DYNARESOURCE INC
Form 10-Q
May 15, 2018

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

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

(Address of principal executive offices)

(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]

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 [X]

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

1

TABLE OF CONTENTS

2

DYNARESOURCE, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
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
TOTAL ASSETS	$11,561,221	$11,493,312
LIBILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
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
TOTAL LIABILITES	6,532,876	7,593,434
Preferred Stock, Series C, $0.0001 per value, 1,733,221 shares Authorized, issued and outstanding	4,333,053	4,333,053
STOCKHOLDERS' EQUITY (DEFICIT)		
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

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.

3

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
COSTS AND EXPENSES OF MINING OPERATIONS		
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)
OTHER INCOME (EXPENSE)		
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
EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF DYNARESOURCE, INC.		

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.

4

DYNARESOURCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017

(Unaudited)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	702,075	470,137
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(219,300)	(34,077)
CASH FLOWS USED IN INVESTING ACTIVITIES	(219,300)	(34,077)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of Promissory Notes – Related Parties	(112,500)	(5,625)
Payment of Note Payable	(42,065)	—
CASH FLOWS USED IN FINANCING ACTIVITIES	(154,565)	(5,625)
Effect of Foreign Exchange	(786,668)	(739,644)
NET DECREASE IN CASH	(458,458)	(309,209)
CASH AT BEGINNING OF PERIOD	3,528,735	2,197,005
CASH AT END OF PERIOD	$3,070,277	$1,887,796

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	$—

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 Finesterre 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.

8

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):

		Mar 31, 2018	Dec 31, 2017
Exchange Rate at Period End	**Pesos**	**18.28**	**19.73**

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):

		Mar 31, 2018	Mar 31, 2017
Weighted Average Exchange Rate for the Three Months Ended	**Pesos**	**18.74**	**20.30**

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.

10

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** **March 31, 2018**	Three Months **Ended** **March 31, 2017**
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” l, 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:

	2018	**2017**
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:

	2018	**2017**
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:

(a) 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 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.

(b) A Common Stock Purchase Warrant (the "Golden Post Warrant") for the purchase of 2,166,527 shares of the 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

Preferred Stock (Undesignated)

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, 217 1,000,000 warrants were exercise 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.

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (Years)**	**Intrinsic Value**
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: