of \$887,895 and \$851,861)	 229,288	 241,518
Mining Properties (Net of Accumulated Amortization of \$539,919 and \$519,400)	4,163,492	4,183,967
Investments in Affiliate	251,771	256,840
Other Assets	359,380	277,319
 <b>TOTAL ASSETS</b>	 \$6,153,839	 \$6,399,026
 <b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$85,403	\$114,498
Due to Non-controlling Interest	231,500	120,000
Accrued Expenses	518,671	246,722
Notes Payable—Current Portion	203,500	0
Total Current Liabilities	1,039,074	481,220
 Notes Payable (Net of Current Portion of \$203,500 and \$0)	 1,738,851	 1,354,808
 <b>TOTAL LIABILITIES</b>	 \$2,777,925	 \$1,836,028
 Equity:		
Preferred Stock, Series A, \$.0001 par value, 1,000 shares Authorized, 1,000 and 1,000 issued and outstanding	\$1	\$1
Preferred Stock, Series B, \$.0001 par value, 1,000,000 shares Authorized, 0 and 460,446 shares issued and outstanding	0	46
Preferred Stock, \$.0001 par value, 19,000,000 shares Authorized, no shares issued and outstanding	0	0
Common Stock, \$.01 par value, 25,000,000 shares authorized, 13,815,274 and 11,052,008 shares issued and outstanding	138,154	110,520
Preferred Rights	40,000	40,000

Edgar Filing: DYNARESOURCE INC - Form 10-Q

Additional Paid In Capital	49,082,493	43,292,746
Treasury Stock	(4,152,750 )	(707,750 )
Accumulated Other Comprehensive Income	257,631	252,611
Accumulated (Deficit)	(35,865,517)	(32,695,350)
Total DynaResource, Inc. Stockholders' Equity	9,500,012	10,292,824
Non-controlling Interest	(6,124,098 )	(5,729,826 )
 TOTAL EQUITY	 \$3,375,914	 \$4,562,998
 TOTAL LIABILITIES AND EQUITY	 \$6,153,839	 \$6,399,026

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

**DYNARESOURCE, INC.****Consolidated Statements of Operations****(Unaudited)**

	Three Months September 30, 2014	Three Months September 30, 2013	Nine Months September 30, 2014	Nine Months September 30, 2013
REVENUES	\$297,638	\$0	\$884,484	\$0
<b>COSTS AND EXPENSES OF MINING OPERATIONS</b>				
Production Costs Applicable to Sales	56,559	0	162,552	0
Mine Operating Costs	29,769	0	86,222	0
Pre-Pilot Production Costs	693,283	0	1,563,492	0
Exploration Costs	0	160,255	0	386,256
Property Holding Costs	130,500	0	391,493	0
Total Costs and Expenses	910,111	160,255	2,203,759	386,256
Gross Profit (Loss)	(612,473 )	(160,255 )	(1,319,275 )	(386,256 )
<b>OPERATING EXPENSES</b>				
General and Administrative	480,840	678,771	1,344,958	1,655,925
Share Based Compensation	0	0	625,000	0
Depreciation and Amortization	20,003	21,671	56,446	66,062
Total Operating Expenses	500,843	700,442	2,026,404	1,721,987
NET OPERATING INCOME (LOSS)	(1,113,316 )	(860,697 )	(3,345,679 )	(2,108,243 )
<b>OTHER INCOME (EXPENSE)</b>				
Currency Gains (Losses)	(71,905 )	(68,038 )	(64,895 )	(120,946 )
Interest Income (Expense)	(55,515 )	(45,236 )	(153,990 )	(91,586 )
Other Income (Expense)	18	114	190	369
Total Other Income (Expense)	(127,402 )	(113,160 )	(218,695 )	(212,163 )
NET INCOME (LOSS) BEFORE TAXES	(1,240,718 )	(973,857 )	(3,564,374 )	(2,320,406 )
TAXES	0	0	0	0
NET INCOME (LOSS)	\$(1,240,718 )	\$(973,857 )	\$(3,564,374 )	\$(2,320,406 )
<b>ATTRIBUTABLE TO:</b>				
EQUITY HOLDERS OF DYNARESOURCE, INC.	\$(1,132,530 )	\$(908,988 )	\$(3,170,102 )	\$(1,866,978 )
NON-CONTROLLING INTERESTS	\$(108,188 )	\$(64,869 )	\$(394,272 )	\$(453,428 )



Edgar Filing: DYNARESOURCE INC - Form 10-Q

(1,240,718 ) (973,857 ) (3,564,374 ) (2,320,406 )

EARNINGS PER SHARE DATA ATTRIBUTABLE TO  
THE EQUITY HOLDERS OF DYNARESOURCE, INC.:

Income (Loss) per Common Share \$(.10 ) \$(.08 ) \$(.31 ) \$(.17 )

Weighted Average Shares Outstanding 12,433,220 10,832,564 11,517,470 10,802,008

OTHER COMPREHENSIVE INCOME (LOSS)

NET INCOME (LOSS) PER ABOVE \$(1,240,718 ) \$(973,857 ) \$(3,564,439 ) \$(2,320,406 )

Unrealized Currency Gains (Losses) (272,566 ) 11,511 (282,836 ) (20,107 )

TOTAL OTHER COMPREHENSIVE INCOME (LOSS) (272,566 ) 11,511 (282,836 ) (20,107 )

TOTAL COMPREHENSIVE INCOME (LOSS) \$(1,513,284 ) \$(962,346 ) \$(3,847,275 ) \$(2,340,513 )

ATTRIBUTABLE TO:

EQUITY HOLDERS OF DYNARESOURCE, INC. \$(1,404,650 ) \$(900,771 ) \$(3,453,003 ) \$(1,882,366 )

NON-CONTROLLING INTERESTS \$(108,634 ) \$(61,575 ) \$(394,272 ) \$(458,147 )

(1,513,284 ) (962,346 ) (3,847,275 ) (2,340,513 )

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

**DYNARESOURCE, INC.****Consolidated Statements of Changes in Stockholders' Equity****For the Nine Months Ended September 30, 2014 (unaudited) and****Year Ended December 31 2013 (audited)**

	Preferred Series A Shares	Preferred Series A Amount	Preferred Series B Shares	Preferred Series B Amount	Common Shares	Common Amount	Preferred Rights	Additional Paid In Capital	Treasury Stock	Other Compre Income
Balance, January 1, 2013	1,000	1,000	0	0	10,802,008	108,020	40,000	40,429,500	(50,750 )	270,79
Change in Par Value		(999 )						999		
Sale of Series B Preferred Shares			387,900	39				1,939,461		
Conversion of Notes Payable to Series B Preferred Shares			72,546	7				362,727		
Common Stock Issued for Services					250,000	2,500		560,000	(562,500 )	
Common Stock Options Issued								59		
Other Comprehensive Income										(18,18
Treasury Shares Purchased									(94,500 )	
Net Income (Loss)										
Balance, December 31, 2013	1,000	1	460,446	46	11,052,008	110,520	40,000	43,292,746	(707,750 )	252,61
Sale of Series B Preferred Shares			348,700	35				1,743,465		
Notes Converted to Common					4,391	44		11,278		
			(809,146)	(81)	1,425,542	14,255		(14,174 )		

Edgar Filing: DYNARESOURCE INC - Form 10-Q

Pref. B Converted to Common											
Common Stock Issued for Invest					1,333,333	13,333		3,986,667	(4,000,000)		
Purchase of Treasury Shares.									(7,500 )		
Issuance of Treas. Shares for Svs.								62,500	562,500		
Other Comprehensive Income											5,020
Net Income (Loss)											
Balance, September 30, 2014	1,000	1	0	0	13,815,274	138,154	40,000	49,082,493	(4,152,750)	257,630	

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

**DYNARESOURCE, INC.****Consolidated Statements of Cash Flows****(Unaudited)**

	Nine Months September 30, 2014	Nine Months September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$(3,564,439)	\$(2,320,406)
Adjustments to reconcile net income (loss) to cash provided by (used in) Operating activities		
Issuance of Common Stock for Services	625,000	0
Issuance of Common Stock Options	0	59
Depreciation and Amortization	56,446	66,061
Change in Operating Assets and Liabilities:		
(Increase) in Accounts Receivable	0	0
(Increase) in Inventories	(213,000 )	0
(Increase) in Foreign Tax Receivable	(226,902 )	(116,155 )
Decrease in Receivable—Related Party	0	48,000
(Increase) in Other Current Assets	(168,982 )	(19,128 )
(Decrease) in Accounts Payable	(29,095 )	(132,081 )
Increase in Accrued Liabilities	271,949	78,721
<b>CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>	<b>(3,249,023)</b>	<b>(2,394,929)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property	(23,741 )	(65,038 )
Investment in Affiliate	5,069	0
Change in Other Assets	(82,061 )	(198,763 )
<b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>	<b>(100,733 )</b>	<b>(263,801 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Other Comprehensive Income (Loss)	(5,020 )	10,330
Proceeds from Sale of Preferred Stock, Series B	1,743,500	832,000
Proceeds from Promissory Notes	453,500	1,545,000
Conversion of Accrued Interest to Notes Payable	169,666	0
Conversion of Notes Payable to Common Stock	(14,248 )	0
Loan from Non-Controlling Interest	111,500	120,000
Purchase of Treasury Stock	(7,500 )	(94,500 )
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>2,451,398</b>	<b>2,432,830</b>
<b>NET (DECREASE) IN CASH</b>	<b>(898,358 )</b>	<b>(225,900 )</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,143,344</b>	<b>1,522,652</b>

Edgar Filing: DYNARESOURCE INC - Form 10-Q

CASH AT END OF PERIOD	\$244,986	\$1,296,752
SUPPLEMENTAL DISCLOSURES		
Redemption of Preferred Stock, Series B for Common Stock	\$13,626	\$0
Non-Cash Issuance of Stock Options	\$0	\$59
Note Conversion to Common Stock	\$11,321	\$240,000
Issuance of Treasury Shares for Compensation	\$625,000	\$0
Issuance of Common Stock for Treasury Stock	\$4,000,000	\$0
Conversion of Accrued Interest to Notes	\$169,666	\$14,757
Cash Paid for Interest	\$0	\$0
Cash Paid for Income Taxes	\$0	\$0

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

**DYNARESOURCE, INC.**

**Notes to the Consolidated Financial Statements**

**September 30, 2014 (Unaudited) and December 31, 2013**

**(Audited)**

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities, History and Organization:**

DynaResource, Inc. (The “Company”, “DynaResource”, or “DynaUSA”) 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 México S.A. de C.V., chartered in México (“DynaMéxico”). This Company was formed to acquire, invest in and develop resource properties in México. DynaMéxico owns a portfolio of mining concessions that currently includes its interests in the San José de Gracia Project (“SJG”) in northern Sinaloa State, México. The SJG District covers 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range. The Company currently owns 80% of the outstanding capital of DynaMéxico.

