



Condensed Interim Consolidated Financial Statements

**For the Three Months Ended
March 31, 2018**

(Expressed in Canadian dollars)

Unaudited – Prepared by Management

The accompanying unaudited condensed interim consolidated financial statements of dynaCERT Inc. for the three months ended March 31, 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 Comprehensive Income (Loss)
For the Three Months Ended March 31
(Unaudited)
(Expressed in Canadian dollars)

	2018	(Restated - note 10) 2017
Revenue	\$ -	\$ 68,000
Cost of sales	-	29,797
Gross profit	-	38,203
Operating expenses		
Business development and promotion	360,637	67,784
General and administrative	237,016	185,939
Interest and accretion	32,916	16,438
Legal and audit	59,304	55,326
Research and development	425,605	20,000
Wages and benefits	237,405	185,995
Stock-based compensation	1,401,485	472,299
	<u>2,754,368</u>	<u>1,003,781</u>
Net loss and comprehensive loss for the period	\$ 2,754,368	\$ 965,578
Basic and diluted loss per share	\$ 0.012	\$ 0.004
Weighted average number of common shares outstanding	239,475,057	231,193,480

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	Equity	Warrant	Share-	Deficit	Total Equity
	Shares	Amount	Component	based		(Deficit)
			reserve	payments		
				reserve		
		\$		\$	\$	\$
Balance, December 31, 2016	229,745,980	30,804,948	-	3,850,324	(32,338,130)	2,317,142
Shares issued on exercise of options	1,447,500	277,978	-	(138,093)	-	139,885
Transfer on expiry of options	-	-	-	(48,235)	48,235	-
Share-based compensation	-	-	-	472,299	-	472,299
Net loss and comprehensive loss for the period (restated)	-	-	-	-	(965,578)	(965,578)
Balance, March 31, 2017	231,193,480	31,082,926	-	4,136,295	(33,255,473)	1,963,748
Balance, December 31, 2017	239,128,474	35,386,102	341,597	4,703,192	(38,799,728)	2,065,509
Units issued in private placement	2,984,761	1,071,062	-	-	-	1,215,800
Finance costs	-	(9,668)	-	-	-	(9,668)
Units issued on redemption of convertible notes	3,050,686	1,128,753	(341,597)	-	-	939,690
Shares issued on exercise of options	1,635,000	345,383	-	(151,633)	-	193,750
Share-based compensation	-	-	-	1,401,485	-	1,401,485
Net loss and comprehensive loss for the period	-	-	-	-	(2,754,368)	(2,754,368)
Balance, March 31, 2018	246,708,921	37,921,632	-	5,953,044	(41,554,096)	3,052,198

The accompanying notes are an integral part of these financial statements

dynaCERT Inc.
Condensed Interim Consolidated Statement of Cash Flows
For the Three Months Ended March 31
(Unaudited)
(Expressed in Canadian dollars)

	2018	(Restated – note 10) 2017
Cash flows from operating activities:		
Net loss for the period	\$ (2,754,368)	\$ (965,578)
Accretion of interest on promissory note	-	14,998
Amortization of property and equipment	35,068	24,088
Amortization of intangibles	15,528	-
Share-based compensation	1,401,485	472,299
Change in non-cash working capital items:		
Accounts receivable and HST recoverable	76,144	24,120
Inventory	(80,467)	(1,799,345)
Prepaid expenses	123,894	(31,826)
Accounts payable and accrued liabilities	(101,685)	308,495
Deferred revenue	(3,510)	282,762
Net cash provided by (used in) operating activities	(1,287,611)	(1,669,987)
Cash flows used in investing activities:		
Acquisition of property and equipment	(4,285)	(128,335)
Acquisition of intangible assets	-	(123,257)
Net cash used in investing activities	(4,285)	(251,592)
Cash flows from financing activities:		
Proceeds from issuance of units in private placement	1,215,800	-
Finance costs	(9,668)	-
Proceeds from exercise of options	193,750	139,885
Net cash provided by (used in) financing activities	1,399,882	139,885
Increase (decrease) in cash during the period	107,986	(1,781,694)
Cash and cash equivalents, beginning of period	9,174	2,875,638
Cash and cash equivalents, end of period	\$ 117,160	\$ 1,093,944

The accompanying notes are an integral part of these financial statements

DynaCERT Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 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 March 31, 2018, the Company incurred a net loss of \$2,754,368 (March 31, 2017 - \$965,578) and had negative operating cash flows of \$1,287,611 (March 31, 2017 - \$1,669,987). The Company has an accumulated deficit of \$41,554,096 since inception (December 31, 2017 - \$38,799,728) and does not have sufficient cash and receivables as at March 31, 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 has closed on a private placement subsequent to period-end and has received gross proceeds in the amount of \$1,914,000. 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.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2018
(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 May 30, 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

	March 31, 2018	December 31, 2017
Raw materials	\$ 2,053,877	\$ 2,256,854
Work in process	398,309	203,936
Finished goods	1,651,266	1,562,195
	\$ 4,103,452	\$ 4,022,985

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

For the Three Months Ended March 31, 2018

(Expressed in Canadian dollars)

4. PROPERTY AND EQUIPMENT

	March 31, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Plant equipment	\$ 884,606	\$ 801,671	\$ 82,935	\$ 880,947	\$ 797,402	\$ 83,545
Tooling equipment	141,675	36,469	105,206	141,049	29,593	111,456
Office equipment	243,760	228,497	15,263	243,760	227,694	16,066
Furniture and fixtures	513,729	495,087	18,642	513,729	494,106	19,623
Leasehold improvements	276,302	209,888	66,414	276,302	187,749	88,553
	\$2,060,072	\$ 1,771,612	\$ 288,460	\$ 2,055,787	\$ 1,736,544	\$ 319,243

Amortization expense of \$35,068 (2017 - \$24,088) has been recorded within general and administration expenses.

