

DYNARESOURCE INC  
Form 10-K  
April 16, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended: December 31, 2017

OR

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

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

Commission File Number: 000-30371

DYNARESOURCE, INC.  
(Exact name of registrant as specified in its charter)

Delaware 94-1589426  
(State or other jurisdiction of incorporation or organization (IRS Employer Identification No.))

222 W Las Colinas Blvd., Suite 1910 North Tower, Irving, Texas 75039  
(Address of principal executive offices)

Registrant's telephone number, including area code: (972) 868-9066

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock; \$0.01 Par Value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 preceding 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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (p. 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (p. 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.



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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

Yes  No

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

Yes  No

The aggregate market value of the voting and non-voting common equity, par value \$0.01 per share, held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed fiscal year end, December 31, 2017, was \$13,645,148 based on the closing price of \$1.11 per share as reported on the OTCQB. For purposes of this computation, all officers, directors, subsidiaries, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

There were 17,722,825 shares outstanding of each of the registrant's classes of common stock (only 1 class) as of the latest practicable date (April 10, 2018).

DOCUMENTS INCORPORATED BY REFERENCE

Listed below are documents incorporated herein by reference.

None.



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- 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
- Exhibit 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
- Exhibit 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





## FORWARD-LOOKING STATEMENTS

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

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

## CAUTIONARY NOTE TO UNITED STATES INVESTORS—INFORMATION CONCERNING PREPARATION OF RESOURCE AND RESERVE ESTIMATES

The Company is an “OTC Reporting Issuer” as that term is defined in BC Multilateral Instrument 51-105, Issuers Quoted in the U.S. Over-the-Counter Markets, promulgated by the British Columbia Securities Commission.

In Canada, an issuer is required to provide technical information with respect to mineralization, including reserves and resources, if any, on its mineral exploration properties in accordance with Canadian requirements, which differ significantly from the requirements of the United States Securities and Exchange Commission (the “SEC”) applicable to registration statements and reports filed by United States companies pursuant to the Securities Act or the Exchange Act. As such, certain disclosures of mineralization under Canadian standards may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements of the SEC and not subject to Canadian securities legislation.

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

Estimate (compiled for DynaResource de Mexico SA de CV) are economically or legally mineable.

Under U.S. standards, as set forth in SEC Industry Guide 7, mineralization may not be classified as a “reserve” unless a determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. The SJG Property as described in this Annual Report on Form 10-K is without known reserves. Mineral resources which are not classified as mineral reserves have not “demonstrated economic viability.” The quantity of resources and the quality (grade) of resources reported as “Indicated” and “Inferred” mineral resources in the mineral resource estimate compiled for DynaResource de Mexico SA de CV, under the NI 43-101 Mineral Resource Estimate filed by the Company on SEDAR, are not disclosed in this Form 10-K. SEDAR is Canada’s System for Electronic Document Analysis and Retrieval, the mandatory document filing and retrieval system for Canadian public companies. There has been insufficient exploration to define any mineral reserves on the SJG Property, and it is not certain if further exploration will result in the definition of mineral reserves.



## PART I

### ITEM 1. BUSINESS

#### History and Organization

The Company is a minerals investment, management, and exploration company, and currently conducting test mining and pilot milling operations through an operating subsidiary in México, with specific focus on precious and base metals in México. The Company was originally incorporated in the State of California on September 28, 1937, under the name West Coast Mines, Inc. In November 1998, the Company re-domiciled from California to Delaware and changed its name to DynaResource, Inc. (“DynaUSA”).

We currently own 80% of the outstanding shares of DynaMéxico, and DynaMéxico currently holds a lien on 20% of the outstanding shares of DynaMéxico. DynaMéxico owns 100% of the mining concessions, equipment, camp and related facilities which comprise the San Jose de Gracia Property, in northern Sinaloa State, México. We also own 100% of Mineras de DynaResource S.A. de C.V. (“DynaMineras”), the exclusive operator of the San José de Gracia Project, under contract with DynaMéxico. DynaMineras currently conducts test mining and pilot milling operations, and other exploration activities in México.

In 2000, the Company formed DynaMéxico for the purpose of acquiring and holding mineral properties and mining concessions in México. DynaMéxico owns a portfolio of mining concessions which comprise the San José de Gracia Project (“SJG”). The mining concessions which comprise the SJG District cover 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range. At the incorporation of DynaMéxico, 100 shares of Fixed Capital Series “A” shares were issued, with DynaUSA receiving 99 shares and its CEO receiving 1 share.

