

DYNARESOURCE INC  
Form 10-Q  
August 22, 2011

**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 June 30, 2011

**OR**

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

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

Commission File Number 0-53237

**DYNARESOURCE, INC.**

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

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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 .

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As of August 18, 2011, there were 9,958,815 shares of Common Stock of the issuer outstanding.

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**DYNARESOURCE, INC.****(An Exploration Stage Company)****Consolidated Balance Sheets****June 30, 2011 and December 31, 2010**

|                                                                                                                       | 2011               | 2010               |
|-----------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                                                                                                         |                    |                    |
| Current Assets:                                                                                                       |                    |                    |
| Cash and Cash Equivalents                                                                                             | \$2,410,467        | \$1,277,065        |
| Foreign Tax Receivable                                                                                                | 53,654             | 255,384            |
| Other Current Assets                                                                                                  | 280,445            | 269,518            |
| Total Current Assets                                                                                                  | 2,744,566          | 1,801,967          |
| Fixed Assets:                                                                                                         |                    |                    |
| Mining Camp Equipment and Fixtures (Net of Accumulated Depreciation of \$661,159 and \$617,645)                       | 1,004,502          | 362,382            |
| Mining Properties (Net of Accumulated Amortization of \$470,686 and \$440,686)                                        | 4,232,681          | 4,262,681          |
| Total Fixed Assets                                                                                                    | 5,237,183          | 4,625,563          |
| Other Assets:                                                                                                         |                    |                    |
| Note Receivable from Affiliate                                                                                        | 70,000             | 70,000             |
| Deposits                                                                                                              | 5,788              | 5,788              |
| Total Other Assets                                                                                                    | 75,788             | 75,788             |
| <b>TOTAL ASSETS</b>                                                                                                   | <b>\$8,057,537</b> | <b>\$6,503,318</b> |
| <b>LIABILITIES AND EQUITY</b>                                                                                         |                    |                    |
| Current Liabilities:                                                                                                  |                    |                    |
| Accounts Payable                                                                                                      | \$11,974           | \$32,225           |
| Accrued Expenses                                                                                                      | 47,555             | 64,772             |
| Total Liabilities                                                                                                     | 59,529             | 96,997             |
| Long-Term Liabilities                                                                                                 | 0                  | 0                  |
| Equity:                                                                                                               |                    |                    |
| Preferred Stock, \$1.00 par value, 10,000 shares authorized<br>1,000 and 1,000 shares issued and outstanding          | 1,000              | 1,000              |
| Common Stock, \$0.01 par value, 12,500,000 shares authorized<br>9,958,815 and 9,763,220 shares issued and outstanding | 99,588             | 97,632             |
| Preferred Rights                                                                                                      | 40,000             | 40,000             |
| Additional Paid In Capital                                                                                            | 35,800,854         | 31,011,472         |

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|                                                            |              |              |
|------------------------------------------------------------|--------------|--------------|
| Treasury Stock                                             | 0            | 0            |
| Other Comprehensive Income                                 | 122,760      | 405,948      |
| Accumulated Deficit                                        | (6,002,516 ) | (6,002,516 ) |
| Accumulated Deficit Since Reentering the Development Stage | (19,070,610) | (17,223,915) |
| Total DynaResource, Inc. Stockholders' Equity              | 10,991,076   | 8,329,621    |
| Noncontrolling Interest                                    | (2,993,068 ) | (1,923,300 ) |
| TOTAL EQUITY                                               | 7,998,008    | 6,406,321    |
| <br>                                                       |              |              |
| TOTAL LIABILITIES AND EQUITY                               | \$8,057,537  | \$6,503,318  |

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

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**DYNARESOURCE, INC.****(An Exploration Stage Company)****Consolidated Statement of Operations****For the Three and Six Months Ended June 30, 2011 and 2010****And Cumulative Since Re-entering the Development Stage (January 1, 2007)****(Unaudited)**

|                               | Three Months Ended |             | Six Months Ended |             | Cumulative     |
|-------------------------------|--------------------|-------------|------------------|-------------|----------------|
|                               | June 30,           | June 30,    | June 30,         | June 30,    | Since          |
|                               | 2011               | 2010        | 2011             | 2010        | Re-Entering    |
|                               |                    |             |                  |             | Development    |
|                               |                    |             |                  |             | Stage (Jan. 1, |
|                               |                    |             |                  |             | 2007)          |
| REVENUES                      | \$0                | \$125,242   | \$0              | \$219,786   | \$346,726      |
| COST OF SALES                 |                    |             |                  |             |                |
| Exploration Costs             | 732,388            | 1,057,026   | 2,395,424        | 1,788,818   | 14,182,313     |
| GROSS PROFIT (DEFICIT)        | (732,388 )         | (931,784 )  | (2,395,424)      | (1,569,032) | (13,835,587)   |
| OPERATING EXPENSES:           |                    |             |                  |             |                |
| Depreciation and Amortization | 38,282             | 37,339      | 73,514           | 74,680      | 665,433        |
| General and Administrative    | 362,333            | 355,773     | 773,776          | 691,311     | 7,019,872      |
| TOTAL OPERATING EXPENSES      | 400,615            | 393,112     | 847,290          | 765,991     | 7,685,305      |
| NET OPERATING INCOME (LOSS)   | (1,133,002)        | (1,324,896) | (3,242,714)      | (2,335,023) | (21,520,892)   |
| OTHER INCOME (EXPENSE)        |                    |             |                  |             |                |
| Portfolio Income              | 300                | 764         | 597              | 1,762       | 20,837         |
| Other income                  | 0                  | 0           | 0                | 0           | 2,104          |
| TOTAL OTHER INCOME (EXPENSE)  | 300                | 764         | 597              | 1,762       | 22,941         |
|                               | (1,132,702)        | (1,324,132) | (3,242,116)      | (2,333,261) | (21,497,951)   |

## NET INCOME (LOSS) BEFORE INCOME TAXES

|                                                                           |              |              |               |               |                |
|---------------------------------------------------------------------------|--------------|--------------|---------------|---------------|----------------|
| Provision for Income Taxes (Expense) Benefit                              | 0            | 0            | 0             | 0             | 38,259         |
| NET LOSS                                                                  | (1,132,702)  | (1,324,132)  | (3,242,116)   | (2,333,261)   | (21,459,692)   |
| Net Loss Attributable to Non-Controlling Interest                         | 493,552      | 254,686      | 1,217,782     | 417,120       | 3,141,082      |
| NET LOSS ATTRIBUTABLE TO DYNARESOURCE, INC. COMMON SHAREHOLDERS           | (639,150 )   | (1,069,446)  | (2,024,334)   | (1,916,141)   | (18,318,610)   |
| COMPREHENSIVE INCOME (LOSS):                                              |              |              |               |               |                |
| Unrealized Loss on Securities Held for Sale                               |              | 0            | 0             | 0             | (735,760 )     |
| Currency Translation Gain (Loss)                                          | (148,979 )   | 64,878       | 325,654       | 291,367       | (232,582 )     |
| COMPREHENSIVE LOSS BEFORE NON-CONTROLLING INTEREST                        | (788,129 )   | (1,004,568)  | (1,698,680)   | (1,624,774)   | (19,286,952)   |
| Comprehensive Loss (Income) Attributable to Non-Controlling Interest      | (37,519 )    | 28,660       | (148,014 )    | (21,394 )     | (179,269 )     |
|                                                                           | (148,014 )   | (179,269 )   |               |               |                |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO DYNARESOURCE, INC. COMMON SHAREHOLDERS | \$(825,649 ) | \$(975,908 ) | \$(1,846,695) | \$(1,646,168) | \$(19,466,221) |

## EARNINGS PER SHARE, Basic and Diluted

|                                                        |           |           |           |           |  |
|--------------------------------------------------------|-----------|-----------|-----------|-----------|--|
| Weighted Average Shares Outstanding, Basic and Diluted | 9,932,217 | 9,423,350 | 9,883,075 | 9,423,350 |  |
| Income (Loss) per Common Share, Basic and Diluted      | (0.08 )   | (0.10 )   | (0.19 )   | (0.17 )   |  |

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



**DYNARESOURCE, INC.****(An Exploration Stage Company)****Consolidated Statement of Changes in Stockholders' Equity****For the Year Ended December 31, 2010 and****For the Six Months Ended June 30, 2011**

|                                         | Preferred<br>Shares | Preferred<br>Amount | Common<br>Shares | Common<br>Amount | Preferred<br>Rights | Additional<br>Paid In<br>Capital | Treasury<br>Stock | Other<br>Comprehensive<br>Income | Accumulated<br>Deficit |
|-----------------------------------------|---------------------|---------------------|------------------|------------------|---------------------|----------------------------------|-------------------|----------------------------------|------------------------|
| Stockholders' Equity, January 1, 2010   | 1,000               | \$1,000             | 9,374,303        | \$93,743         | \$40,000            | \$25,475,425                     | \$(2,385)         | \$1,405,537                      | \$(6,002,000)          |
| Sale of Common Shares                   |                     |                     | 124,244          | 1,242            |                     | 433,460                          |                   |                                  |                        |
| Issuance of Common Shares for Services  |                     |                     | 264,673          | 2,647            |                     | 898,790                          |                   |                                  |                        |
| Treasury Stock Purchased                |                     |                     |                  |                  |                     |                                  | (141,689)         |                                  |                        |
| Treasury Stock Sold                     |                     |                     |                  |                  |                     | 71,787                           | 144,074           |                                  |                        |
| Other Comprehensive Income              |                     |                     |                  |                  |                     |                                  |                   | (999,589)                        |                        |
| DynaMexico Earn In Net Income (Loss)    |                     |                     |                  |                  |                     | 4,132,010                        |                   |                                  |                        |
| Stockholders' Equity, December 31, 2010 | 1,000               | \$1,000             | 9,763,220        | \$97,632         | \$40,000            | \$31,011,472                     | \$0               | \$405,948                        | \$(6,002,000)          |
| Sale of Common Shares                   |                     |                     | 165,978          | 1,660            |                     | 656,997                          |                   |                                  |                        |
| Issuance of Common Shares for           |                     |                     | 29,617           | 296              |                     | 132,385                          |                   |                                  |                        |

|               |       |         |           |          |          |              |     |           |   |               |
|---------------|-------|---------|-----------|----------|----------|--------------|-----|-----------|---|---------------|
| Services      |       |         |           |          |          |              |     |           |   |               |
| Other         |       |         |           |          |          |              |     |           |   |               |
| Comprehensive |       |         |           |          |          |              |     | (283,188  | ) |               |
| Income        |       |         |           |          |          |              |     |           |   |               |
| DynaMexico    |       |         |           |          |          | 4,000,000    |     |           |   |               |
| Earn In       |       |         |           |          |          |              |     |           |   |               |
| Net Income    |       |         |           |          |          |              |     |           |   |               |
| (Loss)        |       |         |           |          |          |              |     |           |   |               |
| Stockholders' |       |         |           |          |          |              |     |           |   |               |
| Equity, June  | 1,000 | \$1,000 | 9,958,815 | \$99,588 | \$40,000 | \$35,800,854 | \$0 | \$122,760 |   | \$(6,002,000) |
| 30, 2011      |       |         |           |          |          |              |     |           |   |               |

