DYNARESOURCE INC
Form 10-Q
August 19, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

From the transition period ___________ to ____________.

Commission File Number 000-30371

DYNARESOURCE, INC.

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

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

222 W Las Colinas Blvd., Suite 744 East Tower, Irving, Texas 75039

(Address of principal executive offices)

(972) 868-9066

(Issuer's telephone number)

N/A

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

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

Yes [X] 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 [X]

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

Yes [ ] No [X]

As of August 17, 2016, there were 16,722,825 shares of Common Stock of the issuer outstanding.

1

TABLE OF CONTENTS

PART I

ITEM 1. FINANCIAL STATEMENTS

DYNARESOURCE, INC.

Consolidated BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$2,342,830	$1,922,599
Accounts Receivable	442,164	145,650
Inventories	104,157	98,056
Foreign Tax Receivable and Other Current	799,415	603,076
Total Current Assets	3,688,566	2,769,381
Mining Equipment and Fixtures (Net of Accumulated Depreciation of $831,911 and $823,044	582,894	635,950
Mining Concessions	4,132,679	4,132,678
Investments in Affiliate	70,000	70,000
Receivables from Affiliate	145,031	159,143
Other Assets	18,681	20,130
TOTAL ASSETS	$8,637,851	$7,787,282
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$272,219	$259,762
Convertible Notes Payable	956,250	956,250
Due to Non-Controlling Interest	231,500	231,500
Advances—Related Party	100,000	150,000
Accrued Expenses	852,354	799,249
Derivative Liabilities	5,178,458	5,382,737
Total Current Liabilities	7,590,781	7,779,498
TOTAL LIABILITIES	7,590,781	7,779,498
Preferred Stock, Series C, $.0001 par value, 1,733,221 Shares Authorized, 1,733,221 Shares Issued and Outstanding	$4,333,053	$4,333,053
Stockholders' Equity:		
Preferred Stock, Series A, $.0001 par value, 1,000 shares		

Authorized, 1,000 and 1,000 Issued and Outstanding	$1	$1
Preferred Stock, $.0001 par value, 19,000,000 shares		
Authorized, no shares issued and outstanding	—	—
Common Stock, $.01 par value, 25,000,000 shares authorized,		
16,722,825 and 16,722,825 shares issued and outstanding	167,228	167,228
Preferred Rights	40,000	40,000
Additional Paid In Capital	55,083,783	55,083,783
Treasury Stock	(3,175,515)	(3,175,515)
Accumulated Other Comprehensive Income	5,552,031	4,822,094
Accumulated Deficit	(54,680,447)	(54,800,910)
Total DynaResource, Inc. Stockholders' Equity	2,987,081	2,136,681
Non-controlling Interest	(6,273,064)	(6,461,950)
TOTAL EQUITY (DEFICIT)	$(3,285,983)	$(4,325,269)
TOTAL LIABILITIES AND EQUITY	$8,637,851	$7,782,282

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

DYNARESOURCE, INC.

Consolidated Statements of Operations

(Unaudited)

	Three Months June 30, 2016	**Three Month June 30, 2015**	**Six Months June 30, 2016**	**Six Months June 30, 2015**
REVENUES	$3,156,746	$—	$5,164,925	$144,558
COSTS AND EXPENSES OF MINING OPERATIONS				
Production Costs Applicable to Sales	563,160	20,000	865,155	45,000
Mine Operating Costs	1,311,942	40,000	1,975,350	95,000
Pre-Pilot Production Costs	—	316,406	—	800,561
Property Holding Costs	—	116,705	133,084	236,317
General and Administrative	557,221	280,466	1,012,600	720,644
Share Based Compensation	—	97,500	—	486,135
Depreciation and Amortization	34,310	6,100	48,130	17,810
Total Operating Expenses	2,466,633	877,177	4,034,319	2,401,467
NET OPERATING INCOME (LOSS)	690,113	(877,177)	1,130,606	(2,256,909)
OTHER INCOME (EXPENSE)				
Foreign Currency Gains (Losses)	(1,242,740)	(381,854)	(1,142,873)	(844,683)
Interest Income (Expense)	(29,883)	(49,441)	(59,766)	(160,021)
Derivatives Adj. Mark-to-Market Gain (Loss)	—	—	204,279	—
Other Income (Expense)	174	—	360	—
Total Other Income (Expense)	(1,272,449)	(431,295)	(998,000)	(1,004,704)
NET INCOME (LOSS) BEFORE TAXES	(582,336)	(1,308,472)	132,606	(3,261,613)
TAXES	—	—	—	—
NET INCOME (LOSS)	$(582,336)	$(1,308,472)	$132,606	$(3,261,613)
Cumulative Dividend for Series C Preferred				
Accretion Expense of Preferred Stock to Redemption Value	$(37,263)	(4,637,178)	(80,000)	(4,637,178)
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	$120,076	$53,879	$147,857	$117,069

ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(499,523)	$(5,891,771)	$200,463	$(7,781,722)
EARNINGS PER SHARE DATA				
ATTRIBUTABLE TO THE EQUITY HOLDERS OF DYNARESOURCE, INC:				
Basic and Diluted Loss per Common Share	$(.03)	$(.38)	$.01	$(.52)
Weighted Average Shares Outstanding, Basic and Diluted	16,722,825	15,367,437	16,722,825	15,054,383
OTHER COMPREHENSIVE INCOME (LOSS)				
NET INCOME (LOSS) PER ABOVE	$(582,336)	$(1,308,472)	$132,606	$(3,261,613)
Accretion Expense of Preferred Stock to Redemption Value	—	(4,637,178)	—	(4,637,178)
Foreign Currency Translation Gains (Losses)	(734,433)	(336,591)	(729,937)	(1,071,345)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(734,433)	(336,591)	(729,937)	(1,071,345)
TOTAL COMPREHENSIVE INCOME (LOSS)	$(1,316,769)	$(6,282,241)	$(597,331)	$(8,970,136)
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF DYNARESOURCE, INC.	$(979,067)	$(6,225,865)	$(260,588)	$(8,868,144)
NON-CONTROLLING INTERESTS	$(337,702)	$(56,376)	$(336,743)	$(101,922)
TOTAL COMPREHENSIVE INCOME (LOSS)	(1,316,769)	(6,282,241)	(597,331)	(8,970,136)

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

DYNARESOURCE, INC.

Consolidated Statements of Changes in Stockholders’ Equity

	Preferred Series A Shares	Series A Amount	Common Shares	Common Amount	Preferred Rights	Additional Paid In Capital	Treasury Shares	Treasury Amount	Other Comprehensive Income	Accumulated Deficit
Balance, January 1, 2016	**1,000**	**1**	**16,722,825**	**167,228**	**40,000**	**55,083,783**	**1,112,313**	**(3,175,515)**	**4,822,094**	**(54,800,910)**
Other Comprehensive Income									**729,937**	
Net Income										**132,606**
Dividends										**(160,000)**
Non-Controlling Interest										**147,857**
Balance, June 30, 2016	**1,000**	**1**	**16,722,825**	**167,228**	**40,000**	**55,083,783**	**1,112,313**	**(3,175,515)**	**5,552,031**	**(54,680,447)**

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

DYNARESOURCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$132,606	$(3,261,613)
Adjustments to reconcile net loss to cash (used in) Operating activities		
Issuance of Common Stock for Services to Related Party	—	435,000
Issuance of Treasury Shares for Services	—	51,135
Depreciation and Amortization	48,130	17,810
Change in Derivative Liability	(204,279)	—
Change in Operating Assets and Liabilities:		
Accounts Receivable	(315,678)	19,496
Inventory	(13,163)	—
Receivables from Affiliate	(5,121)	5,302
Foreign Tax Receivable	(245,131)	(61,324)
Other Current Assets	1,205	—
Accounts Payable	16,037	55,334
Accrued Liabilities	66,020	377,477
Other Assets	(1,314)	—
CASH FLOWS (USED IN) OPERATING ACTIVITIES	(520,688)	(2,361,383)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property	—	(58,754)
Other Assets	(37,572)	(22,712)
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(37,572)	(81,466)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Advance from Related Party	—	325,000
Proceeds from Promissory Notes	—	500,000
Proceeds of Sale of Common Stock	—	2,917,750
Payment on Advance to Related Party	(50,000)	—
Payment of Dividends	(160,000)	—
Payment of Note Payable	—	(203,500)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	(210,000)	3,539,250
Effect of Foreign Exchange	1,188,491	1,025,291
NET INCREASE (DECREASE) IN CASH	420,231	2,284,624
CASH AT BEGINNING OF PERIOD	1,922,599	250,959
CASH AT END OF PERIOD	$2,342,830	$2,535,583