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 Finesterre 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 these subsidiaries are consolidated with those of the Company.

From January 2008 through March 2011, DynaMéxico issued 100 Variable Capital Series “B” shares to Goldgroup Resources, Inc., a wholly owned subsidiary of Goldgroup Mining Inc. Vancouver BC (“Goldgroup”), in exchange for Goldgroup’s contribution of \$18,000,000 to DynaMéxico. At March 14, 2011, Goldgroup owned 50% of the outstanding capital shares of DynaMéxico.

On June 21, 2013, DynaResource acquired a Certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 million USD). After the issuance and receipt of the 300 Series B Shares, DynaUSA holds 80% of the total outstanding Capital of DynaMéxico.

The Company elected to become a voluntary reporting issuer in Canada in order to avail itself of Canadian regulations regarding reporting for mining properties and, 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.

Unaudited Interim Financial Statements:

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission. These financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the balance sheet, statement of operations, statement of stockholders' equity and statement of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosures for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results of operations for the full year or any other interim period. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and Financial Statements and notes thereto included in the Company's December 31, 2013 Form 10-K.

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 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 México, 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.

Emerging Growth Company Critical Accounting Policy Disclosure:

The Company qualifies as an "emerging growth company" under the 2012 JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. As an emerging growth company, the Company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. The Company may elect to take advantage of the benefits of this extended transition period in the future.

Foreign Currency Translation:

The functional currency for the subsidiaries of the Company is the Mexican Peso. As a result, the financial statements of the subsidiaries 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 subsidiaries 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 subsidiaries are as follows for the periods ended September 30, 2014 and December 31, 2013 (Mexican Pesos per one U.S. dollar):

**Sept Dec 31, 2013**  
**30,**



2014

**Current  
exchange rate** Pesos **13.4813.07**

**Weighted  
Average  
exchange  
rate for the  
period  
ended** Pesos **13.1112.75**

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 September 30, 2014, the Company had no balances that were in excess of the FDIC insurance limit of \$250,000. 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.

Foreign Tax Receivable:

Foreign Tax Receivable is comprised of recoverable value-added taxes ("IVA") 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 amounts of the IVA receivable as of September 30, 2014 and December 31, 2013 are \$522,940 and \$296,038, respectively.

Inventory:

The Company commenced mining and milling (production) activities in the 2<sup>nd</sup> quarter, 2014. Inventories are carried at the lower of cost or fair value and consist of mined tonnage, and gravity concentrates, and gravity tailings or flotation feed material. The inventories are \$213,000 and \$0 as of September 30, 2014 and December 31, 2013, respectively.

Property:

Property is 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. Repairs and maintenance are expensed as incurred.

Mining Properties:

Mining properties consist of 33 mining concessions covering approximately 69,121 hectares, at the San Jose de Gracia property ("SJG"), the basis of which are amortized on the unit of production method based on estimated recoverable resources. 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 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 September 30, 2014, no indications of impairment existed.

Pre Pilot-Production Costs:

During 2014, the Company has conducted rehabilitation activity at the San Pablo mine, and has refurbished the Pilot Mill Facility at San Jose de Gracia, and in general preparing for Pilot mining and milling ("Production") Operations. The costs associated with the rehabilitation, preparation, clean up and facilitation of this process are expensed as pre pilot-production costs.

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.

Advertising Costs:

The Company incurred no advertising costs for the three and nine months ended September 30, 2014 and 2013.

Income Taxes:

Income from the parent company, DynaUSA, is taxed at regular corporate rates per the Internal Revenue Code. Although the Company has tax loss carry-forwards (see Note 6), 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. Income from the Company's subsidiaries in Mexico are taxed at applicable Mexican tax law.

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 September 30, 2014 and December 31, 2013, the Company's components of comprehensive income were foreign currency translation adjustments and unrealized gains/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. Potentially dilutive common shares are additional common shares assumed to be exercised. Potentially dilutive common shares consist of stock options and convertible preferred shares and convertible notes 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.

The Company had 1,151,800 options and warrants outstanding at September 30, 2014. The Company also had convertible debt instruments as of September 30, 2014. As the Company incurred a net loss during the period ended September 30, 2014, the basic and diluted loss per common share is the same amount, as any common stock equivalents would be considered anti-dilutive and, therefore, have been excluded from the computation.

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 flows.

Reclassifications:

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

**NOTE 2 – INVENTORIES**

The Company commenced underground mining and test milling activities ("pilot production") in the 4<sup>th</sup> quarter of 2014. Inventories are carried at the lower of cost or fair value and consist of mined tonnage, gravity concentrates and gravity tailings (or, flotation feed material). The inventories are \$213,000 and \$0 as of September 30, 2014 and December 31, 2013, respectively, as follows:

	2014	2013
<b>Mined Tonnage</b>	<b>\$110,000</b>	<b>\$ 0</b>
<b>Gravity Tailings (Flotation Feed Material)</b>	<b>78,000</b>	<b>0</b>
<b>Gravity Concentrate</b>	<b>25,000</b>	<b>0</b>
<b>Total Inventories</b>	<b>\$213,000</b>	<b>\$ 0</b>

**NOTE 3 – PROPERTY**

Property consists of the following at September 30, 2014 and December 31, 2013:

	2014	2013
<b>Mining camp equipment and fixtures</b>	<b>\$648,866</b>	<b>\$648,866</b>
<b>Transportation equipment</b>	<b>262,348</b>	<b>262,348</b>
<b>Lab equipment</b>	<b>14,306</b>	<b>14,306</b>
<b>Machinery and equipment</b>	<b>66,931</b>	<b>43,187</b>
<b>Office furniture and fixtures</b>	<b>76,894</b>	<b>76,894</b>
<b>Office equipment</b>	<b>11,673</b>	<b>11,673</b>
<b>Computer equipment</b>	<b>36,105</b>	<b>36,105</b>
<b>Sub-total</b>	<b>1,117,123</b>	<b>1,093,379</b>
<b>Less: Accumulated depreciation</b>	<b>(887,895)</b>	<b>(851,861)</b>
<b>Total Property</b>	<b>\$229,288</b>	<b>\$241,518</b>

Depreciation has been provided over each asset's estimated useful life. Depreciation expense was \$53,594 and \$62,683 for the nine months ended September 30, 2014 and 2013, respectively.

**NOTE 4 – MINING PROPERTIES**

Mining properties consist of the following at September 30, 2014 and December 31, 2013:

	2014	2013
<b>San Jose de Gracia (“SJG”):</b>		
<b>Mining Concessions</b>	<b>\$4,702,411</b>	<b>\$4,703,367</b>
<b>Less: Accumulated Amortization</b>	<b>(539,919)</b>	<b>(519,400)</b>
<b>Total Mining Properties</b>	<b>\$4,163,492</b>	<b>\$4,183,967</b>

Amortization expense was \$2,852 and \$3,379 for the nine months ended September 30, 2014 and 2013, respectively.

**NOTE 5 – INVESTMENT IN AFFILIATE/RECEIVABLES FROM AFFILIATE/OTHER ASSETS**

Through September 30, 2014, the Company loaned a total of \$805,760 to DynaResource Nevada, Inc. (“DynaNevada”), a Nevada Corporation, which owns 100% of one operating subsidiary in México, DynaNevada de México, S.A. de C.V. (“DynaNevada de México”). 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 México, has entered into an Option agreement with Grupo México (IMMSA) in México, for the exploration and development of approximately 3,000 hectares in the State of San Luis Potosi (“The Santa Gertrudis Property”). DynaNevada de México exercised the Option with IMMSA in March 2010, so that DynaNevada de México now owns 100% of the Santa Gertrudis Property. In June 2010, DynaNevada de México 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 / 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 September 30, 2014 and December 31, 2013 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.

The Company has advanced funds to DynaNevada on a regular basis in order for DynaNevada to meet its basis filing and reporting obligations with the Mexican authorities relating to tax returns and paying taxes on its mining concessions. As of September 30, 2014 and December 31, 2013, the advances totaled \$181,771 and \$186,840, respectively.

**NOTE 6 – PROMISSORY NOTES**

Notes Payable – Series I

At September 30, 2014, the Company was obligated to repay Promissory Notes in the amount of \$1,341,312 (the "Notes"). The Notes bear simple interest at twelve and a half percent (12.5%), accrued for twelve months, and with the accrued interest to be added to the principal, and then interest will be paid by the Company, quarterly in arrears. As of September 30, 2014, all accrued interest on the Series I notes were converted to principal and Note holders were issued interest payments based on the total of note plus accrued interest for the 2<sup>nd</sup> quarter, 2014.