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

**DYNARESOURCE, INC.****(An Exploration Stage Company)****Consolidated Statements of Cash Flows****For the Six Months Ended June 30, 2011 and 2010****And Cumulative Since Re-entering the Development Stage (January 1, 2007)****through June 30, 2011**

|                                                                         | 2011               | 2010               | Cumulative<br>Since<br>Reentering the<br>Development<br>Stage (January<br>1, 2007)<br>through June<br>30<br>2011 |
|-------------------------------------------------------------------------|--------------------|--------------------|------------------------------------------------------------------------------------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                             |                    |                    |                                                                                                                  |
| Net Income (Loss)                                                       | \$(3,242,116)      | \$(2,333,261)      | \$(22,291,889)                                                                                                   |
| Adjustments to reconcile net loss to cash used by operating activities: |                    |                    |                                                                                                                  |
| Issuance of Common Stock for Services                                   | 132,681            | 0                  | 1,720,056                                                                                                        |
| Issuance of Preferred Stock for Services                                | 0                  | 0                  | 1,000                                                                                                            |
| Depreciation and Amortization                                           | 73,514             | 74,680             | 665,433                                                                                                          |
| Loss on Disposition of Assets                                           | 0                  | 0                  | 28,006                                                                                                           |
| Change in Operating Assets and Liabilities:                             |                    |                    |                                                                                                                  |
| Decrease in Accounts Receivable                                         | 0                  | 0                  | 199,143                                                                                                          |
| (Increase) Decrease in Foreign Tax Receivable                           | 201,730            | 62,012             | (4,449 )                                                                                                         |
| (Increase) in Other Current Assets                                      | (10,927 )          | (138,326 )         | (114,252 )                                                                                                       |
| (Increase) in Deposits                                                  | 0                  | (9 )               | (5,788 )                                                                                                         |
| Increase (Decrease) in Accounts Payable                                 | (20,251 )          | (27,482 )          | (29,430 )                                                                                                        |
| Increase (Decrease) Increase in Accrued Expenses                        | (17,217 )          | 12,523             | (58,581 )                                                                                                        |
| (Decrease) in Deferred Tax Liability                                    | 0                  | 0                  | (38,259 )                                                                                                        |
| <b>CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>                        | <b>(2,882,586)</b> | <b>(2,349,863)</b> | <b>(19,929,010)</b>                                                                                              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                             |                    |                    |                                                                                                                  |
| Purchase of Fixed Assets                                                | (685,135 )         | (27,081 )          | (1,081,928 )                                                                                                     |
| Retirement of Fixed Assets                                              | 0                  | 0                  | 20,148                                                                                                           |
| Conversion of Note Receivable to Equity                                 | 0                  | 0                  | 750,000                                                                                                          |
| Investment in Affiliate                                                 | 0                  | (250,000 )         | (70,000 )                                                                                                        |
| Note Receivable to Affiliate                                            | 0                  | 0                  | (750,000 )                                                                                                       |
| <b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>                        | <b>(685,135 )</b>  | <b>(277,081 )</b>  | <b>(1,131,780 )</b>                                                                                              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                             |                    |                    |                                                                                                                  |

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|                                                    |                    |                   |                    |
|----------------------------------------------------|--------------------|-------------------|--------------------|
| Proceeds from DynaMexico Earn In                   | 4,000,000          | 1,700,000         | 17,674,995         |
| Proceeds from Sale of Common Stock                 | 658,657            | 205,325           | 4,755,951          |
| Repurchase of Common Stock Options                 | 0                  | 0                 | (10,000 )          |
| Other Comprehensive Income (Loss)                  | (283,188 )         | (219,402 )        | 129,575            |
| -Purchase of Treasury Stock                        | 0                  | (54,208 )         | (372,479 )         |
| Sale of Treasury Stock                             | 0                  | 19,214            | 472,375            |
| <b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b> | <b>4,375,469</b>   | <b>1,650,928</b>  | <b>22,650,417</b>  |
| Effect of Exchange Rate on Cash                    | 325,654            | 291,367           | 0                  |
| <b>NET INCREASE (DECREASE) IN CASH</b>             | <b>1,133,402</b>   | <b>(684,649 )</b> | <b>1,589,627</b>   |
| <br>                                               |                    |                   |                    |
| <b>CASH AT BEGINNING OF PERIOD</b>                 | <b>1,277,065</b>   | <b>1,640,508</b>  | <b>820,840</b>     |
| <b>CASH AT END OF PERIOD</b>                       | <b>\$2,410,467</b> | <b>\$955,859</b>  | <b>\$2,410,467</b> |

SUPPLEMENTAL DISCLOSURES

|                                                    |           |     |             |
|----------------------------------------------------|-----------|-----|-------------|
| Non-Cash Issuance of Common Shares for Services    | \$132,681 | \$0 | \$1,720,056 |
| Non-Cash Issuance of Preferred Shares for Services | \$0       | \$0 | \$1,000     |
| Cash Paid During the Year for Interest Expense     | \$0       | \$0 | \$0         |
| Non-Cash Dividend of Property                      | \$0       | \$0 | \$129,822   |

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

**DYNARESOURCE, INC.**

**(An Exploration Stage Company)**

**Notes to the Consolidated Financial Statements**

**June 30, 2011**

**(Unaudited)**

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

Nature of Activities, History and Organization:

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

In 2000, the Company formed a wholly owned subsidiary, DynaResource de Mexico S.A. de C.V. chartered in Mexico (“DynaMexico”). DynaMexico was formed to acquire, invest in and develop resource properties in Mexico. In March 2000, DynaResource and DynaMexico entered into agreements to acquire the San Jose de Gracia Mining District in Northern Sinaloa, Mexico (“SJG”). In December 2003, DynaMexico reported the complete and 100 % acquisition, consolidation and ownership of the entire SJG District. 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.) (“Mineras”). The Company owned 25% of Mineras and acquired effective control of Mineras by acquiring the option to purchase the remaining 75% of the Shares of Mineras. The Company finalized the option and acquisition of Mineras in January 2010, and now owns 100% of Mineras. The results of Mineras are consolidated with those of the Company.

In January 2008, the Company transferred 15% of the shares of DynaMexico to Goldgroup Mining Inc. (“Goldgroup”), in exchange for \$3,000,000 USD cash contributed to DynaMexico and used for exploration and related expenditures at the San Jose de Gracia property (“SJG”). In August 2008, the Company transferred an additional 10% of the shares of

DynaMexico to Goldgroup in exchange for an additional \$3,000,000 USD cash contributed to DynaMexico and used for exploration and related expenditures at SJG, and in March 2011, the Company transferred an additional 25% of the shares of DynaMexico to Goldgroup in exchange for an additional \$12,000,000 USD cash contributed to DynaMexico and used for exploration and related expenditures at SJG (See Note 6 below). Through March 31, 2011, Goldgroup has contributed \$18,000,000 USD to DynaMexico, and it currently holds owns 50% of the outstanding shares of DynaMexico.

The Company produced approximately \$7,637,150 in revenues from production activities conducted during the years ended December 31, 2003 through 2006, and suspended this activity voluntarily to concentrate its efforts on exploration and development. In accordance with that decision, as of January 1, 2007, the Company reentered the Exploration Stage and has presented its cumulative results since reentering the Exploration Stage, in accordance with Accounting Standards Codification (“ASC”) 915 “*Development Stage Entities*” (formerly Statement of Financial Accounting Standard (“SFAS”) No. 7, “*Accounting and Reporting by Development Stage Enterprises*” (“SFAS No. 7”)), and will continue this presentation until it again has revenues from operations.

Significant Accounting Policies:

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

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

Basis of Presentation:

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

Principles of Consolidation:

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

Foreign Currency Translation:

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

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

Relevant exchange rates used in the preparation of the financial statements for the subsidiary are as follows for the six months ended June 30, 2011 and 2010 (Mexican pesos per one U.S. dollar):

|                        |          |       |
|------------------------|----------|-------|
|                        | June 30, |       |
|                        | 2011     |       |
| Current exchange rate: | Pesos    | 11.72 |

|                                                          |       |       |
|----------------------------------------------------------|-------|-------|
| Weighted average exchange rate for the six months ended: | Pesos | 11.89 |
|----------------------------------------------------------|-------|-------|

|                        |                      |       |
|------------------------|----------------------|-------|
|                        | <u>June 30, 2010</u> |       |
| Current exchange rate: | Pesos                | 12.84 |

|                                                          |       |       |
|----------------------------------------------------------|-------|-------|
| Weighted average exchange rate for the six months ended: | Pesos | 12.69 |
|----------------------------------------------------------|-------|-------|

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 FDIC insurance limits. The carrying amount approximates fair market value.



Accounts Receivable and Allowances for Doubtful Accounts:

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

Foreign Tax Receivable:

Foreign Tax Receivable (IVA) is comprised of recoverable value-added taxes charged by the Mexican government on goods and services rendered. Under certain circumstances, these taxes are recoverable by filing a tax return. Amounts paid for IVA are tracked and held as receivables until the funds are remitted. The total amount of the IVA receivable as of June 30, 2011 and December 31, 2010 are \$53,654 and \$255,384, respectively.

Fixed Assets:

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

Mining Properties:

The Company is an 'Exploration Stage' company as defined in "*SEC Industry Guide 7*". Mining properties consist of 33 concessions covering approximately 69,133 hectares, at the San Jose de Gracia property, the basis of which are deferred until the properties are brought into production, at which time they will be amortized on the unit of production method based on estimated recoverable reserves. The Company has elected to expense a minimal amount of amortization due to the effects of exploration activities on the recoverable reserves. If it is determined that the deferred costs related to a property are not recoverable over its productive life, those costs will be written down to fair value as a charge to operations in the period in which the determination is made. The amounts at which mineral properties and the related deferred costs are recorded do not necessarily reflect present or future values.

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

- estimated recoverable ounces of gold, silver or other precious minerals;
- estimated future commodity prices;

Estimated expected future operating costs, capital expenditures and reclamation expenditures.

A write-down to fair value will be recorded when the expected future cash flow is less than the net book value of the property or when events or changes in the property indicate that carrying amounts are not recoverable. This analysis will be completed as needed, and at least annually. As of the date of this filing, no events have occurred that would require write-down of any assets. As of June 30, 2011, no indications of impairment existed.

#### Exploration Costs:

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

The carrying amounts of the mining concessions are reviewed at each calendar year end to determine whether there is any indication of impairment.

As of December 31, 2010, no indications of impairment existed.

Advertising Costs:

The Company incurred no advertising costs for the six months ended June 30, 2011 and 2010.

Income Taxes:

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

Use of Estimates:

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

Comprehensive Income:

ASC 220 "*Comprehensive Income*", (formerly SFAS No. 130 "*Reporting 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 six months ended June 30, 2011 and 2010, the Company's only component of comprehensive income was foreign currency translation adjustments.

Revenue Recognition:

The Company recognizes revenue in accordance with ASC 605-10, "*Revenue Recognition in Financial Statements*", (formerly Staff Accounting Bulletin No. 104 ("SAB 104")). 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*" (formerly SFAS No. 128, "*Earnings per Share*"). The weighted average number of common shares outstanding during each period is used to compute basic earnings (loss) per share. Diluted earnings per share are computed using the weighted average number of shares and potentially dilutive common shares outstanding. Dilutive potential common shares are additional common shares assumed to be exercised. Potentially dilutive common shares consist of stock options and are excluded from the diluted earnings per share computation in periods where the Company has incurred a net loss, as their effect would be considered anti-dilutive.

There were no potentially dilutive common stock equivalents as of June 30, 2011, therefore basic earnings per share equals diluted earnings per share for the six months ended June 30, 2011. The Company had no options outstanding at June 30, 2011.

Recently Issued Accounting Pronouncements:

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

**NOTE 2 – FIXED ASSETS**

Fixed assets consist of the following at June 30, 2011 and December 31, 2010:

|                                    | 2011        | 2010       |
|------------------------------------|-------------|------------|
| Mining camp equipment and fixtures | \$1,224,539 | \$546,636  |
| Transportation equipment           | 268,253     | 268,253    |
| Lab equipment                      | 14,306      | 14,306     |
| Machinery and equipment            | 30,514      | 30,514     |
| Office furniture and fixtures      | 76,895      | 76,895     |
| Office equipment                   | 18,904      | 11,673     |
| Computer equipment                 | 32,250      | 32,250     |
| Sub-total                          | 1,665,661   | 980,527    |
| Less: Accumulated depreciation     | (661,159 )  | (617,645 ) |
| Total                              | \$1,004,502 | \$362,882  |

Depreciation has been provided over each asset's estimated useful life. Depreciation expense was \$43,514 and \$13,887 for the six months ended June 30, 2011 and 2010, respectively.

**NOTE 3 – MINING PROPERTIES**

Mining properties consist of the following at June 30, 2011 and December 31, 2010:

|                                | 2011        | 2010        |
|--------------------------------|-------------|-------------|
| San Jose de Gracia ("SJG"):    |             |             |
| Mining Concessions             | \$4,703,367 | \$4,703,367 |
| Less: Accumulated Amortization | (470,686 )  | (440,686 )  |
| Total Mining Properties        | \$4,232,681 | \$4,262,681 |

Amortization expense was \$30,000 and \$23,454 for the six months ended June 30, 2011 and 2010, respectively.

**NOTE 4 – NOTE RECEIVABLE FROM AFFILIATE**

Through December 31, 2010, the Company loaned a total of \$805,760 USD to DynaResource Nevada, Inc. (“DynaNevada”), a Nevada Corporation, with one operating subsidiary in Mexico, DynaNevada de Mexico, SA de CV., (“DynaNevada de Mexico”). The terms of the Note Receivable provided for a “Convertible Loan”, repayable at 5 % interest over a 3 year period, and convertible at the Company’s option into common stock of DynaNevada at \$.25 / Share.

