
DYNACERT INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
THREE AND SIX MONTHS ENDED
JUNE 30, 2020
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

Notice To Reader

The accompanying unaudited condensed consolidated interim financial statements of DynaCERT INC. (the "Company") have been prepared by and are the responsibility of management. The unaudited condensed consolidated interim financial statements have not been reviewed by the Company's auditors.

DynaCERT INC.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

Unaudited

| | As at June 30, 2020 | As at December 31, 2019 |
|---|---------------------------|-------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 18,924,632 | \$ 16,319,235 |
| Accounts receivable | 783,414 | 287,731 |
| Sales tax receivable | 200,032 | 346,705 |
| Inventory (note 4) | 2,385,222 | 1,487,409 |
| Prepaid expenses | 649,149 | 762,634 |
| Total current assets | 22,942,449 | 19,203,714 |
| Non-current assets | | |
| Property and equipment (note 5) | 1,132,726 | 812,667 |
| Intangible assets (note 6) | 659,878 | 437,751 |
| Right-of-use asset (note 7) | 49,456 | 110,572 |
| Long term note receivable from related party (note 9) | 1,020,293 | - |
| Investment in associate (note 9) | 476,479 | - |
| Total assets | \$ 26,281,281 | \$ 20,564,704 |
| EQUITY AND LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 822,907 | \$ 947,958 |
| Deferred revenue | 280,539 | 272,575 |
| Lease obligation (note 8) | 47,669 | 112,956 |
| Promissory note (note 10) | 122,394 | 214,092 |
| Total current liabilities | 1,273,509 | 1,547,581 |
| Non-current liabilities | | |
| Lease obligation (note 8) | 5,809 | 3,467 |
| Promissory note (note 10) | 69,977 | 83,972 |
| Total liabilities | 1,349,295 | 1,635,020 |
| Shareholders' equity | | |
| Share capital (note 11) | 81,581,487 | 69,902,351 |
| Warrant reserve (note 13) | 1,685,380 | 1,721,713 |
| Share-based payments reserve (note 12) | 9,076,731 | 10,171,798 |
| Deficit | (67,411,612) | (62,866,178) |
| Total shareholder's equity | 24,931,986 | 18,929,684 |
| Total shareholders' equity and liabilities | \$ 26,281,281 | \$ 20,564,704 |

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

Nature of operations and going concern (note 1)

Contingencies (note 17)

Subsequent event (note 18)

DynaCERT INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

| | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 (restated note 2) | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 (restated note 2) |
|---|---|--|---|--|
| Revenue | \$ 19,805 | \$ 45,638 | \$ 332,389 | \$ 48,878 |
| Operating expenses | | | | |
| Cost of goods sold | 6,181 | 17,706 | 61,765 | 19,198 |
| Accretion on promissory note | 14,304 | - | 30,855 | - |
| Business development and marketing | 358,757 | 444,522 | 952,159 | 1,087,593 |
| General and administrative | 547,750 | 373,782 | 1,224,488 | 728,300 |
| Interest expense (income) | (49,083) | - | (89,025) | 4,861 |
| Legal and audit | 145,433 | 7,493 | 200,860 | 116,440 |
| Research and development | 858,736 | 490,085 | 1,652,420 | 1,161,372 |
| Loss on investment in associate (note 9) | 40,000 | - | 40,000 | - |
| Wages, benefits, and third-party consultants (note 15) | 119,037 | 333,731 | 557,992 | 692,507 |
| | 2,041,115 | 1,667,319 | 4,631,514 | 3,810,271 |
| Foreign exchange loss | 51,186 | 44,150 | 46,064 | 46,876 |
| Share based compensation | - | 148,479 | 185,260 | 1,784,974 |
| Loss on debt settlement (note 10) | 14,985 | 423,389 | 14,985 | 423,389 |
| Total comprehensive loss for the period | \$ 2,087,481 | \$ 2,237,699 | \$ 4,545,434 | \$ 6,016,632 |
| Basic and diluted net loss per share | \$ 0.006 | \$ 0.008 | \$ 0.013 | \$ 0.021 |
| Weighted average number of common shares outstanding | 346,704,482 | 288,578,222 | 343,777,617 | 281,714,433 |

