



Condensed Interim Consolidated Financial Statements

**For the Three and Nine Months Ended
September 30, 2018**

(Expressed in Canadian dollars)

Unaudited – Prepared by Management

The accompanying unaudited condensed interim consolidated financial statements of dynaCERT Inc. for the three and nine months ended September 30, 2018 have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that these unaudited condensed interim consolidated financial statements have not been reviewed by its auditor.

dynaCERT Inc.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

(Unaudited)

(Expressed in Canadian dollars)

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2018	(Restated – note 11) 2017	2018	(Restated – note 11) 2017
Revenue	\$ 57,921	\$ 28,396	66,864	\$ 246,080
Cost of goods sold	36,991	9,642	42,375	102,580
	20,930	18,754	24,489	143,500
Operating expenses				
Business development and promotion	61,834	56,535	546,531	236,785
General and administration	389,818	252,667	926,659	986,672
Interest and accretion	819	2,436	34,807	28,054
Legal and audit	44,880	29,066	165,337	161,888
Loss on settlement of debt	-	41,014	-	41,014
Research and development	1,016,336	361,239	1,780,787	686,160
Stock-based compensation	126,605	385,947	1,599,685	858,246
Wages and benefits	549,659	482,733	1,340,386	997,670
	2,189,951	1,570,623	6,394,192	3,996,489
Net loss and comprehensive loss for the period	\$ 2,169,021	\$ 1,551,869	\$ 6,369,703	\$ 3,852,989
Basic and diluted loss per share	\$ 0.009	\$ 0.007	\$ 0.026	\$ 0.017
Weighted average number of common shares outstanding	253,562,016	236,963,662	248,813,985	233,252,164

The accompanying notes are an integral part of these financial statements

dynaCERT Inc.
Condensed Interim Condensed Statements of Changes in Shareholders' Equity

(Unaudited)
(Expressed in Canadian dollars)

	Capital stock Shares	Capital stock Amount	Equity Component	Warrant reserve	Share- based payments reserve	Deficit	Total Equity (Deficit)
		\$		\$	\$	\$	\$
Balance, December 31, 2016	229,745,980	30,804,948	-	-	3,850,324	(32,338,130)	2,317,142
Units issued in private placement	4,285,712	2,571,429	-	428,571	-	-	3,000,000
Finance costs		(28,865)		5,775	-	-	(23,090)
Shares issued on exercise of options	4,008,000	1,272,433	-	-	(645,846)	-	626,587
Transfer on expiry of options		-	-	-	(109,765)	109,765	-
Share-based payments	855,537	748,282	-	-	-	-	748,282
Share-based compensation		-	-	-	472,299	-	472,299
Net loss and comprehensive loss for the period (restated)		-	-	-	-	(3,996,489)	(3,996,489)
Balance, September 30, 2017	238,895,229	35,368,227	-	434,346	3,567,012	(36,224,854)	3,144,731
Balance, December 31, 2017	239,128,474	35,386,102	341,597	434,346	4,703,192	(38,799,728)	2,065,509
Units issued in private placement	11,472,856	3,704,957	-	433,643	-	-	4,138,600
Finance costs		(9,668)	-	-	-	-	(9,668)
Units issued on redemption of convertible notes	3,050,686	1,128,753	(341,597)	152,534	-	-	939,690
Shares issued on exercise of options	3,335,000	770,945	-	-	(302,195)	-	468,750
Share-based compensation		-	-	-	1,599,685	-	1,599,685
Net loss and comprehensive loss for the period		-	-	-	-	(6,369,703)	(6,369,703)
Balance, September 30, 2018	256,987,016	40,981,089	-	1,020,523	6,000,682	(45,169,431)	2,832,863

The accompanying notes are an integral part of these financial statements

dynaCERT Inc.**Condensed Interim Consolidated Statement of Cash Flows**

(Unaudited)

(Expressed in Canadian dollars)