The holders of the Notes (In Aggregate) are also entitled to receive ten percent (10%) of the net profits received by the Company, and generated from the bulk sampling material (if any, and up to fifty thousand tonnes) processed through the existing, or improved mill facilities at San Jose de Gracia. Such net profits (if any) are to be calculated after deducting all expenses related to the processing of the bulk sample material, and after a prior deduction of thirty three percent (33%) from the profits, to be deposited in a sinking fund cash reserve. This net profit percentage (if any) would be paid quarterly in arrears based on the profits generated (if any) for the prior quarter. The Notes mature on December 31, 2015.

The Company has the right to prepay the Notes with a ten percent (10%) penalty. The Note holder may, at any time prior to maturity or prepayment, convert any unpaid principal and accrued interest into Series B Preferred Stock of the Company at \$5.00 per share, or into Common Stock at \$5.00 per share. If the Note is converted into Common Stock, at the time of conversion, the holder would receive a warrant to purchase additional common shares of the Company for \$7.50 per share, such warrant expiring on December 31, 2015.

#### Notes Payable – Series II

At September 30, 2014, the Company was obligated to repay Promissory Notes in the amount of \$399,808 (the “Notes”). The Notes bear simple interest at twelve and a half percent (12.5%), accrued for twelve months, and with the accrued interest to be added to the principal, and then interest will be paid by the Company, quarterly in arrears.

The holders of the Notes (In Aggregate) are also entitled to receive ten percent (10%) of the net profits received by the Company, and generated from the bulk sampling material (if any, on the second fifty thousand tonnes) processed through the existing, or improved mill facilities at San Jose de Gracia. This net profit percentage (if any) would be paid quarterly in arrears based on the profits generated (if any) for the prior quarter. Such net profits (if any) are to be calculated after deducting all expenses related to the processing of the bulk sample material, and after a prior deduction of thirty three percent (33%) from the profits, to be deposited in a sinking fund. The Notes mature on December 31, 2015.

The Company has the right to prepay the Notes with a ten percent (10%) penalty. The Note holder may, at any time prior to maturity or prepayment, convert any unpaid principal and accrued interest into common stock of the Company at \$5.00 per share. At the time of conversion, the holder would receive a warrant to purchase additional common shares of the Company for \$7.50 per share, such warrant expiring on December 31, 2015.

One note was converted in the current quarter in the amount of \$11,321, which includes \$343 accrued interest converted to notes and 4,391 shares of common stock were issued, at a price of \$2.50 per share (preferred series B shares conversion was bypassed as all preferred shares were converted to common as of September 30, 2014).

#### Other Notes

The Company received proceeds from a short term convertible note in the amount of \$203,500 in the quarter. Interest is accrued at 8% annually and interest payments are deferred until conversion or payoff of note. The note provisions allow payoff in the first 180 days subsequent to funding, with additional premium of 10% of the note amount in the 1<sup>st</sup> 30 days; 12% if paid in the next 30 days; 15% in the next 60 days; and 19% if paid before the end of 180 days. After 180 days, the note is convertible to common stock at a “variable conversion price” of 70% of the market price (average of the lowest three trading prices for the common stock during the ten trading day period ending on the latest complete trading day prior to the conversion date). This note has been guaranteed by the CEO of the Company.

#### **NOTE 7 – 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 México) of significant items comprising the Company’s net deferred tax amounts as of September 30, 2014 and December 31, 2013 are as follows:



## Deferred Tax Asset Related to:

	2014	2013
Prior Year	\$9,500,294	\$8,282,305
Tax Benefit for Current Year	1,077,857	1,217,989
Total Deferred Tax Asset	10,578,151	9,500,294
Less: Valuation Allowance	(10,578,151)	(9,500,294)
Net Deferred Tax Asset	\$0	\$0

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 \$35,000,000 at September 30, 2014, 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 September 30, 2014.

**NOTE 8 – STOCKHOLDERS’ EQUITY**

**Authorized Capital.** The total number of shares of all classes of capital stock which the corporation shall have the authority to issue is 45,001,000 shares, consisting of (i) twenty million and one thousand (20,001,000) shares of Preferred Stock, par value \$0.0001 per share (“Preferred Stock”), of which one thousand (1,000) shares shall be designated as Series A Preferred Stock and (ii) twenty-five million (25,000,000) shares of Common Stock, par value \$.01 per share (“Common Stock”).

**Series A Preferred Stock:**

The Company has designated 1,000 shares of its Preferred Stock as Series A, having a par value of \$0.0001 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. At September 30, 2014 and December 31, 2013 there were 1,000 and 1,000 shares of Series A Preferred Stock outstanding, respectively. The par value changed from \$1.00 to \$0.0001 in 2013.

**Series B Preferred Stock:**

The Company has designated 1,000,000 shares of its Preferred Stock as Series B, having a par value of \$0.0001 per share. Holders of the Series B Preferred Shares have the right to convert into Common Stock of the Company on the following schedule:

<b>Date of Conversion</b>	<b># of Common Shares Received on Conversion</b>	<b># of Common Stock</b>	
		<b>Warrants Received On Conversion for</b>	<b>Company Can Force the</b>
	<b>For Each Preferred Share</b>	<b>Each Preferred Share</b>	<b>Option?</b>
April 1 to September 30, 2014	2	0	N
July 1 to Dec 31, 2014	1.5	.75	N
January 1 to June 30, 2015	1	1	N
July 1 to December 31, 2015	1	0	Y

The holders of Series B Preferred Shares do not have voting rights and are not entitled to receive a dividend.

At September 30, 2014, all preferred shares converted to common shares: 809,146 shares of preferred B converted to 1,425,542 shares of common. At December 31, 2013, 460,446 shares of Series B Preferred Stock were outstanding.

In the third and fourth quarters of 2013, \$340,000 of the promissory notes and \$22,734 of accrued interest were converted to Series B Preferred Stock. One note was converted in the current quarter in the amount of \$11,321 and 4,391 shares of common stock were issued (preferred series B shares was bypassed as all preferred shares were converted to common stock as of September 30, 2014).

**Preferred Stock (Undesignated):**

In addition to the 1,000 shares designated as Series A Preferred Stock and the 1,000,000 shares designated as Series B Preferred Stock, the Company is authorized to issue an additional 19,000,000 shares of Preferred Stock, having a par value of \$0.0001 per share. The Board of Directors of the Company has authority to issue the Preferred Stock from

time to time in one or more series, and with respect to each series of the Preferred Stock, to fix and state by the resolution the terms attached to the Preferred Stock. At September 30, 2014 and December 31, 2013, there were no other shares of Preferred Stock outstanding.

*Separate Series; Increase or Decrease in Authorized Shares.* The shares of each series of Preferred Stock may vary from the shares of any other series thereof in any or all of the foregoing respects and in any other manner. The Board of Directors may increase the number of shares of Preferred Stock designated for any existing series by a resolution adding to such series authorized and unissued shares of Preferred Stock not designated for any other series. Unless otherwise provided in the Preferred Stock Designation, the Board of Directors may decrease the number of shares of Preferred Stock designated for any existing series by a resolution subtracting from such series authorized and unissued shares of Preferred Stock designated for such existing series, and the shares so subtracted shall become authorized, unissued and undesignated shares of Preferred Stock.

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 September 30, 2014 and December 31, 2013, there were 13,815,274 and 11,052,008 shares outstanding, respectively. No dividends were paid for the three and nine months ended September 30, 2014 and 2013.

Preferred Rights:

The Company issued "Preferred Rights" for the rights to percentages of revenues generated from the San Jose de Gracia Pilot Production Plant, and received \$158,500 in 2003 and \$626,000 in 2002. 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 was repaid, leaving a current balance of \$40,000 and \$40,000 as of September 30, 2014 and December 31, 2013, respectively.

Stock Issuances:

During the three months ended September 30, 2014, 64,250 common shares were issued for the redemption of preferred Series B shares. During the nine months ended September 30, 2014, 1,425,542 common shares were issued for the redemption of preferred Series B shares.

During the three and nine months ended September 30, 2014, the Company issued 128,500 and 809,146 Series B preferred shares, respectively for cash for \$5.00 per share, which were all converted at September 30, 2014 to common shares at a conversion ratio of 2 common shares issued for 1 preferred series B share redeemed.

During the three months ended September 30, 2014, the Company issued 1,333,333 shares to Mineras de DynaResource (wholly owned subsidiary) in exchange for the receivable it held from DynaResource de Mexico of \$4,000,000 at a fair value cost of \$2.50 per share. The shares are carried in Treasury for consolidation purposes.

During 2013, the Company issued 387,900 Series B preferred shares for cash for \$5.00 per share.

During 2013, the Company issued 68,000 Series B preferred shares for debt at \$5.00 per share.

During 2013, the Company issued 4,546 Series B preferred shares for accrued interest at \$5.00 per share.

During 2013, the Company issued 250,000 common shares to MinerasDyna for services. This has been reflected as treasury stock in the equity section of the financial statements. Expense related to these services has been eliminated in consolidation.

Treasury Stock:

The Company issued 1,333,333 shares to Mineras de DynaResource for receivables and these shares are held in treasury.

During 2013, the Company repurchased 28,551 shares for \$94,500.

Treasury stock is accounted for by the cost method.

Options and Warrants:

The Company had 1,151,800 options or warrants outstanding at September 30, 2014.

During the three and nine months ended September 30, 2014, no options or warrants were issued or exercised.

The Company had 1,151,800 options or warrants outstanding at December 31, 2013.

During 2013, no 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 – RELATED PARTY TRANSACTIONS**

DynaResource de México (“DynaMéxico”)

In May 2013, the Company acquired a Share Certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 M USD). After the issuance and receipt of the 300 Series B Shares on June 21, 2013, DynaUSA holds 80% of the total outstanding Capital of DynaMéxico. As of September 30, 2014, the Company’s wholly owned subsidiary MinerasDyna had an account receivable due from DynaMéxico in the amount of \$25,000.