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

DynaCERT INC.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

Unaudited

| | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 (restated note 2) |
|---|---|--|
| Operating activities | | |
| Net loss for the period | \$ (4,545,434) | \$ (6,016,632) |
| Adjustments for: | | |
| Depreciation of property and equipment | 158,919 | 69,659 |
| Amortization of intangible assets | 26,639 | 39,531 |
| Share based compensation | 185,260 | 1,784,974 |
| Accretion of lease obligations | 1,217 | 11,281 |
| Amortization of right-of-use asset | 61,116 | 64,590 |
| Loss on investment in associate | 40,000 | - |
| Changes in non-cash working capital items: | | |
| Amounts receivable and sales tax receivable | (349,010) | (567,374) |
| Inventory | (897,813) | 913,275 |
| Prepaid expenses | 113,485 | 182,143 |
| Amounts payable and other liabilities | (125,051) | (1,739,289) |
| Deferred revenue | 7,964 | (196,042) |
| Promissory note payable | - | 490,164 |
| Net cash used in operating activities | (5,322,708) | (4,963,720) |
| Investing activities | | |
| Acquisition of property and equipment | (478,978) | (9,172) |
| Acquisition of intangible assets | (248,766) | (116,570) |
| Lease obligation expense | (64,162) | (71,390) |
| Note receivable | (1,020,293) | - |
| Investment in associate | (516,479) | - |
| Net cash used in investing activities | (2,328,678) | (197,132) |
| Financing activities | | |
| Proceeds from issuance of units in private placement | 8,367,400 | 5,250,000 |
| Share issuance costs | (679,378) | (8,750) |
| Proceeds from exercise of options | 1,697,620 | 175,100 |
| Proceeds from exercise of warrants | 976,834 | - |
| Repayment of loan payable | (105,693) | (151,744) |
| Net cash provided by financing activities | 10,256,783 | 5,264,606 |
| Net change in cash and cash equivalents | 2,605,397 | 103,754 |
| Cash and cash equivalents, beginning of period | 16,319,235 | 109,327 |
| Cash and cash equivalents, end of period | \$ 18,924,632 | \$ 213,081 |

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

DynaCERT INC.**Condensed Consolidated Interim Statements of Changes in Equity****(Expressed in Canadian Dollars)****Unaudited**

| | Share capital | Warrants reserve | Share- based reserve | Deficit | Total |
|--|----------------------|---------------------|----------------------------|-----------------------|----------------------|
| Balance, December 31, 2018 | \$ 43,071,876 | \$ 1,364,853 | \$ 6,308,174 | \$(50,213,130) | \$ 531,773 |
| Units issued in private placement | 5,250,000 | - | - | - | 5,250,000 |
| Finance costs | (8,750) | - | - | - | (8,750) |
| Exercise of stock options | 296,204 | - | (121,104) | - | 175,100 |
| Share based compensation (restated note 2) | - | - | 1,784,974 | - | 1,784,974 |
| Net loss for the period (restated note 2) | - | - | - | (6,016,632) | (6,016,632) |
| Balance, June 30, 2019 | \$ 48,609,330 | \$ 1,364,853 | \$ 7,972,044 | \$(56,229,762) | \$ 1,716,465 |
| Balance, December 31, 2019 | \$ 69,902,351 | \$ 1,721,713 | \$ 10,171,798 | \$(62,866,178) | \$ 18,929,684 |
| Units issued in private placement | 8,367,400 | - | - | - | 8,367,400 |
| Exercise of stock options | 2,977,947 | - | (1,280,327) | - | 1,697,620 |
| Share based compensation | - | - | 185,260 | - | 185,260 |
| Exercise of warrants | 1,013,167 | (36,333) | - | - | 976,834 |
| Share issuance costs | (679,378) | - | - | - | (679,378) |
| Net loss for the period | - | - | - | (4,545,434) | (4,545,434) |
| Balance, June 30, 2020 | \$ 81,581,487 | \$ 1,685,380 | \$ 9,076,731 | \$(67,411,612) | \$ 24,931,986 |