	For the three months ended September 30		For the nine months ended September 30	
	2018	(Restated – note 11) 2017	2018	(Restated – note 11) 2017
	\$	\$	\$	\$
Cash flows from operating activities:				
Net income (loss) for the period	(2,169,021)	(1,551,869)	(6,369,703)	(3,852,989)
Accretion of interest	-	1,433	-	24,645
Amortization of property and equipment	35,361	20,670	105,497	70,829
Amortization of intangibles	15,826	30,507	47,482	62,707
Share-based compensation	126,505	385,947	1,599,685	858,246
Loss on settlement of debt	-	-	-	41,014
Change in non-cash working capital items:				
Accounts receivable	34,508	(503,945)	(5,985)	(455,705)
HST recoverable	98,493	(34,851)	272,759	(34,851)
Inventory	65,048	(599,303)	(308,965)	(2,775,646)
Prepaid expenses and deposits	323,228	59,795	159,946	27,969
Accounts payable and accrued liabilities	680,073	(47,742)	393,539	(488,840)
Customer deposits	20,265	-	20,265	362,308
Deferred revenue	47,386	-	136,525	-
Net cash provided by (used in) operating activities	(722,228)	(2,227,608)	(3,948,955)	(6,088,768)
Cash flows used in investing activities:				
Acquisition of property and equipment	(508,395)	(85,890)	(536,785)	(233,952)
Acquisition of intangible assets	(33,044)	(4,900)	(52,495)	(133,057)
Net cash used in investing activities	(541,439)	(90,790)	(589,280)	(357,009)
Cash flows from financing activities:				
Proceeds from issuance of units	1,000,000	2,000,000	4,138,600	3,000,000
Finance costs	-	(23,090)	(9,668)	(23,090)
Advance from director	65,000	-	65,000	-
Proceeds from exercise of options	275,000	159,000	468,750	626,587
Net cash provided by (used in) financing activities	1,340,000	2,135,910	4,662,682	3,603,497
Increase (decrease) in cash during the period	76,333	(182,488)	124,447	(2,842,280)
Cash, beginning of period	57,288	215,846	9,174	2,875,638
Cash, end of period	\$ 133,621	\$ 33,358	\$ 133,621	\$ 33,358

The accompanying notes are an integral part of these financial statements

DynaCERT Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2018
(Expressed in Canadian dollars)

1. NATURE OF BUSINESS AND GOING CONCERN UNCERTAINTY

Nature of business

dynaCERT Inc. (“dynaCERT” or the “Company”) was incorporated under the laws of the Province of Ontario. The address of the Company’s head office is 501 Alliance Avenue – Suite 101, Toronto, Ontario. The Company’s shares are listed on the TSX-V under the trading symbol DYA. These consolidated financial statements include the results of DynaCERT and its wholly owned subsidiary, Dynamic Fuel Systems USA Inc. (“Dynamic”).

The Company is engaged in the design, engineering, testing, manufacturing and distribution of a patent pending transportable hydrogen generator aftermarket product. The system is a patent pending aftermarket retrofit product that provides performance enhancements by injecting hydrogen and oxygen into the air intake manifold, resulting in improved fuel efficiency and reduced carbon emissions.

Going concern uncertainty

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These condensed interim consolidated financial statements do not include any adjustments to amounts and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

For the three months ended September 30, 2018, the Company incurred a net loss of \$2,169,021 (September 30, 2017 - \$1,551,869) and had negative operating cash flows of \$722,228 (September 30, 2017 - \$2,227,608). The Company has an accumulated deficit of \$45,169,431 since inception (December 31, 2017 - \$38,799,728) and does not have sufficient cash and receivables as at September 30, 2018 to meet its expected obligations over the next twelve months. These factors raise significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to generate cash flows from operations and to complete negotiations to obtain and successfully close additional funding from debt financing, equity financings or through other arrangements. While the Company has been successful in arranging financing in the past, there can be no assurance the debt financing or any equity offering will be successful. These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern. These condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

The Company may need to raise additional capital to fund operations. This need may be adversely impacted by uncertain market conditions, approval by regulatory bodies, and adverse results from operations. The Company believes it will be able to acquire sufficient funds to cover planned operations through the next twelve months from anticipated revenue during fiscal 2018 and by securing additional financing through additional private placements if required. The outcome of these matters cannot be predicted at this time.

DynaCERT Inc.
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(Expressed in Canadian dollars)

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements as at and for the year ended December 31, 2017.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2018.