In 2005, the Company formed DynaMineras. DynaMineras entered into an operating agreement with DynaMéxico on April 15, 2005. As a consequence of that agreement and subsequent amendments to that agreement, DynaMineras is the exclusive operating entity for the SJG Project.

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

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

On May 17, 2013, DynaUSA agreed to acquire a stock certificate for 300 Series “B” Variable Capital Shares of DynaMéxico, in exchange for the settlement of accounts receivable from DynaMéxico in the amount of \$31,090,710 Mexican Pesos (approximately \$2.4 million USD). After giving effect to the issuance of the 300 Series B Shares on June 21, 2013, DynaUSA owns 80% of the total outstanding Capital of DynaMéxico. (See table representation of the outstanding Capital of DynaMéxico below). The exchange of shares by DynaMéxico for amounts payable to DynaUSA was unanimously approved by shareholders at a meeting of the shareholders of DynaMéxico, held on the second call for shareholder's meeting on May 17, 2013 in Mazatlán, Sinaloa, México. The date of issuance of the 300 Series B Share Certificate was June 21, 2013. As a result of the issuance to DynaUSA of the 300 Variable Capital shares for amounts owed to DynaUSA, the accounts payable amount owed by DynaMéxico to DynaUSA was retired

in full.

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

DynaMéxico Shareholder	Fixed Capital Series "A" Shares	Variable Capital Series "B" Shares	Total Capital Shares (Series A and B)
DynaResource, Inc.	099	300	399
Koy W. ("K.D.") Diepholz	001	-	001
Goldgroup Resources Inc.	-	100	100
Total Capital Issued	100	400	500



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

#### Company Ownership and Description of Subsidiaries

A description of the subsidiaries owned by the Company and its ownership in each is summarized below:

DynaResource de México, S.A. de C.V.: Owned by DynaResource, Inc.	80%
--	-----

100% owner of the San Jose de Gracia Property;

Mineras de DynaResource, S.A. de C.V.: Owned by DynaResource, Inc.	100%
---	------

Exclusive Operator of the San Jose de Gracia Project;

Entered into Exploitation Agreement (“EAA”) with DynaMéxico (See below);

Entered into 20-year surface Rights agreement with the Santa Maria Ejido;

DynaResource Operaciones de San Jose de Gracia, S.A. de C.V.: Owned by DynaResource, Inc.	100%
--	------

Personnel Management Company at San Jose de Gracia;

Exploitation Amendment Agreement (“EAA”)

On May 15, 2013, DynaMineras entered into an Exploitation Amendment Agreement (“EAA”) with DynaMéxico. The EAA grants to DynaMineras the right to finance, explore, develop and exploit the SJG Property, in exchange for the following:

(A) Reimbursement of all costs associated with financing, maintenance, exploration, development and exploitation of the SJG Property, which costs are to be charged and billed by DynaMineras to DynaMéxico; and

(B) After Item (A) above, 75% of gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, to the point that DynaMineras has received 200% of its advanced funds; a 2.5% Net Smelter Royalty on all minerals sold from SJG over the term of the EAA. The total advances made by DynaMineras to DynaMéxico as of December 31, 2017 are \$6,125,000.

(C) After items (A) and (B) above, 50% of all gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, and throughout the term of the EAA.

The EAA is the third and latest Amendment to the original Contract Mining Services and Mineral Production Agreement (the “Operating Agreement”), which was previously entered into by DynaMineras and DynaMéxico in April

2005, and in which DynaMineras was named the Exclusive Operating Entity at SJG. The Operating Agreement was first amended in September 2006 (the “First Amendment”), and amended again at July 15, 2011 (the “Second Amendment”). The Term of the Second Amendment is 20 years, and the EAA (Third Amendment) provides for the continuation of the 20 Year Term from the date of the Second Amendment (July 15, 2011).





Our objective is to increase the value of our shares through the exploration, development and extraction of gold, silver and other valuable minerals. We generally conduct our exploration activities as sole operator and our current flagship property is San Jose de Gracia.

Our principal executive office is located at 222 W. Las Colinas Blvd., Suite 1910 North Tower, Irving, Texas 75039. We can be reached by phone at (972) 868-9066 and by fax at (972) 868-9067. The Company's website is [www.dynaresource.com](http://www.dynaresource.com).

