

DYNARESOURCE INC  
Form 10-Q  
May 15, 2018

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2018

**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

(State or other jurisdiction of incorporation or organization)

94-1589426

(IRS Employer Identification No.)

222 W Las Colinas Blvd., Suite 1910 North Tower, Irving, Texas 75039

(Address of principal executive offices)

(972) 868-9066

(Issuer's telephone number)

N/A

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

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

Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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

Yes  No

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

Yes  No

As of April 30, 2018, there were 17,722,825 shares of Common Stock of the issuer outstanding.

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**CERTIFICATIONS**

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



**DYNARESOURCE, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	March 31, 2018 (Unaudited)	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$3,070,277	\$3,528,735
Accounts Receivable	338,064	323,315
Inventories	1,041,756	907,982
Foreign Tax Receivable	577,836	732,241
Other Current Assets	405,006	38,397
Total Current Assets	5,432,939	5,530,670
Mining Equipment and Fixtures (Net of Accumulated Depreciation of \$1,041,636 and \$974,994)	1,850,728	1,698,070
Mining Concessions	4,132,678	4,132,678
Investment in Affiliate	70,000	70,000
Other Assets	74,876	61,894
<b>TOTAL ASSETS</b>	<b>\$11,561,221</b>	<b>\$11,493,312</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current Liabilities:		
Accounts Payable	\$1,597,804	\$803,291
Accrued Expenses	1,337,081	2,059,199
Customer Advances	500,000	—
Due to Non-Controlling Interest	231,500	231,500
Derivative Liabilities	1,199,026	3,181,508
Convertible Notes Payable	838,125	950,625
Current Portion of Long Term Debt	273,865	129,401
Total Current Liabilities	5,977,401	7,355,524
Long Term Debt, Less Current Portion	555,475	237,910
<b>TOTAL LIABILITES</b>	<b>6,532,876</b>	<b>7,593,434</b>
Preferred Stock, Series C, \$0.0001 per value, 1,733,221 shares Authorized, issued and outstanding	4,333,053	4,333,053
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred Stock, Series A, \$0.0001 par value, 1,000 shares authorized, issued and outstanding	1	1
Common Stock, \$0.01 par value, 25,000,000 shares authorized 17,722,825 issued 16,943,845 outstanding	177,228	177,228

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Preferred Rights	40,000	40,000
Additional Paid In Capital	56,622,159	56,622,159
Treasury Stock, 778,980 shares	(2,223,891 )	(2,223,891 )
Accumulated Other Comprehensive income	459,512	1,265,853
Accumulated Deficit	(48,925,577)	(50,898,357)
Total DynaResource Inc. Stockholders' Equity	6,149,432	4,982,993
Non-Controlling Interest	(5,454,140 )	(5,416,168 )
TOTAL EQUITY (DEFICIT)	695,292	(433,175 )
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,561,221	\$ 11,493,312

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

**DYNARESOURCE, INC.****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017****(Unaudited)**

	2018	2017
REVENUE	\$2,517,766	\$1,341,512
<b>COSTS AND EXPENSES OF MINING OPERATIONS</b>		
Production Cost Applicable to Sales	326,847	155,859
Mine Production Costs	454,861	124,931
Mine Exploration Costs	827,299	341,231
Mine Expansion Costs	159,900	—
Camp, Warehouse and Facilities	666,409	231,956
Transportation	87,668	130,947
Property Holding Costs	152,387	46,500
General and Administrative	594,443	538,516
Depreciation and Amortization	66,642	16,800
Total Operating Expenses	3,336,456	1,586,740
NET OPERATING LOSS	(818,690 )	(245,228 )
<b>OTHER INCOME (EXPENSE)</b>		
Foreign Currency Gains	806,514	438,780
Interest Expense	(55,551 )	(29,613 )
Derivatives Mark-to-Market Gain	1,982,482	2,348,078
Other Income	380	145
Total Other Income (Expense)	2,733,825	2,757,390
NET INCOME BEFORE TAXES	1,915,135	2,512,162
PROVISION FOR INCOME TAXES	—	—
NET INCOME	\$1,915,135	\$2,512,162
DEEMED DIVIDEND FOR SERIES C PREFERRED	(43,330 )	(42,737 )
(INCOME) LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	57,645	(130,467 )
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$1,929,450	\$2,338,958
<b>EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF DYNARESOURCE, INC.</b>		



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Basic Earnings Per Common Share	\$0.11	\$0.14
Weighted Average Shares Outstanding - Basic	17,722,825	16,722,825
Diluted Earnings Per Common Share	\$0.10	\$0.13
Weighted Average Shares Outstanding - Diluted	19,473,378	18,578,715
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign Currency Translation Loss	(786,668 )	(861,708 )
TOTAL OTHER COMPREHENSIVE LOSS	(786,668 )	(861,708 )
TOTAL COMPREHENSIVE INCOME	\$1,128,467	\$1,650,454
ATTRIBUTABLE TO:		
EQUITY HOLDERS OF DYNARESOURCE, INC.	\$1,166,439	\$3,605,083
NON-CONTROLLING INTEREST	\$(37,972 )	\$(1,954,629 )

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

**DYNARESOURCE, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017****(Unaudited)**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$1,915,135	\$2,512,162
Adjustments to reconcile net income to cash provided by Operating activities		
Gain on Derivative Liabilities	(1,982,482)	(2,348,078)
Depreciation and Amortization	66,642	16,800
Change in Operating Assets and Liabilities:		
Accounts Receivable	(14,749 )	379,152
Inventory	(133,774 )	(89,608 )
Foreign Tax Receivable	154,405	(64,814 )
Other Assets	(379,591 )	(21,071 )
Customer Advances	500,000	—
Accounts Payable	794,513	(20,455 )
Accrued Liabilities	(218,024 )	106,049
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>702,075</b>	<b>470,137</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Equipment	(219,300 )	(34,077 )
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(219,300 )</b>	<b>(34,077 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of Promissory Notes – Related Parties	(112,500 )	(5,625 )
Payment of Note Payable	(42,065 )	—
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>	<b>(154,565 )</b>	<b>(5,625 )</b>
Effect of Foreign Exchange	(786,668 )	(739,644 )
<b>NET DECREASE IN CASH</b>	<b>(458,458 )</b>	<b>(309,209 )</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>3,528,735</b>	<b>2,197,005</b>
<b>CASH AT END OF PERIOD</b>	<b>\$3,070,277</b>	<b>\$1,887,796</b>

SUPPLEMENTAL DISCLOSURES

Cash Paid for Interest	\$51,549	\$26,343
Cash Paid for Income Taxes	\$—	\$—

NON CASH TRANSACTIONS

Conversion of Accounts Payable to Long-Term Debt	\$504,094	\$—
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**The accompanying unaudited notes are an integral part of these unaudited consolidated financial statements.**

**DYNARESOURCE, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2018**

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

**Nature of Activities, History and Organization**

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

In 2000, the Company formed a wholly owned subsidiary, DynaResource de México S.A. de C.V., chartered in México (“DynaMéxico”). This Company was formed to acquire, invest in and develop resource properties in México. DynaMéxico owns a portfolio of mining concessions that currently includes its interests in the San José de Gracia Project (“SJG”) in northern Sinaloa State, México. The SJG District covers 69,121 hectares (170,802 acres) on the west side of the Sierra Madre mountain range. The Company currently owns 80% of the outstanding capital of DynaMéxico.

In 2005, the Company formed DynaResource Operaciones de San Jose De Gracia S.A. de C.V. (“DynaOperaciones”), and acquired effective control of Mineras de DynaResource, S.A. de C.V. (formerly Minera Finestierre S.A. de C.V., “DynaMineras”). The Company owned 25% of DynaMineras and acquired effective control of DynaMineras by acquiring the option to purchase the remaining 75% of the Shares of DynaMineras. The Company finalized the option and acquisition of DynaMineras in January 2010, and now owns 100% of DynaMineras. The results of these subsidiaries are consolidated with those of the Company.

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

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

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

industry.

### **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.

### **Significant Accounting Policies**

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

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

### **Basis of Presentation**

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

### **Principles of Consolidation**

The financial statements include the accounts of DynaResource, Inc., as well as DynaResource de México, S.A. de C.V. (80% ownership), DynaResource Operaciones S.A. de C.V. (100% ownership) and Mineras de DynaResource S.A. de C.V. (100% ownership). All significant inter-company transactions have been eliminated. All amounts are presented in U.S. Dollars unless otherwise stated.

### **Non-Controlling Interest**

The Company's subsidiary, DynaResource de México S.A. de C.V, is 20% owned by Goldgroup Mining, Inc. On May 17, 2013, the ownership changed from 50% to 20%. The Company accounts for this outside interest as "non-controlling interest".

### **Investments in Affiliates**

The Company owns a 20% interest in DynaResource Nevada, Inc., a Nevada Corporation ("DynaNevada"), with one operating subsidiary in México, DynaNevada de México, S.A. de C.V. ("DynaNevada de México"), together "DynaNevada". The Company accounts for this investment using the cost method.

### **Cash and Cash Equivalents**

The Company considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. At times, cash balances may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits.

### **Accounts Receivable and Allowances for Doubtful Accounts**

The allowance for accounts receivable is recorded when receivables are considered to be doubtful of collection. As of March 31, 2018, and December 31, 2017, respectively, no allowance has been made.

### **Foreign Tax Receivable**

Foreign Tax Receivable is comprised of recoverable value-added taxes ("IVA") charged by the Mexican government on goods and services rendered. Under certain circumstances, these taxes are recoverable by filing a tax return. Amounts paid for IVA are tracked and held as receivables until the funds are remitted. The total amounts of the IVA receivable as of March 31, 2018 and December 31, 2017 are \$577,836 and \$732,241 respectively.

### **Inventory**

Inventories are carried at the lower of cost or net realizable value and consist of mined tonnage, and gravity and flotation concentrates, and gravity tailings or flotation feed material. The inventories are \$1,041,756 and \$907,982 as

of March 31, 2018 and December 31, 2017, respectively.

