

DYNARESOURCE INC  
Form 10-Q  
August 21, 2017

**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, 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 small business issuer 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 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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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

Yes  No

As of August 21, 2017, there were 16,722,825 shares of Common Stock of the issuer outstanding.

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**CERTIFICATIONS**

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**PART I****ITEM 1.****FINANCIAL STATEMENTS****DYNARESOURCE, INC.****Consolidated BALANCE SHEETS****JUNE 30, 2017 AND DECEMBER 31, 2016****(Unaudited)**

|   | <b>June 30, 2017</b> | <b>Dec 31, 2016</b> |
|---|----------------------|---------------------|
| <b>ASSETS</b>   |                      |                     |
| Current Assets:   |                      |                     |
| Cash and Cash Equivalents   | \$1,679,279          | \$2,197,005         |
| Accounts Receivable   | 343,321              | 454,140             |
| Inventories   | 873,562              | 561,238             |
| Foreign Tax Receivable  | 1,150,159            | 1,083,364           |
| Other Current Assets  | 58,721               | 73,871              |
| Total Current Assets  | 4,105,042            | 4,369,618           |
| Mining Equipment and Fixtures (Net of Accumulated<br>Depreciation of \$913,599 and \$821,132)                           | 854,388              | 578,743             |
| Mining Concessions (Net of Accumulated Amortization)  | 4,132,678            | 4,132,678           |
| Investments in Affiliate  | 70,000               | 70,000              |
| Other Assets  | 109,786              | 15,450              |
| <b>TOTAL ASSETS</b>   | <b>\$9,721,894</b>   | <b>\$9,166,489</b>  |
| <b>LIABILITIES AND EQUITY</b>   |                      |                     |
| Current Liabilities:  |                      |                     |
| Accounts Payable  | \$835,216            | \$851,197           |
| Convertible Notes Payable   | 950,625              | 956,250             |
| Due to Non-Controlling Interest   | 231,500              | 231,500             |
| Accrued Expenses  | 1,517,644            | 1,367,510           |
| Derivative Liabilities  | 3,402,653            | 5,106,090           |
| Total Current Liabilities   | 6,937,638            | 8,512,547           |
| Long-Term Liabilities:  |                      |                     |
| Accrued Expenses  | 309,069              | —                   |
| <b>TOTAL LIABILITIES</b>  | <b>\$7,246,707</b>   | <b>\$8,512,547</b>  |
| Preferred Stock, Series C, \$.0001 par value, 1,733,221 shares<br>Authorized, 1,733,221 outstanding as of 2017 and 2016 | \$4,333,053          | \$4,333,053         |

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Stockholders' Equity Deficit

|   |              |   |              |
|---|--------------|---|--------------|
| Preferred Stock, Series A, \$.001 par value, 1,000 shares   |              |   |              |
| Authorized, 1,000 and 1,000 issued and outstanding  | \$1          |   | \$1          |
| Common Stock, \$.01 par value, 25,000,000 shares authorized,<br>16,722,825 shares outstanding as of 2017 and 2016 | 167,228      |   | 167,228      |
| Preferred Rights  | 40,000       |   | 40,000       |
| Additional Paid In Capital  | 55,083,783   |   | 55,083,783   |
| Treasury Stock, 1,112,313 outstanding as of 2017 and 2016   | (3,175,515   | ) | (3,175,515   |
| Accumulated Other Comprehensive Income  | 1,913,945    |   | 3,771,532    |
| Accumulated Deficit   | (51,243,114  | ) | (53,581,567  |
| Total DynaResource, Inc. Stockholders' Equity   | 2,786,328    |   | 2,305,462    |
| Non-controlling Interest  | (5,094,194   | ) | (5,984,573   |
| TOTAL (DEFICIT)   | \$(2,307,866 | ) | \$(3,679,111 |

TOTAL LIABILITIES AND EQUITY (DEFICIT) \$9,721,894 \$9,166,489

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

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

|  | <b>Three<br/>Months</b>  | <b>Three<br/>Months</b>  | <b>Six Months</b>        | <b>Six Months</b>        |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>June 30,<br/>2017</b> | <b>June 30,<br/>2016</b> | <b>June 30,<br/>2017</b> | <b>June 30,<br/>2016</b> |
| REVENUES   | \$3,217,802              | \$3,156,746              | \$4,559,314              | \$5,164,925              |
| <b>COSTS AND EXPENSES OF MINING<br/>OPERATIONS</b>   |                          |                          |                          |                          |
| Production Costs Applicable to Sales                 | 1,139,128                | 563,160                  | 1,657,890                | 865,155                  |
| Mine Operating Costs                                 | 1,091,983                | 1,311,942                | 1,558,145                | 1,975,350                |
| Property Holding Costs                               | 139,467                  | 42,308                   | 263,070                  | 217,700                  |
| General and Administrative                           | 650,821                  | 557,221                  | 1,189,337                | 1,012,600                |
| Depreciation and Amortization                        | 75,667                   | 34,310                   | 92,467                   | 48,130                   |
| Total Operating Expenses                             | 3,097,066                | 2,508,941                | 4,760,909                | 4,118,935                |
| <b>NET OPERATING INCOME (LOSS)</b>                   | 120,736                  | 647,805                  | (201,595 )               | 1,045,990                |
| <b>OTHER INCOME (EXPENSE)</b>                        |                          |                          |                          |                          |
| Foreign Currency Gains (Losses)                      | 256,669                  | (1,242,740 )             | 695,449                  | (1,142,873 )             |
| Interest Expense                                     | (32,057 )                | (29,883 )                | (61,670 )                | (59,766 )                |
| Derivatives Adj. Mark-to-Market Gain (Loss)          | (644,641 )               | —                        | 1,703,437                | 204,279                  |
| Other Income   | 252                      | 174                      | 397                      | 360                      |
| Total Other Income (Expense)                         | (419,777 )               | (1,272,449 )             | 2,337,613                | (998,000 )               |
| <b>NET INCOME (LOSS) BEFORE TAXES</b>                | (299,041 )               | (624,644 )               | 2,136,018                | 47,990                   |
| <b>TAXES</b>   | —                        | —                        | —                        | —                        |
| <b>NET INCOME (LOSS)</b>                             | \$(299,041 )             | \$(624,644 )             | \$2,136,018              | \$47,990                 |
| <b>Cumulative Dividend for Series C Preferred</b>    | \$(42,737 )              | (37,263 )                | (85,474 )                | (80,000 )                |
| <b>ATTRIBUTABLE TO NON-CONTROLLING<br/>INTERESTS</b> | \$348,323                | \$128,537                | \$202,435                | \$164,780                |
| <b>ATTRIBUTABLE TO COMMON SHAREHOLDERS</b>           | \$6,545                  | \$(533,370 )             | \$2,252,979              | \$132,770                |

**EARNINGS PER SHARE DATA**

**ATTRIBUTABLE TO THE EQUITY HOLDERS OF  
DYNARESOURCE, INC:**

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|  |            |                |                |              |
|--|------------|----------------|----------------|--------------|
| Basic Loss per Common Share                  | \$(.00     | ) \$(.03       | ) \$.13        | \$.01        |
| Diluted Loss per Common Share                | \$(.00     | ) (.03         | ) .03          | .00          |
| Weighted Average Shares Outstanding, Basic   | 16,722,825 | 16,722,825     | 16,722,825     | 16,722,825   |
| Weighted Average Shares Outstanding, Diluted | 16,722,825 | 16,722,825     | 18,595,886     | 18,590,365   |
| OTHER COMPREHENSIVE INCOME (LOSS)            |            |                |                |              |
| NET INCOME (LOSS) PER ABOVE                  | \$(299,041 | ) \$(642,644   | ) \$2,136,018  | \$47,990     |
| Foreign Currency Exchange Gains (Losses)     | 603,836    | (734,433       | ) (257,872     | ) (729,937   |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS)      | 603,836    | (734,433       | ) (257,872     | ) (729,937   |
| TOTAL COMPREHENSIVE INCOME (LOSS)            | \$304,795  | \$(1,359,077   | ) \$1,878,146  | \$(681,947   |
| ATTRIBUTABLE TO:                             |            |                |                |              |
| EQUITY HOLDERS OF DYNARESOURCE, INC.         | \$(557,020 | ) \$(1,029,836 | ) \$2,970,960  | \$(362,127   |
| NON-CONTROLLING INTERESTS                    | \$861,815  | \$(329,241     | ) \$(1,092,814 | ) \$(319,820 |
| TOTAL COMPREHENSIVE INCOME (LOSS)            | 304,795    | (1,359,077     | ) 1,878,146    | (681,947     |

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



**DYNARESOURCE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

|   | June 30,<br>2017<br>(Unaudited) | June 30,<br>2016<br>(Unaudited) |
|---|---------------------------------|---------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                 |                                 |
| Net Income (Loss)   | \$2,136,018                     | \$47,990                        |
| Adjustments to reconcile net loss to cash<br>provided by (used in) Operating activities |                                 |                                 |
| Gain on Derivative Liabilities  | (1,703,437)                     | (204,279 )                      |
| Depreciation and Amortization   | 92,467                          | 48,130                          |
| Change in Operating Assets and Liabilities:   |                                 |                                 |
| Accounts Receivable   | 163,885                         | (315,678 )                      |
| Inventory   | (214,111 )                      | (13,163 )                       |
| Other Current Assets  | 15,150                          | 1,205                           |
| Receivables from Affiliate  | (25,848 )                       | (5,121 )                        |
| Foreign Tax Receivable  | 83,849                          | (245,131 )                      |
| Other Assets  | (84,120 )                       | (1,314 )                        |
| Accounts Payable  | 937,906                         | 16,037                          |
| Accrued Liabilities   | 413,205                         | 150,636                         |
| <b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                            | <b>1,814,964</b>                | <b>(520,688 )</b>               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                 |                                 |
| Purchase of Equipment   | (301,667 )                      | (37,572 )                       |
| <b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>  | <b>(301,667 )</b>               | <b>(37,572 )</b>                |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                 |                                 |
| Payment on Advances to Related Party  | —                               | (50,000 )                       |
| Payment of Dividends  | —                               | (160,000 )                      |
| Payment on Note Payable   | (5,625 )                        | —                               |
| Payment on L-T Payables   | (111,315 )                      | —                               |
| <b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>                                      | <b>(116,940 )</b>               | <b>(210,000 )</b>               |
| Effect of Foreign Exchange  | (1,914,083)                     | 1,188,491                       |
| <b>NET DECREASE IN CASH</b>   | <b>(517,726 )</b>               | <b>420,231</b>                  |
| <b>CASH AT BEGINNING OF PERIOD</b>  | <b>2,197,005</b>                | <b>1,922,599</b>                |
| <b>CASH AT END OF PERIOD</b>  | <b>\$1,679,279</b>              | <b>\$2,342,830</b>              |