In this report, "DynaResource, Inc.", the "Company", "DynaUSA", "our" and "we" refer to DynaResource, Inc. DynaResource de México SA de CV, the 100% owner of the mining concessions, camp, equipment, and related interests to San Jose de Gracia Property, is referred to a "DynaMéxico". DynaUSA owns 80% of DynaMéxico. Mineras de DynaResource SA de CV, the named exclusive operator at San Jose de Gracia Property under agreement with DynaMéxico, is referred to as "DynaMineras". DynaUSA owns 100% of DynaMineras. DynaResource Operaciones de San Jose de Gracia SA de CV, and the named manager of personnel and consultants who are actively involved at San Jose de Gracia under agreement with DynaMineras and DynaMéxico, is referred to as "DynaOperaciones". DynaUSA owns 100% of DynaOperaciones. The San Jose de Gracia Property is referred to as "SJG", or the "SJG Property", or the "SJG Project", or the "SJG District". DynaMéxico owns 100% of the SJG District. Further in this report, "Au" represents gold; "Ag" represents silver; "oz." represents ounces; "gpt" represents grams per metric tonne; "ft" represents feet; "m" represents meter, "km" represents kilometer; and "sq" represents square.

#### Segment Information

Our only current operating segment is México.

#### Products

The end use product produced at our test mining and pilot milling operations at SJG is either in the form of primarily gold-silver Dore, or primarily gold-silver concentrates. The end use product from current activities generally consists of approximately 100% concentrate and 0% Dore. Dore is an alloy consisting primarily of gold and silver but also containing other metals. Dore is sent to refiners to produce bullion that meets the required market standard of 99.95% gold and 99.9% silver. Gold-silver concentrates, or simply concentrate, is raw precious metals materials that has been crushed and ground finely to a sand-like product where gangue (waste) and non-precious metals are removed or reduced, thus concentrating the precious metals component. Concentrates processed and produced from San Jose de Gracia are shipped to third-party smelters, refineries or third parties for further processing or re-sale.

During 2017, we reported the delivery and sale of 10,740 net Oz gold contained in concentrates. All gold-silver concentrate originated from the San Jose de Gracia Property in México.



Gold-silver concentrates are sold at a small discount to the prevailing spot market price, based on the price per ounce of gold and silver quoted at the London PM fix, with the actual net precious metals prices received depending on the sales contract. Concentrates are priced by individual concentrate lots of 36 to 72 tons, or as a series of lots under contract, whereby the final selling price and gold-silver quantities are subject to final adjustments at the time of final purchase settlement.

#### Gold and Silver Pilot Processing Methods

Gold and silver are extracted from mined mineralized material, by crushing, grinding, milling, and further by simple gravity and flotation recoveries. The mineralized material is extracted by underground mining methods. The processing plant at the San José de Gracia mine is composed of conventional crushing and grinding circuits, and with gravity and flotation recovery methods. The gravity and flotation concentrates are dewatered or dried, and shipped to purchasers in semi-trailers.

#### Gold and Silver Reserves / No Known Reserves

The Company currently has no mineral “reserves” as defined by SEC Industry Guide 7 promulgated by the SEC.

#### General Government Regulations

##### México

Mining in México is subject to numerous federal, state and local laws, regulations and ordinances governing mineral rights, operations and environmental protection.

**Mineral Concession Rights.** Exploration and exploitation of minerals in México may be carried out through Mexican companies incorporated under Mexican law by means of obtaining mining concessions. Mining concessions are granted by the Mexican government for a period of fifty years from the date of their recording in the Public Registry of Mining and are renewable for a further period of fifty years upon application within five years prior to the expiration of such concession in accordance with the Mining Law and its regulations. Mining concessions are subject to annual work requirements and payment of annual surface taxes which are assessed and levied on a semi-annual basis. Such concessions may be transferred or assigned by their holders, but such transfers or assignments must be registered with the Public Registry of Mining in order to be valid against third parties. The holder of a concession must pay semi-annual duties in January and July of each year on a per hectare basis and in accordance with the amounts provided by the Federal Fees Law. During the month of May of each year, the concessionaire must file with the General Bureau of Mines, the work assessment reports made on each concession or group of concessions for the preceding calendar year. The regulations of the Mining Law provide tables containing the minimum investment amounts that must be made on a concession. This amount is updated annually in accordance with the changes in the Consumer Price Index.

**Surface Rights.** In México, while mineral rights are administered by the federal government through federally issued mining concessions, Ejidos (communal owners of land recognized by the federal laws in México) control surface access rights to the land. An Ejido may sell or lease lands directly to a private entity. While the Company has agreements or is in the process of negotiating agreements with the Ejido that impact all of its projects in México, some of these agreements may be subject to renegotiations.