Mineras de DynaResource (“MinerasDyna”)

As of September 30, 2014, the Company had advanced \$4,650,000 to MinerasDyna. MinerasDyna had advanced \$4,025,000 to DynaMéxico as of September 30, 2014. At September 30, 2014, MinerasDyna exchanged \$4,000,000 of this receivable for 1,333,333 common shares of DynaResource. The remaining amount is carried as a receivable by MinerasDyna from DynaMéxico.

As of December 31, 2012, the Company agreed with DynaMéxico to accrue interest on the total amount receivable until repaid or otherwise retired. The interest rate to be accrued is agreed to be simple annual interest at the rate quoted by the Bank of México.

The receivables/payables from MinerasDyna and DynaMéxico have been eliminated upon consolidation.

Dynacap Group Ltd.

The Company paid \$69,750 and \$42,500 to Dynacap Group, Ltd. (an entity controlled by officers of the Company) for consulting and other fees during the nine months ended September 30, 2014 and 2013, respectively.

DynaNevada, Inc. and DynaNevada de México S.A. de C.V. (together “DynaNevada”)

The Company advanced DynaNevada \$0 and \$48,000 in the nine months ended September 30, 2014 and 2013, respectively, for maintenance of its corporate obligations and mining concessions.

**NOTE 10 – EMPLOYEE BENEFIT PLANS**

During the periods ended September 30, 2014 and December 31, 2013, there were no qualified or non-qualified employee pension, profit sharing, stock option, or other plans authorized for any class of employees.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The Company is required to pay taxes in México in order to maintain mining concessions owned by DynaMéxico. 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, the Company does not anticipate that DynaMéxico will have any issues in meeting the minimum annual expenditures for the concessions, and DynaMéxico retains sufficient carry-forward amounts to cover over 20 years of the minimum expenditure (as calculated at the 2012 minimum, adjusted for annual inflation of 4%).

In addition to the surface rights held by DynaMéxico pursuant to the *Mining Act* of México and its Regulations (*Ley Minera y su Reglamento*), MinerasDyna maintains access and surface rights to the SJG Project pursuant to the 20 year Land Lease Agreement. The 20 Year Land Lease Agreement with the Santa Maria Ejido Community surrounding San Jose de Gracia was dated January 6, 2014 and continues through 2033. It covers an area of 4,399 hectares surrounding the main mineral resource areas of SJG, and provides for annual lease payments by MinerasDyna of \$1,359,443 Pesos (approx. \$104,250 USD), commencing in 2014. The Land Lease Agreement provides MinerasDyna with surface access to the core resource areas of SJG (4,399 hectares), and allows for all permitted mining and exploration activities from the owners of the surface rights (Santa Maria Ejido community).

In September 2008, the Company entered into a 37 month lease agreement for its corporate office. In August, 2011 and then in August 2012, the Company entered into a one-year extension of the lease through August 31, 2014. The Company paid rent expense of \$12,499 and \$11,760 related to this lease for the three months ended September 30, 2014 and 2013, respectively.

The following is a schedule of minimum lease payments required under the existing leases as of September 30, 2014:

**Year Ended  
December 31:**

	<u>Amount</u>
<b>2014</b>	<b>\$112,750</b>
<b>2015</b>	<b>104,250</b>
<b>2016</b>	<b>104,250</b>

<b>2017</b>	<b>104,250</b>
<b>2018 and Beyond</b>	<b>1,668,000</b>
	<b>\$2,093,500</b>

Litigation.

On December 27, 2012, the Company, and DynaMéxico, filed an Original Petition and Application for Temporary Injunction and Permanent Injunction in the 14<sup>th</sup> Judicial District Court of Dallas, Texas (the “Petition”) against Defendants Goldgroup Mining Inc., Goldgroup Resources Inc., and certain individuals acting in concert with Goldgroup (collectively “Goldgroup”). The Petition alleged, among other things, that Goldgroup has wrongfully used property, confidential information and data belonging to DynaMéxico and consistently failed to disclose several matters of material importance to the public.

The Petition requested that Goldgroup be enjoined from: (a) using or disseminating any confidential information belonging to DynaMéxico, (b) asserting that Goldgroup owns any interest in the San Jose de Gracia Project, rather than owning a common shares equity interest in DynaMéxico, (c) improperly disclosing that Goldgroup is the operator of the San Jose de Gracia Project, rather than Mineras de DynaResource SA de C.V. (“MinerasDyna”), and (d) failing to properly disclose that broad powers of attorney for acting on behalf of DynaMéxico are held by a DynaUSA senior executive.

The Petition further requested, among other things: (a) a temporary and permanent injunction; (b) declaratory relief; (c) disgorgement of funds alleged to have been improperly raised as a consequence of Goldgroup's wrongful actions; (d) cancellation of shares of DynaMéxico stock held by Goldgroup; and, (d) actual and punitive damages.

At the time of the filing, the Company believed the Petition to be necessary in order to protect its shareholders' interests in DynaMéxico and in order to protect the property, data, and assets of DynaMéxico.

Although Goldgroup challenged the jurisdiction of Texas to the filed litigation, Goldgroup has acknowledged that it owns no direct interest in the San Jose de Gracia Property, and it has acknowledged that Mineras de DynaResource SA de C.V. ("MinerasDyna"), DynaUSA's 100% owned subsidiary, is the exclusive operator of the San Jose de Gracia Project. Additionally, recent developments in México in 2013, including: (1) the signing of the Exploitation Amendment Agreement ("EAA") between MinerasDyna and DynaMéxico; (2) the signing of a 20 year land lease agreement between MinerasDyna and the Santa María Ejido Community surrounding the San Jose de Gracia Project; and (3) the acquisition by DynaUSA of a majority interest in DynaMéxico; protect against Goldgroup's wrongfully obtaining and/or disseminating confidential data and information of DynaMéxico.

These recent developments in México provided that the Dyna Parties non-suited the Texas action as announced by the Company on March 14, 2014, without prejudice to asserting or consolidating claims in México, as well as to contemplate additional claims or regulatory actions against Goldgroup in Canada.

#### Goldgroup Arbitration Filing

On March 14, 2014, Goldgroup filed for arbitration, citing the Earn In Agreement dated September 1, 2006. The Company filed an answer on April 10, 2014 disputing that any issues exist which provide for arbitration.

#### Company Filing in US District Court – District of Colorado

On May 30, 2014, the Company and DynaMéxico filed a Verified Complaint for Declaratory and Injunctive Relief against Goldgroup in United States District Court, Denver Colorado. Within the verified complaint, the Company and DynaMéxico seek an order and judgment staying and enjoining Goldgroup, temporarily and permanently, from maintaining the arbitration it has commenced and generally petitioning against the arbitration proceedings. The Company and DynaMéxico believe that there exists no valid agreement between the parties which provides for arbitration.

On October 22, 2014 the Company and DynaMexico (Plaintiffs) filed a Motion for Summary Judgment on all Claims for Declaratory Relief and for Preliminary and Permanent Injunction against Goldgroup. The Plaintiffs moved for summary judgment on all claims for relief against Goldgroup in order to protect against Goldgroup's manipulative litigation conduct.

#### Litigation in México – Company is Plaintiff

The Company and DynaMéxico have filed several legal actions in México against Goldgroup Mining Inc., Goldgroup Resources Inc., certain individuals employed or previously employed by Minop, S.A. de C.V. (a Company operating in México and associated with Goldgroup Mining Inc.), and certain individuals retained as agents of Goldgroup Mining Inc. The Company and DynaMéxico are plaintiffs in the actions filed in México and the outcomes are pending.



The Company believes that no material adverse change will occur as a result of the actions taken, and the Company further believes that there is little to no potential for the assessment of a material monetary judgment against the Company for legal actions it has filed in México. For purposes of confidentiality, the Company does not provide more specific disclosure in this Form 10-Q.

Litigation – Company and/or Officers and Directors as Defendants

Other than the filing for arbitration by Goldgroup described above, the Company, nor its Officers and Directors have received any formal notice of any legal actions filed against them.

**NOTE 12 – NON-CONTROLLING INTEREST**

The Company’s Non-controlling Interest recorded in the consolidated financial statements relates to an interest in DynaResource de México, S.A. de C.V. of 50% through May 13, 2013, and 20% thereafter. Changes in Non-controlling Interest for the nine months ended September 30, 2014 and 2013 respectively were as follows:

	<b>Nine Months</b>	<b>Year</b>
	<b>Ended</b>	<b>Ended</b>
	<b>September 30, 2014</b>	<b>Dec 31, 2013</b>
Beginning balance	\$(5,729,826	) \$(5,122,891 )
Operating income (loss)	(394,272	) (606,935 )
Ending balance	\$(6,124,098	) \$(5,729,826 )

The Company began allocating a portion of other comprehensive income (loss) to the non-controlling interest with the adoption of ASC 160 as of January 1, 2009. However, this amount is only reflected in the income statement.

**NOTE 13 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 September 30, 2014 and December 31, 2013, the Company's financial assets were measured at fair value using Level 3 inputs, with the exception of cash, which was valued using Level 1 inputs. A description of the valuation of the Level 3 inputs is discussed in Note 4.

**Fair Value Measurement at September 30, 2014 Using:**

	September 30, 2014	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
Cash and Cash Equivalents	244,986	244,986	0	\$ 0
Investment in Affiliate	70,000	0	0	70,000
Totals	314,986	244,986	0	\$ 70,000
<b>Liabilities:</b>				
Accounts Payable and Accrued Liabilities	624,074	624,074	0	\$ 0
Notes Payable	1,942,351	1,942,351	0	0
Totals	2,566,425	2,566,425	0	\$ 0

**Fair Value Measurement at December 31, 2013 Using:**

<b>Assets:</b>				
Cash and Cash Equivalents	1,143,344	1,143,344	0	\$ 0

Edgar Filing: DYNARESOURCE INC - Form 10-Q

Investment in Affiliate	70,000	0	0	70,000
Totals	1,213,344	1,143,344	0	\$ 70,000
Liabilities:				
Accounts Payable and Accrued Liabilities	361,220	361,220	0	\$ 0
Notes Payable	1,354,808	1,354,808	0	0
Totals	1,716,028	1,716,028	0	\$ 0

**NOTE 14 – SUBSEQUENT EVENTS**

**Gold Concentrate Deliveries**

On October 30, 2014, MinerasDyna reported the delivery for sale of approximately 300 Oz gold contained in concentrates (exact weights in gold and silver oz. to be determined at final settlement).