The accompanying notes to the unaudited condensed consolidated interim financial statements are an integral part of these statements.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

1. Nature of operations and going concern

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 were listed on the TSX-V under the trading symbol DYA until July 7, 2020, at which points the common shares of the Company commenced trading on the Toronto Stock Exchange ("TSX") under the same trading symbol and were concurrently delisted from the TSX-V. On June 9, 2020, the common shares of the Company were listed on the USA OTCQX under the symbol "DYFSF" and delisted from the OTCQB. These unaudited condensed consolidated interim financial statements include the results of DynaCERT and its wholly owned subsidiaries, Dynamic Fuel Systems USA Inc. ("Dynamic") and DynaCERT GmbH Inc, its wholly owned German subsidiary, and DynaCERT International Strategic Holdings Inc. ("DISH").

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 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 six months ended June 30, 2020, the Company incurred a net loss of \$4,545,434 (June 30, 2019 - \$6,016,632) and had negative operating cash flows of \$5,322,708 (June 30, 2019 - \$4,963,720). Although the Company has generated revenue from customer sales, the sales volumes achieved to date have not been significant and has not generated sufficient margins to cover the Company's operating costs and research and development costs. The Company has an accumulated deficit of \$67,411,612 since inception (December 31, 2019 - \$62,866,178). 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 in light of the impact of the COVID-19 on the global capital markets.

The rapid spread of COVID-19 worldwide has caused significant economic contraction and uncertainty, resulting in the Company not being able to produce product and thereafter to be able to ship product to our customers. The worldwide pandemic starting in late 2019 slowed down parts of the Company's supply chain, thereby stopping all final assembly work on existing client orders until raw material deliveries resumed and were received towards the end of March 2020. Further, European shut down of non-essential commerce in January through May significantly affected the Company's ability to delivery finished goods as our customers were not able to accept incoming goods or install HydraGEN Technology Units on their trucks and equipment.

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 unaudited condensed consolidated interim 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.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

1. Nature of operations and going concern (continued)

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 growth during fiscal 2020 and by securing additional financing through additional financings if required. The outcome of these matters cannot be predicted at this time.

2. Restatement of prior period

In preparation of the six months ended June 30, 2020 unaudited condensed consolidated interim financial statements, management determined that share based compensation expense for the six months ended June 30, 2019 had been understated. This was a result of more accurate stock volatility information available resulting in an updated Black-Scholes call option fair value of the stock options issued in the prior period. The Company has recorded an adjustment of \$757,204 to the share based compensation expense in the prior period ended June 30, 2020 as a result of this restatement.

3. Basis of preparation

Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed consolidated interim financial statements are based on IFRSs, which have been applied consistently to all periods presented. These unaudited condensed consolidated interim were issued and effective as of August 31, 2020, the date the Board of Directors approved the statements.

The preparation of financial statements in accordance with International Accounting Standards (IAS) 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to these unaudited condensed consolidated interim financial statements were the same as those that applied to the Company's annual consolidated financial statements as at and for the year ended December 31, 2019, except as noted below.

Basis of Measurement

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value. Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

3. Basis of preparation (continued)

Basis of consolidation

These unaudited condensed consolidated interim financial statements include the results of DynaCERT and its wholly owned subsidiary, Dynamic Fuel Systems USA Inc. ("Dynamic") and DynaCERT GmbH Inc, its wholly owned German subsidiary.

The Company incorporated DISH, on April 17, 2020 as a wholly-owned Canadian subsidiary of the Company. The Company acquired all shares of DISH for nominal consideration, and DISH has not had significant financial operations during the six months ended June 30, 2020.