**SUPPLEMENTAL DISCLOSURES**

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|                            |          |          |
|----------------------------|----------|----------|
| Cash Paid for Interest     | \$61,764 | \$59,766 |
| Cash Paid for Income Taxes | \$—      | \$—      |

NON-CASH TRANSACTIONS

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

**DYNARESOURCE, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2017**

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

**Nature of Activities, History and Organization**

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

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) has been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management’s opinion, the unaudited Consolidated Statements of Operations and Comprehensive Income for the six months ended June 30, 2017 and 2016, the Consolidated Balance Sheets as at June 30, 2017 (unaudited) and December 31, 2016, and the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, contained herein, reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company’s financial position, results of operations and cash flows on a basis consistent with that of the Company’s prior audited annual consolidated financial statements. However, the results of operations for the interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto and summary of significant accounting policies included in the Company’s Form 10-K for the year ended December 31, 2016. Except as noted below, there have been no material changes in the footnotes from those accompanying the audited consolidated financial statements contained in the Company’s Form 10-K for the year ended December 31, 2016. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

In the second quarter 2017, we identified certain property taxes amounting to \$541,245 from 2014, 2015, and \$169,232 for 2016, which were not expensed as required and an over accrual of \$150,000 for legal expenses at December 31, 2016. Based on Staff Accounting Bulletin No. 108 (“SAB 108”), we have determined that these amounts are immaterial to each of the time periods affected and, therefore, we are not required to amend our previously filed reports. However, if these adjustments were recorded in 2017, we believe the impact could be material to this year. Therefore, we plan to adjust our previously reported results for 2014, 2015, and 2016 for these immaterial amounts as required by SAB 108. Such previous periods will be restated upon the next filing of our quarterly and annual consolidated financial statements. The balance sheet as of December 31, 2016 has been adjusted to reflect the cumulative impact of such errors. As a result, Accounts payable has been increased by \$541,245, accrued expenses increased by \$169,232 and retained earnings decreased by \$710,477. For additional information, see Footnote 14.

## **Reclassifications**

Certain financial statement reclassifications have been made to prior period balances to reflect the current period's presentation format; such reclassifications had no impact on the Company's consolidated statements of operations or consolidated statements of cash flows and had no material impact on the Company's consolidated balance sheets.

## **Computation of Profit (Loss) per Share**

Basic Income (Loss) per share is computed by dividing the period Income (Loss) available to common shareholders by the weighted average number of common shares outstanding. Diluted Profit (Loss) per share is computed by dividing the Income (Loss) available to common shareholders by the weighted average number of common shares outstanding plus additional common shares that would have been outstanding if dilutive potential common shares had been issued. For purposes of this calculation, convertible preferred stock, common stock dividends, warrants and options to acquire common stock, are all considered common stock equivalents in periods in which they have a dilutive effect and are excluded from this calculation in periods in which these are anti-dilutive or to the net loss. The securities for the three month period ending June 30, 2017 and June 30, 2016 were deemed antidilutive.

The following table illustrates the computation of Profit (loss), for the three months and six months ended June 30, 2016 and 2017:

|  | <b>Three<br/>Months</b>  | <b>Three<br/>Months</b>  | <b>Six Months</b>        | <b>Six Months</b>        |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | <b>June 30,<br/>2017</b> | <b>June 30,<br/>2016</b> | <b>June 30,<br/>2017</b> | <b>June 30,<br/>2016</b> |
| <b>Numerator</b>   |                          |                          |                          |                          |
| Profit (Loss)  | \$6,545                  | \$(533,370 )             | \$2,252,979              | \$132,770                |
| Preferred dividends accrued                                | —                        | —                        | 85,474                   | 80,000                   |
| Gain on Derivatives  | —                        | —                        | (1,703,437 )             | (204,279 )               |
| <b>Net Profit (Loss) applicable to common shareholders</b> |                          |                          |                          |                          |
| <b>Denominator for basic and dilutive loss per share:</b>  | \$6,545                  | \$(533,370 )             | \$635,016                | \$8,491                  |
| <b>Weighted average common stock</b>                       |                          |                          |                          |                          |
| <b>shares outstanding</b>                                  | 16,722,825               | 16,722,825               | 16,722,825               | 16,722,825               |
| Net effect of dilutive common stock equivalents            | —                        | —                        | 1,873,061                | 1,867,540                |
| Weighted average shares outstanding – diluted              | 16,722,825               | 18,578,175               | 18,595,886               | 18,590,365               |
| Income Profit (Loss) per share - basic                     | \$(.00 )                 | \$(.03 )                 | \$.13                    | \$.01                    |
| Income Profit (Loss) per share – diluted                   | \$(.00 )                 | (.03 )                   | .03                      | .00                      |

#### **NOTE 2 – INVENTORIES**

The Company commenced underground test mining and pilot milling activities (“pilot production”) in the 2nd quarter of 2014. Rehabilitation of the San Pablo Mine and refurbishing of the Pilot Mill Facility and construction of the adjacent tailings pond continued through 2016, and expansion of these activities commenced in second quarter 2017.

Inventories are carried at the lower of cost or fair value and consist of mined tonnage, gravity-flotation concentrates, and gravity tailings (or, flotation feed material). Inventory balances of June 30, 2017 and December 31, 2016, respectively, were as follows:

|                          | 2017      | 2016      |
|--------------------------|-----------|-----------|
| Mined Tonnage Stockpiled | \$604,445 | \$445,082 |
| Mill Tonnage Stockpiled  | 269,117   | 116,156   |
| Total Inventories        | \$873,562 | \$561,238 |

#### **NOTE 3 – PROPERTY**

Property consists of the following at June 30, 2017 and December 31, 2016:

|                                | 2017       | 2016       |
|--------------------------------|------------|------------|
| Mining camp equipment          | \$630,335  | \$399,180  |
| Transportation equipment       | 282,379    | 282,379    |
| Machinery and equipment        | 602,250    | 470,741    |
| Office furniture and fixtures  | 78,709     | 75,829     |
| Office equipment               | 174,314    | 171,746    |
| Sub-total                      | 1,767,987  | 1,399,875  |
| Less: Accumulated depreciation | (913,599 ) | (821,132 ) |
| Total Property                 | \$854,388  | \$578,743  |

The Company purchased equipment of \$301,667 and \$37,572 in the six months ended June 30, 2017 and June 30, 2016, respectively.

Depreciation has been provided over each asset's estimated useful life. Depreciation expense was \$92,467 and \$48,130 for the six months ended June 30, 2017 and 2016, respectively.

**NOTE 4 – MINING CONCESSIONS**

Mining properties consist of the following at June 30, 2017 and December 31, 2016:

|                             | 2017        | 2016        |
|-----------------------------|-------------|-------------|
| San Jose de Gracia (“SJG”): |             |             |
| Total Mining Concessions    | \$4,132,678 | \$4,132,678 |

Depletion expense was \$nil and \$nil for the six months ended June 30, 2017 and 2016 respectively, respectively.

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

Through December 31, 2016, the Company loaned a total of \$805,760 to DynaResource Nevada, Inc. (“DynaNevada”), a Nevada Corporation, which owns 100% of one operating subsidiary in México, DynaNevada de México, S.A. de C.V. (“DynaNevada de México”). The terms of the Note Receivable provided for a “Convertible Loan”, repayable at 5% interest over a 3-year period, and convertible at the Company’s option into common stock of DynaNevada at \$.25 / Share. DynaNevada is a related entity (affiliate), and through its subsidiary, DynaNevada de México has entered into an Option agreement with Grupo México (IMMSA) in México, for the exploration and development of approximately 3,000 hectares in the State of San Luis Potosi (“The Santa Gertrudis Property”). DynaNevada de México exercised the Option with IMMSA in March 2010, so that DynaNevada de México now owns 100% of the Santa Gertrudis Property. In June 2010, DynaNevada de México acquired an additional 6,000 hectares in the State of Sinaloa (the “San Juan Property”). As of June 30, 2017, and December 31, 2016 the investment was \$70,000.

**NOTE 6 – CONVERTIBLE PROMISSORY NOTES****Notes Payable – Series I**

In April and May 2013, the Company entered into note agreements with shareholders in the principal amount of \$1,495,000, of which \$340,000 was then converted to preferred shares within the same year, netting to proceeds of \$1,155,000 (the “Series I Notes”). The Series I Notes bear simple interest at twelve and a half percent (12.5%), accrued for twelve months, and with the accrued interest to be added to the principal, and then interest will be paid by the Company, quarterly in arrears. The holders of the Series I Notes (in aggregate) are also entitled to receive ten percent (10%) of the net profits received by the Company, on the first fifty thousand tons processed through the mill facilities at San Jose de Gracia. Such net profits (if any) are to be calculated after deducting “all expenses related to the production”, and after a prior deduction of thirty-three percent (33%) from the net profits, to be deposited into a sinking fund cash reserve. To date, the Company has not produced any net profits as calculated in accordance with the Series I Notes.

