DYNARESOURCE INC
Form 10-Q
November 17, 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 September 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 November 15, 2016, there were 16,722,825 shares of Common Stock of the issuer outstanding.

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PART I

ITEM 1. FINANCIAL STATEMENTS

DYNARESOURCE, INC.

Consolidated BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$2,353,642	$1,922,599
Accounts Receivable	564,316	145,650
Inventories	557,450	98,056
Foreign Tax Receivable and Other Current	1,164,318	603,076
Total Current Assets	4,639,726	2,769,381
Mining Equipment and Fixtures (Net of Accumulated Depreciation of $835,441 and $823,044	614,263	635,950
Mining Concessions	4,132,678	4,132,678
Investments in Affiliate	70,000	70,000
Receivables from Affiliate	141,686	159,143
Other Assets	18,190	20,130
TOTAL ASSETS	$9,616,543	$7,787,282
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$276,065	$259,762
Convertible Notes Payable	956,250	956,250
Due to Non-Controlling Interest	231,500	231,500
Advances—Related Party	—	150,000
Accrued Expenses	1,059,267	799,249
Derivative Liabilities	5,382,737	5,382,737
Total Current Liabilities	7,905,819	7,779,498
TOTAL LIABILITIES	7,905,819	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	6,635,797	4,822,094
Accumulated Deficit	(54,644,389)	(54,800,910)
Total DynaResource, Inc. Stockholders' Equity	4,106,905	2,136,681
Non-controlling Interest	(6,729,234)	(6,461,950)
TOTAL EQUITY (DEFICIT)	$(2,622,329)	$(4,325,269)
TOTAL LIABILITIES AND EQUITY	$9,616,543	$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 **September 30, 2016**	**Three Month** **September 30, 2015**	**Nine Months** **September 30, 2016**	**Nine Months** **September 30, 2015**
REVENUES	$3,027,305	$—	$8,192,230	$140,548
COSTS AND EXPENSES OF MINING OPERATIONS				
Production Costs Applicable to Sales	443,703	—	1,308,858	45,000
Mine Operating Cost	747,403	—	2,030,093	78,452
Refining and Treatment Cost	313,670	—	1,006,330	16,548
Pre-Pilot Production Costs	—	662,420	—	1,462,981
Property Holding Costs	110,978	178,564	244,062	414,881
General and Administrative	653,429	565,420	1,666,029	1,286,064
Share Based Compensation	—	791,400	—	1,277,535
Depreciation and Amortization	29,495	35,443	77,626	53,253
Total Operating Expenses	2,298,678	2,233,247	6,332,998	4,634,714
NET OPERATING INCOME (LOSS)	728,627	(2,233,247)	1,859,232	(4,494,166)
OTHER INCOME (EXPENSES)				
Foreign Currency (Losses)	(460,885)	(1,359,680)	(1,603,758)	(2,204,363)
Interest Expenses	(29,883)	(35,759)	(89,649)	(195,780)
Inducement Costs	—	(293,822)	—	(293,822)
Derivatives Adj. Mark-to-Market Gain (Loss)	(204,279)	60,515	—	60,515
Other Income	185	432	545	432
Total Other Income (Expenses)	(694,862)	(1,628,314)	(1,692,862)	(2,633,018)
NET INCOME (LOSS) BEFORE TAXES	33,765	(3,861,561)	166,370	(7,127,184)
TAXES	—	—	—	—
NET INCOME (LOSS)	$33,765	$(3,861,561)	$166,370	$(7,127,184)
Cumulative Dividend for Series C Preferred	**$(40,000)**	**$(43,687)**	**$(120,000)**	**$(43,687)**
Accretion Expense of Preferred Stock to Redemption Value	**4—**	**$—**	**$—**	**$(4,637,178)**
ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	$2,294	$262,976	$150,151	$380,045
ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(3,941)	$(3,642,272)	$196,521	$(11,428,004)