These unaudited condensed consolidated interim financial statements incorporate the assets, liabilities and results of operations of all entities controlled by the Company. The effects of all transactions between entities in the consolidated group have been eliminated.

New standards adopted

Definition of a Business (Amendments to IFRS 3)

The IASB has issued Definition of a Business (Amendments to IFRS 3) to clarify the definition of a business for the purpose of determining whether a transaction should be accounted for as an asset acquisition or a business combination. The amendments:

- clarify the minimum attributes that the acquired assets and activities must have to be considered a business
- remove the assessment of whether market participants can acquire the business and replace missing inputs or processes to enable them to continue to produce outputs
- narrow the definition of a business and the definition of outputs
- add an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business

This amendment is effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The Company has adopted this policy during the six months ended June 30, 2020, and there was no material impact to the unaudited condensed consolidated interim financial statements.

New standards not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The IASB has published Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period"
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. There is currently a proposal in place to extend effective date for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

4. Inventory

| | As at June 30, 2020 | As at December 31, 2019 |
|-----------------|---------------------------|-------------------------------|
| Raw materials | \$ 1,980,381 | \$ 1,114,312 |
| Work in process | 227,574 | 255,046 |
| Finished goods | 177,267 | 118,051 |
| | \$ 2,385,222 | \$ 1,487,409 |

During the period ended June 30, 2020, \$61,765 (June 30, 2019 - \$19,198) of inventory has been included in cost of goods sold.

5. Property and equipment

| | June 30, 2020 | | | December 31, 2019 | | |
|--------------------------|---------------------|-----------------------------|---------------------|---------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Plant equipment | \$ 1,581,804 | \$ 987,621 | \$ 594,183 | \$ 1,394,917 | \$ 936,830 | \$ 458,087 |
| Tooling equipment | 231,001 | 53,399 | 177,602 | 231,001 | 31,238 | 199,763 |
| Office equipment | 243,760 | 235,091 | 8,669 | 243,760 | 234,125 | 9,635 |
| Furniture and fixtures | 534,438 | 503,586 | 30,852 | 517,179 | 501,515 | 15,664 |
| Leasehold improvements | 276,302 | 261,543 | 14,759 | 276,302 | 246,784 | 29,518 |
| Construction in progress | 306,661 | - | 306,661 | 100,000 | - | 100,000 |
| | \$ 3,173,966 | \$ 2,041,240 | \$ 1,132,726 | \$ 2,763,159 | \$ 1,950,492 | \$ 812,667 |

6. Intangible assets

| | June 30, 2020 | | | December 31, 2019 | | |
|------------|---------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Patents | \$ 603,990 | \$ 243,042 | \$ 360,948 | \$ 500,428 | \$ 223,484 | \$ 276,944 |
| Trademarks | 98,426 | 5,037 | 93,389 | 15,321 | 3,949 | 11,372 |
| Software | 416,153 | 210,612 | 205,541 | 331,153 | 181,718 | 149,435 |
| | \$ 1,118,569 | \$ 458,691 | \$ 659,878 | \$ 846,902 | \$ 409,151 | \$ 437,751 |

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

7. Rights-of-use assets

| | |
|--|-------------------|
| Right-of-use assets at January 1, 2019 | \$ 239,752 |
| Amortization | (129,180) |
| Balance, December 31, 2019 | \$ 110,572 |
| Additions | 3,858 |
| Amortization | (64,974) |
| Balance, June 30, 2020 | \$ 49,456 |

Right-of-use assets consist of office space amortized over 24 months and office equipment amortized over 48 months.