**Appointment of Executive VP. - Director of Mining Operations**

On November 10, 2014, the Company appointed Mr. Robert M. (“Chip”) Allender Jr. as Executive V.P. - Director of Mining Operations.

During a professional career spanning over 35 years, Mr. Allender has been involved in a broad range of managerial and technical positions in mineral exploration, mine development, and mining operations on six continents. His experience encompasses precious metal, base metal, industrial mineral, and fuel mineral projects in over twenty countries. Mr. Allender has most recently worked as a consultant to several emerging North American and European junior mining companies on projects in Australia, Canada, Turkey, West Africa, and Mexico.

Mr. Allender’s experience includes all aspects of mineral exploration, property evaluation, deposit development, mergers & acquisitions, and production of industrial, base, and precious minerals. Mr. Allender is a Certified Professional Geologist and a Registered Member of the Society for Mining, Metallurgy, and Exploration (SME). He holds a B.S. degree in Geology from Colorado State University and studied mineral economics at Colorado School of Mines.

**Receivables from DynaMexico**

As of November 18, 2014, DynaResource and MinerasDyna report receivables from DynaMexico of \$4,000,000 and \$97,500, respectively.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION**

### **FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this quarterly report as the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to in this quarterly 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 quarterly 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 quarterly 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 quarterly 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 Multilateral Instrument 51-105, *Issuers Quoted in the U.S. Over-the-Counter Markets*, promulgated by the British Columbia Securities Commission. Accordingly, certain disclosure in this quarterly 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 quarterly 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 quarterly 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, indicated, or inferred mineral resource estimates 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 its corporate 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. The Company’s website is [www.dynaresource.com](http://www.dynaresource.com).

The Company is in the business of acquiring, investing in, and developing precious metals properties, and the production and sale of precious metals.

## **COMPANY 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. (“DynaUSA”).

In 2000, the Company formed DynaResource de México, S.A. de C.V. (“DynaMéxico”) for the purpose of acquiring and holding mineral properties in Mexico. DynaMéxico owns a portfolio of mining concessions that currently includes its interests in the San José de Gracia Project (“SJG”) in northern Sinaloa State, México. The SJG District covers 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range. The Company currently owns 80% of the outstanding capital of DynaMéxico.

In 2005, the Company formed Mineras de DynaResource S.A. de C.V. (“MinerasDyna”), a wholly owned subsidiary, and entered into an operating agreement with DynaMéxico on April 15, 2005. As a consequence of that agreement and subsequent amendments to that agreement, MinerasDyna is the named exclusive operating entity for the SJG Project.

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

At incorporation of DynaMéxico, 100 shares of Fixed Capital Series “A” shares were issued with DynaUSA (parent) receiving 99 shares and its CEO receiving 1 share.

From January 2008 through March 2011, DynaMéxico issued 100 Variable Capital Series “B” Shares to Goldgroup Resources Inc., a wholly owned subsidiary of Goldgroup Mining Inc. Vancouver, BC. (“Goldgroup”), in exchange for Goldgroup’s total contributions of \$18,000,000 to DynaMéxico. At the issuance of the 100 Series B Shares to Goldgroup, it owned 50% of the outstanding capital shares of DynaMéxico.

On May 17, 2013, DynaResource agreed to acquire a Certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 million USD). After the issuance and receipt of the 300 Series B Shares on June 21, 2013, DynaUSA holds 80% of the total outstanding Capital of DynaMéxico. DynaMéxico owns 100% of the San Jose de Gracia Project in northern Sinaloa, México (“SJG”, and the “SJG Property”). (See table representation of the outstanding Capital of DynaMéxico below). The exchange of shares by DynaMéxico for amounts payable to DynaUSA was unanimously approved by attending shareholders at a meeting of the shareholders of DynaMéxico, held on the second call for shareholder's meeting on May 17, 2013 in Mazatlan, Sinaloa, México. Of the total amount of \$31,090,710 Mexican Pesos exchanged for the 300 Shares, \$150,000 Mexican Pesos was accounted for at the nominal value of \$500 Mexican Pesos per share, and the remaining balance of \$30,940,710 Mexican Pesos was accounted for as a premium for the subscription of the shares agreed to be paid by DynaUSA. The date of issuance of the 300 Series B Share Certificate was June 21, 2013. As a result of the issuance and exchange of the 300 Variable Capital shares for amounts owed to DynaUSA, the accounts payable amount owed by DynaMéxico to DynaUSA was retired in full.

After the issuance of the 300 Series B Variable Capital shares of DynaMéxico to DynaUSA as described above, the current outstanding Capital of DynaMéxico is set forth in the table below:

	Fixed Capital Series "A" Shares	Variable Capital Series "B" Shares	Total Capital Shares (Series A and B)
DynaMéxico Shareholder			
DynaResource, Inc.	099	300	399

Koy W. Diepholz	001		001
Goldgroup Mining Inc.		100	100

Total Capital Issued	100	400	500
----------------------	-----	-----	-----

DynaResource currently owns 80% of the outstanding capital shares of DynaMéxico.

#### Exploitation Amendment Agreement (“EAA”)

On May 15, 2013, MinerasDyna entered into an Exploitation Amendment Agreement (“EAA”) with DynaMéxico. The EAA grants to MinerasDyna the right to finance, explore, develop and exploit the SJG Property, in exchange for: (A) Reimbursement of all costs associated with financing, maintenance, exploration, development and exploitation of the SJG Property, which costs are to be charged and billed by MinerasDyna to DynaMéxico; and, (B) After Item (A) above, the receipt by MinerasDyna of 75% of gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, to the point that MinerasDyna has received 200% of its advanced funds; and, (C) after items (A) and (B) above; the receipt by MinerasDyna of 50% of all gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, and throughout the term of the EAA; and, (D) in addition to Items (A), (B), and (C) above, MinerasDyna shall receive a 2.5% NSR (“Net Smelter Royalty”) on all minerals sold from SJG over the term of the EAA. The total Advances made as of September 30, 2014 is \$4,025,000.

The EAA is the third and latest Amendment to the original Contract Mining Services and Mineral Production Agreement (the “Operating Agreement”), which was previously entered into by MinerasDyna with DynaMéxico in April 2005, wherein MinerasDyna was named the Exclusive Operating Entity at SJG. The Operating Agreement was previously amended in September 2006 (the “First Amendment”), and amended again at July 15, 2011 (the “Second Amendment”). The Term of the Second Amendment is 20 years, and the EAA (Third Amendment) provides for the continuation of the 20 Year Term from the date of the Second Amendment (July 15, 2011).



#### Exclusive Operating Entity at San Jose de Gracia

Under agreement with DynaMéxico, Mineras de DynaResource S.A. de C.V. (“MinerasDyna”) has been named the exclusive operating entity at the San Jose de Gracia Project. DynaResource owns 100% of MinerasDyna.

#### DynaMéxico General Powers of Attorney

The Chairman-CEO of DynaUSA also serves as the President of DynaMéxico and as the President of MinerasDyna. The President of DynaMéxico holds broad powers of attorney granted by the shareholders of DynaMéxico which gives the current President significant and broad authority within DynaMéxico.

#### Rehabilitation and Start up of Pilot Mill Facility at San Jose de Gracia

Under the terms of the Exploitation Amendment Agreement (“EAA”), as described above, MinerasDyna has rehabilitated the pilot mill facility at SJG. The SJG pilot mill facility (a gravimetric-flotation circuit) is now processing bulk samples mined from selected target areas of SJG. Operations at SJG are managed by MinerasDyna, and are projected to be similar to those conducted by DynaMéxico during 2003-2006. See discussion under Properties below.

### **PROPERTIES**

#### **San Jose de Gracia Mineral Property**

DynaMéxico owns 100% of the mineral concessions at the San Jose de Gracia Property (“SJG”), located in the state of Sinaloa, México, and is currently the only property in which DynaMéxico retains an interest. The Company owns 80% of the outstanding capital shares of DynaMéxico. DynaMéxico holds title to 33 concessions covering approximately 69,121 hectares (170,802 acres).

The SJG is a High-Grade Mineralized System which reports historical production of 1,000,000 Oz. gold (“Au”), from a series of underground workings. DynaMéxico is focused on the exploration and future exploitation of this vein-hosted, near surface, and over 400 meters down dip gold potential, that occurs within fault breccia veins; and has been traced on surface and underground over a 15 Sq. kilometers area.

#### Property Location

The property is located in and around San Jose de Gracia, Sinaloa State, México which is approximately 100 km northeast of Guamuchil, near the west coast of México. It is located on the west side of the Sierra Madre mountain range in the Sierra Madre Gold-Silver Belt. The topography is generally rugged with elevations varying from 400 meters in the valley bottoms to over 1,600 meters in the higher Sierra. Several roads on the property are accessible throughout the year, with the possible exception of July through September when the rainy season sometimes causes flooding and runoff to make the roads difficult to navigate.

#### Access

The San José de Gracia Project can be accessed by road, via a sealed highway from Culiacan, the capital city of the State of Sinaloa (located to the south of the San José de Gracia Project) or the city of Guamuchil (located to the southwest of SJG), to the small town of Sinaloa de Leyva, then by gravel mountainous road to the village of San José de Gracia.

The San José de Gracia Project can also be accessed by air. A gravel airstrip is located adjacent to the village of San José de Gracia which is located at the southwestern portion of the property at the SJG Project, and the airstrip is suitable for light aircraft.