EARNINGS PER SHARE DATA ATTRIBUTABLE TO THE EQUITY HOLDERS OF DYNARESOURCE, INC.				
Basic and Diluted Earnings (Loss) per Common Share	$.00	$(.22)	$.01	$(.73)
Weighted Average Shares Outstanding, Basic and Diluted	16,722,825	16,380,368	16,722,825	15,549,701
OTHER COMPREHENSIVE INCOME (LOSS)				
NET INCOME (LOSS) PER ABOVE	$33,765	$(3,861,561)	$166,370	$(7,127,184)
Accretion Expense of Preferred Stock to Redemption Value	—	—	—	(4,637,178)
Foreign Currency Exchange (Losses)	(1,083,766)	(1,435,514)	(1,813,703)	(2,506,860)
TOTAL OTHER COMPREHENSIVE (LOSS)	(1,083,766)	(1,435,514)	(1,813,703	(2,506,860)
TOTAL COMPREHENSIVE INCOME (LOSS)	$(1,050,001)	$(5,297,075)	$(1,647,333)	$(14,271,222)
ATTRIBUTABLE TO:				
EQUITY HOLDERS OF DYNARESOURCE, INC.	$219,610	$(5,400,312)	$(117,133)	$(14,476,451)
NON-CONTROLLING INTERESTS	$(1,269,611)	$(103,237)	$(1,530,200)	$(205,229)
TOTAL COMPREHENSIVE (LOSS)	$(1,050,001)	$(5,297,075)	$(1,647,333)	$(14,271,222)

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

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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	Accumulate 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									**1,813,703**	
Net Income										316,521
Dividends										**(160,000)**
Non-Controlling Interest										
Balance, September 30, 2016	**1,000**	**1**	**16,722,825**	**167,228**	**40,000**	**55,083,783**	**1,112,313**	**(3,175,515)**	**6,635,797**	**(54,644,389**

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

DYNARESOURCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$166,370	$(7,127,184)
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	—	842,535
Inducement Expense	—	293,822
Adjustment Mark to Market for Pref, Stk., Series C	—	(60,515)
Depreciation and Amortization	77,626	53,253
Change in Operating Assets and Liabilities:		
Accounts Receivable	(462,358)	19,496
Inventory	(500,133)	—
Receivables from Affiliate	**(8,602)**	12,598
Foreign Tax Receivable	(464,472)	(248,962)
Other Current Assets	(189,863)	—
Accounts Payable	22,669	(605)
Accrued Liabilities	339,208	(145,081)
Other Assets	(1,689)	—
CASH FLOWS (USED IN) OPERATING ACTIVITIES	(1,021,244)	(5,925,643)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale		**58,754**
Purchase of Property	**(127,997)**	**(549,110)**
Other Assets	—	24,307
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(127,997)	(466,049)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Advance from Related Party	—	325,000
Proceeds from Sale of Preferred Stock, Series C	—	3,455,000
Proceeds from Promissory Notes	—	500,000
Proceeds from Sale of Common Stock	—	2,917,750
Payment on Advance to Related Party	(150,000)	—
Payment of Dividends	(160,000)	—
Payment of Note Payable	—	(203,500)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	(310,000)	6,994,250
Effect of Foreign Exchange	1,890,284	2,387,029
NET INCREASE (DECREASE) IN CASH	431,043	2,989,587

CASH AT BEGINNING OF PERIOD	1,922,599	250,959
CASH AT END OF PERIOD	$2,353,642	$3,240,546
SUPPLEMENTAL DISCLOSURES		
Cash Paid for Interest	$89,648	$145,584
Cash Paid for Income Taxes	$—	$—
NON-CASH TRANSACTIONS	—	—
Issuance of Common Stock for Treasury Stock		$(1,305,000)
Conversion of Interest to Notes		$33,119
Derivative Liability due to Golden Post		$5,178,458
Accretion of Preferred Stock to Redemptive Value		$4,637,178
Conversion of Advance to Common Stock		$175,000
Conversion of Note Payable to Common Stock		$(842,904)
Issuance of Treasury Shares to Subsidiary		$1,305,000

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

DYNARESOURCE, INC.