Maturity analysis - contractual undiscounted cash flows

| | |
|--|------------------|
| As at June 30, 2020 | |
| Less than one year | \$ 61,874 |
| Greater than one year | 7,690 |
| Total undiscounted lease obligation | \$ 69,564 |

8. Lease obligations

At the commencement date of the leases, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10%, which is the Company's incremental borrowing rate. The lease liabilities are operating type leases for office equipment and premises. The continuity of the lease liabilities are presented in the table below:

| | |
|-----------------------------------|-------------------|
| Balance, January 1, 2019 | \$ 239,752 |
| Interest expense | 19,449 |
| Lease payments | (142,778) |
| Balance, December 31, 2019 | \$ 116,423 |
| Additions | 3,858 |
| Interest expense | 5,077 |
| Lease payments | (71,880) |
| Balance, June 30, 2020 | \$ 53,478 |

| | |
|-------------------------------|------------------|
| As at June 30, 2020 | |
| Less than one year | \$ 47,669 |
| Greater than one year | 5,809 |
| Total lease obligation | \$ 53,478 |

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

9. Investment in associate

During the six months ended June 30, 2020, the Company purchased 2,000 shares in KarbonKleen Inc ("KK"), a Delaware corporation, for \$516,479 in cash payments. The investment represents a 20% holding in issued and outstanding common shares of KK; and as a result the Company has accounted for the investment under the equity method.

During the six months ended June 30, 2020, the Company advanced \$725,000 USD to KK as a note payable. The note bears interest at 10% per annum calculated monthly and matures on December 31, 2021.

During the six months ended June 30, 2020, the Company's share of the losses of KK of \$40,000 have been recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

10. Promissory note

On April 23, 2019, the Company and Urtech Manufacturing Inc., Urtech Florida LLC, Urtech U.S. Inc., and Urtech International Inc., jointly and severally (collectively referred to as "Urtech") entered into Minutes of Settlement whereby all title to inventory of the Company consigned at Urtech's premises (valued at USD \$716,301) would be transferred to Urtech and all accounts payable by the Company to Urtech (valued at USD \$641,822) would be replaced with a single promissory note whereby the Company shall pay to Urtech USD\$400,000 interest free in 24 equal monthly installments commencing May, 1, 2019.

The promissory note was recorded at its net present value of \$427,837 using the effective interest rate method with an effective interest rate of 25% per annum and a term of 24 months. As of June 30, 2020, the balance owed on the promissory note was \$192,371 (December 31, 2019 - \$298,064).

11. Share capital

a) Authorized share capital

The authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

b) Common shares issued

(i) During the six months ended June 30, 2019, the Company announced a private placement of units at a price of \$0.25 per unit for an aggregate of \$5,250,000. Each unit consists of one common share and one-half of one common share purchase warrant; each whole warrant entitled the holder to purchase one share at an exercise price of \$0.35 per share expiring December 1, 2020, 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 on the TSX Venture Exchange. In conjunction with the private placement, \$8,750 of financing costs were recognized.

(ii) During the six months ended June 30, 2020, the Company completed a public offering of units at a price of \$0.68 per unit for an aggregate of \$8,367,400. Each unit consists of one common share and one-half of one common share purchase warrant; each whole warrant entitled the holder to purchase one share at an exercise price of \$1.00 per share expiring June 18, 2022. In conjunction with the private placement, \$679,378 of financing costs were recognized and 598,260 broker warrants were issued.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

11. Share capital (continued)

| | Number of common shares | Amount |
|---|-------------------------------|---------------|
| Balance, December 31, 2018 | 266,804,936 | \$ 43,071,876 |
| Units issued on private placement (i) | 21,000,000 | 5,250,000 |
| Finance costs (i) | - | (8,750) |
| Exercise of stock options (note 12(iv)) | 1,451,000 | 296,204 |
| Balance, June 30, 2019 | 289,255,936 | \$ 48,609,330 |
| Balance, December 31, 2019 | 336,893,260 | \$ 69,902,351 |
| Private placement (ii) | 12,305,000 | 8,367,400 |
| Finance costs (ii) | - | (679,378) |
| Exercise of stock options (note 12(v)) | 5,862,500 | 2,977,947 |
| Exercise of warrants (note 13) | 2,626,666 | 1,013,167 |
| Balance, June 30, 2020 | 357,687,426 | \$ 81,581,487 |

12. Stock options

(i) During the six months ended June 30, 2019, the Company granted 5,000,000 stock options to its employees, consultants, directors and officers, with an exercise price \$0.38. The options vested immediately, and expire on March 1, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.81%; expected life in years – 5; expected volatility 122.58%; and expected forfeiture rate – 0%.