The Notes originally matured on December 31, 2015. In April 2015, the Company received note extensions (allonges) from all Series I note holders to ensure that all Series I Notes were in good standing and also extended the maturity date of the Series I Notes to December 31, 2016. At December 31, 2016, one of the Series I Notes remained outstanding for a total of \$5,800.78 and was paid in 2017, one of the Series I Notes was further extended to June 30, 2017, and the remaining Series I Notes were further extended to December 31, 2017.

The Company has the right to prepay the Series I Notes with a ten percent (10%) penalty.

The Series I Note holder retains the option, at any time prior to maturity or prepayment, to convert any unpaid principal and accrued interest into Common Stock at \$5.00 per share. If the Series I Note is converted into Common Stock, at the time of conversion, the holder would also receive warrants, in the same number as the number of common shares received upon conversion, to purchase additional common shares of the Company for \$7.50 per share, with such warrants expiring on December 31, 2018.

### **Notes Payable – Series II**

In 2013 and 2014, the Company entered into additional note agreements of \$199,808 and \$250,000, respectively (the “Series II Notes”) with similar terms as the Series I Notes. The Series II Notes bear simple interest at twelve and a half percent (12.5%), accrued for twelve months, and with the accrued interest to be added to the principal, and then interest will be paid by the Company, quarterly in arrears. The holders of the Series II Notes (in aggregate) are also entitled to receive ten percent (10%) of the net profits received by the Company, on the second fifty thousand tons processed through the mill facilities at San Jose de Gracia. Such net profits (if any) are to be calculated after deducting “all expenses related to the production” 1, and after a prior deduction of thirty-three percent (33%) from the net profits, to be deposited into a sinking fund cash reserve. To date, the Company has not produced any net profits as calculated in accordance with the Series II Notes.



The Notes originally matured on December 31, 2015. In April 2015, the Company received allonges (note extensions) from all noteholders to ensure that all notes were in good standing and also confirmed the maturity of the Series II notes to be December 31, 2016. At December 31, 2016, the remaining Series II Notes were further extended to December 31, 2017.

The Company has the right to prepay the Series II Notes with a ten percent (10%) penalty.

The Note holder may, at any time prior to maturity or prepayment, convert any unpaid principal and accrued interest into common stock of the Company at \$5.00 per share. At the time of conversion, the holder would receive a warrant to purchase additional common shares of the Company for \$7.50 per share, such warrant expiring on December 31, 2018.

On June 30, 2015, the Company entered into conversion agreements with six (6) note holders. Principal and interest in the amount of \$809,784 plus \$33,120 of accrued interest (total of \$842,903) was contracted to convert into 337,162 common shares. In addition, 337,162 warrants were issued which provide the option to purchase common shares at \$2.50, with all warrants expiring December 31, 2017. The Company recorded \$826,347 inducement expense related to these conversion transactions. On August 17, 2015, these common shares and warrants were issued.

At June 30, 2017, the principal and capitalized interest balance on the remaining Series I Notes was \$759,375, and the principal and capitalized interest on the Series II Notes was \$191,250, for a total Note balance of \$950,625. The accrued interest for these notes was \$29,613 and \$29,883 as of June 30, 2017 and 2016, respectively.

### Notes Payable

In June 2017, the Company entered into financing agreements in the amount of \$541,245 in order to retain the rights to, and maintain exploratory mineral concessions. The Company paid twenty percent as an initial payment, \$108,249, and financed the balance, payable over thirty-six months. In accordance with the Company's policy of treatment of exploratory mineral concessions or properties, the Company capitalized all costs associated with the financing of the exploratory mineral concessions, including annual taxes or fees, and the Company expects to prepare an annual impairment analysis.

During the first quarter of 2017 the Company purchased \$5,625 of the Notes Payable.

The following is a summary of the Notes Payable at June 30, 2017 and December 31, 2016:

|  | 2017      | 2016      |
|--|-----------|-----------|
| Convertible Promissory Notes Current Portion | \$956,250 | \$956,250 |
| Purchase of Note                             | (5,625 )  | —         |
| Total Notes Payable                          | \$950,625 | 956,250   |

### **NOTE 7 – L-T Accrued Expense**

In June 2017, the Company entered into financing agreements for unpaid mining concession taxes for the period July 1, 2014 through December 31, 2015 in the amount of \$541,245. The Company paid 20% as an initial payment, \$108,249, and financed the balance over thirty six months

The following is a summary of the transactions during the second quarter:

|   | June 30, 2017 |
|---|---------------|
| Property Holding Taxes June 1, 2014 – December 31, 2015 | \$541,245     |
| Initial payment of 20%                                  | (108,249 )    |
| June 2017 principal payment                             | (3,066 )      |
| Balance at June 30, 2017                                | \$429,430     |
| Short-Term Portion                                      | \$120,361     |
| Long-Term Portion                                       | 309,069       |
| Total   | \$429,430     |

**NOTE 8 – STOCKHOLDERS’ EQUITY**

There were no changes in our stockholders’ equity in the three and six months ended June 30, 2017.

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

### **Series A Preferred Stock**

The Company has designated 1,000 shares of its Preferred Stock as Series A, having a par value of \$0.0001 per share. Holders of the Series A Preferred Stock have the right to elect a majority of the Board of Directors of the Company. In October 2007, the Company issued 1,000 shares of Series A Preferred Stock to its CEO. At June 30, 2017 and December 31, 2016, there were 1,000 shares and 1,000 shares of Series A Preferred Stock outstanding, respectively.

### **Series C Senior Convertible Preferred Shares**

On June 30, 2015, the Company issued 1,600,000 Series C Senior Convertible Preferred Shares (the “Series C Preferred Shares”) at \$2.50 per share for gross proceeds of \$ 4,000,000, as well as issuing 133,221 additional Series C Preferred Shares due to anti-dilution provisions (with no cash remuneration). Legal fees of \$45,000 were deducted from the proceeds of this transaction at closing. These Series C Preferred Shares are convertible to common shares at \$2.50 per share, through February 20, 2020. The Series C Preferred Shares may receive a 4% per annum dividend, payable if available, and in arrears. A description of the transaction which included the issuance of the Series C Preferred Shares is included below. During 2016, the company paid Dividends of \$160,000 to the holder of Series C Convertible Preferred Stock. The Dividend is calculated at 4.0% of \$4,000,000 payable annually on June 30. For the three and six months ending June 30, 2017 and June 30, 2016, the Company accrued \$42,737 and \$37,263 respectively for the cumulative dividends. For the six months ending June 30, 2017 and June 30, 2016, the Company accrued \$85,474 and \$80,000 respectively for the cumulative dividends.

### **Common Stock**

The Company is authorized to issue 25,000,000 common shares at a par value of \$0.01 per share. These shares have full voting rights. At June 30, 2017 and December 31, 2016, there were 16,722,825 shares outstanding, respectively. No dividends were paid for the periods ended June 30, 2017.

### **Preferred Rights**

The Company issued “Preferred Rights” for the rights to percentages of revenues generated from the San Jose de Gracia Pilot Production Plant, and received \$158,500 in 2003 and \$626,000 in 2002. This has been reflected as “Preferred Rights” in stockholders’ equity. As of December 31, 2004, \$558,312 was repaid and as of December 31, 2005, an additional \$186,188 was repaid, leaving a current balance of \$40,000 and \$40,000 as of June 30, 2017 and March 31, 2016, respectively.

### **Stock Issuances**

2016 Activity – None.

2017 Activity – None.

### **Treasury Stock**

At June 30, 2017 and 2016, 1,112,313 treasury shares were outstanding.

### **Warrants**

There were no changes in the number of warrants outstanding in the three or six months ended June 30, 2017.

### **NOTE 9 – RELATED PARTY TRANSACTIONS**

#### **Related Party Transactions**

The Company follows FASB ASC subtopic 850-10, Related Party Disclosures, for the identification of related parties and disclosure of related party transactions. Pursuant to ASC 850-10-20, related parties include: a) affiliates of the Company; b) entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825–10–15, to be accounted for by the equity method by the investing entity; c) trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d) principal owners of the Company; e) management of the Company; f) other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g) other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Material related party transactions are required to be disclosed in the consolidated financial statements, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include: a) the nature of the relationship(s) involved; b) a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which statements of operation are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c) the dollar amounts of transactions for each of the periods for which statements of operations are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

### **Dynacap Group Ltd.**

The Company paid \$73,500 and \$59,000 to Dynacap Group, Ltd. (“Dynacap”, an entity controlled by the CEO of the Company) for consulting and other fees during the six months ended June 30, 2017 and 2016, respectively. Dynacap retains 2 individuals who are family members of the CEO, as well as 2 consultants, as independent contractors who provide administrative and executive support services to the Company. Dynacap has provided these services to the Company for recent years.