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

DynaNevada is a related entity (affiliate), and through its subsidiary DynaNevada de Mexico, entered into an Option agreement with Grupo Mexico (IMMSA) in Mexico, for the exploration and development of approximately 3,000 hectares in the State of San Luis Potosi (“The Santa Gertrudis Property”). DynaNevada de Mexico completed the Option with IMMSA in March 2010, so that DynaNevada de Mexico now owns 100 % of the Santa Gertrudis Property. In June, 2010, DynaNevada de Mexico acquired an additional 6,000 hectares in the State of Sinaloa (the “San Juan Property”).

#### **NOTE 5 – INCOME TAXES**

The Company has adopted ASC 740-10, “*Income Taxes*”, (formerly SFAS No. 109, “*Accounting for Income Taxes*”), which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable (deferred tax liability) or benefit (deferred tax asset). Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The cumulative tax effect at the expected tax rate of 34% (blended for U.S. and Mexico) of significant items comprising the Company’s net deferred tax amounts as of June 30, 2011 and December 31, 2010 are as follows:

Deferred Tax Asset Related to:

|                              | June 30,<br>2011 | December<br>31,<br>2010 |
|------------------------------|------------------|-------------------------|
| Prior Year                   | \$5,147,021      | 3,244,101               |
| Tax Benefit for Current Year | 1,102,320        | 1,902,920               |
| Total Deferred Tax Asset     | 6,249,341        | 5,147,021               |
| Less: Valuation Allowance    | (6,249,341)      | (5,147,021)             |
| 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 \$25,000,000 at June 30, 2011, and will expire in the years 2025 through 2029.

The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at June 30, 2011.

**NOTE 6 – MATERIAL AGREEMENTS**

Concessions and Interest related to DynaResource de Mexico and the San Jose de Gracia Property (“SJG”):

In March 2000, the Company and DynaMexico entered into agreements to complete the acquisition and consolidation of 100% of the Mining Concessions to the San Jose de Gracia Property (“SJG”) and related interests. Pursuant to these agreements, the Mining Concessions and related interests comprising the SJG were transferred to “DynaResource de Mexico, SA de CV.”, at the time the wholly owned subsidiary of the Company.

In March 2005, the Company issued 115,000 common shares; received a cash payment of \$15,000; and accepted a mutual release from the vending parties to complete the acquisition agreements.

Financing/Sale of Stock:

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



The Earn In provided for the sale of up to fifty per cent (50%) of the total outstanding shares of DynaMexico, then the wholly owned subsidiary of DynaResource, and the 100 % owner of the San Jose de Gracia District in northern Sinaloa Mexico (“SJG”) in exchange for the total cash contributions to DynaMexico to be used for exploration expenditures related to the development of the SJG, in the amount of \$18,000,000 by Goldgroup; contributed in four (4) phases, as set forth below:

| Phase | On or before       | Amount of Funds<br>to be deposited to<br>DynaMexico (For<br>SJG Expenditures) | Interest Earned<br>(by Goldgroup in<br>DynaMexico) | Cumulative<br>Interest Earned<br>(by Goldgroup in<br>DynaMexico) |
|-------|--------------------|-------------------------------------------------------------------------------|----------------------------------------------------|------------------------------------------------------------------|
| 1.    | June 15, 2007      | \$1,000,000                                                                   | 0%                                                 | 0%                                                               |
| 2.    | March 15, 2008     | \$2,000,000                                                                   | 15%                                                | 15%                                                              |
| 3.    | September 15, 2009 | \$3,000,000                                                                   | 10%                                                | 25%                                                              |
| 4.    | March 15, 2011     | \$12,000,000                                                                  | 25%                                                | 50%                                                              |

Pursuant to the Earn In Agreement:

DynaResource attached the “SJG Title Opinion”, compiled by its legal counsel in Mazatlan, Sinaloa Mexico, with attachments and schedules; describing the status and position of DynaMexico and affiliates in Mexico, and confirming the ownership and status of the Mining Concessions comprising the SJG District in Sinaloa, Mexico;

DynaResource attached its audited, consolidated financial statements at December 31, 2005;

The Parties agreed to a revised setting of the Board of Directors of DynaMexico, to:

a.

Two (2) members of DynaResource; K.D. Diepholz, Chairman/CEO of DynaResource as President; and, Charles E. Smith; CFO of DynaResource;

b. One (1) member of Goldgroup; Keith Piggott, CEO of Goldgroup.

A Management Committee was formed to approve budgets and expenditures pursuant to the Earn In. The setting of the Management Committee is:

a. Two (2) members of Goldgroup; Keith Piggott, CEO of Goldgroup as Chairman; and, John Sutherland, CFO of Goldgroup;

b. One (1) member of DynaResource; K.D. Diepholz, Chairman/CEO of DynaResource;

c. Members of the Management committee may be changed as subsequently agreed.

The Parties agree to cooperate to develop the SJG Property, in the best interests of the Project.

Earn In Activities:

Activities related to the exploration and development of SJG are being conducted by DynaMexico, through contract to the operating subsidiary of DynaResource, Inc. in Mexico, Mineras de DynaResource SA de CV. (“MinerasDyna”); with the management of personnel being contracted by MinerasDyna through to the personnel management subsidiary, DynaResource Operaciones SA de CV., (“DynaOperaciones”). Management and administrative fees are charged by Mineras Dyna and DynaOperaciones, which are eliminated in consolidation.

On December 28, 2007, DynaMexico reported that Goldgroup had funded Phase II of the Earn In Agreement, through the contributions of Capital of \$3,368,088 USD to DynaMexico and the expenditures related to the exploration of SJG of \$27,063,453 Mexican pesos, with the remainder held in cash in DynaMexico. In January 2008, 15% of the Shares of DynaMexico were transferred to Goldgroup.

On July 16, 2008, DynaMexico reported that Goldgroup had funded Phase III of the Earn In Agreement through total contributions of capital under the Earn In Agreement of \$6,118,009 USD with total expenditures related to the exploration of SJG of \$57,252,898 Mexican pesos, with the remainder held in cash in DynaMexico. In August 2008, an additional 10% of the Shares of DynaMexico were transferred to Goldgroup, so that Goldgroup held 25% of the total outstanding shares of DynaMexico as of December 31, 2008.

At March 15, 2011, DynaMexico reported that Goldgroup had funded its total contributions of Capital pursuant to the Earn In Agreement of \$18,000,000. In March 2011, an additional 25 % of the Shares of DynaMexico were transferred to Goldgroup so that Goldgroup holds a total of 50 % of the outstanding shares of DynaMexico.

DynaMexico received \$4,000,000 from Goldgroup during the three months ended March 31, 2011 pursuant to the last phase of the Earn In Agreement.

Material Agreement (MOU):

In order to clarify and confirm the operating structure at SJG, DynaResource, DynaMexico, and Goldgroup (the Parties to the Earn In/Option Agreement; and “the Parties”) entered into a “Memorandum of Understanding”, (the “MOU”), dated July 29, 2008. The MOU provides for:

Mineras de DynaResource “(Mineras Dyna”) is the exclusive operating entity at San Jose de Gracia (“SJG”), pursuant to the operating agreement with DynaResource de Mexico (“DynaMexico”);

DynaMexico owns the SJG Property and Concessions 100%, and all data and information pursuant thereto; any information disseminated regarding SJG must be disclosed as from DynaMexico;

The SJG Management Committee is not a legal entity and has no authority or ability to sign contracts or incur obligations or liabilities to DynaMexico, MinerasDyna, or DynaResource Operaciones (“DynaOperaciones”);

The SJG Management Committee does not have the authority to act for or represent DynaMexico, MinerasDyna, DynaOperaciones, or the SJG Property;

All personnel must be employed or contracted through MinerasDyna or DynaOperaciones and be accountable to the employing/contracting entity.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Company paid \$30,000 and \$50,000 to Dynacap Group, Ltd. (an entity controlled by officers of the Company) for consulting and other fees in the six months ended June 30, 2011 and 2010, respectively.

In addition, the Company has issued its stock to the following directors and consultants for the six months ended June 30, 2011 and 2010, respectively:

|             | 2011      | 2010 |
|-------------|-----------|------|
| Directors   | \$ 19,750 | \$ 0 |
| Consultants | 0         | 0    |
| Totals      | \$ 19,750 | \$ 0 |

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

During the six months ended June 30, 2011 and 2010, the Company's revenue was earned from exploration services performed for a related party.

#### **NOTE 8 – STOCKHOLDERS' EQUITY**

##### Preferred Stock:

The Company is authorized to issue 10,000 preferred shares at a par value of \$1.00 per share. These preferred shares have full voting rights. In October 2007, the Company issued 1,000 shares of Preferred A shares to its CEO. These preferred shares have the right to elect a majority of the Board of Directors. There were 1,000 shares outstanding at June 30, 2011 and December 31, 2010, respectively.

##### Common Stock:

The Company is authorized to issue 12,500,000 common shares at a par value of \$0.01 per share. These shares have full voting rights. At June 30, 2011 and December 31, 2010, there were 9,958,815 and 9,763,220 shares outstanding, respectively. No dividends were paid in 2011 or 2010.

##### Preferred Rights:

The Company issued "Preferred Rights" and received \$158,500 in 2003 and \$626,250 in 2002, for the rights to percentages of revenues generated from the San Jose de Gracia Pilot Production Plant. This has been reflected as "Preferred Rights" in stockholders' equity. As of December 31, 2004, \$558,312 was repaid and as of December 31, 2005, an additional \$186,188 has been repaid, leaving a current balance of \$40,000 and \$40,000 as of June 30, 2011 and 2010, respectively.

##### Stock Issuances:

During the six months ended June 30, 2011, the Company issued 136,066 common shares for cash at \$3.75 per share and 29,912 for cash at \$5.00 per share.

During the six months ended June 30, 2011, the Company issued 29,617 common shares for services for \$132,681 of consulting or legal services. 5,000 of these were issued to Directors of the Company.

During 2010, the Company issued 124,244 common shares for cash for \$3.50 per share.

During 2010, the Company also issued 252,173 shares for \$854,562 of consulting services. The Company also issued 12,500 shares to directors for \$46,875 in services.

Treasury Stock:

During the six months ended June 30, 2011, the Company did not purchase or sell any treasury shares.

Treasury stock is accounted for by the cost method. During 2010, the Company repurchased 60,085 shares for \$141,689 and resold 60,085 shares for \$215,861.

Options and Warrants:

The Company has no options or warrants outstanding at June 30, 2011.

During 2010, 630,092 options were not exercised or reissued and expired.

**NOTE 9 – EMPLOYEE BENEFIT PLANS**

During the six months ended June 30, 2011 and the year ended December 31, 2010, there were no qualified or non-qualified employee pension, profit sharing, stock option, or other plans authorized for any class of employees.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

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

In September 2008, the Company entered into a 37 month lease agreement for its corporate office. The Company paid rent expense of \$25,612 and \$27,023 related to this lease for the six months ended June 30, 2011 and 2010.

The following is a schedule of minimum lease payments required under the existing lease as of June 30, 2011:

| <u>Year Ended December 31</u> | Amount   |
|-------------------------------|----------|
| 2011                          | \$ 7,875 |
| 2012                          | 0        |
|                               | \$ 7,875 |

**NOTE 11 – NON-CONTROLLING INTEREST**

The Company's Non-controlling Interest recorded in the consolidated financial statements relates to a 50% interest in DynaResource de México, S.A. de C.V. Changes in Non-controlling Interest for the six months ended June 30, 2011 follows:

|                                   |               |
|-----------------------------------|---------------|
|                                   | 2011          |
| Beginning balance                 | \$(1,923,300) |
| Operating income (loss)           | (1,217,782)   |
| Other comprehensive income (loss) | 148,014       |





On January 1, 2010, the Company adopted ASU 2010-06, “*Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*,” which added disclosure requirements about transfers in and out of Levels 1 and 2 and separate disclosures about activity relating to Level 3 measurements and clarifies existing disclosure requirements related to the level of disaggregation and input and valuation techniques. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements or the related disclosures.

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

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

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

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

The ASC guidance for fair value measurements and disclosure establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted

quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

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

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

*Level 3 Inputs* – Instruments with primarily unobservable value drivers.

As of June 30, 2011, the Company's financial assets are measured at fair value using Level 3 inputs, with the exception of cash, which was valued using Level 1 inputs. There were no financial liabilities as of June 30, 2011.