**Mining Royalties.** In October 2013, the Mexican lower house passed a bill levying a tax-deductible mining royalty of 7.5% on earnings before the deduction of interest, taxes, depreciation and amortization, along with an additional 0.5% surcharge on precious metals revenue for mining companies. The effective date of the law was January 1, 2014.

Although there are a number of uncertainties surrounding the scope, calculation and enforcement of the royalty, based on the Company's current interpretation of the bill, the royalty or surcharge was not material for 2016.

**Environmental Law.** The Environmental Law in México, called the "General Law of Ecological Balance and Protection to the Environment" ("General Law"), provides for general environmental policies, with specific requirements for certain activities such as exploration set forth in regulations called "Mexican official norms". Responsibility for enforcement of the General Law, the regulations and the Mexican official norms is with the Ministry of Environment and Natural Resources, which regulate all environmental matters with the assistance of Procuradur'a Federal de Protección al Ambiente (known as "PROFEPA").

The primary laws and regulations used by the State of Sinaloa, where our San Jose de Gracia property is located, in order to govern environmental protection for mining and exploration are: The General Law, Forestry Law, Residues Law, as well as their specific regulations on air, water and residues, and the Mexican official norms (known as "NOM-120"). In order to comply with the environmental regulations, a concessionaire must obtain a series of permits during the exploitation and exploration stage. The time required to obtain the required permits is dependent on a number of factors including the type of vegetation and trees impacted by proposed activities.



**Mining Permits.** The Secretariat of Environmental and Natural Resources, the Mexican Government environmental authority ("SEMARNAT"), is responsible for issuing environmental permits associated with mining. Three main permits required before construction can begin are: Environmental Impact Statement (known in México as Manifesto Impacto Ambiental) ("MIA"), Land Use Change (known in México as Estudio Justificativo Para Cambio Uso Sueldo) ("ETJ"), and Risk Analysis (known in México as Analisis de Riesgo) ("RA"). A construction permit is required from the local municipality and an archaeological release letter must be obtained from the National Institute of Anthropology and History (known as "INAH"). An explosives permit is required from the ministry of defense before construction can begin. The Environmental Impact Statement is required to be prepared by a third-party contractor and submitted to SEMARNAT and must include a detailed analysis of climate, air quality, water, soil, vegetation, wildlife, cultural resources and socio-economic impacts. The Risk Analysis study (which is included into the Environmental Impact Statement and submitted as one complete document) identifies potential environmental releases of hazardous substances and evaluates the risks in order to establish methods to prevent, respond to, and control environmental emergencies. The Land Use Change requires that an evaluation be made of the existing conditions of the land, including a plant and wildlife study, an evaluation of the current and proposed use of the land, impacts to naturally occurring resources, and an evaluation of reclamation/re-vegetation plans.

#### Customers

The Company sells its concentrates to the buyer who offers the best terms based upon price, treatment costs, refining costs, and other terms of payment. During the year ended December 31, 2017, the Company sold gold-silver concentrates to the following purchasers:

Dore:	None.
Gold-Silver Concentrates:	Mercuria Commodities Trading S.A. de C.V.; and Trafigura Mexico S.A de C.V.

#### Employees

As of March 30, 2018, we had 200 employees, including 195 employees based in México, and 5 in the United States. Consultants are retained from time to time. Employees based in México and the United States include laborers, engineers, geologists, information technologists, office administrators, managers and executives. None of our employees in México are covered by union contracts and the Company believes we have good relations with our employees.

#### ITEM 1A. RISK FACTORS

This report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that may be affected by several risk factors. The following information summarizes all material risks known to us at the date of filing this report.

#### Risks Relating to Our Company

##### Nature of Mineral Exploration and Mining

The Company is involved in the business of exploration and development of resource properties, which carries the inherent risk of failure.

The exploration and development of mineral deposits involve significant risks which a combination of careful evaluation, experience and knowledge may not eliminate. There is no assurance that the Company's exploration programs will result in discoveries of commercial mineralized bodies.

The Company's future is dependent upon the success of its exploration programs, and the success of its test mining and pilot milling programs. The exploration and development of mineral deposits involve significant risks over significant periods of time. It is impossible to ensure that the current or proposed exploration programs on the Company's property will result in a profitable mining operation.

Whether a mineralized deposit will be commercially viable depends on many factors, such as size and grade of the deposit, proximity to infrastructure, financing costs, regulations, environmental protection, commodities prices, taxes, and political risks. The impact of these factors cannot be accurately predicted, but the combination of factors may result in the Company's failure to provide a return on investment.