Notes to the UNAUDITED Consolidated Financial Statements

September 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 nine months ended September 30, 2016 and 2015, the Consolidated Balance Sheets as at September 30, 2016 (unaudited) and December 31, 2015, the unaudited Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2016, and the unaudited Consolidated Statements of Cash Flows for the nine months ended September 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. Certain prior-period amounts have been reclassified to conform to the current period presentation. 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 September 30, 2016 and December 31, 2015, respectively, were as follows:

	2016	2015
Mined Tonnage (Stock Piled, Non-Crushed)	**$490,450**	**$**
Gravity-Flotation Concentrates (Not Delivered for Sale)	**$67,000**	**$98,056**
Total Inventories	**$557,450**	**$98,056**

The significant in inventory is due to the increase in mining production and staging the materials from mine to crusher and final consolidation for shipment to the refiner.

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"), 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 $141,686 and an investment balance of $70,000 as of September 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 common 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, 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 issuance 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 of net profits have been made under the terms of the Series I Notes. The Series I Notes originally matured on December 31, 2015. In April, 2015, the Series I 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 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 to extend 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 Notes was deemed to be zero. Further, no payments of net profits have been made under the terms of the Series II Notes. The Series II Notes mature on December 31, 2016.

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

Each Series II 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 Series II Note holders to ensure that all Series II Notes were in good standing and 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) Series II 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 Series II 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 September 30, 2016, the principal and capitalized interest balance on the remaining Series I Notes was $765,000 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 September 30, 2016 and December 31, 2015, respectively.

NOTE 5 – STOCKHOLDERS' EQUITY

Stock Issuances

During the nine months ended September 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.

During the nine months ended September 30, 2016, no common shares or other equity instruments were issued.

Options / Warrants

During the year ended December 31, 2015 and the quarter ending September 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 September 30, 2016	4,143,189	$ 5.80	.46
Exercisable at September 30, 2016	4,143,189	5.80	.46

NOTE 6 – RELATED PARTY TRANSACTIONS

Dynacap Group Ltd.

The Company paid $91,000 to Dynacap Group, Ltd. (an entity controlled by an officer of the Company) for consulting and other fees during the nine months ended September 30, 2016.

Repayment of Advances from Former Officer

On July 29, 2106, the Company paid a former Company Officer and Director the amount of $100,000 as final and total repayment of $150,000 advance made in 2015.

Advances from Non-Controlling Interest Holder

The Non-Controlling interest holder has advanced a total of $ 231,500 which remained outstanding at September 30, 2016, $120,000 was advanced in 2013 and an additional $111,500 was advanced in 2014.

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 $51,663 and $45,496 related to this lease for the nine months ended September 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 nine months ended September 30, 2016 and 2015, respectively were as follows:

	September 30, 2016	September 30, 2015

Beginning balance	$(6,461,950)	$(6,181,229)
Operating income (loss)	(150,151)	(380,045)
Share of other comprehensive (loss)	(117,133)	(205,229)
Ending balance	$(6,729,234)	$(6,766,503)

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 (Third Quarter 2016)

In October 2016, the Company, through its wholly owned subsidiary DynaMineras, reported the receipt of a total of $518,609 as payment for the sale of gold concentrates produced in September and delivered for sale on September 30, 2016. This amount was recorded as accounts receivable at September 30, 2016.

Gold Concentrate Deliveries for Sale (2016)

On October 12-13, DynaMineras reported the delivery for sale of 500 gross oz. gold concentrates (exact weights in gold and silver concentrates to be determined at final settlement).

On October 30-31, DynaMineras reported the delivery for sale of 550 gross oz. gold concentrates (exact weights in gold and silver concentrates to be determined at final settlement).

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 September 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 September 30, 2016 Using:

	September 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	$ 5,382,737	-	-	5,382,737
Totals	$ 5,382,737	$ -	$ -	$ 5,382,737

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