The policies applied in these condensed interim consolidated financial statements follow the same accounting policies and methods of application as our most recent annual financial statements. Accordingly, they should be read in conjunction with our audited financial statements for the year ended December 31, 2017.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary. All financial information is expressed in Canadian dollars unless otherwise stated and have been rounded to the nearest dollar.

Use of estimates and judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes may differ from these estimates.

Significant areas requiring the use of estimates and assumptions include the determination of the useful lives of property and equipment and intangible assets with finite lives, provisions, recoverability of deferred tax assets, valuation of share-based payments, and the determination of impairment of indefinite life intangible assets.

3. INVENTORY

	September 30, 2018	December 31, 2017
Raw materials	\$ 2,731,083	\$ 2,256,854
Work in process	1,248,495	203,936
Finished goods	352,372	1,562,195
	\$ 4,331,950	\$ 4,022,985

DynaCERT Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

For the Three and Nine Months Ended September 30, 2018

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT

	September 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Plant equipment	\$1,230,226	\$ 810,503	\$ 419,723	\$ 880,947	\$ 797,402	\$ 83,545
Tooling equipment	328,555	50,222	278,333	141,049	29,593	111,456
Office equipment	243,760	230,103	13,657	243,760	227,694	16,066
Furniture and fixtures	513,729	497,049	16,680	513,729	494,106	19,623
Leasehold improvements	276,302	254,164	22,138	276,302	187,749	88,553
	\$2,592,572	\$ 1,842,041	\$ 750,531	\$ 2,055,787	\$ 1,736,544	\$ 319,243

Amortization expense of \$105,497 (2017 - \$70,829) has been recorded within general and administration expenses for the nine months ended September 30, 2018.

5. INTANGIBLES

	September 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	119,805	11,779	108,026	67,310	6,731	60,579
Trademarks	6,032	2,032	4,000	6,032	1,162	4,870
Software	315,078	79,554	235,524	315,078	37,991	277,087
	\$ 440,915	\$ 93,365	\$ 347,550	\$ 388,420	\$ 45,884	\$ 342,536

Amortization expense of \$47,482 (2017 - \$62,707) has been recorded within general and administration expense for the nine months ended September 30, 2018.

6. CONVERTIBLE NOTES

On November 17, 2017 the Company completed a non-brokered private placement of convertible notes for a principal amount of \$1,260,000. The notes were issued at a price of \$0.84 per note and carry a coupon of \$0.07 per note, payable annually on September 30. The notes mature on September 30, 2020. Each note is convertible at the option of the holder in to one unit, with each unit consisting of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant has an exercise price of \$1.00 has a term of two years from the date of issuance. If at any time after the four-month hold period expires the common shares trade over the price of \$1.75 per share for ten or more consecutive trading days, the Company has the right to give notice to the holders that the conversion feature of the notes will expire within 30 days of such notice.

As the notes contain a conversion feature, on initial recognition the convertible notes were bifurcated into their liability and equity components using the effective interest rate method. The value of the liability component at the time of issue is calculated as the discounted cash flows for the convertible notes assuming a risk-adjusted interest rate which represents the estimated rate for a note without a conversion feature. The fair value of the conversion feature is determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component, being a financial liability of \$918,403 and an equity instrument of \$341,597. Transaction fees in the amount of \$20,914 were incurred in connection with the financing.

In January 2018 the Company completed a debt settlement whereby the holders of the existing convertible notes redeemed their notes for a total amount of \$1,281,288 representing principal and interest accrued, with the redemption being settled through the issuance of 3,050,686 units, with each unit having the same terms as those issued in the placement described in note 7. As a result of the redemption, the equity component has been extinguished.

DynaCERT Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

For the Three and Nine Months Ended September 30, 2018

(Expressed in Canadian dollars)

7. CAPITAL STOCK

The Company is authorized to issue unlimited common shares without par value.

During the three months ended September 30, 2018 the Company announced a private placement offering of up to \$3,000,000 of units at \$0.25 with each unit consisting of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.50 for a period of two years from the date of issue. The Company closed the first tranche of the financing in September for proceeds of \$1,000,000 and issued 4,000,000 units consisting of 4,000,000 common shares and 2,000,000 warrants.