SUPPLEMENTAL DISCLOSURES		
Cash Paid for Interest	$**59,766**	$7,442
Cash Paid for Income Taxes	—	—

NON CASH TRANSACTIONS

Issuance of Common Stock for Treasury Stock	—	$1,305,000
Conversion of Interest to Notes	—	$34,304
Issuance of Preferred C Stock (less legal cost)	—	$3,455,000
Derivative Liability due to Golden Post	—	$5,178,458
Accretion of Preferred Stock to Redemptive Value	—	$4,637,178

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

DYNARESOURCE, INC.

Notes to the UNAUDITED Consolidated Financial Statements

June 30, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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.

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

In management's opinion, the unaudited Consolidated Statements of Operations and Comprehensive Income for the six months ended June 30, 2016 and 2015, the Consolidated Balance Sheets as at June 30, 2016 (unaudited) and December 31, 2015, the unaudited Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2016, and the unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, contained herein, reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company's financial position, results of operations and cash flows on a basis consistent with that of the Company's prior audited annual consolidated financial statements. However, the results of operations for the interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these financial statements should be read in conjunction with the audited financial statements and notes thereto and summary of significant accounting policies included in the Company's Form 10-K for the year ended December 31, 2015. Except as noted below, there have been no material changes in the footnotes from those accompanying the audited consolidated financial statements contained in the Company's Form 10-K for the year ended December 31, 2015. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated.

NOTE 2 – INVENTORY

Inventories are carried at the lower of cost or net realized value and consist of mined tonnage, gravity-flotation concentrates, and gravity tailings (or, flotation feed material). Inventory balances of June 30, 2016 and December 31, 2015, respectively, were as follows:

	2016	2015
Gravity Tailings (Flotation Feed Material)	$104,157	$98,056
Total Inventories	$104,157	$98,056

NOTE 3 – INVESTMENT IN AFFILIATE/RECEIVABLES FROM AFFILIATE/OTHER ASSETS

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 currently has a receivable from DynaResource Nevada, Inc. of $145,131 and an investment balance of $70,000 as of June 30, 2016. The balances as of December 31, 2015 were $159,143 in receivables and $70,000 in investment, respectively.

NOTE 4 – 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" Series I). 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, and generated from the bulk sampling material (if any, and up to fifty thousand tonnes) processed through the existing, or improved mill facilities at San Jose de Gracia. Such net profits (if any) are to be calculated after deducting all expenses related to the processing of the bulk sample material, and after a prior deduction of thirty-three percent (33%) from the profits, to be deposited in a sinking fund cash reserve. This net profit percentage (if any) would be paid quarterly in arrears based on the profits generated (if any) for the prior quarter. At the time of the Series I Notes, there were no proven or probable reserves and the Company had not produced any net profits. Consequently, the fair value of the net profits interest on the date of the Series I Note was deemed to be zero. Further, no payments have been made under the terms of this codicil. The Notes originally matured on December 31, 2015. In April, 2015, the notes were extended to December 31, 2016.

The Company has the right to prepay the Series I Notes with a ten percent (10%) penalty. The notes are secured by the Company's stock at $5 per share.

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, 2015.

In 2013, the Company offered an inducement to all Series I Note holders to convert their Series I Notes and accrued interest into Series B Preferred Stock ("Series B"), $5/Share, which Series B was convertible into common stock on a 2 for 1 basis (i.e., $2.50 stock). This conversion into Series B created $197,771 in inducement expense, with an offset to additional paid in capital. In 2013, $340,000 principal and $22,734 of capitalized accrued interest of the Series I Notes were converted into Preferred Stock, Series B and 72,546 shares were issued. At June 30, 2014, these 72,546 Series B shares were converted into 145,092 common shares.

In April, 2015, the Company received note extensions (allonges) from all Series I note holders to ensure that all Series I Notes were in good standing and also extended the maturity date of the Series I Notes to December 31, 2016.