Fair Value Measurement at June 30, 2011 Using:

|                           |                          | <b>Quoted<br/>Prices In<br/>Active<br/>Markets<br/>For<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|---------------------------|--------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------------------|
|                           | <b>June 30,<br/>2011</b> |                                                                                                   |                                                                      |                                                              |
| Assets:                   |                          |                                                                                                   |                                                                      |                                                              |
| Cash and Cash Equivalents | \$2,410,467              | \$2,410,467                                                                                       | \$ -                                                                 | \$ -                                                         |
| Investment in Affiliate   | 70,000                   | -                                                                                                 | -                                                                    | 70,000                                                       |
|                           | \$2,480,467              | \$2,410,467                                                                                       | \$ -                                                                 | \$ 70,000                                                    |

**NOTE 14 – SUBSEQUENT EVENTS**

In accordance with ASC 855-10, an evaluation of subsequent events was performed through August 18, 2011, which is the date the financial statements were issued. No items requiring disclosure were noted.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### General

The Company holds 50% of the outstanding shares of DynaResource de México, S.A. de C.V. ("DynaMéxico"), which owns 100% of the mineral concessions and related interest to the San José de Gracia mining property and district covering approximately 69,133 hectares located in and around San José de Gracia, Sinaloa State, México ("SJG"). SJG is located on the west side of the Sierra Madre Mountains, approximately 250 kilometers inland from the port city of Los Mochis, Sinaloa; and approximately 500 kilometers north of Mazatlan, Sinaloa.

The SJG is a High-Grade Mineralized System which reports historical production of + 1 M. Oz. AU, from a series of underground workings. DynaMéxico is focused on the exploration and future exploitation of this vein-hosted, near surface, and + 400 hundred M. Down – Dip Gold Potential, that occurs within fault breccia veins; and has been traced on surface and underground over a 15 Sq. Km. area.

### Prior Drilling and Exploration Activity / SJG (1997 / 1998)

A drill program was conducted at SJG in 1997 - 1998 by Golden Hemlock Explorations, Ltd., a prior partner at SJG. Approximately 6,172 meters drilling was completed in 63 core drill holes. Significant intercepts, including bonanza grades, outlined down dip potential of the Northeast section (150 Meter NE to SW extent of the Drilling) of the Los Hilos to La Cecena to Tres Amigos Trend. And, Drill Hole 97-63 confirmed down dip and extension at the Palos Chinos Area of SJG.

Surface and underground sampling in 1999 - 2000 conducted by the Company confirmed high grades in historic workings and surface exposures throughout the SJG district and project area. These high grades outlined the presence of ore shoots developed within the veins. The ore shoots appear to be controlled by dilational jogs and/or vein intersections. A total of 544 samples were collected in 1999-2000, and assayed an average 6.51 grams/ton (g/t) gold.

Acquisition and Consolidation / SJG

In 2000, the Company formed DynaMéxico to acquire, invest in, explore and develop mining concessions in México, and specifically to acquire the ownership and interests related to San Jose de Gracia. In March 2000, the Company and DynaMéxico entered into agreements to acquire and consolidate 100% of the San José de Gracia Property. The Company agreed to issue 2,493,271 common shares in exchange for the complete acquisition of the SJG and all related interest, and subject to the complete transfer of all mining concessions.

After resolving ownership and title issues related to SJG mining concessions, the number of shares issued to the prior owners of SJG was reduced to 115,000 shares from 2,493,271. (Note: The 115,000 shares were issued in 2006, when all matters related to the acquisition, transfer, and consolidation, of the SJG district, were resolved).

Recent Pilot Production Activity

During the period 2003 through 2006, DynaMéxico conducted underground mining and pilot production activities at SJG. The small scale production activities at SJG consisted of improvements to an existing mill, including the installation of a gravity / flotation processing circuit. Initial test runs with tailings from historical production were completed in 2002. Actual mining at the high grade San Pablo area of the SJG property commenced in March 2003. DynaMéxico produced 18,250 Oz. gold from Mid 2003 to June 2006; from mined tonnage of 42,500 tons, at an average grade of approximately 20 g/t. Production costs were reported at approx. < \$ 175. / Oz.

During the period of production at SJG, the Company recognized it would be necessary to conduct large scale exploration activities in order to define and confirm a + 1 M. Oz. Gold resource. And, the Company believed that ultimately SJG could host a + 3 M Oz. Gold resource.

#### Recent Financing Activity

As gold prices continued to appreciate into 2006, exploration financing opportunities increased and the Company and DynaMéxico negotiated and entered into the “Earn In / Option” agreement with Goldgroup Resources, Inc. (now Goldgroup Mining Inc.), Vancouver, BC, dated September 1, 2006. The Terms of the Earn In / Option provided for \$ 18 M. USD financing from Goldgroup to DynaMéxico, over four Phases (through March 2011), and including exploration related expenditures at SJG, in exchange for Goldgroup’s earning of 50 % of the Shares of DynaMéxico. (See Material Agreements; Earn In / Option Agreement.)

#### Exploration / Drilling Activity conducted Pursuant to the Earn In Agreement

- In Phase I of the Earn In Agreement, approximately 3,400 meters drilling was accomplished in 22 core drill holes (SJG 07-01 to SJG 07-22); as well as geochemical sampling and mapping, and data consolidation into Surpac Software.
- In Phase II of the Earn In Agreement, approximately 5,500 meters was completed in 23 core drill holes (SJG 07-23 to 07-45).
- In Phase III of the Earn In Agreement, approximately 15,150 meters was completed in 56 core drill holes (SJG 08-46 to SJG 08-101).
- In Phase IV of the Earn In Agreement, and at December 31, 2008, approximately 5,950 meters were completed in 25 core drill holes (through SJG 08-126).
- Continuing with Phase IV of the Earn In Agreement, in 2009 and at December 31, 2009, an additional 4,000 Meters was completed in 21 Drill Holes (through SJG 09-147.)

At December 31, 2009, a total of 34,000 meters drilling had been completed in 147 core drill holes, financed pursuant to the Earn In Agreement.

· Continuing with Phase IV of the Earn In Agreement in 2010, and at March 31, 2010, an additional 6,167 Meters drilling was completed in 21 Drill Holes (SJG 2010 148 – 168). At March 31, 2010, a total of 40,167 Meters drilling had been completed in 168 core drill holes, financed pursuant to the Earn In Agreement.

· Continuing with Phase IV of the Earn In Agreement in 2010, and at June 30, 2010, an additional 5,382 Meters drilling was completed in 20 Drill Holes (SJG 2010 169 – 188). At June 30, 2010, a total of 45,549 Meters drilling has been completed in 188 core drill holes, financed pursuant to the Earn In Agreement.

For the period of July – September 2010, Drilling activity is suspended for the wet season. During the quarter, Assays of drilling results are updated; the Block Model in Surpac is updated; and exploration plans are developed and programmed for start in October. And, the next 18,500 meter drill program commenced in October 2010 . For the period of July - September 2010, drilling activity is suspended for the wet season.

· Continuing with Phase IV of the Earn In Agreement in 2010, and at December 31, 2010, an additional 10,882 Meters drilling was completed in 51 Drill Holes (SJG 2010 189 – 239).

At December 31, 2010, a total of 56,431 Meters drilling has been completed in 239 core drill holes financed pursuant to the Earn In Agreement.



· Continuing with Phase IV of the Earn In Agreement in 2011, and at March 31, 2011, an additional 12,310. Drilling was completed in 59 Drill Holes (SJG 240 – 298.) At March 31, 2011, a Total of 68,741 Meters drilling has been completed in 298 core drill holes financed pursuant to the Earn In Agreement.

#### Magnetic and IP Surveys

Magnetic and IP surveys were conducted throughout the SJG district in 2009; covering an area of approximately 15 Sq. Km.

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;
- Argyllic Zone; + 250 M. Down;

Structural Geologist

Also in 2009, a structural geological consultant experienced in México, reviewed and mapped the SJG Property with regard to Ore Controls and Structural analysis. An area of 2.8 Km by 3.4 Km was mapped; and a review was completed of the recent (2007-2008) drill core and drill logs through drill hole # 08-126. A Final report and mapping are being utilized in planning drilling programs at SJG. Information contained in the structural control and analysis is described below:

Highlights of Resource Areas at SJG (August, 2009):

|                              |               |                                                                                                                        |
|------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------|
| San Pablo:                   | (SJG 08-31):  | 8.3 M. of 48.24 g/t; Including 3.8 M. of 104.01 g/t, and Including 1.5 M. of 233.61 g/t;                               |
|                              | (SJG 08-51):  | 14.2 M. of 14.79 g/t; Including 9 M. of 22.93 g/t, and Including 3.5 M. of 41.5 g/t;                                   |
| Tres Amigos:                 | (SJG 97-13):  | 27.5 M. of 9.94 g/t; Including 18.6 M. of 14.28 g/t, and including 2 M. of 85.72 g/t;                                  |
|                              | (SJG 97-45) : | 14 M. of 5.35 g/t; including 2 M. of 31.35 g/t;                                                                        |
| Orange Tree:                 | (SJG 97-39):  | 6.8 M. of 13.20 g/t; Including 3 M. of 29.5 g/t, and including 1.5 M. of 51.46 g/t;                                    |
|                              | (SJG 08-47):  | 7.1 M. of 7.63 g/t; Including 1.6 M. of 23.10 g/t;                                                                     |
| La Cecena (Tres Amigos):     | (SJG 97-50):  | 11 M. of 2.78 g/t; Including 2 M. of 5.02 g/t; And, Including 2 M. of 8.53 g/t;                                        |
|                              | (SJG 08-104): | 2.8 M. of 13.70 g/t; Including 1.4 M. of 26.96 g/t;                                                                    |
| La Union:                    | (SJG 08-76):  | 4.8 M. of 16.02 g/t; Including 2 M. of 37.60 g/t; And, Including .7 M. of 75.56 g/t;                                   |
|                              | (SJG 08-80):  | 3.1 M. of 4.8 g/t; Including 1.5 M. of 7.37 g/t;                                                                       |
| Palos Chinos/<br>Tajo Verde: | (SJG 97-63):  | 27.8 M. of 2.30 g/t; Including 17.3 M. of 2.81 g/t, And Including .7 M. of 9.25 g/t, And Including 2.7 M. of 8.45 g/t; |
|                              | (SJG 07-16):  | 5 M. of 3.5 g/t; Including 3 M of 5.24 g/t;                                                                            |

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(SJG 97-55):

La Purisima: (SJG 07-21): 8 M. of 20.67 g/t; Including 6 M. of 26 g/t; And, Including 2.1 M. of 76.33 g/t;

(SJG 07-39): 4.2 M. of 8.55 g/t; Including 1.9 M. of 16.67 g/t;

La Prieta: Historical Production of 215,000 Oz. Au., at average grade of 28 g/t au; Dimensions of 100 M. by 50 M.; Future resource yet to be defined;

Identification of New, Additional Resource Target Areas:

San Pablo: Geological Mapping located a new drill target approximately 600 meters to the east – southeast of San Pablo. This area was determined to be the northeast portion of the San Pablo Ore body; which had been displaced by a combination of post-mineral strike-slip and normal faulting; also indicating the potential for a “Pipe Feeder”. This area will be expected to add significant resources to the mineable ore body at San Pablo;

La Purisima /

Tajo Verde: Transpressive strike-slip faults that bound this area are determined to be the same faults that control the mineralization in La Purisima and Tajo Verde. This area also coincides with gaps left from previous drilling campaigns and also a gap in the underground workings.

San Pablo /

La Union: Gaps left from previous drilling campaigns and also a gap in the underground workings.