### **NOTE 10 – DERIVATIVE LIABILITIES**

#### **Preferred Series C Stock**

As discussed in Note 8, the Company analyzed the embedded conversion features of the Series C Preferred Stock and determined that the stock qualified as a derivative liability and is required to be bifurcated and accounted for as such since the host and the embedded instrument are not clearly and closely related. The Company performed a valuation of the conversion feature. In performing the valuation, the Company applied the guidance in ASC 820, “*Fair Value Measurements*”, to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To measure fair value, the Company incorporates assumptions that market participants would use in pricing the asset or liability, and utilizes market data to the maximum extent possible.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company considered the inputs in this valuation to be level 3 in the fair value hierarchy under ASC 820 and used an equity simulation model to determine the value of conversion feature of the Series C Preferred Stock based on the assumptions below for the six months ended June 30, 2017 and year ended December 31, 2016:

|                        | June 30,<br>2017 |   | Dec 31,<br>2016 |   |
|------------------------|------------------|---|-----------------|---|
| Annual volatility rate | 105              | % | 123             | % |
| Risk free rate         | 1.50             | % | 1.93            | % |
| Holding Period         | <b>5 years</b>   |   | <b>5 years</b>  |   |

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Fair Value of common stock \$1.63 \$1.75

The below table represents the change in the fair value of the derivative liability (Preferred Series C Stock) during the six months ending June 30, 2017 and the year ending December 31, 2016:

| <u>Period Ended</u>  | June 30,<br>2017 | Dec 31,<br>2016 |
|--|------------------|-----------------|
| Fair value of derivative (Preferred Series C Stock), beginning of year | \$2,592,452      | \$2,419,359     |
| Change in fair value of derivative (Preferred Series C Stock)          | (1,213,672)      | 173,093         |
| Fair value of derivative (Preferred Series C Stock), end of period     | \$1,378,780      | \$2,592,452     |

**Preferred Series C Warrants**

As discussed in Note 9, the Company analyzed the embedded conversion features of the Series C Preferred Stock and determined that the Warrants qualified as a derivative liability and is required to be bifurcated and accounted for as such since the host and the embedded instrument are not clearly and closely related. The Company performed a valuation of the conversion feature. In performing the valuation, the Company applied the guidance in ASC 820, "Fair Value Measurements", to nonfinancial assets and liabilities that are recognized or disclosed at fair value on a nonrecurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). To measure fair value, the Company incorporates assumptions that market participants would use in pricing the asset or liability, and utilizes market data to the maximum extent possible.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The Company considered the inputs in this valuation to be level 3 in the fair value hierarchy under ASC 820 and used an equity simulation model to determine the value of conversion feature of the Warrants based on the assumptions below for the periods ended June 30, 2017 and December 31, 2016:

|                            | June 30,<br>2017 |   | Dec 31,<br>2016 |   |
|----------------------------|------------------|---|-----------------|---|
| Annual volatility rate     | 105              | % | 123             | % |
| Risk free rate             | 1.50             | % | 1.93            | % |
| Holding Period             | <b>5 years</b>   |   | <b>5 years</b>  |   |
| Fair Value of common stock | \$1.63           |   | \$1.75          |   |

The below table represents the change in the fair value of the derivative liability (Preferred Series C Warrants) for the period ended June 30, 2017 and the year ending December 31, 2016.

| <u>Period Ended</u>  | June 30,<br>2017 | Dec 31,<br>2016 |
|--|------------------|-----------------|
| Fair value of derivative liability (Warrants), beginning of year | \$2,513,638      | \$2,963,378     |
| Change in fair value of derivative liability (Warrants)          | (489,765 )       | (449,740 )      |
| Fair value of derivative liability (Warrants), end of period     | \$2,023,873      | 2,513,638       |

**Total (Gain) Loss on Derivative Liability (Preferred Series C Stock and Warrants)**

The below table represents the total (gain) or loss, of the derivative liability (Preferred Series C Stock and Warrants) for the period ended June 30, 2017 and the year ending December 31, 2016.

| <u>Period Ended</u>  | June 30,<br>2017 | Dec 31,<br>2016 |
|--|------------------|-----------------|
| Fair value of derivative liability (Preferred C Stock and Warrants), beginning of year | \$5,106,090      | \$5,382,737     |
| Change in fair value of derivative liability (Stock and Warrants)                      | (1,703,437)      | (276,647 )      |
| Fair value of derivative liability (Stock and Warrants), end of period                 | \$3,402,653      | 5,106,090       |

**NOTE 11 – NON-CONTROLLING INTEREST**

The Company's Non-Controlling Interest recorded in the consolidated financial statements relates to an interest in DynaResource de México, S.A. de C.V. of 50% through May 13, 2013, and 20% thereafter. Changes in Non-Controlling Interest for the periods ended June 30, 2017 and December 31, 2016, respectively were as follows:

|                                     | <b>Qtr. Ended    Year Ended</b> |                              |
|-------------------------------------|---------------------------------|------------------------------|
|                                     | <b>June 30,<br/>2017</b>        | <b>December<br/>31, 2016</b> |
| Beginning balance                   | \$(5,984,537)                   | \$(6,498,190)                |
| Operating income (loss)             | (202,435 )                      | (317,179 )                   |
| Share of Other Comprehensive Income | 1,092,778                       | 830,832                      |
| Ending balance                      | \$(5,094,194)                   | \$(5,984,537)                |

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



**NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

As of June 30, 2017 and December 31, 2016, the Company's financial assets were measured at fair value using Level 3 inputs, except for cash, which was valued using Level 1 inputs. A description of the valuation of the Level 3 inputs is discussed in Note 11.

**Fair Value Measurement at June 30, 2017 using:**

|                        | <b>Total Fair<br/>Market<br/>Value</b> | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level<br>3) |
|------------------------|--|---|---|--|
| Assets:                |  |   |   |  |
| None                   | \$—                                    | \$ —  | \$ —  | \$—  |
| Totals                 | \$—                                    | \$ —  | \$ —  | \$—  |
| Liabilities            |  |   |   |  |
| Derivative Liabilities | \$3,402,653                            | —   | —   | \$ 3,402,653                                       |
| Totals                 | \$3,402,653                            | \$ —  | \$ —  | \$ 3,402,653                                       |

**Fair Value Measurement at December 31, 2016 Using:**

|                        |             |      |      |              |
|------------------------|-------------|------|------|--------------|
| Assets:                |             |      |      |              |
| None                   | —           | —    | —    | —            |
| Totals                 | \$—         | \$ — | \$ — | \$—          |
| Liabilities:           |             |      |      |              |
| Derivative Liabilities | \$5,106,090 | —    | —    | \$ 5,106,090 |
| Totals                 | \$5,106,090 | \$ — | \$ — | \$ 5,106,090 |

**NOTE 13 – REVENUE CONCENTRATION**

The Company receives revenues from certain customers who individually represented 10% or more of the Company's total revenue, and the Company's accounts receivable balances are represented by customers who individually represented 10% or more of the Company's total accounts receivable, as described below:

For the three months ended June 30, 2017 one customer accounted for 100% of revenue and for the three months ended June 30, 2016, one customer accounted for 100% of revenue.

For the six months ended June 30, 2017 two customers accounted for 100% of revenue and for the six months ended June 30, 2016, two customers accounted for 100% of revenue.

At June 30, 2017, one customer accounted for 100% of accounts receivable. At December 31, 2016, one customer accounted for 100% of accounts receivable.

**NOTE 14 – ADJUSTMENT OF PRIOR PERIODS**

In the second quarter 2017, we identified certain property taxes amounting to \$541,245 from 2014 and 2015, and \$169,232 from 2016, which were not expensed as required, and an over accrual of \$150,000 for legal expenses at December 31, 2016. The Company assessed the materiality of this misstatement in the 2016 and 2015 periods financial statements in accordance with the SEC's Staff Accounting Bulletin (SAB) No. 99, codified in ASC No. 250, Presentation of Financial Statements, and concluded that the misstatement was not material to any prior periods. In accordance with SAB 108, the Company has adjusted the three and six months ended June 30, 2016 and the balance sheet as of December 31, 2016. The following presents these adjustments in detail:

| BALANCE SHEET                | Previously    |             | Adjusted     |
|------------------------------|---------------|-------------|--------------|
|                              | Reported      | Adjustments | Balance      |
|                              | Dec 31, 2016  |             | Dec, 2016    |
| Accounts Payable             | \$309,952     | \$541,245   | \$951,197    |
| Accrued Expenses             | 1,198,278     | 169,232     | 1,367,510    |
| Total Liabilities            | 7,802,070     | 710,477     | 8,512,547    |
| Accumulated Deficit          | (53,013,185 ) | (568,382 )  | (53,581,567) |
| Total Equity (Deficit)       | 2,873,844     | (568,382 )  | 2,305,462    |
| Non-Controlling Interest     | (5,842,478 )  | (142,095 )  | (5,984,573 ) |
| Total Equity (Deficit)       | (2,968,634 )  | (710,477 )  | (3,679,111 ) |
| Total Liabilities and Equity | \$9,166,489 ) | \$—         | \$9,166,489  |

## INCOME STATEMENT

|   | Three Months Ended June 30, 2016 |             |            | Six Months Ended June 30, 2016 |             |           |
|---|----------------------------------|-------------|------------|--------------------------------|-------------|-----------|
|   | Previously                       | Adjustments | Adjusted   | Previously                     | Adjustments | Adjusted  |
|   | Reported                         |             |            | Reported                       |             |           |
| COSTS AND EXPENSES OF MINING OPERATIONS               |                                  |             |            |                                |             |           |
| Property Holding Costs                                | \$—                              | \$42,308    | \$42,308   | 133,084                        | \$84,616    | \$217,700 |
| Total Operating Expenses                              | 2,466,663                        | 42,308      | 2,508,941  | 4,034,319                      | 84,616      | 4,118,935 |
| NET OPERATING INCOME (LOSS)                           | 690,113                          | (42,308 )   | 647,805    | 1,130,616                      | (84,616 )   | 1,045,900 |
| NET INCOME (LOSS) BEFORE TAXES                        | (582,336 )                       | (42,308 )   | (624,644 ) | 132,606                        | (84,616 )   | 47,990    |
| NET INCOME (LOSS)                                     | (582,336 )                       | (42,308 )   | (624,644 ) | 132,606                        | (84,616 )   | 47,990    |
| ATTRIBUTABLE TO NON-CONTROLLING INTERESST             | 120,076                          | 8,461       | 128,537    | 147,857                        | 16,923      | 164,780   |
| NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | (499,532 )                       | (33,847 )   | (533,370 ) | \$200,463                      | \$(67,693 ) | \$132,770 |

|                               |                  |                  |        |        |
|-------------------------------|------------------|------------------|--------|--------|
| Basic Loss Per Common Share   | (0.03 ) \$0.00   | (0.03 ) \$0.01   | \$0.00 | \$0.01 |
| Diluted Loss Per Common Share | \$(0.03 ) \$0.00 | \$(0.03 ) \$0.01 | \$0.00 | \$0.00 |

| STATEMENT of CASH FLOWS      | Previously    | Adjustments  | Adjusted      |
|------------------------------|---------------|--------------|---------------|
|                              | Reported      |              | Balance       |
|                              | June 30, 2016 |              | June 30, 2016 |
| Net Income (Loss)            | \$ 132,606    | \$ (84,616 ) | \$ 47,990     |
| Accrued Liabilities          | 66,020        | 84,616       | 150,636       |
| Cash Flows Used in Operating | \$ (520,688 ) | \$ —         | \$ (520,688 ) |

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

**FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, which we refer to in this 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 heading “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 DynaMéxico NI 43-101 Technical Report and DynaMéxico 43-101 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 do not have “demonstrated economic viability.” The quantity of resources and the quality (grade) of resources reported as “Indicated” and “Inferred” mineral resources in the DynaMéxico 43-101 Mineral Resource Estimate compiled for DynaResource de Mexico SA de CV, under Canadian National Instrument 43-101 and filed by the Company with SEDAR, are not disclosed in this Form 10-Q. 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.