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, and generated from the bulk sampling material (if any, on the second fifty thousand tonnes) processed through the existing, or improved mill facilities at San Jose de Gracia. Such net profits (if any) are to be calculated after deducting all expenses related to the processing of the bulk sample material, and after a prior deduction of thirty-three percent (33%) from the profits, to be deposited in a sinking fund cash reserve. This net profit percentage (if any) would be paid quarterly in arrears based on the profits generated (if any) for the prior quarter. At the time of the Series II notes, there were no proven or probable reserves and the Company had not produced any net profits. Consequently, the fair value of the net profits interest on the date of the Series II note was deemed to be zero. Further, no payments have been made under the terms of this codicil. The Notes mature on December 31, 2016.

The Company has the right to prepay the Notes with a ten percent (10%) penalty. The notes are secured by the Company's stock at $5 per share.

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, 2016.

In April, 2015, the Company received allonges (note extensions) from all noteholders to ensure that all notes were in good standing and also confirmed the maturity of the Series II notes to be December 31, 2016.

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 $842,904) was contracted to convert into 337,162 common shares. In addition, 337,162 warrants are to be 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.

The company evaluated the application of ASC 470-50 and ASC 470-60 and determined that the Notes were not substantially different. As a result, it was concluded that the revised terms constituted a debt modification rather than a debt extinguishment.

At June 30, 2016, the principal and capitalized interest balance on the remaining Series I Notes was $793,125, and the principal and capitalized interest on the Series II Notes was $191,250, for a total Note balance of $956,250. The accrued interest for these notes were $29,883 and $29,883 as of June 30, 2016 and December 31, 2015, respectively.

NOTE 5 – STOCKHOLDERS' EQUITY

Stock Issuances

During the six months ended June 30, 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.

8

During the six months ended June 30, 2016, No common shares or other equity instruments were issued.

During the six months ended June 30, 2015, the Company issued 750,000 shares to Mineras de DynaResource SA de CV (a wholly owned subsidiary) in exchange for services at a fair value of $1.74 per share. The shares are carried in Treasury for consolidation purposes.

During the six months ended June 30, 2015, the Company issued 250,000 shares to Dynacap, a related party, for services rendered at a fair value of $1.74 per share.

Options / Warrants

During the year ended December 31, 2015 and the quarter ending June 30, 2016, no warrants were issued or exercised.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at December 31, 2014	1,259,650	$ 5.80	.96
Granted	3,892,689	$ 6.25	
Exercised	-	$	
Forfeited	(991,150)	$ 4.69	
Balance at December 31, 2015	4,161,189	$ 5.80	.96
Granted	-	$ -	
Exercised	-	$ -	
Forfeited	(18,000)	$ 5.00	
Balance at June 30, 2016	4,143,189	$ 5.80	.71
Exercisable at June 30, 2016	4,143,189	5.80	.71

NOTE 6 – RELATED PARTY TRANSACTIONS

Dynacap Group Ltd.

The Company paid $59,000 to Dynacap Group, Ltd. (an entity controlled by an officer of the Company) for consulting and other fees during the six months ended June 30, 2016.

Repayment of Advances from Former Officer

The Company paid a former Company Officer $50,000 for partial repayment of $150,000 advance made in 2015. $100,000 remains outstanding at June 30, 2016.

Advances from Non-Controlling Interest Holder

The Non-Controlling interest holder has advanced a total of $ 231,500 which remained outstanding at June 30, 2016.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company is required to pay taxes in México in order to maintain mining concessions owned by DynaMéxico. Additionally, the Company is required to incur a minimum amount of expenditures each year for all concessions held. The minimum expenditures are calculated based upon the land area, as well as the age of the concessions. Amounts spent in excess of the minimum may be carried forward indefinitely over the life of the concessions, and are adjusted annually for inflation. Based on Management's business plans, the Company does not anticipate that DynaMéxico will have any issues in meeting the minimum annual expenditures for the concessions, and DynaMéxico retains sufficient carry-forward amounts to cover over 20 years of the minimum expenditure (as calculated at the 2012 minimum, adjusted for annual inflation of 4%).

In addition to the surface rights held by DynaMéxico pursuant to the *Mining Act* of México and its Regulations (*Ley Minera y su Reglamento*), 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. $104,250 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).

In September 2008, the Company entered into a 37-month lease agreement for its corporate office. In August, 2011, 2012, 2013, 2014, and 2015 the Company entered into a one-year extension of the lease through August 31, 2016. The Company paid rent expense of $30,059 and $31,234 related to this lease for the six months ended June 30, 2016 and 2015, respectively.