Drilling Highlights by Specific Target area of SJG (through March, 2011):

The following drilling highlights are included by target area, and for the period through March 31, 2011:

San Pablo:

SJG  
07-07 5 M. of 10.07 g/t., Including 2 M. of 24.55 g/t.; With Credits;

SJG  
07-08: 7.2 M. of 2.64 g/t., Including 3.8 M. of 4.77 g/t., Including 2.3 M. of 7.258g/t.;

SJG  
07-09: 2.1 M. of 7.2 g/t.; And, Deeper Zone of 5.50 M. of 4.94 g/t., Including 3.15 M. of 8.33 g/t.; with New Zone in Sediments;

SJG  
07-12: 7.1 M. of 6.40 g/t., Including 4.2 M. of 10.39 g/t., And, Including 1.1 M. of 15.63 g/t.;

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And, Including 1.6 M. of 11.292 g/t;

SJG  
07-23: 7 M. of 2.11 g/t., Including 1.4 M. of 9.16 g/t., with Copper Credits;

SJG  
07-26: 3.7 M. of 2.45 g/t. (3.55 g/t. AU Equivalent), Including 1.9 M of 4.054 g/t.; And, 8.4 M. of 8.43 g/t., Including 4.1 M. of 16.82 g/t., with Copper Credits, And, Including 1.9 M. of 34.433 g/t; 6.1 M. of 13.16 g/t. (15.40 g/t. AU Equivalent), Including 3.8 M. of 19.25 g/t., And

SJG  
07-27: Including 1.95 M. of 21.789 g/t., Including 1.8 M. of 17.646 g/t; 5.3 M. of 2.05 g/t. (2.29 g/t. AU Equivalent), Including 2.3 M. of 3.902 g/t., with Zinc

SJG  
07-28: Credits, Including 1.1 M. of 5.4 g/t 1.2 M. of 6.331g/t., with Copper Credits; 1.7 M. of 26.235 g/t., with Copper Credits;

SJG  
07-29: And, 1.4 M. of 2.707 g/t; 1.6 M. of 5.98 g/t. (6.50 g/t AU Equivalent), with Copper and Zinc Credits; .9 M. of 4.22

SJG  
07-30: g/t. (6.35 g/t. AU Equivalent), with Copper Credits;

SJG  
07-31: 8.30 M. of 49.50 g/t., Or, 7.5 M. of 53.98 g/t.; Including 5.35 M. of 75.695 g/t.; Including 3.8 M. of 106.77 g/t; Including 1.5 M. of 240.61 g/t; with Copper and Zinc Credits

SJG  
07-34 2.2 M. of 1.028 g/t.;

SJG  
08-48: 13.60 M. of 3.09 g/t., Or, 11.04 M. of 3.840 g/t.; Including 3.68 M. of 6.62 g/t.; And Including 1.84 M. of 7.758 g/t; with Copper Credits; 14.20 M. of 14.91 g/t., Including 10.78 M. of 19.44 g/t.; Or Including 9.05 M. of 23.12

SJG  
08-51: g/t.; And, Including 3.50 M. of 42.32 g/t; with Copper Credits; 9.1 M. of 5.02 g/t., Including 7.1 M. of 6.27 g/t., And, Including 2.2 M. of 17.315 g/t and

SJG  
08-60: Including 1 M. of 26.8 g/t; with Copper Credits;

SJG  
08-89: 3.8 M. of 2.64 g/t., Including 1.3 M. of 4.520 g/t; 6.7 M. of 3.564 g/t, Including 1.2 M. Of 11.69 g/t.; And, Including .6 M. of 16.18 g/t;

SJG  
08-90: Including .6 M of 7.210 g/t; with Credits;

SJG  
08-91: 2 M. of 17.530 g/t.; 4.2 M. – 6.10 g/t; Including 1 M. of 23.314 g/t; And, 4.1 M. of 1.38 g/t; Including 2.3

SJG  
08-92: M. of 2.1 g/t; And, 4.9 M. of 3.02 g/t., Including .4 M. of 30.445 g/t; And, .5 M. of 14.719 g/t;

SJG  
08-93: 5.8 M., Including .4 M of 28.53 g/t;

SJG  
08-96: 2.1 M. of 2.22 g/t., Including .55 M. of 4.750 g/t;

SJG  
08-97: 4.3 M. of 8.68 g/t.; Including 2.1 M. of 17.05 g/t; with Copper and Zinc Credits;



SJG 08-98: .5 M. of 2.165 g/t;  
 SJG 09-131: 1.10 M. of 28.25 g/t (29.16 AU Equivalent); 1.75 M. of 7.18 g/t (9.27 AU Equivalent); 1.30 M. of 6.97 g/t (7.75 AU Equivalent);  
 SJG 09-132: 50 M. of 7.1 g/t (11.20 AU Equivalent); 2.05 M of 4.08 g/t (4.97 AU Equivalent); .50 M. of 2.86 g/t (4.05 AU Equivalent);  
 SJG 09-133: 6.25 M. of 6.49 g/t (6.83 Au Equivalent), including 1.55 M. of 24.23 g/t; 2.07 M. of 3.57 g/t (3.78 AU Equivalent);  
 SJG 09-134: .55 M. of 2.105 g/t (3.04 Au Equivalent); 2.48 M. of 4.33 g/t (5.11 Au Equivalent); .80 M. of 3.37 g/t (3.74 Au Equivalent);  
 SJG 09-135: 4.42 M. of 3.63 g/t (5.35 AU Equivalent), including 1 M. of 8.96 g/t.;  
 SJG 09-136: 2 M. of .611 g/t (.71 AU Equivalent);  
 SJG 09-138: 5.46 M. of 4.97 g/t (5.35 AU Equivalent), including 2.97 M. of 8.80 g/t.;  
 SJG 09-139: .71 M. of 8.79 g/t; 5.50 M. of 20.51 g/t, Including 3.12 M of 34.91 g/t; And, Including 1.80 M. of 58.05 g/t.; And, Including .92 M. of 104.10 g/t;  
 SJG 09-140: 3.32 M. of .82 g/t, including 1.66 M. of 1.42 g/t; 5.24 M. of 2.15 g/t, including 1.14 M. of 6.4 g/t;  
 SJG 10-149: 1.3 M. of 4.8 g/t;  
 SJG 10-195: .40 M. of 3.43 g/t; Including .73 M. of 2.18 g/t; And, Including 1.83M. of 2.2 g/t; And, Including 1.21 M of 3.68 g/t; And, Including 2.94 M of 3.26 g/t.  
 SJG 10-197: 1.16 M. of 2.83 g/t; And, Including 3.67 M. of 7.96 g/t; And, Including 3.30 M. of 28.38 g/t.  
 SJG 10-199: 1.56 M. of 9.14 g/t;  
 SJG 10-201: 2.10 M. of 15.78 g/t;  
 SJG 10-203: .70 M. of 3.23 g/t; And, Including 1.91 M. of 3.42 g/t; And, Including 5.50 M. of 332.86 g/t;  
 SJG 10-205: 95 M. of 6.71 g/t; And Including .45 M. of 7.73 g/t;  
 SJG 10-207: 3.05 M. of 16.74 g/t;  
 SJG 10-210: 4 M. of 2.58 g/t;  
 4.80 M. of 5.90 g/t; And, Including 1.53 M. of 2.85 g/t;



SJG  
10-212:  
SJG  
10-213: 1.81 M. of 5.78 g/t;  
SJG  
10-215: 3.47 M. of 15.82 g/t; And, Including 1.40 M of 2.53 g/t;  
SJG  
10-217: 1.42 M. of 89.95 g/t;  
SJG  
10-219: 46 M. of 4.49 g/t; And Including .71 M. of 7.92 g/t; And, Including 1.41 M. of 10.82 g/t;  
SJG  
10-221: And, Including .80 M. of 2.23 g/t;  
SJG  
10-221: 2.00 M. of 13.14 g/t; And, Including .54 M. of 3.26 g/t; And, Including .65 M. of  
22.41 g/t;  
SJG  
10-224: 2.23 M. of 5.29 g/t; And, Including 6.35 M. of 7.04 g/t; 3.35 M. of 11.93 g/t; And,  
Including .78 M. of 1.80 g/t; And, Including .45 M. of 6.84 g/t;

SJG 11–236 to SJG 271; San Pablo Drill holes only reported here (See Table below):

SAN PABLO VEIN

| Drill Hole  | Mineralization |        |              | Au<br>grade<br>(g/t) |
|-------------|----------------|--------|--------------|----------------------|
|             | From (m)       | To (m) | Interval (m) |                      |
| SJG-10-236  | 112.96         | 117.03 | 4.07         | 11.38                |
| and         | 140.50         | 140.95 | 0.45         | 5.85                 |
| SJG-10-238  | 257.00         | 258.30 | 1.30         | 2.40                 |
| SJG-11-245  | 104.40         | 105.16 | 0.76         | 3.16                 |
| SJG-11-247  | 63.60          | 65.45  | 1.85         | 10.49                |
| and         | 70.70          | 72.23  | 1.53         | 2.73                 |
| including   | 71.77          | 72.23  | 0.46         | 5.70                 |
| and         | 80.00          | 83.47  | 3.47         | 5.00                 |
| including   | 81.37          | 83.47  | 2.10         | 7.38                 |
| SJG-11-249  | 97.60          | 98.60  | 1.00         | 2.28                 |
| and         | 108.20         | 109.93 | 1.73         | 8.21                 |
| and         | 130.50         | 131.08 | 0.58         | 8.61                 |
| SJG-11-250  | 101.72         | 104.81 | 3.09         | 20.15                |
| SJG-11-253  | 149.45         | 151.21 | 1.76         | 4.89                 |
| SJG-11-255  | 154.55         | 155.05 | 0.50         | 3.19                 |
| SJG-11-258  | 102.27         | 102.90 | 0.63         | 2.51                 |
| and         | 111.50         | 111.90 | 0.40         | 15.62                |
| SJG-11-261  | 52.72          | 53.12  | 0.40         | 7.07                 |
| and         | 109.03         | 109.43 | 0.40         | 4.42                 |
| and         | 114.00         | 114.68 | 0.68         | 8.97                 |
| SJG-11-263  | 119.88         | 121.13 | 1.25         | 9.47                 |
| and         | 131.39         | 131.79 | 0.40         | 3.87                 |
| and         | 1.34           | 134.75 | 0.40         | 2.73                 |
| and         | 144.23         | 145.02 | 0.79         | 5.06                 |
| SJG -11-264 | 145.21         | 146.45 | 1.24         | 21.21                |
| SJG -11-268 | 92.65          | 94.25  | 1.60         | 11.74                |
| and         | 153.00         | 153.92 | 0.92         | 3.18                 |
|             |                |        |              | 2.73                 |
| SJG-11-272  | 86.80          | 87.30  | 0.50         |                      |
| SJG 11-279  | 126.49         | 129.00 | 2.51         | 3.48                 |

*Company Management believes the drilling at San Pablo through March 2011 has defined a sizeable Inferred Resource (+ 400,000 Oz. Au.), using a Cut Off grade of 2 g/t., with an average grade of + 8 g/t. Infill drilling and*

*further extensions to San Pablo area are projected in further drilling. A 43-101 compliant Technical Report is expected to be commissioned by DynaMéxico in 3<sup>rd</sup> Quarter 2011, and which is expected to confirm the Company's Resource estimates.*

Tres Amigos / La Cecena:

1997 – 1998:

'97-017 M. of 3.66 g/t., Including 2.5 M. of 7.15 g/t., and Including 1 M. of 11.09 g/t;

'97-034. M. of 4.13 g/t., Including 2 M. of 7.22 g/t.;

'97-051.9 M. of 3.62 g/t.;

'97-061.85 M. of 6.47 g/t.;

- '97-07: 10 M. of 3.42 g/t., Including 2.15 M. of 6.82 g/t.; And, 14.3 M. of 2.41 g/t; Including 2.34 M. of 8.67 g/t;
  - '97-09: 2.7 M. of 2.76 g/t; Including 1.5 M. of 4.15 g/t.; And, 2 M. of 13.53 g/t.;
  - '97-10: 7.6 M. of 2.36 g/t., Including 4.6 M. of 3.81 g/t; and, Including 1.5 M. of 10.28 g/t.;
  - '97-11: 9.5 M. of 2.83 g/t., Including 1.5 M. of 15 g/t.;
  - '97-12: 3.5 M. of 4.75 g/t., Including 1.7 M. of 8.58 g/t.; And, 3.5 M. of 2.44 g/t.;
  - '97-13: 27.5 M. of 9.94 g/t.; Including 4.5 M. of 54.26 g/t., and Including 2. M. of 85.72 g/t.;
  - '97-14: 1.2 M. of 3.59 g/t;
  - '97-35: 16.5 M. of 2.11 g/t., Including 6. M. of 8.84 g/t., and Including 2 M. of 14.42 g/t.;
  - '97-36: 2 M. of 3.28 g/t.; And, 3.6 M. of 4.04 g/t., Including 2 M. of 6.41 g/t.;
  - '97-37: 1.3 M. of 11.97 g/t.; ;
  - '97-39: 6.8 M. of 13.2 g/t., Including 3 M. of 29.5 g/t., Including 1.5 M. of 51.47 g/t.;
  - '97-40: 2. M. of 14.88 g/t.; And, 6 M. of 4.16 g/t; Including 2 M. of 10.81 g/t.; And, 8 M. of 3.86 g/t; Including 6 M. of 5.15 g/t.;
  - '97-41: 10 M. of 2.56 g/t; Including 4 M. of 4.4 g/t., Including 2 M. of 5.15 g/t.;
  - '97-42: 4 M. of 3.04 g/t; Including 2. M. of 5.17 g/t.; And, 18. M. of 1.88 g/t; Including 2.3 M.of 3.43 g/t; and, Including 2.3 M. of 5.06 g/t.; and, Including 1.5 M of 6.69 g/t;
  - '97-43: 1.3 M. of 4.23 g/t.;
  - '97-44: 6 M. of 2.91 g/t; Including 2. M. of 7.78 g/t.; And, 12 M. of 1.71 g/t; Including 2 M. of 5.18 g/t.; And, 14.8 M. of 2.38 g/t.;
  - '97-45: 14 M. of 5.35 g/t; Including 2 M. of 31.35 g/t; And, 14 M. of 2.38 g/t; Including 2 M.of 12.32 g/t;
  - '97-47: 7.06 M. of 7.63 g/t., Including 1.55 M. of 23.10 g/t.;
  - '97-50: 2 M. of 5.02g/t; 5 M. of 3.92 g/t., Including 2. M. of 8.53 g/t.;
- (La Cecena)

Tres Amigos Recent (2007 – 2011):

SJG 08-102:7.87 M. of 2.75 g/t. (3.02 g/t. AU equivalent); Including 2.54 M. of 6.49 g/t.; And, Including .58 M. of 11.527 g/t.