**Proven and Probable Reserves (No Known Reserves)**

The definition of proven and probable reserves is set forth in SEC Industry Guide 7 (“Industry Guide 7”). Proven reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of the reserves are well-established. Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observations.

As of March 31, 2018, none of the Company's properties contain resources that satisfy the definition of proven and probable reserves. The Company classifies the development of its properties, including the San Jose de Gracia Property, as exploration stage projects since no proven or probable reserves have been established under Industry Guide 7.

## Property

Substantially all costs, including design, engineering, construction, and installation of equipment are expensed as incurred as the Company has not established proven and probable reserves on any of its properties. Only certain types of equipment which has alternative uses or significant salvage value, may be capitalized without proven and probable reserves. Depreciation is computed using the straight-line method with the exception of mining equipment. Mining equipment is depreciated using the units-of-production method based on tonnes processed over the estimated total mine life. Office furniture, equipment and light vehicles are being depreciated on a straight-line method over estimated economic lives ranging from 3 to 5 years. Leasehold improvements, which relate to the Company's corporate office, are being amortized over the term of the lease of 10 years. Trailers, heavy vehicles and other site equipment are being depreciated on a straight-line method over estimated economic lives from 5 to 15 years. Buildings are being depreciated on straight line method over an estimated economic life of 20 years.

*Design, Construction, and Development Costs:* Mine development costs include engineering and metallurgical studies, drilling and other related costs to delineate an ore body, the removal of overburden to initially expose an ore body at open pit surface mines and the building of access ways, shafts, lateral access, drifts, ramps and other infrastructure at underground mines.

When proven and probable reserves as defined by Industry Guide 7 exist, development costs are capitalized and the property is a commercially minable property. Mine development costs incurred either to develop new ore deposits, expand the capacity of operating mines, or to develop mine areas substantially in advance of current production would be capitalized. Costs of start-up activities and costs incurred to maintain current production or to maintain assets on a standby basis are charged to operations as incurred. Costs of abandoned projects are charged to operations upon abandonment. All capitalized costs would be amortized using the units of production method over the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves.

Certain costs to design and construct mining and processing facilities may be incurred prior to establishing proven and probable reserves. As no proven and probable reserves have been established on any of the Company's properties, design, construction and development costs are not capitalized at any of the Company's properties, and accordingly, substantially all costs are expensed as incurred, resulting in the Company reporting larger losses than if such expenditures had been capitalized. Additionally, the Company does not have a corresponding depreciation or amortization of these costs going forward since these expenditures were expensed as incurred as opposed to being capitalized. As a result of these and other differences, the Company's financial statements may not be comparable to the financial statements of mining companies that have established reserves.

## Mining Properties Interests

Mineral property interests include acquired interests in development and exploration stage properties, which are considered tangible assets. The amount capitalized relating to a mineral property interest represents its fair value at the time of acquisition. When a property does not contain mineralized material that satisfies the definition of proven and probable reserves, such as with the San Jose de Gracia Property, capitalized costs and mineral property interests are amortized using the straight-line method once production begins. As of March 31, 2018, the mining interests have been in the pilot production stage and therefore, no amortization has been expensed. Mining properties consist of 33 mining concessions covering approximately 69,121 hectares at the San Jose de Gracia property ("SJG"), the basis of which are amortized on the unit of production method based on estimated recoverable resources. If it is determined that the deferred costs related to a property are not recoverable over its productive life, those costs will be written down to fair value as a charge to operations in the period in which the determination is made. The amounts at which mineral properties and the related costs are recorded do not necessarily reflect present or future values.



*Impairment of Assets:* The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Mineral properties are monitored for impairment based on factors such as mineral prices, government regulation and taxation, the Company's continued right to explore the area, exploration reports, assays, technical reports, drill results and its continued plans to fund exploration programs on the property.

For operating mines, recoverability is measured by comparing the undiscounted future net cash flows to the net book value. When the net book value exceeds future net undiscounted cash flows, an impairment loss is measured and recorded based on the excess of the net book value over fair value. Fair value for operating mines is determined using a combined approach, which uses a discounted cash flow model for the existing operations and a market approach for the fair value assessment of exploration land claims. Future cash flows are estimated based on quantities of recoverable mineralized material, expected gold and silver prices (considering current and historical prices, trends and related factors), production levels, operating costs, capital requirements and reclamation costs, all based on life-of-mine plans. The term "recoverable mineralized material" refers to the estimated amount of gold or other commodities that will be obtained after taking into account losses during processing and treatment of mineralized material. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups. The Company's estimates of future cash flows are based on numerous assumptions and it is possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold, silver and other commodity prices, production levels and costs and capital are each subject to significant risks and uncertainties.

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

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

A write-down to fair value will be recorded when the expected future cash flow is less than the net book value of the property or when events or changes in the property indicate that carrying amounts are not recoverable. This analysis will be completed as needed, and at least annually. As of the date of this filing, no events have occurred that would require write-down of any assets. As of March 31, 2018 and December 31, 2017, no indications of impairment existed.

*Asset Retirement Obligation:* As the Company is not obligated to remediate the mining properties, no Asset Retirement Obligation ("ARO") has been established. Changes in regulations or laws, any instances of non-compliance with laws or regulations that result in fines, or any unforeseen environmental contamination could result in a material impact to the amounts charged to operations for reclamation and remediation. Significant judgments and estimates are made when estimating the fair value of AROs. Expected cash flows relating to AROs could occur over long periods of time and the assessment of the extent of environmental remediation work is highly subjective. Considering all of these factors that go into the determination of an ARO, the fair value of the AROs can materially change over time.

### **Property Holding Costs**

Holding costs to maintain a property on a care and maintenance basis are expensed in the period they are incurred. These costs include security and maintenance expenses, lease and claim fees and payments, and environmental monitoring and reporting costs.

### **Exploration Costs**

Exploration costs are charged to operations and expenses as incurred. Exploration, development, direct field costs and administrative costs are expensed in the period incurred.

### **Foreign Currency Translation**

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

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

Relevant exchange rates used in the preparation of the financial statements for the subsidiaries are as follows for the periods ended March 31, 2018 and December 31, 2017 (Mexican Pesos per one U.S. dollar):

	<b>Mar 31, 2018</b>	<b>Dec 31, 2017</b>
<b>Exchange Rate at Period End Pesos</b>	<b>18.28</b>	<b>19.73</b>

Relevant exchange rates used in the preparation of the income statement portion of financial statements for the subsidiaries are as follows for the periods ended March 31, 2018 and March 31, 2017 (Mexican Pesos per one U.S. dollar):

	<b>Mar 31, 2018</b>	<b>Mar 31, 2017</b>
<b>Weighted Average Exchange Rate for the Three Months Ended Pesos</b>	<b>18.74</b>	<b>20.30</b>

The Company recorded currency transaction gains (losses) of \$806,514 and \$438,780 for the three months ended March 31, 2018 and 2017, respectively.

### **Income Taxes**

The Company accounts for income taxes under ASC 740 “*Income Taxes*” using the liability method, recognizing certain temporary differences between the financial reporting basis of liabilities and assets and the related income tax basis for such liabilities and assets. This method generates either a net deferred income tax liability or asset for the Company, as measured by the statutory tax rates in effect. The Company derives the deferred income tax charge or benefit by recording the change in either the net deferred income tax liability or asset balance for the year. The Company records a valuation allowance against any portion of those deferred income tax assets when it believes, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax asset will not be realized.

Income from the Company’s subsidiaries in México are taxed at applicable Mexican tax law.

On December 22, 2017, the 2017 Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other provisions, the Act reduced the highest corporate tax rate from 35% to 21%. With the passage of the Act, the Company’s deferred tax assets and liabilities were restated as of the effective date of the law to reflect the new applicable rate. The reduction to the net deferred tax asset was charged to tax expense in the period of the change and offset by a valuation allowance stemming from historical net operating loss carryforwards.

### **Use of Estimates**

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

### **Comprehensive Income (Loss)**

ASC 220 “*Comprehensive Income*” establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The Company’s comprehensive income consists of net income and other comprehensive income (loss), consisting of unrealized net gains and losses on the translation of the assets and liabilities of its foreign operations. For the periods ended March 31, 2018 and March 31, 2017, the Company’s components of comprehensive income were foreign currency translation adjustments.

### **Revenue Recognition**

The Company adopted ASC 606 “*Revenue from contracts with customers*” on January 1, 2018. The Company generates revenue by selling gold and silver produce from its mining operations. The Company recognizes revenue for gold and silver concentrate production, net of treatment and refining costs, when it satisfies the performance obligation of transferring control of the concentrate to the customer. This is generally when the material is delivered to the customer facility for treatment and processing as the customer has the ability to direct the use of and obtain substantially all the remaining benefits from the material and the customer has the risk of loss.

The amount of revenue recognized is initially recorded on a provisional basis based on the contract price and the estimated metal quantities based on assay data. The revenue is adjusted upon final settlement of the sale. The chief risk associated with the recognition of sales on a provisional basis is the fluctuations between the estimated quantities of precious metals base on the initial assay and the actual recovery from treatment and processing.

Prior to the adoption of this standard the Company recognized revenue in accordance with ASC 605-10, “*Revenue Recognition in Financial Statements*”. Revenue was recognized when persuasive evidence of an arrangement exists, delivery or service has occurred, the sale price is fixed or determinable and receipt of payment is probable. Revenues earned from the sale of precious metal concentrates are recognized when both the buyer and seller agree on the % of gold as determined by sample assays and when it is delivered to the Buyer. Subsequently, a “final settlement” was calculated an adjustment was recorded when any remaining balance was paid.

The change in accounting principle from ASC 605 to ASC 606 did not impact the amount of revenue recognized in the Company’s financial statements.

### **Stock-Based Compensation**

The Company accounts for stock options at fair value as prescribed in ASC 718. The Company estimates the fair value of each stock option at the grant date by using the Black-Scholes option-pricing model and provides for expense recognition over the service period, if any, of the stock option.