## Company

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 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 conduct operations in México through our operating subsidiaries. We currently own 80% of the outstanding shares of DynaResource de México, S.A. de C.V. (“DynaMéxico”). DynaMéxico owns 100% of 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.

In 2000, the Company formed DynaResource de México S.A. de C.V. (“DynaMéxico”) for the purpose of acquiring and holding mineral properties and mining concessions in México and, specifically for acquiring and consolidating the Mining District of San Jose de Gracia. DynaMéxico completed the consolidation of the entire SJG District to DynaMéxico in 2003 (approx. 15 sq. km. at that time), with the exception of the San Miguel Mining Concession (7 Hectares, for which DynaMéxico is proceeding towards accomplishing the transfer of title, under previously signed sale and purchase agreements).

In 2005, the Company formed Mineras de DynaResource S.A. de C.V. (“DynaMineras”), a wholly owned subsidiary. 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.

DynaMéxico currently owns a portfolio of mining concessions, equipment, camp and related facilities which comprise the San José de Gracia Project (“SJG”). The mining concessions cover 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range, in northern Sinaloa State.

The Company currently owns 80% of the outstanding shares of DynaMéxico. 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, and we own 100% of DynaResource Operaciones de San Jose de Gracia, S.A. de C.V., (“DynaOperaciones”), a company which manages the personnel registered to work at the San Jose de Gracia Project.

## San Jose de Gracia - History

Historical production records from San Jose de Gracia (“SJG”) report 1,000,000 Oz gold production from a series of underground workings. The major areas report 471,000 Oz. produced at the La Purisima area of SJG, at an average grade of 66.7 g/t.; and 215,000 Oz. produced from the La Prieta area, at an average grade of 27.6 g/t. Mineralization at SJG has been traced on surface and underground over 15 sq. km.

DynaMéxico was formed in March 2000, for the purpose of acquiring the concessions comprising the SJG District, and to consolidate all ownership of SJG under DynaMéxico. DynaMéxico focused on acquisition and consolidation work through 2003, and reported a virtually clear title and consolidated ownership to the district at December 31, 2013.

**No Known Reserves**

The SJG property is without known reserves. Under U.S. standards, 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.



### **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:

- (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;
- (b) After Item (A) above, the receipt by DynaMineras of 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;
- (c) after items (A) and (B) above; the receipt by DynaMineras of 50% of all gross receipts received by DynaMéxico from the sale of all minerals produced from SJG, and throughout the term of the EAA; and,
- (d) in addition to Items (a), (b), and (c) above, DynaMineras shall receive a 2.5% NSR (“Net Smelter Royalty”) on all minerals sold from SJG over the term of the EAA.

The total unpaid advances made by DynaMineras to DynaMéxico as of June 30, 2017 is \$2,125,000. The EAA is the third and latest Amendment to the original Contract Mining Services and Mineral Production Agreement (the “Operating Agreement”), which was previously entered into by DynaMineras with DynaMéxico in April 2005, wherein DynaMineras was named the Exclusive Operating Entity at SJG. The Operating Agreement was previously amended in September 2006 (the “First Amendment”), and amended again at July 15, 2011 (the “Second Amendment”). The Term of the Second Amendment is 20 years, and the EAA (Third Amendment) provides for the continuation of the 20 Year Term from the date of the Second Amendment (July 15, 2011).

### **Surface Rights Agreement**

On January 6, 2014 DynaMineras entered into a 20-year surface rights agreement with the Santa Maria Ejido Community surrounding the San Jose de Gracia Property (the “20 Year SRA”). The 20 Year SRA covers an area of 4,399 hectares surrounding the main mineral resource areas of SJG, and provides for annual lease payments by DynaMineras of \$1,359,443 Pesos (approx. \$85,000 USD), commencing in 2014. The 20-year SRA provides DynaMineras with surface access to the core resource areas of SJG, and allows for all permitted mining, pilot production and exploration activities from the owners of the surface rights (Santa Maria Ejido community).

Additionally, DynaMineras expects to construct a Medical Facility and a Community Center within the SJG community in year 2015. DynaMineras reports that land and building for which the medical facility and community center will be constructed have been approved for re-zoning by the local community; and plans are being drawn for constructing the facilities.

### **Structure of Company / Operations**

Activities in México are conducted by Mineras de DynaResource S.A. de C.V. (“DynaMineras”); with the management of personnel being contracted by DynaMineras through to the personnel management subsidiary, DynaResource Operaciones, S.A. de C.V. (“DynaOperaciones”). Management of DynaResource, Inc. and consultants continue to manage the operating companies in México; while the Chairman/CEO of DynaUSA is the President of each of the operating companies in México. Fees for Management and administration are charged by DynaMineras and DynaOperaciones, which are eliminated in consolidation.

### **Activities under Exploitation Amendment Agreement**

In 2013, DynaMineras, in accordance with the terms of the Exploitation Amendment Agreement, commenced the rehabilitation of the San Pablo Mine and the refurbishment of the pilot production facility at SJG. DynaMéxico received permits as discussed above for the rehabilitation and operation of the pilot mill facility and the exploitation and mining of the San Pablo area of SJG. The basis for the mining activity and the operation of the pilot mill facility are the NI 43-101 Mineral Resource Estimate, the Technical Report, the block models prepared as a result of the recent drilling activity, and the recent production history of 2003-2006.

### **Capital Requirements**

The mining industry in general requires significant capital in order to take a property from the exploration, to development to production. These costs remain a significant barrier to entry for the average company but once in production, there is a ready market for the final products. In the case of SJG, the final product would be mainly gold, the price of which is determined by global markets, so there is not a dependence on a customer base.

## Gold

*Gold Uses.* Gold generally is used for fabrication or investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors buy gold bullion, official coins and jewelry.

*Gold Supply.* A combination of current mine production, recycling and draw-down of existing gold stocks held by governments, financial institutions, industrial organizations and private individuals make up the annual gold supply. Based on public information available for the years 2008 through 2014, on average, current mine production has accounted for approximately 64% of the annual gold supply.

*Gold Price.* The following table presents the annual high, low and average daily afternoon fixing prices for gold over the past ten years on the London Bullion Market (\$/ounce):

| Year                     | High    | Low     | Average |
|--------------------------|---------|---------|---------|
| 2005                     | \$536   | \$411   | \$444   |
| 2006                     | \$725   | \$525   | \$604   |
| 2007                     | \$841   | \$608   | \$695   |
| 2008                     | \$1,011 | \$713   | \$872   |
| 2009                     | \$1,213 | \$810   | \$972   |
| 2010                     | \$1,421 | \$1,058 | \$1,225 |
| 2011                     | \$1,895 | \$1,319 | \$1,572 |
| 2012                     | \$1,792 | \$1,540 | \$1,669 |
| 2013                     | \$1,694 | \$1,192 | \$1,411 |
| 2014                     | \$1,380 | \$1,140 | \$1,265 |
| 2015                     | \$1,303 | \$1,057 | \$1,175 |
| 2016                     | \$1,366 | \$1,077 | \$1,251 |
| 2017 (Through August 10) | \$1,294 | \$1,151 | \$1,239 |

Source: Kitco, Reuters and the London Bullion Market Association

On August 10, 2017, the afternoon fixing gold price on the London Bullion Market was \$1,284 per ounce and the spot market gold price on the New York Commodity Exchange was \$1,284 per ounce.

## Condition of Physical Assets and Insurance

Our business is capital intensive and requires ongoing capital investment for the replacement, modernization or expansion of equipment and facilities. We and our subsidiaries maintain insurance policies against property loss. Such insurance, however, contains exclusions and limitations on coverage, particularly with respect to environmental liability and political risk. There can be no assurance that claims would be paid under such insurance policies in connection with a particular event.

## Environmental Matters

Our activities are largely outside the United States and subject to governmental regulations for the protection of the environment. We conduct our operations so as to protect public health and the environment and believe our operations are in compliance with applicable laws and regulations in all material respects. DynaMéxico is involved with

maintaining tailings ponds and test mining and pilot production activities (through DynaMineras) with the oversight of SEMARNAT, the federal environmental agency of México.

**Summary of Test Mining and Pilot Mill Operations (2016)**

DynaMineras reports the following estimated summary of its test mining and pilot milling operations during 2016:

| <b>Year</b> | <b>Total Tonnes Mined &amp; Processed</b> | <b>Reported Mill Feed Grade (g/t Au)</b> | <b>Reported Recovery %</b> | <b>Gross Gold Concentrates Produced (Au oz.)</b> | <b>Net Gold Concentrates Sold (Au oz.)</b> |
|-------------|---|--|----------------------------|--|--|
| <b>2016</b> | <b>33,172</b>                             | <b>12.70</b>                             | <b>79.7%</b>               | <b>10,836</b>                                    | <b>8,668</b>                               |

Test pilot operations in 2016 yielded 33,172 tonnes mined and processed from underground mining activity and pilot mill operations; and the production of approximately 10,863 gross Oz Au (and net of dry weights, buyer's price discount and refining and treatment costs, approximately 8,668 Oz. Au) contained in gold-silver concentrates, and the receipt of \$9,496,105 in revenues from the sale of gold-silver concentrates.