SJG  
1.2 M of 4.911 g/t.; And, 1.1 M of 2.564 g/t.;

SJG  
2.8 M of 13.32 g/t. (16.24 g/t. AU Equivalent); Including 1.4 M. of 26.20 g/t.;

SJG  
3.40 M of 1.72 g/t.; 1.40 M. of 1.829 g/t.; 2.80 M. of 2.34 g/t. (2.68 AU Equivalent); Including .70 M. of 8.6 g/t.; And, 1.8 M

SJG  
1.50 M. of 1.008 g/t. (1.10 g/t. AU Equivalent); And, 4.8 M. of 1.89 g/t. (2.56 g/t. AU Equivalent); Including .90 M. of 5.86 g

SJG  
3.80 M. of 1.61 g/t. (2.06 g/t. AU Equivalent); And, .70 M. of .752 g/t. (1.62 g/t. AU Equivalent);

SJG  
1.60 M. of 13.66 g/t. (14.17 g/t. AU Equivalent); And, 6.30 M. of 1.99 g/t. (2.19 g/t. AU Equivalent); Including 3.10 M. of 3.4

SJG  
5.3 M. of 2.91 g/t. (3.13 g/t. AU Equivalent); including 1.7 M. of 8.32 g/t.;

SJG  
1.5 M. of 3.40 g/t (4.60 AU Equivalent); And, 9.40 M. of 5.15 g/t.; Including 5.7 M of 8.37 g/t.; And, Including 2.1 M. of 9.48

SJG  
2.1 M. of 2.96 g/t. (3.79 g/t. AU Equivalent); And, 9.80 M. of 7.74 g/t. (8.02 g/t. AU Equivalent); Including 3.3 M. of 21.28 g/t

SJG  
1.7 M. of 4.674 G/T. (5.23 g/t. AU Equivalent); And, 3.70 M. of 2.44g/t. (3.01 g/t. AU Equivalent);

SJG  
5.46 M. of 4.25 g/t. (7.85 g/t. AU Equivalent); Including 2. M of 7.20 g/t., And Including 1. M. of 9.6 g/t; And, .83 M. of 1.169

SJG  
4.39 M. – 7.34 g/t; Including 2.88 M. – 10.9 g/t; And, Including 1.71 M. – 17.78 g/t; And, Including .87 M. – 25 g/t; And 11.9

SJG  
11.95 M. – 14.66 g/t; Including 7.82 M. – 22.18 g/t; And, Including 2.63 M. – 62.05 g/t; And, Including 1.88 M. – 82.31 g/t; A

SJG  
9.27 M. – 1.65 g/t; Including 1.13 M. – 9.85 g/t; And, Including .63 M. – 15.90 g/t;

SJG  
7.11 M. – 2.91 g/t; Including 3.63 M. – 5.36 g/t; And, Including 1.73 M. – 6.70 g/t; And, Including .55 M. – 6.97 g/t; (“La Cec

SJG  
2.25 M. – 17.18 g/t; Including 1.75 M. – 21.89 g/t; (“La Cecena”)

8.26 M. – 5.40 g/t; Including 4.55 M. – 8.23 g/t; And, Including 1 M. – 6.30 g/t; (“La Cecena / Tepehauje”)

SJG

10-165:

SJG

9.3 M. – 1.81 g/t; Including: 1.09 M. – 4.973 g/t; And, Including .99 M. – 8.102.g/t; And 1.17 M-2.054 g/t; And, including 2.5

10-175:

SJG

5.9 M. – 1.343 g/t; And, 15.31 M. – 1.09 g/t; Including .65 M. – 5.294 g/t;

10-176:

SJG

5.27 M. – 19.8 g/t; And, Including 2.92 M. – 33.7 g/t; And, Including 1.05 M. – 52.11 And, 9.28 M - 7.88 g/t Including 1.43

10-177:

SJG  
10-178: 8 M. – 3.831 g/t And, 1.95 M. – 1.884 g/t; And, 5.3 M. – 1.01 g/t; Including 1.7 M. – 1.953 g/t; And, 12.85 M. – 3.62 g/t; Inc

SJG  
10-179: 1.76 M. – 1.585 g/t; And, 1.72 M. – 105.51 g/t; And, 4.678 M. – 5.70 g/t; Including 2.65 M. – 8.23 g/t; And, 2.30 M. – 4.79 g/t

SJG  
10-181: 3.03 M. – 1.73 g/t; Including 1.5 M. – 2.885 g/t;

SJG  
10-182: 62 M. – 3.348 g/t; And, 1.01 M. – 2.85 g/t; And, .47 M. – 2.292 g/t;

SJG  
10-182: 62 M. – 3.348 g/t; And, 1.01 M. – 2.85 g/t;

SJG  
10-225: 40 M. of 3.63 g/t;

SJG  
10-226: 8.04 M. of 18.47 g/t; Including 4.10 M. of 34.36 g/t;

SJG  
10-227: 9.80 M. of 8.42 g/t; Including .40 M. of 113.95 g/t;

SJG  
10-228: 1.83 M. of 3.88 g/t; And, 2.98 M. of 3.73 g/t;

SJG  
10-229: 1.64 M. of 2.41 g/t; And, 1.55 M. of 5.46 g/t;

SJG  
10-230: 4.54 M. of 18.09 g/t; Including 2.54 M. of 31.52 g/t;

SJG  
10-231: 52 M. of 2.62 g/t; And, 2.75 M. of 8.99 g/t; And, 1.7 M. of 2.34 g/t;

SJG  
10-232: 1.87 M. of 3.15 g/t;

· SJG 11-233 to 11-280; Only Tres Amigos Drill Holes reported here (See Table below):

TRES AMIGOS VEIN

| Drill Hole      | Mineralization              |
|-----------------|-----------------------------|
| From (m) To (m) | Interval (m) Au grade (g/t) |

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|            |        |        |      |        |
|------------|--------|--------|------|--------|
| SJG-10-233 | 177.00 | 179.40 | 2.40 | 5.42   |
| SJG-10-234 | 96.48  | 98.46  | 1.98 | 3.09   |
| and        | 214.61 | 217.97 | 3.36 | 15.05  |
| SJG-10-235 | 147.65 | 151.15 | 3.50 | 2.95   |
| SJG-10-237 | 92.44  | 92.84  | 0.40 | 883.91 |
| SJG-10-239 | 145.90 | 147.75 | 1.85 | 5.02   |
| SJG-11-242 | 229.15 | 230.95 | 1.80 | 3.13   |
| and        | 258.37 | 262.30 | 3.93 | 2.38   |
| SJG-11-246 | 107.30 | 108.20 | 0.90 | 63.85  |
| SJG-11-251 | 16.76  | 18.50  | 1.74 | 2.35   |
| SJG-11-257 | 60.84  | 63.33  | 2.49 | 5.37   |
| and        | 92.00  | 94.66  | 2.66 | 5.00   |
| and        | 104.56 | 106.33 | 1.77 | 2.81   |
| SJG-11-261 | 63.40  | 71.75  | 7.75 | 7.84   |
| including  | 66.20  | 71.15  | 4.95 | 10.55  |
| SJG-11-262 | 41.97  | 42.85  | 0.88 | 5.53   |
| SJG-11-265 | 47.95  | 52.17  | 4.22 | 3.07   |
| including  | 47.95  | 48.45  | 0.50 | 7.25   |
| Including  | 50.31  | 52.17  | 1.86 | 4.98   |
| SJG-11-267 | 86.76  | 87.16  | .40  | 5.52   |
| SJG-11-271 | 108.45 | 108.85 | .40  | 5.49   |
| and        | 115.40 | 122.66 | 7.26 | 9.34   |
| including  | 115.40 | 116.72 | 1.32 | 14.17  |
| Including  | 118.05 | 120.15 | 2.10 | 21.29  |
| SJG-11-278 | 66.75  | 67.40  | 0.65 | 16.34  |
| and        | 117.35 | 117.85 | 0.50 | 3.55   |
| SJG-11-280 | 3.05   | 4.57   | 1.52 | 10.67  |
| and        | 123.40 | 124.00 | 0.60 | 10.26  |



*Company Management believes the 1997 – 1998 Drilling at Tres Amigos, and the recent drilling through March 31, 2011 has defined a sizeable Inferred Resource at Tres Amigos of + 400,000 Oz. Infill drilling and further extensions to Tres Amigos are projected for further drilling programs. A 43-101 compliant Technical Report is expected to be commissioned by DynaMéxico in 3<sup>rd</sup> Quarter, 2011, and which is expected to confirm the Company's estimates.*

La Purisima:

SJG  
07-21; 8 M. of 20.67 g/t., Including 6 M. of 26.89 g/t., Including 2.1 M. of 76.33 g/t.;

SJG  
07-35; 4.4 M. of 1.54 g/t., Including 2.2 M. of 2.736 g/t.; And, 1.75 M. of 1.74 g/t.;

SJG  
07-36; 1.42 M. of 4.319 g/t.;

SJG  
07-37; 4.45 M. of 3.07 g/t., Including 2.2 M. of 5.004 g/t.;

SJG  
07-39; 2.05 M. of 2.479 g/t.; And, 4.2 M. of 8.55 g/t., Including 3.25 M. of 10.89 g/t.; And, Including 1.90 M. of 16.675 g/t.;

SJG  
07-40; .8 M. of 2.43 g/t.; And, 1.8 M. of 1.763 g/t.;

SJG  
07-42; 5.9 M. of 1.85 g/t., Including 2.2 M. of 3.316 g/t.; And, 1.1 M. of 3.475 g/t.;

SJG  
08-63; .4 M. of 11.694 g/t.;

SJG  
08-68; 1.6 M. of 18.26 g/t., Including 1 M. of 23.9t.;

SJG  
08-70; 11.1 M. of 1.83 g/t., Including 2.3 M. of 5.190 g/t., And, Including 1.10 M. of 9.434 g/t.; And, 1.50 M. of 4.15 g/t., Including .25 M. of 16.274 g/t.; And, .2 M. of 4.292 g/t.; Including Zinc Credits;

SJG  
08-82; 1.70 M. of 18.218 g/t.;

SJG  
08-84; .36 M. of 39.5 g/t.; .17 M. of Zinc Credits;

SJG  
10-161; 7.6 M. – 4.64 g/t; Including 1.6 M. – 18.88 g/t;

SJG  
10-186; 1 M. – 2.579 g/t; And, 8.15 M. – 2.79 g/t; Including .6 M. – 30.57 g/t;

29

SJG  
10-191; 1.28 M. of 2.08 g/t; And, 1.17 M. of 2.08 g/t;

SJG  
10-193; 5.60 M. of 3.96 g/t;

SJG  
10-198; 1.53 M. of 13.64 g/t;

SJG  
10-202; 1.15 M. of 5.36 g/t;

SJG 1.05 M. of 3.85 g/t; And, 3.10 M. of 2.19 g/t; And, 3.84 M. of 4.06 g/t; And, 1.43 M. of 7.21 g/t; And,  
10-204; .77 M. of 9.91 g/t;

SJG  
10-206; 2.31 M. of 14.63 g/t;