The Company accounts for stock options issued and vesting to non-employees in accordance with ASC Topic 505-50 “*Equity -Based Payment to Non-Employees*” and accordingly the value of the stock compensation to non-employees is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Accordingly, the fair value of these options is being “marked to market” quarterly until the measurement date is determined.

### **Fair value of Financial Instruments**

The Company’s financial instruments consist of cash, receivables, payables and long-term debt. The carrying amount of cash, receivable and payables approximates fair value because of the short-term nature of these items. The carrying amount of long-term debt approximates fair value due to the relationship between the interest rate on long-term debt and the Company’s incremental risk adjusted borrowing rate.



**Per Share Amounts**

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

The Company had 2,523,689 warrants outstanding at March 31, 2018, in which 357,162 are exercisable at \$2.50 and 2,166,527 are exercisable at \$2.41, which upon exercise, would result in the issuance of 2,523,689 shares of common stock. The Company also had convertible debt instruments as of March 31, 2017 which, upon conversion at a valuation of \$2.50 per share, would result in the issuance of 335,250 shares of stock.

	Three Months Ended	Three Months Ended
	<b>March 31, 2018</b>	<b>March 31, 2017</b>
Net income	\$1,929,450	\$2,338,958
Shares:		
Weighted average number of common shares outstanding, Basic	17,722,825	16,722,825
Diluted weighted average number of common shares outstanding, Diluted	19,473,378	18,578,175
Basic earnings per share	\$0.11	\$0.14
Diluted earnings per share	\$0.10	\$0.13

**Related Party Transactions**

FASB ASC 850, "Related Party Disclosures" requires companies to include in their financial statements disclosures of material related party transactions. The Company discloses all material related party transactions. A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and 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. A party which can significantly influence the management or operating policies of the transacting parties or if it has 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 is also a related party.”

**Recently Issued Accounting Pronouncements***Revenue Recognition*

In May 2014, ASU No. 2014-09 was issued related to revenue from contracts with customers. This ASU was further amended in August 2015, March 2016, April 2016, May 2016, December 2016 and September 2017 by ASU No. 2015-14, No. 2016-08, No. 2016-10, No. 2016-12, No. 2016-20, and No. 2016-13, respectively. The new standard provides a five-stop approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition.

The Company adopted this standard as of January 1, 2018 using the modified retrospective approach, there was no cumulative effect adjustment required to be recognized at January 1, 2018. The comparative information has not been adjusted and continues to be reported under the accounting standards in effect for those periods.

The adoption of this standard primarily impacts the timing of revenue recognition on concentrate contracts based on the Company's determination of when control is transferred. Revenue related to concentrate shipments is now recognized upon delivery of the shipment to the customer for treatment and processing and satisfaction of the Company's significant performance obligation.

Prior to the adoption of this standard revenue was recognized when persuasive evidence of an arrangement exists, delivery or service has occurred, the sale price is fixed or determinable and receipt of payment is probable. Revenues earned from the sale of precious metal concentrates are recognized when both the buyer and seller agree on the % of gold as determined by sample assays and when it is delivered to the Buyer.

#### *Stock compensation*

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting (“ASU 2017-09). ASU 2017-09 provides clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. As such, The Company adopted these provisions as of the fiscal year beginning January 1, 2018. There was no material effect of the new provisions on our consolidated financial statements and related disclosures.



*Leases*

In February 2016, FASB issued ASU 2016-02— Leases (Topic 842). The update is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this update is permitted. As such, The Company is required to adopt these provisions as of the fiscal year beginning on January 1, 2019. The Company is currently evaluating the impact of FASB ASU 2016-02 and expects the adoption thereof will have a material effect on The Company’s presentation of balance sheet assets and liabilities based on the present value of future lease payments, but does not expect a material effect on the presentation of expenses and cash flows.

**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. Inventories are carried at the lower of cost or net realizable value and consist of mined tonnage, gravity-flotation concentrates, and gravity tailings (or, flotation feed material). Inventory balances of March 31, 2018 and December 31, 2017, respectively, were as follows:

	2018	2017
Mined Tonnage Stockpiled	\$813,106	\$780,549
Mill Tonnage Stockpiled	187,889	127,433
Finished Material	40,761	—
Total Inventories	\$1,041,756	\$907,982

**NOTE 3 – PROPERTY**

Property consists of the following at March 31, 2018 and December 31, 2017:

	2018	2017
Camp Buildings and Improvements	\$419,730	\$418,639
Machinery and equipment	1,378,453	1,368,736
Transportation equipment	289,165	289,165
Office equipment	157,921	152,805
Office furniture and fixtures	78,802	78,802
Construction in Progress	568,293	364,917
Sub-total	2,892,364	2,673,064
Less: Accumulated depreciation	(1,041,636)	(974,994 )

Total Property \$1,850,728 \$1,698,070

The Company purchased equipment of \$219,300 and \$34,077 in the three months ended March 31, 2018 and 2017, respectively.

Depreciation has been provided over each asset's estimated useful life. Depreciation expense was \$66,642 and \$16,800 for the three months ended March 31, 2018 and 2017, respectively.

#### **NOTE 4 – MINING CONCESSIONS**

Mining properties consist of the following at March 31, 2018 and December 31, 2017:

	2018	2017
San Jose de Gracia (“SJG”):		
Total Mining Concessions	\$4,132,678	\$4,132,678

Depletion expense was \$0 and \$0 for the three months ended March 31, 2018 and 2017 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 March 31 2018 and December 31, 2017 the loan 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 extended the maturity date of the Series I Notes to December 31, 2016. The remaining Series I Notes were further extended to December 31, 2017. The Company paid \$5,625 to one Series I debt holder during 2017. In December 2017 the Company reached agreement with seven of the Series I noteholders to extend the notes totaling \$759,375 to December 31, 2018. The remaining note was paid off on January 5, 2018. (See note 14)

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”<sup>1</sup>, 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 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. In December 2017 the remaining three Series II notes were extended to December 31, 2018.

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 March 31, 2018, 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 \$78,750, for a total Note balance of \$838,125. At December 31, 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 \$29,707 and \$30,141 as of March 31, 2018 and December 31, 2017, respectively.

### **NOTE 7 – INCOME TAXES**

The Company has adopted ASC 740-10, “*Income Taxes*”, which requires the use of the liability method in the computation of income tax expense and the current and deferred income taxes payable (deferred tax liability) or benefit (deferred tax asset). Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The cumulative tax effect at the expected tax rate of 21% and 34%, respectively (blended for U.S. and México) of significant items comprising the Company’s net deferred tax amounts as of March 31, 2018 and December 31, 2017 are as follows:

Deferred Tax Asset Related to:

	<b>2018</b>	<b>2017</b>
Prior Year	\$12,565,297	\$17,244,045
Tax Benefit for Current Year	16,837	(114,148 )
Permanent Difference Due to Rate Change	—	(4,564,600 )
Total Deferred Tax Asset	12,582,134	12,565,297
Less: Valuation Allowance	(12,582,134)	(12,565,297)
Net Deferred Tax Asset	\$—	\$—

The income tax provision for the Company as of March 31, 2018 and 2017 differs from those computed using the statutory federal tax rate of 21% and 34% due to the following differences:

	<b>2018</b>	<b>2017</b>
Book Income	\$1,915,135	\$2,512,162
Tax Expense at Statutory Rates	478,784	854,132
Other Permanent Differences	(495,621 )	(798,347 )
Change in Valuation Allowance	16,837	(55,789 )
Provision for (Benefit from) Income Taxes, Net	\$—	\$—

The net deferred tax asset and benefit for the current year is generated primarily from the cumulative net operating loss carry-forward which is approximately \$48,800,000 at March 31, 2018 and will expire in the years 2026 through 2032.

The realization of deferred tax benefits is contingent upon future earnings and is fully reserved at December 31, 2017.

On December 11, 2013, the Mexican government enacted a tax reform that increased the effective tax rate applicable to the Company's Mexican operations. The law, effective January 1, 2014, increased the future corporate income tax rate to 30%, created a 10% withholding tax on dividends paid to non-resident shareholders and created a new Extraordinary Mining duty which is equal to 0.5% of gross revenues from the sale of gold, silver and platinum. Furthermore, the reform introduced a Special Mining Duty of 7.5%. The Special Mining Duty is deductible for income tax purposes. The Special Mining Duty is generally applicable to earnings before income tax, depreciation, depletion, amortization and interest. There will be no deductions related to development type costs but exploration and prospecting costs are deductible when incurred. Certain non-deducted exploration expenditures incurred prior to January 1, 2014 are also deductible in the calculation of the Special Mining Duty. For the periods ended March 31, 2018 and 2017, the Company had no taxes payable under the 7.5% Special Mining Duty.

The Company or its subsidiaries file income tax returns in the United States and México. These tax returns are subject to examination by local taxation authorities provided the tax years remain open to audit under the relevant statute of limitations. The following summarizes the open tax years by major jurisdiction:

United States: 2014 to 2017  
México 2013 to 2017

The Company does not have any other material items of temporary or permanent differences, which give rise to deferred tax assets or liabilities.

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

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

### **Series A Preferred Stock**

The Company has designated 1,000 shares of its Preferred Stock as Series A, having a par value of \$0.0001 per share. Holders of the Series A Preferred Stock have the right to elect a majority of the Board of Directors of the Company. In October 2007, the Company issued 1,000 shares of Series A Preferred Stock to its CEO. At March 31, 2018 and December 31, 2017 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.

**Financing Agreement with Golden Post Rail, LLC, a Texas Limited Liability Company**

On May 6, 2015, the Company, Golden Post Rail, LLC, a Texas limited liability company (“Golden Post”), and Mr. Koy W. (“K.D.”) Diepholz, Chairman-CEO of the Company entered into a Securities Purchase Agreement (the “SPA”). Pursuant to the SPA, Golden Post acquired the following securities:

1,600,000 shares of Series C Senior Convertible Preferred Stock (the “Series C Preferred”) at a purchase price of \$2.50 per share (\$4M USD), plus an additional 133,221 shares of Series C Preferred pursuant to anti-dilution provisions. The Series C Preferred is entitled to receive dividends at the per share rate of four percent (4%) per annum, ranks senior (in priority) to the Common Stock, the Series A Preferred Stock, and each other class or (a) series of equity security of the Company. The Series C Preferred is convertible into Common Stock of the Company at the price of \$2.41 per share, and is entitled to anti-dilution protection for (i) subsequent equity issuances by the Company and (ii) changes in the Company’s ownership of DynaResource de México SA de CV (“DynaMéxico”). The Series C Preferred is also entitled to preemptive rights, and the holder has the right to designate one person to the Company’s Board of Directors as a Class III director.