**Summary of Test Mining and Pilot Mill Operations for the six months ended June 30, 2017 and 2016:**

|   | <b>Total Tonnes<br/>Mined &amp;<br/>Processed</b> | <b>Reported Mill<br/>Feed Grade<br/>(g/t Au)</b> | <b>Reported<br/>Recovery %</b> | <b>Gross Gold<br/>Concentrates Produced<br/>(Au oz.)</b> | <b>Net Gold<br/>Concentrates Sold<br/>(Au oz.)</b> |
|---|---|--|--------------------------------|--|--|
| <b>Six Months<br/>Ended June 30,<br/>2017</b> | <b>15,035</b>                                     | <b>11.75</b>                                     | <b>85.5%</b>                   | <b>4,827</b>   | <b>4,116</b>                                       |
| <b>Six Months<br/>Ended June 30,<br/>2016</b> | <b>17,798</b>                                     | <b>13.93</b>                                     | <b>78.5%</b>                   | <b>6,265</b>   | <b>5,021</b>                                       |

Test pilot operations in the six months ended June 30, 2017 yielded 15,035 tonnes mined and processed from underground mining activity and pilot mill operations; and the production of approximately 4,827 gross Oz Au (and net of dry weights, buyer's price discount and refining and treatment costs, approximately 4,116 Oz. Au) contained in gold-silver concentrates, and the receipt of \$4,559,314 in revenues from the sale of gold-silver concentrates.

Test pilot operations in the six months ended June 30, 2016 yielded 17,798 tonnes mined and processed from underground mining activity and pilot mill operations; and the production of approximately 6,265 gross Oz Au (and net of dry weights, buyer's price discount and refining and treatment costs, approximately 5,021 Oz. Au) contained in gold-silver concentrates, and the receipt of \$5,164,925 in revenues from the sale of gold-silver concentrates.

DynaMineras expects to continue testing its underground mining activity and pilot milling operations in 2017; and projects the increased output of 150 tons/day – 250 tons/day from the mine and mill will be operating by the end of the third quarter 2017.

**Subsequent Deliveries of Gold Concentrates for Sale**

On the dates listed below, DynaMineras reported the delivery for sale of gold ounces contained in concentrates (exact weights in gold and silver Oz. to be determined at final settlement):

July 12 325 Oz. Au  
 July 24 155 Oz. Au  
 July 31 350 Oz. Au  
 August 7 155 Oz Au  
 August 14 350 Oz Au

**Cash Receipts Subsequent to June 30, 2017 from the Delivery and Sale of Gold Concentrates**

On the dates listed below, DynaMineras received the following amounts of net proceeds from the sale of gold-silver concentrates:

July 5 \$179,421.09  
 July 5 \$75,726.85  
 July 14 \$144,900.75  
 July 18 \$78,294.91  
 July 18 \$54,753.26  
 July 25 \$139,937.72  
 July 26 \$36,229.01

|           |                |
|-----------|----------------|
| August 1  | \$67,857.29    |
| August 1  | \$151,100.39   |
| August 8  | \$132,638.25   |
| August 15 | \$137,195.95   |
| August 15 | \$146,877.88   |
| Total     | \$1,344,933.35 |

### **Expansion and Improvements**

In the first and second quarter 2017, the Company has expended approximately \$230,000 USD on the following projects which are one-time expenses. These amounts are included in our financial statements under the heading Other Assets and booked as construction in progress. When the improvements are complete, the costs will be moved to fixed assets and depreciated. These activities reduced the number of pilot mill operating days in the first quarter, 2017 to approximately 60. As the tailings pond expansion is completed, and the pilot mill capacity is increased, the Company projects test mining and pilot mill processing volumes to reach 250 tons per day in the third or fourth quarter, 2017.

### **Medical Clinic at San Jose de Gracia (the “Santa Maria Anexo Clinic”)**

A medical clinic at San Jose de Gracia is being constructed by the Company and will be donated to the San Jose de Gracia Community.

### **Tailings Pond Expansion**

The Company has expanded the capacity of the tailings pond adjacent to the pilot mill facility. The Company completed the tailings pond expansion in the second quarter, 2017.

### **Camp Expansion**

The Company is currently expanding the capacity of its camp facilities at San Jose de Gracia. The Company expects to complete the camp expansion work in the third quarter, 2017.

### **Mill Capacity and Efficiency**

The Company is currently conducting activities within the Pilot Mill Facility which are intended to improve processing efficiencies and to expand capacities. The Company expects to complete these activities in the third or fourth quarter, 2017.

### **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 and relationships in México give it a competitive advantage, even though many competitors may be larger and have more capital resources.

DynaMéxico retains 100% of the rights to concessions over the area of the San José de Gracia property and it currently sees no competition for mining on the lands covered by those concessions. The sale of gold and any bi-products would be subject to global market prices; which prices fluctuate daily. DynaMéxico was successful in selling gold concentrates produced from SJG in prior years, and the Company expects a competitive market for produced concentrates and/or other mineral products in the future. Actual prices received by DynaMineras in the sale of concentrates or other products produced from San Jose de Gracia would depend upon these global market prices, less deductions.

The Company’s operating subsidiaries, DynaMineras and DynaOperaciones, receive monthly fees for management of the SJG activities and personnel. These fee amounts are eliminated in consolidation. Other than those intercompany

fees, the Company reported revenue of \$4,559,314 and \$5,164,925 for the six months ended June 30, 2017 and June 30, 2016 respectively.

**Results for the Three and Six Months Ended June 30, 2017 and 2016**

In the six months ended June 30, 2017, the Company, through its wholly owned subsidiary DynaMineras, continued full test mining and pilot mill operations at San Jose de Gracia.

DynaMineras conducted test mining and milling operations in the first quarter of 2017 and 2016. During the three months ended June 30, 2017, the test mining and pilot milling operations have yielded the underground mining and mill processing of approx. 7,805 tonnes of mineralized material, the production of approximately 2,320 gross oz. Au (and net of weight and value adjustment) approximately 1,871 oz. Au) contained in gold-silver concentrates. DynaMineras realized the receipt of \$3,217,802 in revenues from the delivery and sale of gold-silver concentrates in the three months ended June 30, 2017 and \$4,559,314 in revenues for the six months ended June 30, 2017.



**REVENUE.** Revenues for the three months ended June 30, 2017 and 2016 were \$3,217,802 and \$3,156,746, respectively. Revenues for the six months ended June 30, 2017 and 2016 were \$4,559,314 and \$5,164,925, respectively. The Company has established consistent test mining and pilot milling operations since January 2016.

**PRODUCTION COSTS RELATED TO SALES.** Production costs related to sales for the three months ended June 30, 2017 and 2016 were \$1,139,128 and \$563,160 respectively. Production costs related to sales for the six months ended June 30, 2017 and 2016 were \$1,657,890 and \$865,155 respectively. These are expenses directly related to the milling, packaging and shipping of gold and other precious metals product. These costs increased in the current versus the prior year due to the Company incurring additional costs as it prepares its mining and milling operations to increase its capacity. The Company believes the results of these additional expenditures will be seen in the last half of the third quarter and in the fourth quarter of 2017.

**MINE OPERATING COSTS.** Mine operating costs for the three months ended June 30, 2017 and 2016 were \$1,091,983 and \$1,311,942, respectively. Mine operating costs for the six months ended June 30, 2017 and 2016 were \$1,558,145 and \$1,975,350, respectively. These costs are directly related to the extraction and transportation of mine tonnage and correlate closely with the amount of ore processed after adjusting for stock piled inventory.

**PROPERTY HOLDING COSTS.** Property holding costs for the three months ended June 30, 2017 and 2016 were \$139,467 and \$42,308, respectively. Property holding costs for the six months ended June 30, 2017 and 2016 were \$263,070 and \$217,700, respectively. These costs are concessions taxes, leases on land and other direct costs of maintaining the property.

**TOTAL OPERATING EXPENSES.** Operating expenses for the three months ended June 30, 2017 and 2016 were \$3,097,066 and \$2,508,941, respectively. Operating expenses for the six months ended June 30, 2017 and 2016 were \$4,760,909 and \$4,118,935, respectively. The above expenses include depreciation and amortization amounts of \$75,667 and \$34,310 for the three months ended June 30, 2017 and 2016, respectively, and \$92,467 and \$48,130 for the six months ended June 30, 2017 and 2016, respectively.

**OTHER INCOME (EXPENSE).** Other income, exclusive of currency transaction gain or (loss) for the three months ended June 30, 2017 and 2016 was \$(419,777) and \$(1,272,449), respectively. Derivatives mark-to-market adjustments are the primary components of income in 2017 of \$(644,641) and foreign currency losses in 2016 of \$(1,242,740), respectively. For the six months ended June 30, 2017 and 2016, other income, inclusive of currency transaction gain or (loss) was \$2,337,613 and \$(998,000), respectively. Derivatives mark-to-market adjustments are the primary components of income in 2017 of \$1,703,437 and foreign currency losses in 2016 of \$(1,142,873) respectively. The reason for the fluctuations in the derivative market to market adjustment is the changes in the stock price and the reason for the fluctuations in the currency gains/losses is the change in valuation of the Mexican Peso.

**NON-CONTROLLING INTEREST.** The non-controlling interest portion of the net loss for the three months ended June 30, 2017 and 2016 was \$348,323 and \$128,537, respectively. The non-controlling interest portion of the net loss for the six months ended June 30, 2017 and 2016 was \$202,435 and \$164,780, respectively.