#### Climate and Operating Season

The climate is semi-tropical with a rainy season dominating from late June through September. Operations at the San José de Gracia Project are, in part dependent on the weather and some activities may be suspended during the rainy season.

#### Infrastructure and Local Resources

##### Power

A power line to the San José de Gracia Project has been installed by the Comisión Federal de Electricidad, the only authorized power producer in México. The power line was installed in March 2012 from the municipality of Sinaloa de Leyva (La Estancia area), a distance of approximately 75 kilometers.

The power line is currently 220 volts maximum capacity, which supports domestic use only, including the office and camp facilities at SJG, such as water pump, air conditioning, refrigeration, lights, internet, and fans, as well as local residential use. Currently, the SJG Project produces its own diesel-generated power for industrial use.

### Water

The water source for the SJG camp is from a water well located close to the river which runs just west of the village of San José de Gracia. DynaMéxico has obtained the water concession rights for this water source, which provide for usage of 1,000,000 cubic meters per year. Currently, DynaMéxico estimates its consumption of water to be approximately 10,000 liters per week.

### Accommodations

The mine site area camp maintains facilities which can accommodate about 50 persons. The village of San José de Gracia maintains few stores, and which offer only minimal goods.

### Offices – Camp Facilities

DynaMéxico maintains an administrative and logistics office in Guamuchil, located 100 kilometers southwest of the SJG property. The SJG Project sources many of its supplies from Guamuchil, and from Los Mochis and Culiacan. A satellite dish installed at the SJG Property provides communications from the SJG Property to Guamuchil.

### Lab

A field laboratory is maintained within the camp facility. The Company utilized the lab for Assaying services during its production activities in 2003-2006. In the second quarter 2014, the laboratory has been refurbished by MinerasDyna and is currently utilized by on site personnel to provide assays for mined material, feed material, gravity and flotation concentrates, and tailings. MinerasDyna anticipates utilizing the lab facility in the future for providing internal assays to support the exploration, mining, and milling activities.

### Regional Geology & Mineral Deposits

San José de Gracia lies within the Sierra Madre Occidental (“SMO”) Gold-Silver Belt, in a second-order graben directly east of the regional-scale Grete Graben. The SMO is recognized as a highly prospective mineral belt for gold, silver and poly-metallic deposits. The basement to the Sierra Madre Occidental consists of deformed Paleozoic sedimentary strata, which are non-conformably overlain by Tertiary mafic to felsic volcanic and volcanoclastic strata known as the Lower Volcanic Series (“LVS”). Strata of the LVS are recognized as being spatially related to gold and silver mineralization in the region. Volcanic and sedimentary strata are capped by a thick sequence of non-deformed Late Tertiary ignimbrites, known as the Upper Volcanic Series (“UVS”).

### Property Geology

The oldest rocks exposed at San José de Gracia are deformed Paleozoic shale, sandstone, conglomerate and minor limestone, which are non-conformably overlain by andesite and rhyodacite flows and tuffs of the LVS. Volcanic and sedimentary strata are cut by quartz-feldspar porphyry, porphyritic diorite bodies and fine-grained mafic dykes, which may be co-temporal with the LVS. Ignimbrites of the UVS are exposed at higher elevations on the property and are thought to act as a post mineralization cap rock, thereby indicating an Early to Mid-Tertiary (Paleocene to Eocene) age for gold mineralization at San José de Gracia.

### Geologic Structure

Detailed mapping within the project area has defined several stages of deformation, beginning with compression during the Laramide Orogeny which affected the Paleozoic basement and formed flat-lying reverse faults, which have been reactivated as conduits for gold-bearing fluids in the La Prieta trend. Extension in Tertiary time led to the development of second order structures, trending south, southwest and southeast; which formed the major structural orientations for mineralization at San José de Gracia. The latest phase of deformation is characterized by late-stage extension and southwest tilting.

#### Property Mineralization

High grade gold mineralization at San José de Gracia is found in vein structures hosted within andesite and rhyodacite of the Lower Volcanic Series (“LVS”) and underlying Paleozoic sediments as fault breccia veins and crackle breccias that exhibit multiple stages of reactivation and fluid flow, as evidenced by crustiform/colloform textures and cross cutting veins. Locally, veins exhibit sharp, clay gouge hangingwall and footwall contacts with slickensides, indicating reactivation of structurally-hosted veins subsequent to mineralization. Gold grades can also be carried within the mineralized halo adjacent to the principal veins as quartz-chlorite stockwork. In addition to vein-hosted mineralization, broad zones of un-mineralized clay alteration, developed southwest of the main mineralized trends, may overlie lower-grade, disseminated gold mineralization at depth.

Alteration at San José de Gracia is laterally and vertically zoned from discrete zones of silicification to broad zones of illite to clay alteration with increasing elevation and/or distance from the main feeder structures. Faulting and tilting of the mineralization system has affected the surface distribution of alteration and in general has exposed deeper portions of the system in the northeast and exposed shallower, more distal portions of the hydrothermal system in the southwest part of the property.

The characterization of the mineralization at San Jose de Gracia can be described as low sulphidation polymetallic epithermal gold type.

Six principal mineralized trends have been identified at San José de Gracia, from south to north. These consist of the:

1. *La Purisima Ridge trend*
2. *Palos Chinos trend;*
3. *La Parilla to Veta Tierra trend (Including La Union);*
4. *San Pablo trend;*
5. *La Prieta trend, and*
6. *Los Hilos to Tres Amigos trend.*

Licenses and Concessions

The SJG District is comprised of 33 mining concessions covering 69,121 hectares (170,802 acres) and is located within the Sierra Madre gold-silver belt, where the majority of hydrothermal deposits in México are located. The Company’s mining 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.

Under amendments to the *Mining Act* of México that came into effect on December 2006, the classifications of Mining Exploration Concessions and Mining Exploitation Concessions were replaced by a single classification of Mining Concessions valid for a renewable term of 50 years, commencing from the initial issuance date. To be converted into Mining Concessions at the time these amendments came into force, former exploration and exploitation concessions had to be in good standing at the time of conversion. All of the SJG concessions were converted to 50-year Mining Concessions at the time the amendments to the Mining Act came into effect. To renew the 50-year term, Mining Concessions must be in good standing at the time application is filed. An application for renewal must be filed within 5 years prior to expiration of the term.

To maintain Mining Concessions in good standing, the registered owner must (a) pay bi-annual mining duties (“assessment taxes”) in advance, by January 31 and July 31 each year, (b) file assessment work reports by May 30 each year, for the preceding year (some exception rules apply), and (c) file by January 31 each year, statistical reports on exploration / exploitation work conducted for the preceding year.

The Notice of Commencement of Production Activities and Annual Production Reports must be filed annually by January 31 each year for those concessions where mineral ore extraction is taking place. As a general provision, registered owners of Mining Concessions must follow environmental and labor laws and regulations in order to maintain their Mining Concessions in good standing.

As of the date of this Form 10-Q, all of the 33 mining concessions comprising the SJG Property are in good standing with respect to the payment of taxes and the filing of assessment work obligations imposed by the *Mining Act* of

México and its Regulations.

**Current Mining Concessions - San José de Gracia**

<b>Claim Name</b>	<b>Claim Number</b>	<b>Staking date</b>	<b>Expiry</b>	<b>Hectares</b>	<b>Taxes / ha (pesos)</b>
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 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	21595802/04/200201/04/2052300.0000	31.62
LA GRACIA II	21595902/04/200201/04/2052230.0000	31.62
LA LIBERTAD	17243315/12/198314/12/203397.0000	111.27
LA NUEVA AURORA	21511908/02/200207/02/205289.3021	31.62
LA NUEVA ESPERANZA	22628906/12/200505/12/205540.0000	7.6
LA UNION	17621426/08/198525/08/20354.1098	111.27
LOS TRES AMIGOS	17221627/10/198326/10/203323.0000	111.27
MINA GRANDE	16357810/10/197809/10/20286.6588	111.27
NUEVO ROSARIO	18499913/12/198912/12/203932.8781	111.27
PIEDRAS DE LUMBRE 2	21555605/03/200204/03/205234.8493	31.62
PIEDRAS DE LUMBRE 3	21899228/01/200327/01/20534.3098	31.62
PIEDRAS DE LUMBRE No.4	21234929/09/200028/09/20500.2034	63.22
PIEDRAS DE LUMBRE UNO	21555505/03/200204/03/205240.2754	31.62
SAN ANDRES	21214331/08/200030/08/2050385.0990	63.22
SAN JOSÉ	20853724/11/199823/11/204827.0000	111.27
SAN MIGUEL (1)	18350426/10/198825/10/20387.0000	111.27
SAN NICOLAS	16391314/12/197813/12/202855.5490	111.27
SAN SEBASTIAN	18447308/11/198907/11/203940.0000	111.27
SANTA MARIA	21876917/01/200316/01/20534.2030	31.62
SANTA ROSA	17055713/05/198212/05/203231.4887	111.27
SANTO TOMAS	18734813/08/198612/08/2036312.0000	111.27
TRES AMIGOS 2	21214231/08/200030/08/205054.4672	63.22
FINISTERRE 4	23116618/01/200817/01/20582142.1302	5.08
FRANCISCO ARTURO	23049406/09/200727/03/205762,481.3815	5.08
<b>TOTAL</b>		<b>69,121.4010</b>

(1) According to the records of the Mines Registry Office, the registered owners to 100% undivided title to the San Miguel (t.183504) mining concession are: María Trinidad Acosta Salazar (25%), Miguel López Medina (25%), Josefa González Castro (25%) and Otilia Tracy Vizcarra (25%). On October 17, 2000 and March 8, 2001, DynaMéxico signed with each of Miguel Lopez Medina and Josefa Gonzalez Castro, respectively, agreements for the transfer to DynaMéxico of 50% undivided title to the San Miguel (t.183504) mining concession (the “San Miguel Transfer Agreements”).