A Common Stock Purchase Warrant (the “Golden Post Warrant”) for the purchase of 2,166,527 shares of the (b) Company’s Common Stock, at an exercise price of \$2.50 per share, and expiring June 30, 2020. The anti-dilution protections contained in the terms of the Series C Preferred are essentially replicated in the Golden Post Warrant. Pursuant to the SPA, the Company executed a Registration Rights Agreement pursuant to which Golden Post may require the Company to register the shares of Common Stock which may be issued upon the conversion of the Series C Preferred and the shares of Common Stock issuable upon the exercise of the Warrant, including any additional shares of Common Stock issuable pursuant to anti-dilution provisions.

In 2015, due to underlying anti-dilutive provisions contained in the Series C Preferred Shares and the Golden Post Warrant, the Company incurred derivative liabilities of \$2,419,359 in connection with the Series C Preferred Shares, and \$2,963,378 in connection with the Golden Post Warrant. Additionally, the Company fully accreted the discount related to the Series C Preferred Shares and the Golden Post Warrant in the amount of \$4,637,179, which is reflected “below” the net income (loss) amount. Also in 2015, the Company reported \$87,374 deemed dividend for Golden Post Rail related to its 4% dividend terms. As the Company has not declared these dividends, it is required only as an item “below” the net income (loss) amount. In 2016, the total Derivative Liability was \$5,106,090 which included \$2,592,452 for the Series C Preferred Shares, and \$2,513,638 in connection with the Golden Post Warrant. The Deemed Dividend for the three months ending March 31, 2018 and March 31, 2017 was \$43,330, and \$42,737 respectively.

Due to the nature of this transaction as mandatorily redeemable, the preferred shares are classified as “temporary equity” on the balance sheet.

	Preferred Series C
Carrying Value, December 31, 2017	4,333,053
Issuances at Fair Value, net of issuance costs	—
Bifurcation of Derivative Liability	—
Relative Fair Value of Warrants – Preferred Stock Discount	—
Accretion of Preferred Stock to Redemption Value	—
Carrying Value, March 31, 2018	4,333,053
<b>Preferred Stock (Undesignated)</b>	



In addition to the 1,000 shares designated as Series A Preferred Stock and the 1,733,221 shares designated as Series C Preferred Shares, the Company is authorized to issue an additional 16,266,779 shares of Preferred Stock, having a par value of \$0.0001 per share. The Board of Directors of the Company has authority to issue the Preferred Stock from time to time in one or more series, and with respect to each series of the Preferred Stock, to fix and state by the resolution the terms attached to the Preferred Stock. At March 31, 2018 and December 31, 2017, there were no other shares of Preferred Stock outstanding.

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

### **Common Stock**

The Company is authorized to issue 25,000,000 common shares at a par value of \$0.01 per share. These shares have full voting rights. At March 31, 2018 and December 31, 2017, there were 16,722,825 shares outstanding, respectively. No dividends were paid for the periods ended March 31, 2018 December 31, 2017 respectively.

### **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 March 31, 2018 and December 31, 2017, respectively.

### **Stock Issuances**

#### 2017 Activity

During the year ended December 31, 2017, the Company issued 1,000,000 common shares for the exercise of stock warrants at \$2.50 a share for total proceeds of \$2,500,000. In addition, the Company issued 333,333 shares of treasury stock as additional compensation for exercise of the warrants at above market price.

2018 Activity – None.

### **Treasury Stock**

At March 31, 2018 and December 31, 2017, 778,980 treasury shares were outstanding.

### **Warrants**

The Company had 2,523,689 warrants outstanding at March 31, 2018 and December 31, 2017. There were no warrants issued or exercised in the period ending March 31, 2018. In the period ending December 31, 2017, 1,000,000 warrants were exercised at an option price of \$2.50 each. 70,000 warrants expired in 2017.

The Company recorded no expense related to the issuance of these warrants since these warrants were issued in common stock for cash sales and note conversions.

	<b>Number of</b>	<b>Weighted</b>	<b>Weighted</b>	<b>Intrinsic</b>
	<b>Shares</b>	<b>Average</b>	<b>Remaining</b>	<b>Value</b>
		<b>Exercise</b>	<b>Contractual</b>	
		<b>Price</b>	<b>Life (Years)</b>	
Balance at December 31, 2016	3,593,689	\$ 2.45	3.17	\$ —
Granted	—	\$ —		\$ —
Exercised	(1,000,000)	\$ 2.50		\$ —
Forfeited	(70,000 )	\$ 2.50		\$ —
Balance at December 31, 2017	2,523,689	\$ 2.45	1.51	\$ —
Granted	—	\$ —		\$ —
Exercised	—	\$ —		\$ —
Forfeited	—	\$ —		\$ —
Balance at March 31, 2018	2,523,689	\$ 2.45	1.26	\$ —
Exercisable at March 31, 2018	2,523,689	\$ 2.45	1.26	\$ —

## **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 \$18,750 and \$24,750 to Dynacap Group, Ltd. (“Dynacap”, an entity controlled by the CEO of the Company) for consulting and other fees during the three months ended March 31, 2018 and 2017, respectively.

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Company is required to pay taxes in México in order to maintain mining concessions owned by DynaMéxico. Additionally, the Company is required to incur a minimum amount of expenditures each year for all concessions held. The minimum expenditures are calculated based upon the land area, as well as the age of the concessions. Amounts spent in excess of the minimum may be carried forward indefinitely over the life of the concessions, and are adjusted annually for inflation. Based on management's recent business plans and Company activities at San Jose de Gracia, and considering the Company's current and forward plans, and considering expenditures on mining concessions since 2002-2016, the Company does not anticipate that DynaMéxico will have any difficulties meeting the minimum annual expenditures for the concessions (\$2,400 Mexican Pesos per hectare). DynaMéxico retains sufficient carry-forward amounts to cover over 10 years of the minimum expenditure (as calculated at the 2016 minimum, adjusted for annual inflation of 4%).

In addition to the surface rights held by DynaMéxico pursuant to the *Mining Act* of México and its Regulations (*Ley Minera y su Reglamento*), DynaMineras maintains access and surface rights to the SJG Project pursuant to the 20-year Land Lease Agreement. The 20 Year Land Lease Agreement with the Santa Maria Ejido Community surrounding San Jose de Gracia was dated January 6, 2014 and continues through 2033. It covers an area of 4,399 hectares surrounding the main mineral resource areas of SJG, and provides for annual lease payments by DynaMineras of \$1,359,443 Pesos (approx. \$72,000 USD), commencing in 2014. The Land Lease Agreement provides DynaMineras with surface access to the core resource areas of SJG (4,399 hectares), and allows for all permitted mining and exploration activities from the owners of the surface rights (Santa Maria Ejido community).

The Company leases office space for its corporate headquarters in Irving, Texas. In September 2017, the Company entered into a sixty-six month extension of the lease through 2023. As part of the agreement the Company received six months free rent as a finish out allowance. The Company capitalized the leasehold improvement costs and amortized them over the rent abatement period as rent expense. The Company incurred rent expense of \$25,209 and \$14,421 for the office lease in the periods ended March 31, 2018 and 2017, respectively.

Future minimum lease obligations are as follow for the years ending March 31:

<b>YEAR</b>	<b>AMOUNT</b>
2018	\$ 81,120
2019	\$ 82,926
2020	\$ 85,732
2021	\$ 86,537
2022	\$ 80,918
<b>TOTAL</b>	<b>\$416,233</b>

## **Other Contingencies**

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## **Damages Awarded to DynaMéxico in México Litigation**

On October 5, 2016, DynaResource de México SA de C.V. (“DynaMéxico”), was awarded in excess of \$48 M USD (Forty-Eight Million Dollars) in damages from Goldgroup Resources, Inc. (the “Goldgroup Damages”) 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 Goldgroup Damages and the additional Resolutions are referred to as, the “Oct. 5, 2015 Resolution”). The October 5, 2015 Resolution is described in Part II, Item 1., Legal Proceedings.

## **Litigation**

The Company believes that no material adverse change will occur as a result of the legal 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. Further, the Company believes there is no legal basis for which to conduct arbitration proceedings. (See Part II, Item 1. Legal Proceedings).

## **NOTE 11 – 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 three months ended March 31, 2018 and year ended December 31, 2017:

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	March 31, 2018	December 31, 2017
Annual volatility rate	118 %	153 %
Risk free rate	1.50 %	2.20 %
Holding Period	<b>5 years</b>	<b>5 years</b>
Fair Value of common stock	\$1.22	\$1.11

The below table represents the change in the fair value of the derivative liability (Preferred Series C Stock) during the 3 months ending March 31, 2018 and the year ending December 31, 2017:

Period Ended	March 31, 2018	December 31, 2017
Fair value of derivative (Preferred Series C Stock), beginning of year	\$1,531,789	\$2,592,492
Change in fair value of derivative (Preferred Series C Stock)	(1,049,377)	(1,060,703)
Fair value of derivative (Preferred Series C Stock), end of period	\$482,412	\$1,531,789

### **Preferred Series C Warrants**

As discussed in Note 8, 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 March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
Annual volatility rate	118	%	153	%
Risk free rate	1.50	%	2.20	%
Holding Period	<b>5 years</b>		<b>5 years</b>	
Fair Value of common stock	\$1.22		\$1.11	

The below table represents the change in the fair value of the derivative liability (Preferred Series C Warrants) for the quarterly period ending March 31, 2018 and the year ending December 31, 2017.