**COMPREHENSIVE INCOME (LOSS).** Comprehensive income (loss) includes the Company's net income (loss) plus the unrealized currency translation gain (loss) for the period. For the three months ended June 30, 2017 and 2016, the Company recorded a gain (loss) of \$304,795 and \$(1,359,077), respectively, which were made up of unrealized losses on currency translation. For the six months ended June 30, 2017 and 2016, the Company recorded a gain (loss) of \$1,878,146 and \$(681,947), respectively, which were made up of unrealized losses on currency translation.

## **Liquidity and Capital Resources**

As of June 30, 2017, the Company had a negative working capital of \$(2,832,596), comprised of current assets of \$4,105,042 and current liabilities of \$6,937,638. This represents a decrease of \$1,310,333 from the working capital (deficit) maintained by the Company of \$(4,142,929) as of December 31, 2016, due primarily to the mark to market adjustment for our derivative liabilities.

Net cash provided by operations for the six months ended June 30, 2017 was \$1,814,964 compared with \$(520,688) for the six months ended June 30, 2016.

Net cash (used) in investing activities for the six months ended June 30, 2017 and 2016 was \$(301,667) and \$(37,572), respectively.

Net cash provided by financing activities for the six months ended June 30, 2017 and 2016 was \$(116,940) and \$(210,000), respectively.

### **Non-controlling Interest**

Under the terms of the Earn-In Agreement (September 1, 2006 to March 15, 2011), Goldgroup Mining Inc. and its wholly owned subsidiary Goldgroup Resources, Inc. (Goldgroup), through 2010, had contributed capital to DynaMéxico in order to acquire 25% of the outstanding shares (a shareholder interest) of DynaResource de México, S.A. de C.V. (DynaMéxico). In March 2011, Goldgroup had contributed a total of \$18 M USD capital to DynaMéxico in order to acquire a total of 50% of the outstanding shares (a shareholder interest) of DynaMéxico. From March 2011 through May 2013, Goldgroup owned 50% of the outstanding shares of DynaMéxico, and since May 2013 to current date Goldgroup owns 20% of the outstanding shares of DynaMéxico. The applicable portion of the earnings or loss attributable to Goldgroup is offset in this section. In the six months ended June 30, 2017 the attributable portion to Goldgroup was \$348,323 and \$249,487 for the year ended December 31, 2016.

### **Off-Balance Sheet Arrangements**

As of June 30, 2017, the Company did not have any off-balance sheet arrangements (as the phrase is defined by SEC rules applicable to this report) which have or are reasonably likely to have a material adverse effect on our financial condition, results of operations or liquidity.

### **Capital Advances to Subsidiaries**

#### ***DynaResource de México (“DynaMéxico”)***

In May 2013, the Company acquired additional shares in the outstanding equity in DynaMéxico in exchange for the retirement of accounts receivable of \$2,393,803, which amount was due from DynaMéxico at December 31, 2012. As a result, as of May 17, 2013, the Company owns 80% of the outstanding equity of DynaMéxico.

As of June 30, 2017, the Company had advanced \$6,346,500 to DynaMineras and DynaMineras had advanced \$6,232,500 to DynaMéxico. At December 31, 2014, the Company issued 1,333,333 shares of its common stock to DynaMineras in exchange for \$4,000,000 receivable it held from DynaMéxico. The remaining \$2,125,000 is a receivable owed to DynaMineras from DynaMéxico as of June 30, 2017. The total receivable from DynaMineras to the Company is \$6,346,500 as of June 30, 2017.

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

### **Amounts Owed to DynaUSA and DynaMineras**

As of June 30, 2017, the Company had advanced \$6,346,500 USD to DynaMineras and DynaMineras had advanced \$6,232,500 USD to DynaMéxico. On September 5, 2014, the Company issued 1,333,333 shares of its common stock to DynaMineras in exchange for the \$4,000,000 receivable from DynaMéxico. As a result of these transactions:

DynaMéxico owes \$2,232,500 USD to DynaMineras; and,  
DynaMéxico owes \$4,000,000 USD to DynaUSA.

#### ***DynaResource Operaciones (“DynaOperaciones”)***

The Company loaned DynaOperaciones \$225,000 in 2012, which amount remains payable to the Company as of June 30, 2017.

*Mineras de DynaResource (“DynaMineras”)*

The receivable from Mineras to the Company is \$6,346,500 as of June 30, 2017, as described above. All receivables and payables among all subsidiary companies have been eliminated upon consolidation.

*Future Advances to DynaMineras and DynaMéxico from the Company*

The Company expects to make additional advances to DynaMineras and DynaMéxico. Future advances from DynaMineras to DynaMéxico will be made under the terms of the Exploitation Amendment Agreement. Other advances are agreed to be accrued in the same manner as previous receivables, until or unless otherwise agreed between DynaMéxico and the Company.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Not applicable.

**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, 2017. 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 not 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, 2016, our Chief Executive Officer and Chief Financial Officer as of June 30, 2016, 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.

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 have materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

## PART II

### ITEM 1. Legal Proceedings

#### Arbitration filed by Goldgroup / DynaMéxico Complaint against Goldgroup

On March 14, 2014, Goldgroup filed for arbitration in the United States with the American Arbitration Association ("AAA"), citing the Earn In Agreement dated September 1, 2006 as the basis for the arbitration filing. The Company filed an answer on April 10, 2014, disputing that any issues exist which provide for arbitration.

On December 9, 2014, DynaMéxico filed an Ordinary commercial lawsuit (Civil Claims) against Goldgroup Mining Inc., its parent company Goldgroup Resources Inc., and the AAA, in the Thirty Sixth Civil Court in the Federal District of México, under file 1120 number / 2014 ("the DynaMéxico Trial"). The DynaMéxico Trial seeks to terminate the U.S.-based arbitration proceedings, as DynaMéxico believes there is no legal basis for arbitration, and to nullify the arbitration proceedings since Goldgroup previously sought recourse in the Mexican courts. In the DynaMéxico Trial, DynaMéxico also requests that substantial damages (in the amount of US \$50 million) be awarded to DynaMéxico against Goldgroup for:

- (a) wrongfully using and disseminating confidential information and data belonging to DynaMéxico; asserting that Goldgroup owns any interest in the San Jose de Gracia Project in northern Sinaloa, México, rather
- (b) than accurately disclosing that Goldgroup owns a common shares equity interest (shareholder's interest) in DynaMéxico;
- (c) improperly disclosing the percentage of common shares equity interest (shareholder's interest) owned by Goldgroup in DynaMéxico;
- (d) improperly disclosing or implying that Goldgroup is the operator of the San Jose de Gracia Project;
- (e) attempting to delay, stop, or otherwise impair the financing of, and further development of, the SJG Project;
- (f) making numerous threats against DynaMéxico management and officers;
- (g) failing to properly disclose that broad powers of attorney for acting on behalf of DynaMéxico are held by an individual not affiliated with Goldgroup.

On October 5, 2016, in an appellate ruling, the Thirty Sixth Civil Court of the Superior Court of Justice of the Federal District of México (Tribunal Superior de Justicia del Distrito Federal), file number 1120/2014 declared, among other resolutions, that:

- (a) The AAA must "cease and desist" from the arbitration proceeding;
- (b) The AAA does not have jurisdiction to hear any conflict and/or interpretation arising from the Earn In/Option Agreement, dated September 1, 2006; and
- (c) The AAA does not have jurisdiction to hear disputes arising between shareholders of DynaMéxico, which disputes do not arise directly and immediately from the Earn In/Option Agreement, dated September 1, 2006.

#### **\$48 M Damages Award to DynaMéxico**

Also on October 5, 2015, in an appellate ruling, DynaMéxico was awarded in excess of US \$48 million in damages from Goldgroup Resources, Inc. by virtue of a Sentencia Definitiva (the "Definitive Sentence") issued by the Thirty Sixth Civil Court of the Superior Court of Justice of the Federal District of México (Tribunal Superior de Justicia del Distrito Federal), File number 1120/2014. The Definitive Sentence included the considerations and resolutions by the Court, and additional Resolutions were also ordered in favor of DynaMéxico (together the damages award and the additional Resolutions are referred to as, the "Oct. 5, 2015 Resolution").

A concise translation to English of the Oct. 5, 2015 Resolution (the resolution portion of the Definitive Sentence) is set forth below:

**FIRST:** The action and litigation based on commercial law filed by DynaMéxico is valid and enforceable, and where Goldgroup and the American Arbitration Association were found to be in default, was proper.

**SECOND:** Goldgroup is declared in breach of its corporate duties, for failure to refrain from claiming direct ownership of 50% of the San José de Gracia Mining Project.

**THIRD:** Goldgroup is condemned and ordered to pay to DynaMéxico the amount of USD \$20,000,000 (Twenty Million Dollars) in damages caused by Goldgroup to DynaMéxico, deriving from its breach of obligations in refraining from claiming direct ownership of 50% of the San Jose de Gracia Mining Project; which amount should be paid within five days upon execution of this order and resolution.

**FOURTH:** Goldgroup is condemned and ordered to pay to DynaMéxico the amount of USD \$28,280,808.34 (Twenty Eight Million Two Hundred and Eighty Thousand Eight Hundred and Eight and 34/100 Dollars), for breach of its corporate duty and covenants with regards to the San Jose de Gracia mining project, as a result of depriving profits from DynaMéxico which DynaMéxico could have earned for the sale of gold produced and extracted during the years 2013 and 2014; amounts that should be paid within five days upon execution of this order and resolution.

**FIFTH:** Goldgroup is condemned and ordered to pay losses and damages to DynaMéxico, which Goldgroup continues to cause, until full payment of the above-mentioned amounts has been made, which damages and losses shall be calculated by an expert opinion in a corresponding legal procedure related to this litigation.