In respect to the San Miguel Transfer Agreements, DynaMéxico has been advised that in order for the San Miguel Transfer Agreements to produce legal effects and be eligible for registration before the Mines Registry Office, DynaMéxico is required to first obtain the legal consent to such transfers, or the written relinquishment of first rights of refusal, from María Trinidad Acosta Salazar and Otilia Tracy Vizcarra (or court-appointed estate executor).

In addition to the San Miguel Transfer Agreements, DynaMéxico has entered into the following Promise to Sell and Purchase Agreements (the “San Miguel Promise to Sell and Purchase Agreements”):

(a) Promise to Sell and Purchase Agreement signed on March 8, 2001 among DynaMéxico and Maria Trinidad Acosta Salazar, the registered owner to 25% undivided title to the San Miguel (t.183504) mining concession, and

(b) Promise to Sell and Purchase Agreement signed on December 15, 2000 among DynaMéxico and Margarita Tracy Vizcarra, the sister of the deceased Otilia Tracy Vizcarra.

In respect to the San Miguel Promise to Sell and Purchase Agreements, DynaMéxico has been advised that:

(a) with respect to the Promise to Sell and Purchase Agreement signed on March 8, 2001 among DynaMéxico and Maria Trinidad Acosta Salazar, to contact Ms. María Trinidad Acosta Salazar to demand compliance with such agreement by executing the definitive transfer to DynaMéxico of the 25% undivided title to the San Miguel (t.183504) mining concession registered in her name, and

24



(b) with respect to the Promise to Sell and Purchase Agreement signed on December 15, 2000 among DynaMéxico and Margarita Tracy Vizcarra, the sister of the deceased Otilia Tracy Vizcarra, the estate of Otilia Tracy Vizcarra requires the appointment of a court-appointed executor that would be capable under Mexican law to formally grant the estate's consent for the execution of the San Miguel Transfer Agreements, to relinquish the estate's first rights of refusal or to request court approval for the transfer to DynaMéxico of the 25% undivided interest in the San Miguel (t.183504) mining concession registered in the name of the deceased Otilia Tracy Vizcarra.

### Surface Lease Rights

In addition to the surface rights held by DynaMéxico pursuant to the *Mining Act* of México and its Regulations (*Ley Minera y su Reglamento*), MinerasDyna maintains access and surface rights to the SJG Project pursuant to the 20 year Land Lease Agreement (above). The 20 Year Land Lease Agreement with the Santa Maria Ejido Community surrounding San Jose de Gracia is dated January 6, 2014 and continues through 2033. It covers an area of 4,399 hectares surrounding the main mineral resource areas of SJG, and provides for annual lease payments by MinerasDyna of \$1,359,443 Pesos (approx. \$104,250 USD), commencing in 2014. Additionally, under the description of the 20 Year Land Lease, MinerasDyna expects to construct a Medical Facility at SJG in year 2014, and a Community Center in year 2015.

The Land Lease Agreement provides MinerasDyna with surface access to the core resource areas of SJG (4,399 hectares), and allows for all permitted mining and exploration activities from the owners of the surface rights (Santa Maria Ejido community).

The Company expects MinerasDyna will be successful in expanding the size and scope of the resources at SJG through continued drilling and development programs at San Pablo, Tres Amigos, La Cecena, Palos Chinos, La Union, La Purisima, and La Prieta. The Company expects extensions to mineralization in all directions and down dip from the main target areas.

### Mineral Reserves

Under U.S. standards, as set forth in SEC Industry Guide 7, mineralization may not be classified as a "reserve" unless a determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made.

The SJG property is without known reserves. Mineral resources which are not classified as mineral reserves do not have "demonstrated economic viability". The quantity and grade of the "Indicated" and "Inferred" mineral resources reported in the mineral resource estimate contained in this Form 10 Q are estimates only. There has been insufficient exploration to define any mineral reserves on the property, and it is not certain if further exploration will result in discovery of mineral reserves.

### *Sierra Madre Gold-Silver Belt in México*

### San Jose de Gracia - History

Historical production records from San Jose de Gracia (“SJG”) report 1,000,000 Oz gold production from a series of underground workings. The major areas report 471,000 Oz. produced at the La Purisima area of SJG, at an average grade of 66.7 g/t.; and 215,000 Oz. 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.

DynaMéxico was formed in March 2000, for the purpose of acquiring the concessions comprising the SJG District, and to consolidate all ownership of SJG under DynaMéxico. DynaMéxico focused on acquisition and consolidation work through 2003, and reported a virtually clear title and consolidated ownership to the district.

#### Drilling – Exploration Programs (1997 – 2000)

A drill program was conducted at SJG in 1997 to 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 to 2000 confirmed high grades in historic workings and surface exposures throughout the project area. These high grades outline the presence of mineralization shoots developed within the veins. The mineralized shoots appear to be controlled by dilational jogs and/or vein intersections. A total of 544 samples were collected in 1999 to 2000, and assayed an average 6.51 g/t (“grams per ton”) gold.

Pilot Production Activities (2003 – 2006)

DynaMéxico, 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 tonnes, at an average grade of approximately 15-20 g/t (“grams per ton”). Production costs were reported at approximately \$175/Oz. gold in this small scale, pilot production operation. 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.

Mined and Milled Tonnage	42,000 tonnes
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

Suspension of Production Activities (2006)

The Company initiated the test production activity in 2003 and, at that time, gold prices were depressed. Exploration funding opportunities, while available, were deemed to be too dilutive by Company management. Therefore, the Company suspended mining activities in 2006. 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 pilot production activity 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 (2006 – 2011)

As gold prices continued to increase into 2006, exploration financing opportunities improved and the Company negotiated and entered into an Earn In / Option Agreement with Goldgroup Mining Inc. (“Goldgroup”), dated September 1, 2006. The terms of the Earn In / Option Agreement provided for Goldgroup to furnish \$18,000,000 financing to DynaMéxico for exploration expenditures at SJG, in exchange for a 50% share interest in DynaMéxico. This Earn In was completed in March 2011 and Goldgroup held 50% of outstanding capital at that date.

On June 21, 2013, DynaResource acquired a Certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 M USD). After the issuance and receipt of the 300 Series B Shares, DynaUSA holds 80% of the total outstanding Capital of DynaMéxico.

Drilling programs (2007 – 2011)

Drilling programs completed by the Company produced a total of 298 drill holes covering 68,741 meters of drilling from 2007 through March 2011. Results of the drilling activity, including the results of previous drilling in 1997-1998, appear in an “SJG Drill Intercepts Summary File through 11-298”, as Exhibit 99.1 to our Form 10-Q for the period ended June 30, 2011 filed with the SEC on August 22, 2011, and available on EDGAR at:

<http://sec.gov/Archives/edgar/data/1111741/000112178111000241/ex99one.htm>.

Additionally, the updated Drill Summary File is posted on the Company's web site at [www.dynaresource.com](http://www.dynaresource.com).

#### Magnetic and IP Surveys (2009)

Magnetic and IP ("Induced Polarization") surveys were conducted throughout the SJG district in 2009, covering an area of approximately 15 Sq. kilometers.

IP is the primary geophysical target at SJG, and is expected to identify pyrite-based mineralization hosting gold. Initial Survey Grid lines were located approximately perpendicular to inferred geologic strike. The data response from these grid lines indicate one or more IP sources that dip northwest. Additional grid lines were crossed with the initial lines, and appear to identify two separate IP sources.

Grid lines to the South appear to indicate an IP source at > 250 Meters.

Correlation between ground magnetic and IP

In general the correlation between the Magnetic and IP response and data was excellent.

Correlation with recent Drilling Programs and known Mineralization

The data response of the surveys correlated to the recent drilling programs and to the areas of known mineralization at SJG was excellent. Considering this excellent correlation to known mineralization, additional areas of SJG showing similar data response could be indicative of additional target areas.

Identification of Additional Resource Target Areas

Significant survey responses were reported for the following areas and are projected for follow up drilling:

San Pablo; Up Dip;

San Pablo; Displacement Zone;

Tres Amigos; Down Dip and Northwest;

Tres Amigos; Extension Northeast;

Orange Tree; Down Dip;

La Cecena, Los Hilos, and Tepehauje;

Palos Chinos;

La Prieta;

La Purisima; Down dip at Southeast end;

Argillic Zone; + 250 M. Down Dip;

Mineral Resource Estimate and Technical Report 43-101 (2012)

In 2012, DynaMéxico commissioned Servicios y Proyectos Mineros (“SPM”) for the production of Technical Report 43-101 (“43-101”) at San Jose de Gracia. Additionally, DynaMéxico commissioned Mr. Robert Sandefur, a senior reserve analyst for Chlumsky, Armbrust & Meyer LLC, Lakewood, CO (“CAM”) to produce a mineral resource estimate for the 4 main vein systems at the property.

Parameters Used to Estimate the Mineral Resource Estimate

The data base for the San Jose de Gracia Project consists of 372 drill holes of which 361 are diamond drill holes (“DDH”) and the remaining 11 were reverse circulation holes (“RC”), with a total drilling of 75,878 meters. The 2012 DynaMéxico-CAM SJG Mineral Resource Estimate concentrates on four main mineralized vein systems at SJG: Tres Amigos, San Pablo, La Union, and La Purisima. Of the 372 drill holes, 368 were drilled to test these four main vein systems and the remaining four holes tested the Argillic Zone. Technical personnel of Minop S.A. de C.V. (“Minop”), a

subsidiary (or affiliate) of Goldgroup Mining Inc. (“Goldgroup”) built three dimensional solids to constrain estimation to the interpreted veins in each swarm. The 172 holes most recently drilled (2009-2011), were allocated as follows: Tres Amigos (64 holes), San Pablo (49 holes), La Union (24 holes), La Purisima (32 holes) and the Argillic Zone (3 holes).