Period Ended	March 31, 2018	December 31, 2017
Fair value of derivative liability (Warrants), beginning of year	\$1,649,719	\$2,513,638
Change in fair value of derivative liability (Warrants)	(933,105 )	(863,919 )
Fair value of derivative liability (Warrants), end of period	\$716,614	1,649,719
<b><u>Total (Gain) Loss on Derivative Liability (Preferred Series C Stock and Warrant)</u></b>		



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The below table represents the total (gain) or loss, of the derivative liability (Preferred Series C Stock and Warrants) for the quarterly period ending March 31, 2018 and the year ending December 31, 2017.

Period Ended	March 31, 2018	December 31, 2017
Fair value of derivative liability (Preferred C Stock and Warrants), beginning of year	\$3,181,508	\$5,106,090
Change in fair value of derivative liability (Stock and Warrants)	(1,982,482)	(1,924,582)
Fair value of derivative liability (Stock and Warrants), end of period	\$1,199,026	3,181,508

**NOTE 12 – NON-CONTROLLING INTEREST**

The Company's Non-Controlling Interest recorded in the consolidated financial statements relates to an interest in DynaResource de México, S.A. de C.V. of 50% through May 13, 2013, and 20% thereafter. Changes in Non-Controlling Interest for the periods ended March 31, 2018 and December 31, 2017, respectively were as follows:

	<b>Qtr. Ended</b>	<b>Year Ended</b>
	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Beginning balance	\$(5,416,168)	\$(6,014,573)
Operating loss	(57,645 )	(125,501 )
Share of Other Comprehensive Income	19,673	723,906
Ending balance	\$(5,454,140)	\$(5,416,168)

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

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

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

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

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

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

As of March 31, 2018 and December 31, 2017, the Company's financial assets were measured at fair value using Level 3 inputs, with the exception of cash, which was valued using Level 1 inputs. A description of the valuation of the Level 3 inputs is discussed in Note 11.

Fair Value Measurement at March 31, 2018 Using:	Quoted			
		Prices in		Significant
		Active	Other	Significant
		Markets	Observable	Unobservable
	For	Inputs	Inputs	
	Identical	(Level 2)	(Level 3)	
	Assets			
	(Level 1)			
<b>Assets:</b>				
None	-	-	-	-
Totals	\$-	\$ -	\$ -	\$ -
<b>Liabilities:</b>				
Derivative Liabilities	\$1,199,026	-	-	1,199,026
Totals	\$1,199,026	\$ -	\$ -	\$ 1,199,026
<b>Fair Value Measurement at December 31, 2017 Using:</b>				
<b>Assets:</b>				
None	-	-	-	-
Totals	\$-	\$ -	\$ -	\$ -
<b>Liabilities:</b>				
Derivative Liabilities	\$3,181,508	-	-	3,181,508

<b>Totals</b>	<b>\$3,181,508</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$ 3,181,508</b>
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**NOTE 14 – REVENUE CONCENTRATION**

For the three months ended March 31, 2018 one customer accounted for 100% of revenue and for the three months ended March 31, 2017, two customers accounted for 100% of revenue.

At March 31, 2018, one customer accounted for 100% of accounts receivable. At December 31, 2017, one customer accounted for 100% of accounts receivable.

**NOTE 15 – NOTES PAYABLE**

In June 2017, the Company entered into financing agreements for unpaid mining concession taxes for the period July 1, 2014 to December 31, 2015 in the amount of \$533,580. The Company paid an initial 20% payment in the amount of \$106,716 and financed the balance over 36 months at 18% interest.

In February 2018 the Company entered into a financing agreement for unpaid mining concessions taxes for the year ended December 31, 2016 in the amount of \$593,765. The Company paid an initial payment of \$118,753 and financed the balance over 36 months at 18%.

The following is a summary of the transaction during the year ended December 31, 2017:

Property Holding Taxes June 1, 2014 – December 31, 2015	\$533,580
Initial payment of 20%	(106,716)
2017 principal payments	(59,553 )
Balance at December 31, 2017	367,311
Exchange Rate Adjustment	29,082
Property Holding Taxes for the year ended December 31, 2016	593,765
Initial payment of 20%	(118,753)
2018 principal payments	(42,065 )
Balance at March 31, 2018	\$829,340

**At March 31, 2018 future maturities of notes payable are as follows**

**Year Ending March 31:**

<b>2018</b>	<b>\$273,865</b>
<b>2019</b>	<b>333,322</b>

<b>2020</b>	<b>222,152</b>
<b>Total</b>	<b>\$829,340</b>

**note 16 – subsequEnt events**

The Company has evaluated events from March 31, 2018, through the date whereupon the financial statements were issued and has determined that there are no additional items to disclose.

**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.



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

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

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

Activities in México are currently conducted by DynaMineras; with the management of personnel being contracted by DynaMineras through to DynaOperaciones. Executive Management of DynaResource, Inc. and consultants manage the operating companies in México; while the Chairman/CEO of DynaUSA is the President of each of DynaMéxico, DynaMineras and DynaOperaciones. Fees for management and administration are charged by DynaMineras and DynaOperaciones, which are eliminated in consolidation.

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

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

### **DynaMéxico General Powers of Attorney**

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

### **Company Ownership and Description of Subsidiaries**

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

**DynaResource de México S.A. de C.V.:** 80% Owned by DynaResource, Inc.;  
100% owner of the San Jose de Garcia Property;

**Mineras de DynaResource, S. A. de C.V.:**  
100% Owned by DynaResource, Inc.;  
Exclusive Operator of the San Jose de Gracia Project;  
Entered into Exploitation Agreement (“EAA”) with  
DynaMéxico (See EAA below);  
Entered into a 20-year Surface Rights Agreement  
with the Santa Maria Ejido (See Surface Rights Agreement below);

**DynaResource Operaciones de  
San Jose de Gracia, S.A. de C.V.:** 100% Owned by DynaResource, Inc.;  
Personnel Management Company at San Jose de Gracia;

**Pilot Production Activities (2003 – 2006)**

DynaMéxico, conducting operations through DynaMineras, mined high-grade veins at the San Pablo area of SJG from mid-2003 to June 2006. 18,250 Oz. gold was produced and sold from mill feed tonnage of 42,000 tonnes, at an average grade of approximately 15-20 g/t. Production costs were reported at approximately \$175/Oz. gold in this small scale, pilot production operation (See results in table below). The pilot operations at SJG consisted of the installation of a gravity/flotation processing circuit to an existing mill, and initial test runs with tailings were completed in 2002. Actual test mining at the high-grade San Pablo area of the property commenced in March 2003.

Mined and Milled Tonnage	42,000 tonnes
Production (Oz Au)	18,250 Oz
Average Grade	15-20 g/t
Recovery Efficiency (Plant)	85%
Recovery in Concentrate (Sales)	90%
Production Cost (Average, 4 Years)	\$175 / Oz

### **Year 2006 Suspension of Test Mining and Pilot Milling Activities**

The Company initiated the test production activity in 2003 and, at that time, gold prices were depressed. Exploration funding opportunities, while available, were deemed to be too dilutive by Company management. Subsequently, in 2006, commodities prices were improving and the Company was able to negotiate financing in order to fund exploration activities. Therefore, the Company suspended test mining activities in 2006 in order to focus on the exploration of the vast SJG District. While the test mining and pilot milling operations were considered successful (see results in the table above), a small-scale production operation was not expected to provide the necessary capital in order to fund exploration of the vast SJG District. The limited-scope pilot production activity provided significant benefits through confirmation of production grades, metallurgy and process, efficiency of recoveries, and production costs.

### **Drilling programs (2007 – 2011)**

Drilling programs completed by the Company's subsidiaries produced a total of 298 drill holes covering 68,741 meters of drilling from 2007 through March 2011. Results of the drilling activity, including the results of previous drilling in 1997-1998, appear in an "SJG Drill Intercepts Summary File through 11-298", as Exhibit 99.1 to our Form 10-Q for the period ended June 30, 2011 filed with the SEC on August 22, 2011, and available on EDGAR at: [<http://www.sec.gov/Archives/edgar/data/1111741/000112178111000241/ex99one.htm>]. Additionally, the updated Drill Summary File is posted on the Company's web site at [www.dynaresource.com](http://www.dynaresource.com).

### **Technical Report According to Canadian National Instrument 43-101 (2012)**

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

*Parameters Used to Estimate the DynaMéxico NI 43-101 Mineral Resource Estimate*--The data base for the San Jose de Gracia Project consists of 372 drill holes of which 361 are diamond drill holes ("DDH") and the remaining 11 were reverse circulation holes ("RC"), with a total drilling of 75,878 meters. The DynaMéxico NI 43-101 Mineral Resource Estimate, prepared in 2012, concentrates on four main mineralized vein systems at SJG: Tres Amigos, San Pablo, La Union, and La Purisima. Of the 372 drill holes, 368 were drilled to test these four main vein systems and the remaining four holes tested the Argillic Zone. Technical personnel of Minop S.A. de C.V. ("Minop"), a subsidiary (or affiliate) of Goldgroup Mining Inc. built three dimensional solids to constrain estimation to the interpreted veins in each swarm. The 172 holes most recently drilled (2009-2011), were allocated as follows: Tres Amigos (64 holes), San Pablo (49 holes), La Union (24 holes), La Purisima (32 holes) and Argillic Zone (3 holes). The data base also includes rock and chip sampling, regional stream sediment sampling, and IP Surveys.

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

*DynaMéxico NI 43-101 Mineral Resource Estimate - Construction of Wireframes*--Mineral Resources were estimated by Mr. Sandefur within wireframes constructed by technical personnel of Minop. Minop was contracted by DynaMineras.