**SIXTH:** Pursuant to Article 1424 of the Commercial Code of México, the arbitration provision established under clause 8.16 of the Earn In/Option Agreement, dated as of September 1, 2006, is ineffective and impossible to execute.

**SEVENTH:** This Court declares that any controversy arising from the Earn In/Option Agreement must be brought and resolved under Mexican Law and by competent Mexican Courts with proper jurisdiction, in recognition of the waiver and exclusion of the arbitration clause (contained in the Earn In/Option Agreement) by both parties.

**EIGHT:** This Court declares that the American Arbitration Association must abstain from hearing arbitration procedure number 50 501 T 00226 14, or any other ongoing and/or future arbitration proceeding already filed or that may be filed by the co-defendant Goldgroup against DynaResource.

**NINTH:** This Court declares that the American Arbitration Association does not have jurisdiction to hear any conflict and/or interpretation arising from the Earn In/Option Agreement, dated September 1, 2006.

**TENTH:** This Court declares, that the American Arbitration Association does not have jurisdiction to hear disputes arising between shareholders of DynaMéxico, which disputes do not arise directly and immediately from the Earn In/Option Agreement, dated September 1, 2006.

**ELEVENTH:** This Court declares, that the American Arbitration Association does not have jurisdiction to hear any matters where Koy Wilber Diepholz, who is the President of the Board of Directors of DynaMéxico, and has been personally sued in relation to the arbitration clause established under clause 8.16 of the Earn In/Option Agreement, dated September 1, 2006, since he signed the mentioned instrument in representation of the Company and not in his personal capacity.

**TWELFTH:** The expenses and costs associated with these proceedings are hereby waived.

**THIRTEENTH:** LET IT SO BE PUBLISHED. A Copy of this Order and Sentence shall be found in the corresponding record.

**ORDERED, adjudged and decreed by the Thirty Sixth Civil Judge of the Superior Court of the Federal District, Mr. JULIO GABRIEL IGLESIAS GOMEZ.**

The October 5, 2015 Resolution constitutes a public record which may be reviewed through the Courts in México City.

**Mexico City Court Approves Lien on Shares of DynaMéxico owned by Minority Interest Holder**



On October 5, 2016, the Thirty-Sixth Civil Court of the Superior Court of Justice of the Federal District of Mexico (Tribunal Superior de Justicia del Distrito Federal) approved a Lien (referred to by the court as an “Embargo”), in favor of DynaMéxico, upon Stock Certificates in the name of Goldgroup Resources Inc. (“Goldgroup”). The Stock Certificates subject to the Lien (“Embargo”) constitute Shares of DynaMéxico (“the Goldgroup DynaMéxico Shares”).

The Goldgroup DynaMéxico Shares were seized as a partial recovery of assets by DynaMéxico after DynaMéxico was awarded more than \$ 48 M USD (Forty-Eight Million Dollars) in damages against Goldgroup (the “Damages against Goldgroup”) on October 05, 2015, as described in a Sentencia Definitiva (the “Definitive Sentence”) issued by the same court, the Thirty Sixth Civil Court of the Superior Court of Justice of the Federal District of México, File number 1120/2014. Excerpts from the Definitive Sentence appear below. In addition to the Damages against Goldgroup, the Definitive Sentence also included additional Resolutions ordered in favor of DynaMéxico (the Damages against Goldgroup and the additional Resolutions are together referred to as the “Oct. 5, 2015 Resolution”).

## **Arbitration Ruling**

In direct contradiction to the October 5, 2015 Definitive Sentence issued by court in México, on August 25, 2016 the American Arbitration Association - International Centre for Dispute Resolution, Denver office (the “AAA”) issued an Arbitration Ruling (the “Arbitration Ruling”) in favor of Goldgroup Resources Inc. against DynaMéxico and DynaResource, Inc. The Arbitration Ruling was the result of a proceeding in which neither DynaMéxico nor DynaResource participated, since the Definitive Sentence issued by the court in México effectively prohibited their participation in the proceeding, and should have prohibited Goldgroup Resources Inc. participation as well.

(a) The Arbitration Ruling contains an acknowledgement by the AAA that the AAA was named as a defendant in the legal demand filed by DynaMéxico in the Thirty Sixth Civil Court of the Superior Court of Justice of the Federal District of México (the “DynaMéxico Legal Demand”). The Arbitration Ruling also contains a statement that the AAA was not properly served notice of the DynaMéxico Legal Demand.

(b) DynaMéxico obeyed the October 5, 2015 Court Order, and did not attend the Arbitration hearing.

(c) DynaMéxico will pursue all legal remedies in order to obtain a full dismissal of the Arbitration Ruling.

(d) The October 5, 2015 Court Order and the \$48 million USD award of damages against Goldgroup Resources Inc. remains in full force and effect as issued. DynaMéxico is currently pursuing all available remedies in order to collect \$48 million USD in damages from Goldgroup Resources Inc. (See Court Approves Lien on Shares of DynaMéxico owned by Goldgroup Resources, above).

The Arbitration Ruling provides the following: (i) the Earn In/Option Agreement is still in force, and consequently Goldgroup may appoint two directors to the DynaMéxico board, and may participate in the appointment of a fifth director; (ii) the DynaMéxico Management Committee is reinstated, and must approve all budgets and expenditures; (iii) amounts expended by DynaMéxico that were not approved by the Management Committee are subject to repayment by DynaResource; (iv) the issuance of additional shares by DynaMéxico (and consequent dilution of Goldgroup's equity interest) was in violation of the Earn In/Option Agreement; and (v) DynaResource and DynaMéxico are responsible for Goldgroup's costs and professional fees associated with the Arbitration Ruling.

Unlike the majority of arbitration proceedings in the U.S., the Arbitration Ruling is not final. Since the Arbitration Ruling is subject to international rules, the ruling may be vacated by U.S. courts, or simply not recognized by U.S. courts, on a number of grounds. Accordingly, both DynaMéxico and DynaResource have timely requested relief from the United States Federal District Court in Colorado, via the filing of a Petition for Nonrecognition of Foreign Arbitral Award and/or Motion to Vacate Arbitration Award (the “Petition for Nonrecognition”), and a supporting brief. The Petition for Nonrecognition relies heavily upon the Mexican court's Definitive Sentence, key excerpts of which appear below.

The Mexican court has already ruled that “any controversy arising from the Earn In/Option Agreement must be brought and resolved under Mexican Law and by competent Mexican Courts with proper jurisdiction.” Consequently, the monetary awards against DynaResource - which are based upon a finding that the Earn In/Option Agreement is still in force - will not be enforceable if the Mexican court rules that the Earn In/Option Agreement is terminated. The Company believes that the potential for the assessment of a material monetary judgment against DynaResource is remote.

## **Key Excerpts from the Definitive Sentence (\$48 M Damages Award to DynaMéxico)**

**SIXTH:** Pursuant to Article 1424 of the Commercial Code of México, the arbitration provision established under clause 8.16 of the Earn In/Option Agreement, dated as of September 1, 2006, is ineffective and impossible to execute.

**SEVENTH:** This Court declares that any controversy arising from the Earn In/Option Agreement must be brought and resolved under Mexican Law and by competent Mexican Courts with proper jurisdiction, in recognition of the waiver and exclusion of the arbitration clause (contained in the Earn In/Option Agreement) by both parties.

**EIGHT:** This Court declares that the American Arbitration Association must abstain from hearing arbitration procedure number 50 501 T 00226 14, or any other ongoing and/or future ongoing arbitration already filed or to be filed by the defendant Goldgroup, based on the Earn In/Option Agreement dated September 1, 2006.

**NINTH:** This Court declares that the American Arbitration Association does not have jurisdiction to hear any conflict and/or interpretation arising from the Earn In/Option Agreement, dated September 1, 2006.

**TENTH:** This Court declares, that the American Arbitration Association does not have jurisdiction to hear disputes arising between shareholders of DynaMéxico, which disputes do not arise directly and immediately from the Earn In/Option Agreement, dated September 1, 2006.

**ELEVENTH:** This Court declares, that the American Arbitration Association does not have jurisdiction to hear any matters where Koy Wilber Diepholz, who is the President of the Board of Directors of DynaMéxico, and has been personally sued in relation to the arbitration clause established under clause 8.16 of the Earn In/Option Agreement, dated September 1, 2006, since he signed the mentioned instrument in representation of the Company and not in his personal capacity.

#### **DynaUSA and DynaMéxico filed Motion to Vacate Arbitration Ruling**

On November 17, 2016, DynaUSA and DynaMéxico filed a Motion to Vacate the Arbitration Ruling in United States District Court, District of Colorado.

#### **Complaint filed by Goldgroup against the May 17, 2013 Shareholders' Meeting of DynaMéxico**

On February 2nd, 2014, Goldgroup Resources Inc. filed a petition with the judge, tenth district Mazatlán, according to record 08/2014, in the ordinary commercial action, against DynaResource Inc., and DynaResource de México, S.A. de CV. Goldgroup complains against the results of the shareholders meeting of May 17, 2013, and petitions for the nullification of the meeting itself and for the nullification of the additional shares of the outstanding capital of DynaMéxico issued to DynaResource, Inc. in satisfaction of debts owed to DynaResource.

DynaResource and DynaMéxico filed a response on January 9, 2016, and the matter is pending. DynaMéxico will vigorously defend against all such complaints by Goldgroup, as there exists no legal basis for the complaint by Goldgroup against the May 17, 2013 shareholders meeting of DynaMéxico.

#### **Litigation(s) in México – Company as Plaintiff**

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

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

#### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

#### **ITEM 3. Default Upon Senior Securities**

None.

#### **ITEM 4. Mine Safety Disclosures**

As the Company has no mines located in the United States or any of its territories, the disclosure required by this Item is not applicable.

**ITEM 5. Other Information**

None.

**ITEM 6. 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. ("KD") Diepholz, Chairman / CEO

Date: August 21, 2017