#### LA PURISIMA VEIN

##### Drill Hole Mineralization

|           | From (m) | To (m) | Interval (m) | Au grade (g/t) |
|-----------|----------|--------|--------------|----------------|
| SJG11-281 | 87.60    | 88.39  | 0.79         | 4.78           |
| SJG11-282 | 27.43    | 30.48  | 3.05         | 6.19           |
| including | 28.96    | 30.48  | 1.52         | 10.50          |
| SJG11-282 | 74.45    | 76.66  | 2.21         | 8.01           |
| including | 74.45    | 75.36  | 0.91         | 18.87          |
| and       | 89.92    | 91.44  | 1.52         | 6.03           |
| and       | 108.00   | 109.67 | 1.67         | 2.86           |
| and       | 152.40   | 153.92 | 1.52         | 7.79           |
| SJG11-285 | 57.45    | 59.15  | 1.70         | 3.85           |
| and       | 82.20    | 87.92  | 5.72         | 2.56           |
| and       | 98.50    | 102.15 | 3.65         | 6.70           |
| SJG11-287 | 137.35   | 140.07 | 2.72         | 3.01           |
| SJG11-289 | 109.73   | 112.78 | 3.05         | 9.50           |
| SJG11-295 | 43.11    | 43.84  | 0.73         | 2.82           |

*Company Management believes the recent drilling at La Purisima in 2007- 11, has defined a sizeable Inferred Resource at La Purisima (+ 200,000 Oz. Au.). Infill drilling and further extensions to La Purisima are projected for further drilling programs.. A 43-101 compliant Technical Report is planned for commission by DynaM xico in 3<sup>rd</sup> Quarter, 2011, and which is expected to confirm the company's estimates.*

La Union ('92 and '97):

'92-271 M. of 9 g/t;

'97-293.1 M. of 4.53 g/t;

'97-30:5 M. of 12.92 g/t; And, 10.1 M. of 1.68 g/t, and Including 1.5 M. of 6.04 g/t;

'97-316.8 M. of 1.94 g/t; Including 4 M. of 2.85 g/t;

'97-334 M. of 1.9 g/t; And, 4.3 M. of 1.3 g/t;

'97-342 M. of 8.9 g/t;

La Union (Recent – '07 – 2011):

SJG 4.5 M. of 1.66 g/t. (2.85 g/t AU Equivalent), Including 1.10 M. of 2.446 g/t.; And, Including 1.3 M. of  
08-61: 3.183 g/t.; And, .4 M. of 9.38 g/t; Including Copper Credits;

SJG 4.3 M. of 1.13 g/t. (1.68 g/t. AU Equivalent), Including 1.10 M. of 2.475 g/t. and Including 1 M. of 1.635  
08-72: g/t;

SJG 4.8 M. of 16.23 g/t. (17.44 g/t. AU Equivalent), Including 2 M. of 38.100 g/t., And Including 1.40 M. of  
08-76: 51.340 g/t, and Including .7 M. of 77. g/t; With Copper and Zinc Credits; And, 2.7 M. of 1.69 g/t. (2.08 g/t.  
AU Equivalent), Including .3 M. of 7.875 g/t;

SJG 3.10 M. of 4.801 g/t., Including 1.50 M. of 7.372 g/t.; And, 1.10 M. of 3.169 g/t.;

SJG 1.65 M. of 2.179 g/t.; And, .42 M. of 1.93 g/t.;

SJG .50 M. of 2.076 g/t.; And, .50 M. of 25.75 g/t; And, .95 M. of 1.94 g/t.;

SJG 1.4 M. M. of 12.08 g/t;

SJG 3.78 M. of 1.63 g/t, Including 1.35 M. of 2 g/t;

SJG  
10-208: 2.06 M. of 6.60 g/t;

SJG  
10-216: 1.77 M. of 5.45 g/t; And, 2.96 M. of 12.36 g/t;

SJG  
10-218: .40 M. of 2.53 g/t; And, 1.29 M. of 8.42 g/t;

SJG  
10-220: .40 M. of 2.83 g/t;

SJG  
10-223: 1.25 M. of 2.28 g/t; And, 1.62 M. of 9.90 g/t; And, 3.15 M. of 2.33 g/t; And, 3.52 M. of 10.24 g/t; And,  
3.05 M. of 2.18 g/t;

- SJG 11–244 to 292; La Union Area Holes only reported here (See Table below, and including Veta Tierra DDH 252, 256 and 259):

## LA UNION VEIN

| Drill Hole       | Mineralization |        |                             |
|------------------|----------------|--------|-----------------------------|
|                  | From (m)       | To (m) | Interval (m) Au grade (g/t) |
| SJG-11-24473.82  | 74.86          | 1.04   | 9.79                        |
| SJG-11-25255.25  | 59.70          | 4.45   | 4.26                        |
| and              | 78.10          | 80.15  | 2.05                        |
| including        | 78.10          | 79.20  | 1.10                        |
| SJG-11-25651.61  | 52.85          | 1.24   | 144.08                      |
| and              | 99.93          | 101.29 | 1.36                        |
| SJG-11-25977.25  | 79.25          | 2.00   | 2.57                        |
| SJG-11-292203.11 | 204.65         | 1.54   | 2.27                        |

*Company Management believes the recent drilling at La Union in 2007- March 2011, has defined a sizeable Inferred Resource at La Union (+ 150,000 Oz. Au). Infill drilling and further extensions to La Union are projected for further drilling programs.. A 43-101 compliant Technical Report is expected to be commissioned by DynaM xico in 3<sup>rd</sup> Quarter, 2011, which is expected to confirm the company's estimates.*

Palos Chinos:

'97-63: 27.8 M of 2.3 g/t; Including 17.30 M. of 2.81 g/t; And, Including .7 M. of 9.25 g/t; And, Including 2.7 M. of 8.45 g/t;  
 SJG 07-02: .75 M. of 17.5 g/t.;  
 SJG 07-16: 7.7 M. of 1.86 g/t., Including 4.35 M. of 3.09 g/t., Including 2.15 M. of 5.2 g/t.;  
 SJG 10-161: 7.6 M. – 4.64 g/t; Including 1.6 M. – 18.88 g/t;  
 SJG 10-186: And, 8.15 M. – 2.79 g/t; Including .6 M. – 30.57 g/t;

La Prieta / Rosario / Rudolpho:

SJG 10-169: .35 M. – 1.37 g/t; And, 8.42 M. – 3.80 g/t; Including 3.38 M. – 9.11 g/t; And, Including 1.7 M. – 11.61 g/t;  
 And 1.85 M. – 1.56 g/t;  
 SJG 10-171: .6 M. – 2.9 g/t;  
 SJG 10-172: 2.1 M. – 2.52 g/t; Including 1.1 M. – 4.47 g/t;

SJG  
10-173: 1.3 M. – 1.302 g/t; And, 1.3 M. – 2.486 g/t;

SJG  
10-174: M. – 4.699 g/t; And, 11.69 M. – 1.08 g/t; Including 5.56 M. – 1.96 g/t; And, Including .86 M. – 3.754 g/t;

Target Areas at SJG remain virtually unexplored:

- La Prieta; Historical + 200,000 Oz. Au production at average grade of + 28 g/t;
  
- Rudolpho / Rosario;
  
- Northeast Tres Amigos;
  
- Orange Tree;
  
- Argillic Zone;

These drilling Results obtained through Phase 4 of the Earn In Agreement and at March 31, 2011 confirm extensions of mineralization, down dip of historical workings at SJG, with confirmation of high grade gold (as measured in grams per ton) which are consistent with historical and recent production. Specifically, San Pablo, La Purisima, Tres Amigos, La Cecena, and La Union areas have reported significant results. (See description of drilling highlights by target area above). The Company believes that sizeable inferred resources have been defined at San Pablo, Tres Amigos, La Union and La Purisima. Further drilling will be targeted at these main target areas. In 3<sup>rd</sup> Quarter 2011, the Company expects DynaMéxico to commission a 43-101 compliant technical report in order to define the Resources indicated by recent drilling at SJG.

An SJG Drill Intercepts Summary File, describing the mineralized intercepts of all core drill holes, including the drilling results of 1997, and including the recent drilling of 2007 – March 31, 2011 are attached as an exhibit to this 10 Q.

#### DynaMéxico Summary of Drilling Results

The drilling results obtained from San Jose de Gracia through March 31, 2011 (through DDH SJG 10-298) confirm the extensions of mineralization, down dip of historical workings, with confirmation of high grade gold (+ 10 g/t), and including bonanza grades shoots which are consistent with historical and recent production grades. Specifically, San Pablo, Tres Amigos, La Purisima, and La Union areas have reported significant results. (Note Drill Summary file referred to above.) Further drilling will be targeted at Tres Amigos, San Pablo, La Union and La Purisima, and at Rosario / Rudolpho, Northeast Tres Amigos, La Prieta and Veta Tierra. Numerous additional anomalies at SJG remain virtually unexplored and undrilled.

#### Company Interpretations and Estimates

In some areas of SJG, topography has prevented the drilling of holes on conventional 50 M. Spacing. In some areas, specifically at Tres Amigos, the distance between drilled holes is + 100 M. In these areas, DynaMéxico is considering the blasting and building of new roads in order to complete in-fill drill holes and conduct additional development work. Nonetheless, the Company has interpreted the results of drilling activity, and considering the recent production activity as well; and it has calculated manually an estimate of the resource at SJG. This manually calculated estimate includes Oz. Au at the areas of: San Pablo, Tres Amigos, Palos Chinos, La Union, and La Purisima; by assuming grade and width averaging between drill holes. DynaMéxico expects to confirm the amount of Au resource at SJG under the guidelines and description of a commissioned 43-101 technical report in 3<sup>rd</sup> Quarter 2011.



Block Model in Surpac

While the company has compiled its manual calculation and internal interpretation of the resource at SJG defined by drilling and production to date; the company also is in process of building the block model of resources defined and inferred at SJG using Surpac, (Gemcom) software. The current block model at SJG confirms inferred resources at San Pablo, Tres Amigos, La Union, Palos Chinos, and La Purisima; with portions of the inferred resource in a high grade category, and including measured and indicated resources at San Pablo and Tres Amigos. The Company will continue this Surpac modeling work as additional drill programs are planned and completed.

Current Resources and Potential

San Jose de Gracia is commonly referred to as “potentially a + 3 Million Gold Oz. Resource”. The current inferred resource defined by drilling through March 2011 is estimated by the company to be 1.375 M. Gold Equivalent Oz.

And, In consideration of the historical 1 M. Oz. gold production from SJG, the results from the 2003-2006 pilot production operation, the results of recent drilling programs, the Company’s internal block modeling work in Surpac, and the Gold resources anticipated to be reported in the DynaMexico 43-101; upon ramp up to full production the Company currently projects a potential 100,000 Oz. per year gold production from the SJG Project, from which the Company would be the beneficiary as a 50 % shareholder of DynaMexico (see Earn In Agreement). The Company has planned and structured itself for this potential revenue position as a shareholder of DynaMexico, and will consider distributions of a percentage of its retained earnings as a dividend to Shareholders.

### Technical Report of Resources

In 3<sup>rd</sup> Quarter 2011, the Company expects DynaMéxico to commission a 43-101 compliant report of the Measured & Indicated and the Inferred Resources defined by drilling at SJG. The Company expects this 43-101 technical report to confirm its internal work with the Block model in Surpac at SJG, and also to confirm consistency with the company's interpretation and estimates of resources. However, additional drilling and in-fill drill holes may be necessary in order to confirm consistency of grade and width between drill holes as of March 31, 2011.

### Economic Assessment Report / Feasibility Study

After DynaMéxico receives the updated 43-101 technical report confirming the Estimated Resource at SJG as defined by recent drilling programs; the Company will expect DynaMéxico to commission a Preliminary Economic Assessment Report ("PEA"). Considering the success and efficiency of the Pilot Production program conducted by DynaMéxico during the period 2003 – 2006; the company expects the upcoming PEA study to reflect a "scaling up" of the recent pilot production operation. Thereafter, the Company expects DynaMéxico to arrange for the competitive financing and subsequent installation of full scale mining and production facilities; with the expected target for annual production of 100,000 Oz. Au.

### Structure of Company / Operations

Activities in México are conducted by DynaMéxico, through operating agreement to the operating subsidiary of DynaResource, Inc., Mineras de DynaResource SA de CV. ("MinerasDyna"); with the management of personnel being contracted by MinerasDyna through to the personnel management subsidiary, DynaResource Operaciones, SA de CV ("DynaOperaciones"). DynaResource, Inc. management and consultants continue to manage the 3 subsidiaries in México; while Chairman / CEO K.D. Diepholz is the President of each of the 3 companies. Management and administrative fees are charged by MinerasDyna and DynaOperaciones, which are eliminated in consolidation.