*DynaMéxico NI 43-101 Mineral Resource Estimate - Explanation of Resource Estimation*--Resource estimation was done in MineSight and MicroModel computer systems with only those composites that were inside the wireframe used in the estimate. Estimation was done using kriging with the omni-directional variogram derived from all the data in each area for gold using the relative variogram derived from the log variogram. High grades were restricted by capping the assays at a breakpoint based on the cumulative frequency curves. Estimation was done using search radii of 100 x 100 x 50 m “blocks” oriented subparallel to the general strike and dip of the vein system in each area. A sector search, corresponding to the faces of the search box with a maximum of two points per sector was used in estimation. A density of 2.68 based on within ‘vein density’ samples was used in the resource estimate. Within each of the four areas there are approximately 20 to 40 veins in the vein swarm. Resources were estimated by kriging using data from all veins in the swarm. In general, gold accounts for at least 80% of the value of contained metal at the SJG Project, so the variograms for gold were used in estimation of the four other metals.

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

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

*DynaMéxico NI 43-101 Mineral Resource Estimate and DynaMéxico NI 43-101 Technical Report - Data Verification*--Mr. Ramon Luna Espinoza (“Mr. Luna”) initially visited the San Jose de Gracia Project in November 2010, and conducted site inspections at SJG in November 2011 and January 2012. Mr. Sandefur conducted a site inspection of the SJG Project in January 2012. While at the Property in November 2011, Mr. Luna inspected the areas of Tres Amigos, La Prieta, Gossan Cap, San Pablo, La Union, and La Purisima, and historic mining sites. In January 2012, Mr. Sandefur and Mr. Luna inspected the areas of Tres Amigos, San Pablo, La Union, and La Purisima. Pictures of the areas were taken. Many of the drill pads for the drilling programs of 2007 to 2011 were clearly located and identified. Mr. Luna also inspected San José de Gracia’s core logging and storage facilities, the geology offices, the meteorological station, the plant nursery, and the mill. Mr. Sandefur also inspected San José de Gracia’s core logging and storage facilities.

The Company received from DynaMéxico on February 14, 2012, a Mineral Resource Estimate according to Canadian National Instrument 43-101 for San Jose de Gracia (the “DynaMéxico NI 43-101 Mineral Resource Estimate”). The DynaMéxico NI 43-101 Mineral Resource Estimate was prepared by Mr. Robert Sandefur, BS, MSc, P.E., a Qualified Person as defined under NI 43-101, and a senior reserve analyst for Chlumsky, Armbrust & Meyer LLC, Lakewood, CO (“CAM”). The DynaMéxico NI 43-101 Mineral Resource Estimate concentrates on four separate main vein systems at SJG: Tres Amigos, San Pablo, La Union, and La Purisima.

The DynaMéxico NI 43-101 Mineral Resource Estimate prepared by Mr. Robert Sandefur for the DynaMéxico NI 43-101 Technical Report included Indicated Resources at Tres Amigos and San Pablo. The “DynaMéxico NI 43-101 Mineral Resource Estimate also included an Inferred Resource for the four vein systems. Table summaries of Indicated and Inferred Resources are contained in the DynaMéxico NI 43-101 Mineral Resource Estimate. The DynaMéxico NI 43-101 Mineral Resource Estimate has been filed, along with the DynaMéxico NI 43-101 Technical Report, on SEDAR; but is not disclosed in this Form 10-Q.

#### **Updated Technical Report According to Canadian National Instrument 43-101 (2012)**

The Company received from DynaMéxico, an updated Technical Report according to Canadian National Instrument 43-101, which included the DynaMéxico NI 43-101 Mineral Resource Estimate (the “Updated DynaMéxico NI 43-101 Technical Report”). The Updated DynaMéxico NI 43-101 Technical Report was approved by DynaMéxico, and filed by the Company on SEDAR; but is not disclosed in this Form 10-Q.

#### **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; and,
- (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; and,

(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 March 31, 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.

### **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.



## 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
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	\$1,346	\$1,151	\$1,257
2018 (through May 2, 2018)	\$1,355	\$1,304	\$1,330

Source: Kitco, Reuters and the London Bullion Market Association

On May 02, 2018, the afternoon fixing gold price on the London Bullion Market was \$1,304 per ounce and the spot market gold price on the New York Commodity Exchange was \$1,304 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.

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

Under the terms of the Exploitation Amendment Agreement (“EAA”), as described above, DynaMineras has rehabilitated the pilot mill facility at SJG and it has rehabilitated the San Pablo mine. The SJG pilot mill facility (a gravimetric-flotation circuit) is designed to process bulk samples mined from selected target areas of SJG, including San Pablo. Operations at SJG are managed by DynaMineras, and are projected to be similar to those conducted by DynaMéxico during 2003-2006.

### **Test Underground Mining and Pilot Mill Operations (2015)**

In July 2015, the Company commenced a capital investment program designed to increase tonnage and output from the test mining operations, and to increase volume and output through the pilot mill facility. Through DynaMineras, the Company was engaged in the implementation of this capital investment program from July through December 2015.

### **Capital Investment (2015)**

The capital investment program consisted of a net total of \$3,565,000 USD and is generally described below:

**Contract Mining (\$713,000);** including \$250,000 Deposit (advance for services), and \$513,000 in direct mining costs, explosives, and payments to contractor;

**Mine related costs (\$290,000);** including mine plan development, permits, assays, consulting, mine supplies, and equipment items expensed;

**Mill and Camp (\$613,000);** Improvements to the Mill and Camp, including pre-operation expenses;

**Personnel Costs (\$673,000);** including payroll and consulting expenses;

**Equipment (\$636,000);** long term equipment purchases including transportation, mine loading and hauling, generators, compressors and pumps;

**Overhead (\$285,000);** including legal expenses, consulting, and administration;

**IVA (\$272,000);** Value added taxes paid, and refundable;

**Land Use and Rental (\$83,000);**

**Year 2017 Improvements and Expansion**

During 2017 the Company initiated and completed the following capital projects at SJG to improve and expand test mining and pilot milling operations:

Medical facility (SJG Clinic):	\$107,500;
Expanding camp, office, and infrastructures:	\$145,500;
Expanding tailings pond, installing liners:	\$265,000;
Improving, setting new foundation, and re-installing the Denver Mill:	\$257,500;
Installing Mill #3:	\$258,000;
Machinery & Equipment:	\$200,000;
Transportation:	\$40,000;
<b>Total:</b>	<b>\$1,273,500;</b>

**Summary of Test Mining and Pilot Mill Operations (2016 and 2017)**

DynaMineras reports the following estimated summary of its test mining and pilot milling operations during 2016 and 2017:

<b>Total</b>	<b>Reported</b>		<b>Gross Gold</b>	
<b>Tonnes</b>	<b>Mill Feed</b>	<b>Recovery</b>	<b>Concentrates</b>	<b>Net Gold</b>
<b>Year Mined &amp;</b>	<b>Grade</b>	<b>%</b>	<b>Produced</b>	<b>Concentrates</b>
<b>Mined &amp;</b>	<b>Processed (g/t Au)</b>		<b>(Au oz.)</b>	<b>Sold (Au oz.)</b>

<b>2016</b>	<b>33,172</b>	<b>12.70</b>	<b>79.0%</b>	<b>10,836</b>	<b>8,668</b>
<b>2017</b>	<b>35,170</b>	<b>12.95</b>	<b>85.0%</b>	<b>12,636</b>	<b>10,740</b>

Test pilot operations in 2017 yielded 35,170 tonnes mined and processed from underground mining activity and pilot mill operations; and the production of approximately 12,636 gross Oz Au (and net of dry weights, buyer's price discount and refining and treatment costs, approximately 10,740 Oz. Au) contained in gold-silver concentrates, and the receipt of \$10,850,091 in revenues from the sale of gold-silver concentrates.

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 10,836 gross Oz Au (and net of buyer's price discount and refining 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 three months ended March 31, 2018 and 2017:**

	<b>Total</b>	<b>Reported</b>		<b>Gross Gold</b>	
	<b>Tonnes</b>	<b>Mill Feed</b>	<b>Reported</b>	<b>Concentrates</b>	<b>Net Gold</b>
	<b>Mined &amp;</b>	<b>Grade</b>	<b>Recovery</b>	<b>Produced</b>	<b>Concentrates</b>
	<b>Mined &amp;</b>	<b>Processed (g/t Au)</b>	<b>%</b>	<b>(Au oz.)</b>	<b>Sold (Au oz.)</b>
<b>Three Months Ended March 31, 2018</b>	<b>11,025</b>	<b>8.90</b>	<b>79.9%</b>	<b>2,525</b>	<b>2,372</b>
<b>Three Months Ended March 31, 2017</b>	<b>7,805</b>	<b>11.77</b>	<b>78.0%</b>	<b>2,320</b>	<b>1,871</b>

Test pilot operations in Q1 2018 yielded 11,025 tonnes mined and processed from underground mining activity and pilot mill operations; and the production of approximately 2,525 gross Oz Au (and net of dry weights, buyer's price discount and refining and treatment costs, approximately 2,372 Oz. Au) contained in gold-silver concentrates, and the receipt of \$2,517,766 in revenues from the sale of gold-silver concentrates.

### **Additional Test Mining and Mill Operations Disclosure**

The flow sheet for obtaining and processing mineralized material is described below:

**Contract Mining:** Mineralize material is mined from San Pablo mine by the contract miner, and according to the formal mine plan developed by the Company.

**Mining Patio:** Freshly mined mineralized material is transported by the contract miner outside the San Pablo Mine to the mine patio;

### **Pilot Mill Facility – General Description and Flow Sheet;**

**Mill Patio:** Mineralized material is transported by Company dump trucks and articulated dump truck to the mill patio.

**Crushing Circuit:** Freshly mined mineralized material is loaded from the mill patio into the crushing circuit, comprised of a jaw crusher and cone crusher; and 1/2" crushed material is fed by conveyor belt to the fine mineralized material bin. The mineralized material is then sent by conveyor belt to the primary ball mill, which is a Hardinge conical mill.

**Hardinge Mill:** The mineralized material is then ground to -100 mesh particle size; and then fed to a holding tank;

**Holding Tank:** The mineralized material is pumped from the holding tank to the cyclone;

**Cyclone:** The course material plus (-100 Mesh) is fed to the Ball Mill #2, the Denver Mill; and fine material less (-100 Mesh) is fed to another holding tank.