The data base also includes rock and chip sampling and regional stream sediment sampling, as well as IP Surveys.

#### Density

A total of 5,540 pieces of core were measured for specific gravity using the weight in air vs. weight in water method. This represents an additional 3,897 measurements taken in the 2009-11 drill seasons with density measurements taken from all mineral zones. Dried samples were coated with paraffin wax before being measured. The results tabulated have been sorted by lithology and mineralized veins. The average specific gravity of 5,051 wall rock samples was 2.59 while the average specific gravity for 489 samples of vein material is 2.68. CAM and Servicios y Proyectos Mineros have reviewed the procedures and results, and opine that the results are suitable for use in mineral resource estimation.

#### Mineral Resource Estimate - Construction of Wireframes

Mineral Resources were estimated by Mr. Sandefur within wireframes constructed by technical personnel of Minop. Minop was contracted by Mineras de DynaResource S.A. de C.V. (“MinerasDyna”).

#### Mineral Resource Estimate - Explanation of Resource Estimation

Resource estimation was done in MineSight and MicroModel computer systems with only those composites that were inside the wireframe used in the estimate. Estimation was done using kriging with the omni-directional variogram derived from all the data in each area for gold using the relative variogram derived from the log variogram. High grades were restricted by capping the assays at a breakpoint based on the cumulative frequency curves. Estimation was done using search radii of 100 x 100 x 50 m “blocks” oriented subparallel to the general strike and dip of the vein system in each area. A sector search, corresponding to the faces of the search box with a maximum of two points per sector was used in estimation. A density of 2.68 based on within ‘vein density’ samples was used in the resource estimate. Within each of the four areas there are approximately 20 to 40 veins in the vein swarm. Resources were estimated by kriging using data from all veins in the swarm. In general, gold accounts for at least 80% of the value of contained metal at the project, so the variograms for gold were used in estimation of the four other metals. Mineral Resources at Tres Amigos and San Pablo were classified as “Indicated” as follows:

- 1) they were within a vein within the swarm which contained at least 7 drill holes;
- 2) they are within 25 m of the nearest sample point; and,
- 3) the block was estimated by at least three drill holes.

All other Mineral Resources were classified as “Inferred”. Since there are no precise quantitative definitions of Measured, Indicated and Inferred, resource classification is subjective and depends on the experience and judgment of the Qualified Person (“QP”) calculating the resource estimate. Mr. Sandefur, QP, allowed indicated material at Tres Amigos and San Pablo because of (1) the similarity of the variograms, and (2) the fact of recent production by DynaMéxico from San Pablo of some 42,000 tonnes mill feed at an average grade of approximately 15 g/t (“grams per tonne”). Three of the individual veins at La Purisima satisfied criterion (1) above, but CAM elected not to include this material in “Indicated” because of the higher nugget effect at La Purisima, and because there was apparently historic underground mining there. This Mineral Resource Estimate for SJG does not include any ore loss or dilution outside wireframes, and as currently defined, is probably most appropriate for a highly selective, small equipment underground operation.

The veins at San Jose de Gracia have been historically mined for many years and historic mined volumes are not available. The one exception is the approximate 42,000 tonnes of ore processed by DynaMéxico during its pilot production activities in 2003-2006. The resource table is not adjusted for any historic mining. To validate that historic mining had not significantly reduced the resource, CAM reviewed the database for all assays greater than 1 gram per ton gold that were next to missing values at the bottom of drill holes. Only four assays satisfying this criterion were found, and on the basis of this review, Mr. Sandefur does not believe that significant mining has occurred within the volumes defined by the wireframes.

Servicios y Proyectos Mineros performed a database review and considers that a reasonable level of verification has been completed, and that no material issues have been left unidentified from the drilling programs undertaken.

#### Mineral Resource Estimate and 43-101 Technical Report - Data Verification

Mr. Ramon Luna Espinoza (“Mr. Luna”) initially visited the San Jose de Gracia Project in November 2010, and conducted site inspections at SJG in November 2011 and January 2012. Mr. Sandefur conducted a site inspection of the SJG Project in January 2012. While at the Property in November 2011, Mr. Luna inspected the areas of Tres Amigos, La Prieta, Gossan Cap, San Pablo, La Union, and La Purisima, and historic mining sites. In January 2012, Mr. Sandefur and Mr. Luna inspected the areas of Tres Amigos, San Pablo, La Union, and La Purisima. Pictures of the areas were taken. Many of the drill pads for the drilling programs of 2007 to 2011 were clearly located and identified. Mr. Luna also inspected San José de Gracia’s core logging and storage facilities, the geology offices, the meteorological station, the plant nursery, and the mill. Mr. Sandefur also inspected San José de Gracia’s core logging and storage facilities.

#### National Instrument 43-101 (“NI 43-101”) Mineral Resource Estimate for the San Jose de Gracia Property (2012)

The Company received from DynaMéxico on February 14, 2012, a National Instrument 43-101 Mineral Resource Estimate for San Jose de Gracia. The NI 43-101 Resource Estimate (the “2012 DynaMéxico-CAM SJG Mineral Resource Estimate”, the “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 Resource Estimate concentrates on four separate main vein systems at SJG: Tres Amigos, San Pablo, La Union, and La Purisima.

The mineral resource estimates prepared by Mr. Robert Sandefur for this Technical Report include Indicated Resources at Tres Amigos of 893,000 tonnes with an average grade of 4.46 g/t (128,000 Oz. Au), and at San Pablo of

1,308,000 tonnes with an average grade of 6.52 g/t (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 (741,000 Oz. Au). The resource estimate is reported using a 2.0 g/t cut off grade, with the effective date of February 6, 2012.

The following tables are summaries of the 2012 DynaMéxico-CAM Mineral Resource Estimate of the four main vein systems and also a table summary disclosing the aggregate of the mineral resources of those four vein systems.

***Mineral Resource and Classification for San Jose de Gracia Project***

**TRES AMIGOS INDICATED**

**Au Cut Off (g/t)**

	<b>Tonnes</b>	<b>Au g/t</b>	<b>Au Oz</b>	<b>Ag g/t</b>	<b>Ag Oz</b>	<b>Cu%</b>	<b>CuKg</b>	<b>Pb%</b>	<b>PbKg</b>	<b>Zn%</b>	<b>ZnKg</b>
1.00	1,128,000	3.85	139,000	9.18	333,000	0.19	2,137,000	0.05	570,000	0.33	3,774,000



2.00 893,000 4.46 128,000 10.34 297,000 0.21 1,875,000 0.06 499,000 0.37 3,276,000  
 3.00 608,000 5.37 105,000 11.31 221,000 0.22 1,338,000 0.06 374,000 0.39 2,349,000

**TRES AMIGOS INFERRED**

1.00 1,937,000 4.91 306,000 9.46 589,000 0.21 4,028,000 0.05 981,000 0.34 6,600,000  
 2.00 1,453,000 6.05 282,000 11.01 514,000 0.23 3,390,000 0.06 802,000 0.38 5,460,000  
 3.00 950,000 7.93 242,000 11.47 350,000 0.20 1,935,000 0.07 620,000 0.43 4,107,000

**SAN PABLO INDICATED****Au Cut Off (g/t)**

	Tonnes	Au g/t	Au Oz	Ag g/t	Ag Oz	Cu%	CuKg	Pb%	PbKg	Zn%	ZnKg
1.00	1,482,000	5.94	283,000	11.92	568,000	0.26	3,839,000	0.01	158,000	0.03	500,000
2.00	1,308,000	6.52	274,000	12.72	535,000	0.28	3,607,000	0.01	147,000	0.04	458,000
3.00	1,091,000	7.32	257,000	13.69	480,000	0.30	3,241,000	0.01	132,000	0.04	405,000

**SAN PABLO INFERRED**

1.00	756,000	4.65	113,000	9.25	225,000	0.17	1,273,000	0.01	74,000	0.03	227,000
2.00	532,000	6.02	103,000	11.33	194,000	0.20	1,074,000	0.01	51,000	0.03	161,000
3.00	426,000	6.92	95,000	11.89	163,000	0.22	935,000	0.01	40,000	0.03	131,000

**LA UNION INFERRED****Au Cut Off (g/t)**

	Tonnes	Au g/t	Au Oz	Ag g/t	Ag Oz	Cu%	CuKg	Pb%	PbKg	Zn%	ZnKg
1.00	1,221,000	4.72	185,000	12.81	503,000	0.15	1,856,000	0.02	250,000	0.04	532,000
2.00	849,000	6.11	167,000	13.71	374,000	0.19	1,579,000	0.03	221,000	0.05	448,000
3.00	580,000	7.79	145,000	16.51	308,000	0.23	1,340,000	0.03	196,000	0.07	403,000

**LA PURISIMA INFERRED****Au Cut Off (g/t)**

	Tonnes	Au g/t	Au OZ	Ag g/t	Ag OZ	Cu%	CuKg	Pb%	PbKg	Zn%	ZnKg
1.00	1,767,000	3.83	217,000	4.64	264,000	0.08	1,454,000	0.02	293,000	0.06	1,097,000
2.00	1,119,000	5.25	189,000	5.63	203,000	0.10	1,150,000	0.02	209,000	0.06	707,000
3.00	801,000	6.34	163,000	5.85	151,000	0.11	916,000	0.02	164,000	0.07	585,000

**SAN JOSE DE GRACIA TOTAL INDICATED**

						Cu	Pb	Zn
Au Cut Off (g/t)	Tonnes	Au g/t	Au OZ	Ag g/t	Ag OZ	% CuKg	% PbKg	% ZnKg
1.00	2,610,000	5.03	422,000	10.73	901,000	0.23 5,976,000	0.03 728,000	0.16 4,273,000
2.00	2,200,000	5.69	402,000	11.75	831,000	0.25 5,482,000	0.03 646,000	0.17 3,733,000

3.00