5. INTANGIBLES

	March 31, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents	249,304	190,408	58,896	249,304	188,725	60,579
Trademarks	6,032	1,452	4,579	6,032	1,162	4,870
Software	315,078	51,846	263,232	315,078	37,991	277,087
	\$ 570,414	\$ 243,706	\$ 326,708	\$ 570,414	\$ 227,878	\$ 342,536

Amortization expense of \$15,828 (2017 - \$nil) has been recorded within general and administration expense.

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 Months Ended March 31, 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 March 31, 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. During the three months ended March 31, 2018 the Company has closed the first tranche for total proceeds of \$1,215,000 and has issued 2,894,762 units consisting of 2,894,762 common shares and 1,447,381 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 4,475,000 (2016 – 750,000) stock options to its employees, consultants, directors and officers, with a weighted average exercise price ('WAEP') of \$0.50 (2017 – \$0.80). The options vested immediately, except for options granted to persons performing investor relations which vest 25% per quarter over one year and are exercisable for a period of five years from the date of grant. The estimated weighted average grant date fair value of the options was \$0.31 per option, as determined using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.68%; expected life in years – 5; expected volatility 114%; and expected forfeiture rate – 0%. The following options were outstanding as at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Number of Options	WAEP	Number of Options	WAEP
Opening balance	18,699,000	\$0.34	20,766,000	\$0.25
Granted	4,475,000	0.50	2,968,000	0.66
Exercised	(1,635,000)	0.12	(4,008,000)	0.16
Expired	-	-	(1,027,000)	0.22
Ending balance	21,539,000	\$0.39	18,699,000	\$0.34
Options exercisable	21,501,500	\$0.39	18,699,000	\$0.34

As at March 31, 2018 and December 31, 2017, the following incentive stock options were outstanding:

Expiry Date	Number of Options		Exercise Price
	2018	2017	
March 4, 2018	-	1,300,000	0.12
July 15, 2019	2,026,000	2,026,000	0.10
September 19, 2019	1,000,000	1,000,000	0.58
February 26, 2020	2,640,000	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
	21,539,000	18,699,000	

DynaCERT Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2018
(Expressed in Canadian dollars)

7. CAPITAL STOCK (Continued)

Share Purchase Warrants

Share purchase warrant transactions are summarized below:

	3 Months Ended March 31, 2018		Year Ended December 31, 2017	
	Number of Warrants	WAEP	Number of Warrants	WAEP
Opening balance	2,159,205	\$ 1.00	-	\$ -
Issued	2,972,724	0.50	2,159,205	1.00
Ending balance	5,131,929	0.71	2,159,205	1.00
Exercisable	5,131,929	\$ 0.71	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 3 months ended March 31:

	2018	2017
Rent	\$ 51,882	\$ 32,247
Consulting fees paid to Directors	38,000	18,000
	\$ 89,882	\$ 50,247

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 months ended March 31, 2018 and 2017 is summarized below:

	2018	2017
Short-term benefits	\$ 144,232	\$ 94,350
Share-based compensation	916,052	141,930
	\$ 1,060,284	\$ 236,280

8. COMMITMENTS

The Company has commitments for the rent of its office premises in Toronto, Canada in the amount of \$6,148 per month. The lease expires on August 31, 2018.

The Company has commitments for the rent of its productions facilities in Toronto, Canada in the amount of \$11,137 per month. The lease expires on September 30, 2018 and the Company has an option to extend the lease for 5 years.

9. SUBSEQUENT EVENT

Subsequent to March 31, 2018 the Company closed the second and third tranches of the private placement announced in January for gross proceeds of \$1,922,800. The total gross proceeds of the financing, including the first tranche closed during the three months ended March 31, 2018, was \$3,129,000.

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

For the Three Months Ended March 31, 2018

(Expressed in Canadian dollars)

10. 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 three months ended March 31, 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 \$1,312,350 and a decrease in cost of goods sold of \$697,051, for a net decrease of \$615,299 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 \$20,000 and an increase in general and administrative expenses in the amount of \$57,168. 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 income of \$482,175 to a loss of \$965,578

These corrections did not have an effect on the interim consolidated statements of income or cash flows for the three months ended March 31, 2018.

The consolidated balance sheet as at March 31, 2017 has been restated as follows:

	Previously reported	Effect of correction	Restated
Accounts receivable	\$ 1,133,465	\$ (950,042)	\$183,423
Inventory	1,252,671	99,833	1,352,504
Intangible assets	610,429	(590,602)	19,827
Deferred revenue	-	362,308	362,308
Retained Earnings (Deficit)	(31,807,720)	(1,447,753)	(33,255,473)
Share-based Payments Reserve	3,966,711	169,584	4,136,295

The consolidated statement of loss and comprehensive loss for the three months ended March 31, 2017 has been restated as follows:

	Previously reported	Effect of correction	Restated
Revenue	\$ 1,380,350	\$ (1,312,350)	\$ 68,000
Cost of goods sold	726,848	(697,051)	29,797
Gross profit	653,502	(615,299)	38,203
Total operating expenses	757,029	246,752	1,003,781
Reversal of impairment charge	(585,702)	585,702	-
Net income (loss) and comprehensive income (loss) for the period	482,175	(1,447,753)	(965,578)
Basic and diluted income (loss) per share	\$0.002	(\$0.007)	(\$0.005)

11. COMPARATIVE AMOUNTS

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