### Competitive Advantage

The Company, through its subsidiaries, has been conducting business in México since March 2000. During this period the Company believes it has structured its subsidiaries properly and strategically, and during which time the Company has retained key personnel and developed key relationships and support. The Company believes its experience and accomplishments in México gives it a competitive advantage, even though many competitors may be larger and have more capital resources.

#### Drilling Programs

Drilling programs at SJG are expected to continue, and are being planned considering the results of the magnetic and IP surveys, and in consideration of the recent analysis of the structure and ore controls at SJG, and in consideration of the updated 43-101 to be received in 3<sup>rd</sup> Quarter 2011. A 15,000 Meter drill program was carried out and completed at June 30, 2010. Subsequently, the next 18,500 meters drilling at SJG was completed in spring 2011. Approximately 68,000 meters drilling was completed pursuant to the Earn In Agreement, and paid from the \$ 18 M. USD. funding received from Goldgroup. The Company expects continued drilling in order to expand resources at San Pablo, Tres Amigos, La Cecena, Palos Chinos, La Union, La Purisima, and La Prieta. And, the company expects extensions to mineralization in all directions and down dip from the main target areas.

#### Capital Contributions and Expenditures to Earn In

Goldgroup contributed \$4,000,000 USD to DynaMéxico, in the quarter ending March 31, 2011, pursuant to the last phase of the Earn-In. The total capital contributed by Goldgroup to DynaMéxico at March 31, 2011 \$ 18 M. USD.

### Competition

DynaMéxico retains 100% of the rights to concessions over the area of the San José de Gracia property and currently sees no competition for mining on the lands covered by those concessions. If DynaMéxico were to re-start production activities, the sale of gold and any bi-products would be subject to global market prices; which prices fluctuate daily. The Company was successful in selling gold concentrates produced from SJG in prior years; and the Company expects willing buyers for its produced products in the future. Actual prices received by DynaMéxico would depend upon these global market prices, less processing charges and any deductions.

### POTENTIAL RISKS

#### Funding from Goldgroup Mining Inc.:

Funding for the exploration activity at SJG is primarily due to the capital contributions to DynaMéxico from Goldgroup Mining Inc. At March 15, 2011 Goldgroup deposited funds to bring its total deposits under the Earn In / Option Agreement to \$ 18 M. USD. There is no certainty that additional funding from Goldgroup will continue or otherwise be available to the Company. Should the funding of Goldgroup cease, the Company would be required to fund further exploration work through its own capital reserves, or to obtain alternate financing sources. Any alternate funding sources could result in additional dilution to shareholders.

#### Potential Conflicts with Shareholder of DynaMéxico (Non-Controlling Interest Holder):

While the Company believes it has negotiated and authorized proper agreements to provide for the financing and exploration of SJG, there exists potential for conflicts with Goldgroup Mining Inc. Concurrently, MinerasDyna has been named the exclusive operator of the SJG Project; and MinerasDyna is managed by officers K.D. Diepholz, President and Chales E. Smith, Secretary, whom are officers of DynaResource. Also, DynaResource is managed by K.D. Diepolz, President, and holding the powers of attorney for DynaMexico; and DynaResource carries 50% of the seats on the Board of Directors of DynaMexico. DynaResource also carries 100% of the Seats on the Boards of MinerasDyna and 100% of the Seats of the Board of DynaOperaciones. Mr. K.D. Diepholz, chairman and CEO of DynaResource, Inc. and Mr. Charles E. Smith, CFO of DynaResource, Inc. are the President and Secretary respectively for DynaMéxico, MinerasDyna, and DynaOperaciones. Inherent in the structure of Ownership and Operation of the SJG Project is the potential for conflicts that could materially affect operations.

Mineable Resource:

There is no certainty that the exploration activity at SJG would result in the definition of a mineable resource at SJG. While the company believes there is already in place an approximate + 1 M. Oz. Au inferred Gold resource at SJG; there is no certainty that the Company's opinion will be proven correct, or than any proven, probable, measured or indicated or inferred resource would be commercially producible. If a commercial mineable resource is not confirmed at SJG, the Company's investment at SJG could be at risk.

Company Interpretations and Estimates

The Company currently estimates the inferred resource at SJG to be approximately 1.5 M. Au Equivalent Oz. There can be no assurance that the company's interpretations or estimates will be proven correct, or that future results will be consistent with past results.

Feasibility Study / Economic Assessment Report

There can be no assurance that DynaMéxico will be able to complete a successful feasibility or economic assessment at the SJG project. If DynaMéxico is not successful in its plan to complete the feasibility or economic assessment, the company's investment at SJG could be at risk. Further, if the company is not able to complete a commercial feasibility study or positive economic assessment, it may not be successful in obtaining funding for production activities.

50% of the Interest In and Revenue from DynaResource de México May be Owned by Goldgroup Mining Inc.:

At March 15, 2011 Goldgroup deposited Funds to DynaMexico which brought its total amount of funds contributed under the Earn In to \$ 18 M. USD. As a result, Goldgroup received an additional Stock Certificate in DynaMexico so that Goldgroup now holds 50% of the outstanding shares of DynaMexico. As a result, DynaResource, Inc. and its shareholders retain only 50% of the shares and ownership of DynaResource de México. Investors in the Company's shares should be aware that any benefits to be derived from the ownership of DynaResource de México would be shared 50% with Goldgroup.

Employees

The Company has four employees in its corporate office in Dallas, Texas, three of which are officers, and it employs approximately thirty persons through its subsidiaries in México.

Governmental Regulation and Environmental Matters

Environmental laws that impact our operations include those relating to air quality, solid waste management and water quality. These laws are complex and subject to frequent change. They impose strict liability in some cases without regard to negligence or fault. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for joint and several strict liabilities for remediation of spills and releases of hazardous substances. In addition, businesses may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, as well as damage to natural resources. These laws also may expose us to liability for the conduct of or conditions caused by others, or for acts that complied with all applicable laws when performed. However, we have and continue to maintain excellent relations with the government authorities by compliance with the laws and communication with them concerning environmental matters.

RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

REVENUE. Revenue for the three months ended June 30, 2011 and 2010 was \$0 and \$125,242, respectively and revenue for the six months ended June 30, 2011 and 2010 was \$0 and \$219,786, respectively. This income was

produced by providing exploration work for a related entity. The company ceased its own production activities in 2006 in order to focus its efforts on exploration and drilling activity, for the purpose of defining commercial ore resources. The funds for current exploration activity are contributed by Goldgroup Resources, Inc., pursuant to the Earn In Agreement, as described in this 10-Q (See Earn In and Option Agreement / Material Agreements).

**COST OF EXPLORATION.** Exploration costs were \$732,388 and \$1,057,026 for the three months ended June 30, 2011 and 2010 respectively, and \$2,395,424 and \$1,788,818 for the six months ended June 30, 2011 and 2010, respectively. The increase in costs was due to the increase in exploration and drilling activity from one year to the next.

**OPERATING EXPENSES.** Operating expenses for the three months ended June 30, 2011 and 2010 were \$400,615 and \$393,112 respectively and \$847,390 and \$765,991 for the six months ended June 30, 2011 and 2010 respectively. The above expenses include depreciation and amortization amounts of \$38,282 and \$37,339 for the three months ended June 30, 2011 and 2010, respectively and \$73,514 and \$74,680 for the six months ended June 30, 2011 and 2010 respectively.

**OTHER INCOME (EXPENSE).** Other income, exclusive of currency translation gain or (loss) was \$300 and \$764 for the three months ended June 30, 2011 and 2010, respectively and \$597 and \$1,762 for the six months ended June 30, 2011 and 2010 respectively. Currency translation gain or (loss) was \$(148,979) and \$64,878 for the three months ended June 30, 2011 and 2010, respectively and \$325,654 and \$291,367 for the six months ended June 30, 2011 and 2010 respectively.

**NON-CONTROLLING INTEREST.** The non-controlling interest portion of our net loss for the three months ended June 30, 2011 and 2010 was \$493,552 and \$254,686 respectively and the non-controlling interest portion of our net loss for the six months ended June 30, 2011 and 2010 was \$1,217,782 and \$417,120 respectively. This is due to the Company reporting a greater year over year loss and due to Goldgroup owning 50% at June 30, 2011 versus 25% at June 30, 2010.

COMPREHENSIVE (LOSS). Comprehensive loss includes the company's net loss plus the currency translation gain (loss) for the period which was a loss of \$825,649 and a loss of \$975,908 for the three months ended June 30, 2011 and 2010, respectively and a loss of \$1,846,695 and a loss of \$1,646,168 for the six months ended June 30, 2011 and 2010 respectively.

LIQUIDITY AND CAPITAL RESOURCES. The Company has sufficient capital on hand to fund overhead operations for the next two years.

#### PLAN OF OPERATION

##### Future Capital Contributions and Expenditures

Pursuant to the terms of the Earn In / Option Agreement, Goldgroup was to contribute and expend a total of \$ 18 M. USD, to DynaMéxico, on or before March 15, 2011. As of March 31, 2011, Goldgroup had contributed \$18,000,000 USD to DynaMexico, and at March 31, 2011, a total of 50% of the outstanding shares of DynaMexico had been issued to Goldgroup.

##### Mineable "Resource" at San José de Gracia

The Company believes that DynaMéxico has outlined significant mineable Gold deposits from drilling activity; at San Pablo, Tres Amigos, Palos Chinos, La Union, and La Purisima areas of SJG. Further drilling is expected to outline additional mineable ore at these target areas, while mineable ore deposits are also expected to be defined at La Prieta and the area Northeast of Tres Amigos. Other areas at SJG indicate clear potential to develop commercial ore deposits as well.

##### Technical Report of Resources



In 3<sup>rd</sup> Quarter 2011, the Company expects DynaMéxico to commission a 43-101 compliant report of the ore “resources” defined by drilling at SJG. The Company expects this 43-101 technical report to confirm its internal work with the Block model in Surpac at SJG, and also to confirm consistency with the company’s interpretation and estimates of resource. However, additional drilling and in-fill drill holes may be necessary in order to confirm consistency of grade and width between drill holes as of March 31, 2011.

Future Feasibility Study / Economic Assessment

Considering the historic production reported from SJG and the results of the recent production operation, and the results of the drilling activity to date; and considering the Block model in Surpac being developed; and considering the Company’s manual estimate of resource at SJG; the Company recognizes the potential for a + 100,000 Oz. gold per year production operation at SJG. At the completion of the drilling programs funded pursuant to the Terms of the Earn In Agreement, the Company expects DynaMéxico to complete a Feasibility Study or Economic Assessment Report to confirm and define the full scale production plans at SJG.

## **ITEM 4. Controls and Procedures**

### Evaluation of Disclosure Controls and Procedures

The company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of June 30, 2011. This evaluation was accomplished under the supervision and with the participation of our chief executive officer / principal executive officer, and chief financial officer / principal financial officer who concluded that the company's disclosure controls and procedures are effective to ensure that all material information required to be filed in the quarterly report on Form 10-Q has been made known to them.

For purposes of this section, the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure, controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by in our reports filed under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based upon an evaluation conducted for the period ended June 30, 2011, our Chief Executive Officer and Chief Financial Officer as of June 30, 2011, and as of the date of this Report, have concluded that as of the end of the period covered by this report, we have identified no material weakness in our internal controls.

Corporate expenditures are processed and paid by officers of the Company. However, the current number of transactions incurred by the Company does not justify additional accounting staff to be retained.

### Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of

financial statements for external purposes, in accordance with generally accepted accounting principles in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework at June 30, 2011. Based on its evaluation, our management concluded that, as of June 30, 2011, our internal control over financial reporting was effective.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to the attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this quarterly report.

#### Changes in Internal Controls over Financial Reporting

The Company has not made any changes in its internal controls over financial reporting that occurred during the period covered by this report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

**PART II**

Item No. 1, - Not Applicable.

Item 2. None

Items No. 3, 4, 5 - Not Applicable.

Item No. 6 - Exhibits and Reports on Form 8-K

(a) None

(b) Exhibits

Exhibit Number; Name of Exhibit

31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DynaResource, Inc.

By /s/ K.W. ("K.D.") Diepholz

K.W. ("K.D.") Diepholz, Chairman / CEO

Date: August 19, 2011