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, 2015, 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 below; See Litigation below, and see Part II, Item 1., Legal Proceedings.

Litigation

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. (See Part II, Item 1. Legal Proceedings.)

NOTE 8 – 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 20%. Changes in Non-Controlling Interest for the six months ended June 30, 2016 and 2015, respectively were as follows:

	June 30, 2016	June 30, 2015
Beginning balance	$(6,461,950)	$(6,181,229)
Operating income (loss)	(147,857)	(117,069)
Share of other comprehensive income (loss)	336,743	(101,992)
Ending balance	$(6,237,064)	$(6,400,290)

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 9 – SUBSEQUENT EVENTS

Revenues from Previous Delivery and Sale of Gold Concentrates (Second Quarter 2016)

In July 2016, the Company, through its wholly owned subsidiary DynaMineras, reported the receipt of a total of $456,137 as payment for the sale of gold concentrates produced in June and delivered for sale on June 30, 2016. This amount was recorded as accounts receivable at June 30, 2016.

Gold Concentrate Deliveries for Sale (2016)

On July 12, 2016, DynaMineras reported the delivery for sale of 465 gross oz. gold concentrates (exact weights in gold and silver oz. to be determined at final settlement).

On July 28, 2016, DynaMineras reported the delivery for sale of 575 gross oz. gold concentrates (exact weights in gold and silver oz. to be determined at final settlement).

On August 10, DynaMineras reported the delivery for sale of 525 gross oz. gold concentrates (exact weights in gold and silver concentrates to be determined at final settlement).

Repayment of Advance from Former Officer and Director

On July 29, 2016 the Company paid a former Company Officer and Director the total balance owing of $100,000 as total repayment of $150,000 advances made in 2015.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 3 Inputs – Instruments with primarily unobservable value drivers.

As of June 30, 2016 and December 31, 2015, 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 June 30, 2016 Using:

	June 30, 2016	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
None	-	-	-	-
Totals	$ -	$ -	$ -	$ -
Liabilities:				
Derivative Liabilities	$ 5,178,458	-	-	5,178,458
Totals	$ 5,178,458	$ -	$ -	$ 5,178,458

Fair Value Measurement at December 31, 2015 Using:

Assets:				
None	-	-	-	-
Totals	$ -	$ -	$ -	$ -
Liabilities:				
Derivative Liabilities	$ 5,382,737	-	-	5,382,737
Totals	$ 5,382,737	$ -	$ -	$ 5,382,737

NOTE 11 – DERIVATIVE LIABILITIES

Preferred Series C Stock

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:

Annual volatility rate	134	%
Risk free rate	1.76	%
Holding Period	**5 years**	
Fair Value of common stock	$1.50	

For the period ended June 30, 2016, an active market for the Company's common stock did not exist. Accordingly, the fair value of the Company's common stock was estimated using a valuation model with level 3 inputs.

The below table represents the change in the fair value of the derivative liability during the six months ended June 30, 2016 and year ended December 31, 2015:

Year Ended	2016	2015
Fair value of derivative (stock), beginning of year	$2,419,359	$—
Gain on change in fair value of derivative	(266,659)	266,659
Fair value of derivative on the date of issuance	—	2,152,700
Fair value of derivative, June 30, 2106	$2,152,700	$2,419,359

11

Preferred Series C Warrants

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:

Annual volatility rate	**134**	%
Risk free rate	**1.76**	%
Holding Period	**5 years**	
Fair Value of common stock	**$1.5**	**0**

For the year ended December 31, 2015, an active market for the Company's common stock did not exist. Accordingly, the fair value of the Company's common stock was estimated using a valuation model with level 3 inputs.

The below table represents the change in the fair value of the derivative liability during the six months ended June 30, 2016 and the year ended December 31, 2015:

Year Ended	**2016**	**2015**
Fair value of derivative (warrants), beginning of the year	**$2,963,378**	**$—**
Gain on change in fair value of derivative	**62,380**	**(62,380)**
Fair value of derivative on the date of issuance	**—-**	**3,025,758**
Fair value of derivative, June 30, 2016	**$3,025,758**	**2,963,378**

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 Gracia Property;

14

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 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;

ilot 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 higher grade San Pablo area of the property commenced in March 2003.