**Fine Screening System (Sweco Screen):** The fine mineralized material is fed from the holding tank to the Sweco Screen; the fine mineralized material less (-200 Mesh) is fed to the spirals; the oversized material is fed to Ball Mill# 2.

**Denver Mill:** All mineralized material reground in the Denver Mill, is then fed to the holding tank prior to the Cyclone.

**Spiral Gravity Concentration:** Approximately 25% of the mineralized material is fed from the spirals to the Wifley table. Approximately 75% of the mineralized material is fed from the spiral concentration to the flotation conditioning tank.

**Wifley Shaking Table:** The concentrate from the spirals feed the Wifley shaking table, producing a high-grade gravity concentrate. The high-grade gravity concentrate is bagged and shipped for sale. (There are no chemicals present in the gravity concentrate.) It is estimated that the gravity concentrate produced is approx. 40% of the total recovered gold; and estimated that a 300-400 g/t Au would be the final gravity concentrate grade.

**Flotation Conditioning Tank:** The tailings from spirals and from the Wifley table are fed to the flotation conditioning tank. A low calculation of chemicals is added, with metered feeder, directly to the flotation feed tank. Sodium sulfide, a granular solid, is added also to the agitated flotation feed tank.

**Flotation Chemicals:** The following chemicals are added to the flotation feed tank: Na<sub>2</sub>S (Sodium Sulfide), 400 g/mt (solid); Aero 343 Xanthate Collector 40-80 g/mt (liquid); Cytec 7249 conditioner 50 g/mt (liquid); Cytec 4037 Conditioner 20–40 g/mt (liquid); and Aerofroth 70 or 73 Frother 30 g/mt (liquid).

**Rougher Flotation:** The Rougher flotation consists of a bank of 8 flotation cells (or Hybrid float cell), which is fed by the conditioning tank. The rougher concentrate recovered from the rougher float cells or the first hybrid cell is bagged for shipment and sale. A very low percentage of chemicals remains in the rougher concentrate.

**Scavenger and Cleaner Concentrate:** The tailings of the rougher concentrate could be fed to the scavenger and cleaner float cells (or, a second hybrid cell). The cleaner concentrate would then be bagged and shipped for sale. A very low percentage of chemicals remains in the cleaner concentrate.

**Circuit Tailings:** The tailings from the flotation area are fed to the tailings impoundment area. Less than 10% of chemicals added at the conditioning tank remain in the tailings slurry. Chemicals do not appear in the water of the tailings; as confirmed by analysis.

**Power:** A 45 KW efficient diesel generator will supply power to the camp, mill lights and to the laboratory. Two 50 KW back-up diesel generators (Selmec, Kamag) are also available for camp use.

The mill primary generator is a 310 KW Cat Diesel and there is a 455 KW Cat Diesel mill back-up generator.

Diesel fuel is stored in a 10,000-liter storage tank that feeds the two large generators by gravity flow to a common 500-liter head tank. The fuel storage tank is contained within a secondary cement impoundment with controlled and oil-trapped drainage.

**Electrical:** The Company is in process of connecting electrical power sufficient to supply electrical power for the camp and mill.

### **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 \$2,517,766 and \$1,341,512 for the three months ended March 31, 2018 and March 31, 2017 respectively.

### **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.

### **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.

### **Results for the Three Months Ended March 31, 2018 and 2017**

In the three months ended March 31, 2018 and 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 2018 and 2017. During the three months ended March 31, 2018, the test mining and pilot milling operations have yielded the underground mining and mill processing of approx. 11,025 tonnes of mineralized material, the production of approximately 2,525 gross oz. Au (and net of weight and value adjustment) approximately 2,372 oz. Au) contained in gold-silver concentrates. DynaMineras realized the receipt of \$2,517,766 in revenues from the delivery and sale of gold-silver concentrates in the first quarter, 2018.

**REVENUE.** Revenues for the three months ended March 31, 2018 and 2017 were \$2,517,766 and \$1,341,512, respectively. The increase was due to the expanded mining operations in the second half of 2017.

**PRODUCTION COSTS RELATED TO SALES.** Production costs related to sales for the three months ended March 31, 2018 and 2017 were \$326,847 and \$155,859 respectively. These are expenses directly related to the milling, packaging and shipping of gold and other precious metals product and are comparative with the revenue figures above. The increase was due to the opening of the second mill in the 4<sup>th</sup> quarter of 2017.

**MINE PRODUCTION COSTS.** Mine production costs for the three months ended March 31, 2018 and 2017 were \$454,861 and \$124,931 respectively. These costs are directly related to the extraction of mine tonnage for processing. The increase is due to the expansion of the mining operations and reflected in the increase in revenue above.

**MINE EXPLORATION COSTS:** Mine Explorations costs for the three months ended March 31, 2018 and 2017 were \$827,299 and \$341,231, respectively. These are the cost of extracting waste material to reach the materials to be extracted for processing This is also reflective of the increase activity.

**MINE EXPANSION COSTS:** Mine expansion costs for the three months ended March 31, 2018 and 2017 were \$159,900 and \$0, respectively. These were the cost associated with preparing the San Jose de Gracia East Mine for production. The Company expects to complete the mine expansion project and begin actively mining the San Jose de Gracia East mine in the second quarter.

**TRANSPORTATION.** Transportation costs for the three months ended March 31, 2018 and 2017 were \$87,668 and \$130,947, respectively. These are the costs of transporting the product to the customer for treatment and sale.

**CAMP, WAREHOUSE AND SUPPORT FACILITIES.** Camp, warehouse and support facility cost for the three months ended March 31, 2018 and 2017 were \$666,409 and \$231,956, respectively. These are the support cost of the mining facilities including housing, food, security and warehouse operations. These increase is reflective support required for the doubling of the Company's workforce to support increase mining activity.

**PROPERTY HOLDING COSTS.** Property holding costs for the three months ended March 31, 2018 and 2017 were \$152,387 and \$46,500, respectively. These costs are concessions taxes, leases on land and other direct costs of maintaining the property. This is due to increase in concession taxes on the Francisco Arturo property.

**GENERAL AND ADMINISTRATIVE EXPENSES.** General and administrative expenses for the three months ended March 31, 2018 and 2017 were \$594,443 and \$538,516, respectively. The above expenses exclude depreciation

and amortization amounts of \$66,642 and \$16,800 for the three months ended March 31, 2018 and 2017, respectively.

**OTHER INCOME (EXPENSE).** Other income for the three ended March 31, 2018 and 2017 was \$2,733,825 and \$2,757,390, respectively. Included in this category in 2017 is interest expense of \$(29,613), other income of \$145, change in derivative liability of \$2,348,078, and currency transaction gain of \$438,780. Included in this category in 2018 is interest expense of \$(55,551), other income of \$380, change in derivative liability of \$1,982,482 and currency transaction gain of \$806,514.

**NON-CONTROLLING INTEREST.** The non-controlling interest portion of the net loss for the three months ended March 31, 2018 and 2017 were \$43,330 and \$42,737, 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 March 31, 2018 and 2017, the Company recorded a loss of \$786,668 and \$861,708, respectively, which were made up of unrealized losses on currency translation.

### **Liquidity and Capital Resources**

As of March 31, 2018, the Company had a negative working capital of \$(544,462), comprised of current assets of \$5,432,939 and current liabilities of \$5,977,401. This represents a decrease of \$1,280,392 from the working capital (deficit) maintained by the Company of \$(1,824,854) as of December 31, 2017, due primarily to the mark to market adjustment for our derivative liabilities.

Net cash provided by operations for the three months ended March 31, 2018 was \$702,075 compared with \$470,137 for the three months ended March 31, 2017.

Net cash used in investing activities for the three months ended March 31, 2018 and 2017 was \$219,300 and \$34,077, respectively.

Net cash used in financing activities for the three months ended March 31, 2018 and 2017 was \$154,565 and \$5,625, 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 three months ended March 31, 2018 and 2017 the income gain (loss) attributable portion to Goldgroup was \$(57,645), and \$130,467 .

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

As of March 31, 2018, the Company did not have any off-balance sheet arrangements (as that 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.

### **Plan of Operation**

The Plan of operation for the next twelve months includes DynaMineras continuing the improvement and expansion of the test mining and pilot milling operations at SJG. The Company funds its general and administrative expenses in the US. The Company's operating subsidiaries, DynaMineras and DynaOperaciones, receive monthly fees for management of SJG activities and personnel. These amounts are eliminated in consolidation. The Company believes that cash on hand, and including cash flow generated from its current operations, is adequate to fund its ongoing general and administrative expenses through 2018. The Company plans to seek additional debt funding during the next 12 months depending on results of its pilot operations, market conditions, and other factors.

### **Capital Expenditures**

The Company's primary activities relate to the exploitation of the SJG property through its 100% owned operating subsidiary, DynaMineras. DynaMineras is conducting activities at SJG under the terms of the Exploitation Amendment Agreement (the "EAA", or, "operating agreement") with DynaMéxico.

### **Drilling Programs**

In the period September 2006 through December 31, 2011, funding from Goldgroup provided for DynaMéxico's completing approximately 68,741 meters drilling at San Jose de Gracia, resulting in a defined NI 43-101 Mineral Resource Estimate as described in the 2012 DynaMéxico-CAM SJG Mineral Resource Estimate. The Company expects DynaMineras to plan continued and subsequent drilling programs at San Pablo, Tres Amigos, La Ceceña, Palos Chinos, La Union, La Purisima, and La Prieta / Rosario / Rudolpho. The Company expects further drilling programs to confirm extensions to mineralization in all directions and down dip from the main target areas.

### **Mineralization at San José de Gracia**

The Company was informed by DynaMéxico that it had outlined significant mineralization from drilling activity at San Pablo, Tres Amigos, La Union, and La Purisima areas of SJG as described in the recent NI 43-101 2012 DynaMéxico-CAM SJG Mineral Resource Estimate. Further drilling is expected to outline additional mineralization at these 4 major target areas at SJG, while additional mineralization is also expected to be defined at La Prieta and the

area Northeast of Tres Amigos. Other areas at SJG indicate clear potential to develop additional mineralization.