#### Competitive Business Conditions

The Company competes with many larger, well capitalized companies, which places the Company at a competitive disadvantage.





The Company competes with many companies in the mining business, including large, established mining companies with substantial capabilities, personnel, and financial resources. There is a limited supply of desirable mineral lands available for claim-staking, lease, or acquisition in México, where the Company's activities are focused. The Company may be at a competitive disadvantage in acquiring mineral properties, since it competes with companies which have greater financial resources and larger technical staffs. From time to time, specific properties or areas which would otherwise be attractive for acquisition or exploration are unavailable due to their previous acquisition by competitors or due to the Company's lack of financial resources.

Competition in the industry extends to the technical expertise to find, advance, and operate mineral properties; the labor to operate the properties; and the capital for the purpose of funding exploration and development activities on such properties. Many competitors explore for and mine precious metals and conduct refining and marketing operations on a world-wide basis. Such competition may make it more difficult for the Company to recruit or retain qualified employees, to obtain equipment and personnel to assist in its exploration and production activities, or to acquire the capital necessary to fund operations.

#### Government Regulations

The Company conducts its resource exploration and development activities in México, subject to rules and regulations for owning and maintaining mining concessions and surface rights, environmental protection, water rights, hazardous wastes, explosives, reclamation, and others. There can be no certainty that the Company maintains full compliance with all government regulations.

México. Exploration and development of minerals in México may be carried out through Mexican companies incorporated under Mexican law by means of obtaining exploration and development (exploitation) concessions. The Company's concessions are granted by the Mexican government, or acquired from previous owners, are filed in the Public Registry of Mining, and are scheduled to expire from 2028 through 2058. Holders of exploration concessions may, prior to the expiration of such concessions, apply for one or more development concessions covering all or part of the area covered by an exploration concession.

Environmental law in México provides for general environmental policies, with specific requirements set forth under regulations of the Ministry of Environment, Natural Resources and Fishing, which regulate all environmental matters with the assistance of the National Institute of Ecology and the Procuraduria Federal de Proteccion al Ambiente.

The primary laws and regulations governing environmental protection for mining in México are found in the General Law, the Ecological Technical Standards, and also in the air, water and hazardous waste regulations, among others. In order to comply with the environmental regulations, a concessionaire must obtain a series of permits during the exploration stage. Generally, these permits are issued on a timely basis after the completion of an application by a concession holder. The Company believes it is currently in full compliance with the General Law and its regulations in relation to its mineral property interests in México.

#### Commodities Prices

Any potential economic success of the Company's properties will depend to a large extent to the market price of commodities, the future price of which is impossible to predict.

The current value and potential value for properties obtained by the Company is directly related to the market price for gold. The market price of gold may also have a significant influence on the market price of the Company's common stock. If the Company obtains positive drill results and a property progresses to a point where a commercial production decision can be made, the decision to put a mine in production and to commit funds necessary for that

purpose would be made long before any revenue from production would be received. A decrease in the market price of gold at any time during future exploration or development may prevent a property from being economically mined or result in the write-off of assets whose value is impaired as a result of lower gold prices.

The price of gold is affected by numerous factors beyond the Company's control, including inflation, fluctuation of the United States dollar and foreign currencies, global and regional demand, the purchase or sale of gold by central banks, and the political and economic conditions of major gold producing countries throughout the world. During the last five years, the market price of gold has fluctuated between approximately \$1,057 and \$1,895 per ounce. The volatility of gold prices represents a substantial risk which is impossible to fully eliminate. In the event gold prices decline and remain low for prolonged periods of time, the Company might be unable to explore, develop, or produce revenue from its properties.

The volatility of mineral prices represents a substantial risk which no amount of planning or technical expertise can fully eliminate. In the event mineral prices decline and remain low for prolonged periods of time, we might be unable to develop our properties, which may adversely affect our results of operations, financial performance and cash flows. Our results of operations have been and could continue to be materially and adversely affected by the impairment of assets. An asset impairment charge may result from the occurrence of unexpected adverse events that impact our estimates of expected cash flows generated from our producing properties or the market value of our non-producing properties.



The volatility in gold, silver and copper prices is illustrated by the following table, which sets forth, for the periods indicated, the average market prices in U.S. dollars per ounce of gold and silver, based on the average daily London P.M. fix, and per pound of copper based on the London Metal Exchange Grade A copper settlement price.

Metal	2011	2012	2013	2014	2015
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