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

Suspension of Production Activities (2006)

The Company initiated the test production activity in 2003 and, at that time, gold prices were depressed. Exploration funding opportunities, while available, were deemed to be too dilutive by Company management. 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.

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 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 June 30, 2016 is $2,107,500. 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.

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 (2014)

Operational Permits for the rehabilitation of the San Pablo Mine and for the refurbishment of the Pilot Mill Facility including the installation of the Tailings Pond area adjacent to the pilot mill facility were obtained in fall, 2013, leading to the rehabilitation of the San Pablo Mine and the refurbishing of the Pilot Mill Facility in 2014. Pilot Production Operations, including test underground mining activity commenced in October 2014, with approximately 1,676 Oz. Gold being delivered for sale during the startup testing phase.

Period	Total Tons Mined & Processed (Gravity Only)	Reported Mill Feed Grade (g/t Au)	Reported Recovery	Gross Gold Concentrates Produced (Au oz.)	Net Gold Concentrates Sold (Au oz.)
2014	**5,156**	**12.45**	**~45%**	**929**	**830**

Period	Total Tons Mined and Processed (Gravity + Flotation)	Reported Mill Feed Grade (g/t Au)	Reported Recovery	Gross Gold Concentrates Produced (Au oz.)	Net Gold Concentrates Sold (Au oz.)
2014	**3,694**	**7.86**	**~80%**	**747**	**608**

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 pilot mill 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. As a result, the Company projects that mining and milling volumes will approach 100 tons/day of mineralized material, in January, 2016.

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);

Summary of Test Mining and Pilot Mill Operations

DynaMineras reports the following summary of its test mining and pilot milling operations during 2015:

Period	Total Tonnes Mined & Processed	Reported Mill Feed Grade (g/t Au)	Reported Recovery %	Gross Gold Concentrates Produced (Au oz.)	Net Gold Concentrates Sold (Au oz.)
2015	**7,180**	**8.3**	**78%**	**1,495**	**1,308**

Test Underground Mining and Pilot Mill Operations (First Quarter 2016)

At March, 31 2016, the DynaMineras reports the following summary of its test mining and pilot milling operations conducted in the first quarter, 2016:

Period	Total Tonnes Mined & Processed	Reported Mill Feed Grade (g/t Au)	Reported Recovery %	Gross Gold Concentrates Produced (Au oz.)	Net Gold Concentrates Sold (Au oz.)
January, 2016	**2,521**	**11.3**	**80.0 %**	**740**	
February, 2016	**2,985**	**16.6**	**76.5 %**	**1,225**	**2,311**
March, 2016	**3,085**	**11.45**	**78.0 %**	**900**	
First Quarter, 2016	**8,591**	**13.20**	**78.6 %**	**2,865**	

Test Underground Mining and Pilot Mill Operations (Second Quarter 2016)

At June 30, 2016, the DynaMineras reports the following summary of its test mining and pilot milling operations conducted in the second quarter, 2016:

Period	Total Tonnes Mined & Processed	Reported Mill Feed Grade (g/t Au)	Reported Recovery %	Gross Gold Concentrates Produced (Au oz.)	Net Gold Concentrates Sold (Au oz.)
April, 2016	**1,546**	**12.93**	**85.0 %**	**500**	
May, 2016	**3,371**	**14.81**	**77.9 %**	**1,250**	
June, 2016	**4,290**	**15.16**	**76.5 %**	**1,600**	
Second Quarter, 2016	**9,207**	**14.66**	**78.4 %**	**3,400**	**2,710**

DynaMineras expects to continue its test underground mining activity and pilot milling operations in third quarter 2016; and projects the increased output from 150 tons/day to 200 tons/day from the mine and mill in the third quarter, 2016.

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 $5,164,925 and $144,558 for the six months ended June 30, 2016 and 2015.

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 2015, 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 fifteen years on the London Bullion Market ($/ounce):

Year	High	Low	Average
2002	$349	$278	$ 310
2003	$416	$320	$ 363
2004	$454	$375	$ 410
2005	$536	$411	$ 444
2006	$725	$525	$ 604
2007	$841	$608	$ 695
2008	$1,011	$713	$ 872
2009	$1,213	$810	$