During the six months ended June 30, 2018 the Company announced a non-brokered private placement of units at a price of \$0.42 per unit, with each unit consisting of one common share and one-half of one share purchase warrant with each whole warrant entitling the holder to purchase one common share at a price of \$0.50 for a period of two years from the date of issue. The Company closed the financing in April for total proceeds of \$3,138,600 and issued 7,472,856 units consisting of 7,472,856 common shares and 3,736,428 warrants.

The Company also completed a debt settlement whereby the holders of the existing convertible notes redeemed their notes for a total amount of \$1,281,288 representing principal and interest accrued, with the redemption being settled through the issuance of 3,050,686 units, with each unit having the same terms as those issued in the placement described above, resulting in the issuance of 3,050,686 shares and 1,525,343 warrants.

Share Options

During the period, the Company granted 5,913,096 (2017 – 2,968,000) stock options to its employees, consultants, directors and officers, with a weighted average exercise price ('WAEP') of \$0.43 (2017 – \$0.66). The options vested immediately, except for options granted to persons performing investor relations which vest 25% per quarter over one year. The estimated weighted average grant date fair values of the options ranged from \$0.08 to \$0.31 per option, as determined using the Black-Scholes valuation model and the following assumptions: risk free interest rate – from 2.02% to 2.18%; expected life in years – 1 to 5; expected volatility 80% to 108%; and expected forfeiture rate – 0%. The following options were outstanding as at September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	No. of Options	WAEP	No. of Options	WAEP
Opening balance	18,699,000	\$0.34	20,766,000	\$0.25
Granted	5,913,096	0.43	2,968,000	0.66
Exercised	(3,335,000)	0.12	(4,008,000)	0.16
Expired	-	-	(1,027,000)	0.22
Ending balance	21,277,096	\$0.40	18,699,000	\$0.34
Options exercisable	21,277,096	\$0.40	18,699,000	\$0.34

DynaCERT Inc.
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7. CAPITAL STOCK (Continued)

The following options were outstanding as at September 30, 2018 and December 31, 2017:

Expiry Date	Number of Options		Exercise Price
	2018	2017	
March 4, 2018	-	1,300,000	0.12
July 15, 2019	1,476,000	2,026,000	0.10
September 19, 2019	1,000,000	1,000,000	0.58
February 26, 2020	1,990,000	2,725,000	0.15
December 11, 2020	4,880,000	5,130,000	0.10
July 13, 2021	500,000	500,000	0.10
November 30, 2021	500,000	500,000	0.40
December 16, 2021	3,550,000	3,550,000	0.80
March 13, 2022	450,000	450,000	0.71
March 24, 2022	300,000	300,000	0.94
October 23, 2022	1,218,000	1,218,000	0.58
January 31, 2023	4,475,000	-	0.50
April 5, 2023	238,096	-	0.50
July 27, 2019	500,000	-	0.25
August 17, 2023	200,000	-	0.25
	21,277,096	18,699,000	

Share Purchase Warrants

Share purchase warrant transactions are summarized below:

	9 Months Ended September 30, 2018		Year Ended December 31, 2017	
	Number of Warrants	WAEP	Number of Warrants	WAEP
Opening balance	2,159,205	\$ 1.00	-	\$ -
Issued	7,261,771	0.50	2,159,205	1.00
Ending balance	9,420,976	0.61	2,159,205	1.00
Exercisable	9,420,976	\$ 0.61	2,159,205	\$ 1.00

8. RELATED PARTY TRANSACTIONS

The Company paid or accrued the following amounts to directors, companies controlled by directors or companies having common directors during the three and nine months ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Rent	\$ 51,856	\$ 41,360	\$ 155,595	\$ 106,124
Consulting fees to directors	38,750	18,000	129,750	36,000
Leasehold improvements	-	-	-	102,778
	\$ 90,606	\$ 59,360	\$ 285,345	\$ 244,902

DynaCERT Inc.
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(Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS (Continued)

Accounts payable and accrued liabilities include amounts due to directors and officers in the amount of \$114,556. The advance of \$65,000 from a director is unsecured and has no terms of repayment.