### **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; and, (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; and, (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 Advances made by DynaMineras to DynaMéxico as of December 31, 2014 is \$4,025,000. The EAA is the third and latest Amendment to the original Contract Mining Services and Mineral Production Agreement (the “Operating Agreement”), which was previously entered into by 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).

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

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

### **DynaMéxico General Powers of Attorney**

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

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

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

### **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.

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.

As of March 31, 2018, and December 31, 2017 DynaMineras owed the Company \$5,817,943 and \$6,346,500, respectively.

As of March 31, 2018, and December 31, 2017 DynaMéxico owed the Company \$4,000,000 and \$4,000,000, respectively.

As of March 31, 2018, and December 31, 2017 DynaOperaciones owed the Company \$225,000 and \$225,000, respectively.

As of March 31, 2018, and December 31, 2017 DynaMéxico owed DynaMineras \$2,765,529 and \$2,539,639, respectively.

As of March 31, 2018, and December 31, 2017 DynaOperaciones owed DynaMineras \$7,528,480 and \$6,077,325, respectively.

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.

#### ***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.

In 2014, Goldgroup advanced \$111,500 to DynaMéxico and in 2013 Goldgroup advanced \$120,000 USD to DynaMéxico. This total \$231,500 is being carried by DynaMéxico as a Due to Non-Controlling Interest.

#### **Note Receivable and Investments in Affiliate**

DynaResource Nevada, Inc., a Nevada Corporation (“DynaNevada”), with one operating subsidiary in México, DynaNevada de México, S.A. de C.V. (“DynaNevada de México”) have common officers, directors and shareholders. The total amount loaned by the Company to DynaNevada at December 31, 2010 was \$805,760. 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 \$0.25 / Share. On December 31, 2010, the Company converted its receivable from DynaNevada into 3,223,040 Shares of DynaNevada; and as a result, the Company owns 19.92% of the outstanding share capital of DynaNevada. DynaNevada is a related entity, and through its subsidiary in México (DynaNevada de México), (“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”). In March 2010, DynaNevada de México completed the Option with IMMSA so that it now owns 100% of Santa Gertrudis. In June 2010, DynaNevada de México acquired an additional 6,000 Hectares in the State of Sinaloa (“the San Juan Property”). The Company has loaned additional funds to

DynaNevada since 2010 for maintenance of concessions and other nominal required fees and expenses. The Company had a receivable from DynaResource Nevada, Inc. of \$0 and \$0 at December 31, 2017 and 2016 respectively. The Company has investment balance in DynaResource Nevada, Inc. of \$70,000 and \$70,000 as of March 31, 2018 and December 31, 2017, respectively.



**Minority Interest Holder in DynaMéxico Attempts to Interfere with Activities at San Jose de Gracia (2016)**

Goldgroup Mining Inc., Vancouver, BC. (“GGA.TO” – “Goldgroup Mining”), a Minority Interest Holder in DynaMéxico through a Mexican subsidiary Goldgroup Resources Inc., issued a press release on June 27, 2016 claiming to announce a closing of mining operations at the SJG Project, which was misleading, deceptive, and proved to be false. Goldgroup Mining issued the June 27 press release without independently confirming the facts – and admitted its failure to confirm the facts in the release. DynaMéxico corrected the misleading press release issued by Goldgroup Mining as described below:

1. DynaMéxico herein states the facts:

(a) Following an unscheduled inspection of the mining operations at the SJG Project on June 26, 2016 by a Sinaloa State governmental agency, an order of temporary work stoppage was quickly overturned by Sinaloa State court order.

(b) The Sinaloa State Court ruled that the unscheduled inspection and the temporary suspension of mining operations at the SJG Project, were improper. The Sinaloa State Court further ordered the immediate removal of the temporary suspension.

(c) Following the Sinaloa State Court Order, all mining operations at SJG promptly resumed normal activities.

2. DynaMéxico herein states further facts:

(a) Following a second unscheduled inspection of the mining and milling operations at the SJG Project on August 18, 2016 by a Sinaloa State governmental agency, an order of temporary work stoppage was quickly overturned by a second Sinaloa State court order.

(b) The Sinaloa State Court ruled that the unscheduled inspection and the temporary suspension of mining and milling operations at the SJG Project, were again improper. Once again, the Sinaloa State Court further ordered the immediate

removal of the temporary suspension.

(c) Following the second Order issued by the Sinaloa State Court, all mining and milling operations at SJG once again promptly resumed normal activities.

3. The award of damages in excess of \$48 million USD against Goldgroup Resources Inc. (“Goldgroup Resources”, a wholly owned subsidiary of Goldgroup Mining Inc.), by virtue of a sentence issued on October 5, 2015 by the Thirty Sixth Civil Court of the Superior Court of Justice of the Federal District of México, remains as ordered by the court.

4. 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”).

(a) Goldgroup Mining Inc., the parent company (“Goldgroup Mining”), has not disclosed the \$48 million award of damages, Nor the Lien against the Shares, nor has Goldgroup Mining disclosed the unsuccessful efforts of its subsidiary to challenge the \$ 48 million damages award, in its Annual Information Form -- the equivalent of its annual report to shareholders.

(b) An unrelated lawsuit, in which the amount in controversy was only \$3 million, was disclosed by Goldgroup Mining Inc.

(c) Goldgroup Resources currently holds a minority interest in the outstanding share capital of DynaMéxico. Goldgroup Resources has challenged this level of ownership through the legal system, but this challenge has also been unsuccessful. The ownership of Goldgroup Resources in the capital of DynaMéxico remains at 20%.

(d) Goldgroup Mining, the parent company, has not disclosed the unsuccessful efforts of Goldgroup Resources to challenge this ownership level in DynaMéxico, in its Annual Information Form.

(e) Since 2005, the exclusive operator of the SJG Project, under contract with (and an affiliate of) DynaMéxico, is Mineras de DynaResource S.A. de C.V. (“DynaMineras”). This operating control of the SJG Project has continued uninterrupted since 2005, before Goldgroup Resource contributed any capital investment to DynaMéxico.

(f) Goldgroup Mining, the parent company, has not disclosed that DynaMineras has operating control of the SJG Project, in its Annual Information Form.

(g) Since 2000, the President of DynaMéxico holds broad powers of attorney granted by the shareholders of DynaMéxico. The powers of attorney give the President broad authority to act for DynaMéxico. The powers of attorney existed before Goldgroup Resources contributed any capital investment to DynaMéxico.

(h) Goldgroup Mining, the parent company, has not disclosed the existence of the powers of attorney held by the President of DynaMéxico, in its Annual Information Form.

**DynaMéxico's further clarifying statements regarding the SJG Project:**

(a) In recent years, Goldgroup Mining and Goldgroup Resources ("Goldgroup") have continuously misrepresented ownership interest and shareholder position related to DynaMéxico and the SJG Project;

(b) DynaMéxico, since May 2000, owns 100% of the mining concessions and related interest comprising the SJG Project;

(c) At no time has Goldgroup owned any interest in the SJG Project; rather its only ownership interests have been earned under agreement as a common shares equity interest (shareholder's interest) of DynaMéxico;

(d) DynaResource, Inc., Irving, Texas (OTCQB: DYNR - “DynaUSA”) currently owns 80% of the outstanding share Capital of DynaMéxico; Goldgroup currently owns 20% of the outstanding share capital of DynaMéxico;

(e) At no time during its involvement as a common shares equity interest holder (shareholder) of DynaMéxico, has Goldgroup been an operator at the SJG Project;

(f) There is no joint venture agreement with Goldgroup involving the SJG Project;

(g) Since the earning of its shareholder’s interest in DynaMéxico (March 2011), Goldgroup has continuously refused to contribute funds to the ongoing maintenance, advance, and further development of the SJG Project;

(h) Consistently and continuously since March 2011, Goldgroup has sought to, and threatened to stop, delay, or otherwise impair and negatively impact the financing, maintenance, advance and further development of the SJG Project;

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

### **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 March 31, 2018. 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 March 31, 2018, our Chief Executive Officer and Chief Financial Officer as of March 31, 2018, and as of the date of this Report, have concluded that as of the end of the period covered by this report, our internal control over financial reporting was not effective. We have identified two areas which contain material weaknesses. First, the size of the Company and inherent limitations in companies with limited accounting staff prevent the desired multiple checks and balances prior to processing daily operations. We need more compensating controls. Though adequate processes are in place and functioning, subsequent reviews are deemed necessary to identify unauthorized transactions. Secondly; the same inherent current limitation on company staffing requires specialized outside accounting assistance to implement additional procedures that are effective, and another review to the process, to ensure that all material information required to be filed in the quarterly report on Form 10-Q has been made known to them. The material weaknesses identified will be addressed with the implementation of revised internal control procedures to be developed and approved by the Board of Directors and the Companies external auditors. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

#### 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
- (d) not arise directly and immediately from the Earn In/Option Agreement, dated September 1, 2006.

#### **\$48M 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.

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

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, **ELEVENTH:** 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”).

### **Denial of Amparo Appeal**

On August 24, 2017 a Federal Amparo Judge (“Juzgado de Distrito”) in the State of Vera Cruz, Mexico, dismissed Goldgroup Resources Inc’s Amparo Trial Challenge to the \$48 M USD damages award previously granted in favor of DynaMéxico. Pursuant to the dismissal ruling, the \$48M USD damages award, previously granted to DynaMéxico by the Thirty-Sixth Civil Court of the Superior Court of Justice of the Federal District of Mexico on October 5, 2015 – was effectively confirmed.

### **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 Arbitration proceeding and should have prohibited Goldgroup Resources Inc. participation as well.

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 vast 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 immediately 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.

Pursuant to Article 1424 of the Commercial Code of México, the arbitration provision established under SIXTH: 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.

(C) 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.

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



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

(F) 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).

### **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.

### **Recommendation to Vacate Arbitration Ruling issued by United States Magistrate Judge**

On February 13, 2018 a Recommendation to Vacate the Arbitration Ruling was issued by a United States Magistrate Judge of the 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-Q.

**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: May 15, 2018