Key management compensation

Key management includes directors and other key personnel, including the CEO, President and CFO, who have authority and responsibility for planning, directing, and controlling the activities of the Company. The compensation paid to these key management personnel for the three and nine months ended September 30, 2018 and 2017 is summarized below:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Short-term benefits	\$ 131,908	\$ 215,600	\$ 433,336	\$ 566,785
Share-based compensation	-	-	916,052	141,930
	\$ 131,908	\$ 215,600	\$ 1,217,480	\$ 708,715

9. COMMITMENTS

The Company has commitments for the rent of its office premises and production facilities in Toronto, Canada in the amount of \$20,054 per month. The lease expires on November 1, 2020.

10. SUBSEQUENT EVENTS

Subsequent to September 30, 2018 the Company the company granted 746,000 options to employees with an exercise price of \$0.25.

On November 27, 2018 the Company announced that it had received subscriptions subsequent to September 30, 2018 for an aggregate of \$2,454,480 in respect of the proposed closing of the second tranche of its previously announced financing of up to \$3,000,000 of units. The Company also announced that it had applied to amend the terms of the financing by amending the units to include a full common share purchase warrant exercisable into one common share of the Company at a price of \$0.35 for a period of 24 months. Each unit previously included a one-half common share purchase warrant with each full warrant exercisable into one common share of the Company at a price of \$0.50 for a period of 24 months. The Company has also applied to increase the amount of the financing to \$3,454,480. All of the above are subject to approval by the TSX Venture Exchange.

On November 27, 2018 the Company also announced that it had applied to amend the terms of the remaining 7,404,627 outstanding warrants such that all warrants will expire on December 1, 2020 and will have an exercise price of \$0.35. These warrants will be subject to a 30-day acceleration clause if, for any ten consecutive trading days during the unexpired term of such warrants, the closing price of the Company's shares is greater than \$0.50.

DynaCERT Inc.**Notes to the Condensed Interim Consolidated Financial Statements**

For the Three and Nine Months Ended September 30, 2018

(Expressed in Canadian dollars)

11. RESTATEMENT OF PRIOR PERIOD

In preparing the Company's consolidated financial statements for the year ended December 31, 2017, management determined that revenue recorded during the nine months ended September 30, 2017 did not meet the criteria required for recognition. As a result, revenue for the comparative period in these condensed interim consolidated financial statements has been restated to reflect this adjustment. The adjustment resulted in a decrease in revenue in the amount of \$1,401,403 and a decrease in cost of goods sold of \$715,367, for a net decrease of \$686,036 in gross profit.

In addition, the Company restated for its treatment of research and development expenditures which were capitalized in the prior period. These expenditures are now being expensed and resulted in an increase in research and development expenses in the amount of \$409,402 and an increase in general and administrative expenses in the amount of \$476,624. The technology impairment that was reversed in the prior period in the amount of \$585,702 was reinstated, in line with the Company's expensing of research and development expenditures. The Company also recorded a correction to increase share-based compensation for the period by \$169,584. The combined effect of these adjustments was to change the previously reported loss of \$2,087,413 to a loss of \$3,852,989.

These corrections did not have an effect on the interim consolidated statements of income or cash flows for the three and nine months ended September 30, 2018.

The consolidated balance sheet as at September 30, 2017 has been restated as follows:

	Previously reported	Effect of correction	Restated
Accounts receivable	\$ 1,246,706	\$ (1,039,095)	\$207,611
Inventory	2,917,617	151,287	2,766,330
Intangible assets	1,298,985	(995,104)	347,144
Deferred revenue	-	362,308	303,881
Retained earnings (deficit)	(34,315,578)	(2,348,645)	(37,050,170)
Share-based payments reserve	4,214,574	169,584	4,384,158

The consolidated statement of loss and comprehensive loss for the nine months ended September 30, 2017 has been restated as follows:

	Previously reported	Effect of correction	Restated
Revenue	\$ 1,647,483	\$ (1,401,403)	\$ 246,080
Cost of goods sold	817,947	(715,367)	102,580
Gross profit	829,536	(686,036)	143,500
Total operating expenses	3,479,865	476,624	3,956,489
Reversal of impairment charge	(585,702)	585,702	-
Net loss and comprehensive loss for the period	2,087,413	1,765,576	3,852,989
Basic and diluted loss per share	\$0.009	\$0.007	\$0.016

12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's consolidated financial statement presentation.