(ii) During the six months ended June 30, 2019 the Company granted 550,000 stock options to its employees, consultants, directors and officers, with an exercise price \$0.35. The options vested immediately, and expire on May 15, 2024. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.54%; expected life in years – 5; expected volatility 118.93%; and expected forfeiture rate – 0%.

(iii) During the six months ended June 30, 2020, the Company granted 275,000 stock options to its employees, consultants, directors and officers, with an exercise price \$0.70. The options vested immediately, and expire on February 12, 2025. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.39%; expected life in years – 5; expected volatility 114.40%; and expected forfeiture rate – 0%.

(iv) During the six months ended June 30, 2019, certain employees exercised 1,451,000 stock options with a Black-Scholes value of \$121,104 and exercise prices between \$0.10 and \$0.25.

(v) During the six months ended June 30, 2020, certain employees exercised 5,862,500 stock options with a Black-Scholes value of \$1,280,327 and an exercise price between \$0.10 and \$0.80.

During the six months ended June 30, 2020, 22,000 stock options with a Black-Scholes value of \$15,463 were cancelled with exercise prices between \$0.25 and \$0.65.

DynaCERT INC.**Notes to Condensed Consolidated Interim Financial Statements****Three and Six Months Ended June 30, 2020****(Expressed in Canadian Dollars)****Unaudited****12. Stock options (continued)**

| | Number of stock options | Weighted average exercise price |
|----------------------------|----------------------------|---------------------------------------|
| Balance, December 31, 2018 | 23,023,096 | \$ 0.39 |
| Issued (i, ii) | 5,550,000 | 0.38 |
| Exercised (iv) | (1,451,000) | 0.12 |
| Balance, June 30, 2019 | 27,122,096 | \$ 0.39 |
| Balance, December 31, 2019 | 29,815,306 | \$ 0.45 |
| Issued (iii) | 275,000 | 0.70 |
| Exercised (v) | (5,862,500) | 0.29 |
| Forfeited (v) | (22,000) | 0.34 |
| Balance, June 30, 2020 | 24,205,806 | \$ 0.43 |

The following table reflects the actual stock options issued and outstanding as of June 30, 2020:

| Expiry date | Exercise price (\$) | Weighted average remaining contractual life (years) | Number of options outstanding |
|--------------------|------------------------|--|-------------------------------------|
| December 11, 2020 | 0.10 | 0.45 | 2,505,000 |
| July 13, 2021 | 0.10 | 1.04 | 350,000 |
| November 30, 2021 | 0.40 | 1.42 | 500,000 |
| December 16, 2021 | 0.80 | 1.46 | 3,275,000 |
| March 13, 2022 | 0.71 | 1.70 | 350,000 |
| March 13, 2022 | 0.94 | 1.70 | 300,000 |
| September 19, 2022 | 0.58 | 2.22 | 1,000,000 |
| October 23, 2022 | 0.65 | 2.32 | 1,166,000 |
| January 31, 2023 | 0.50 | 2.59 | 3,970,000 |
| April 5, 2023 | 0.50 | 2.76 | 238,096 |
| August 17, 2023 | 0.25 | 3.13 | 100,000 |
| October 4, 2023 | 0.25 | 3.26 | 336,000 |
| March 1, 2024 | 0.38 | 3.67 | 4,244,210 |
| May 15, 2024 | 0.35 | 3.88 | 350,000 |
| July 30, 2024 | 0.50 | 4.08 | 600,000 |
| September 11, 2024 | 0.50 | 4.20 | 500,000 |
| October 11, 2024 | 0.50 | 4.28 | 50,000 |
| November 12, 2024 | 0.50 | 4.37 | 892,000 |
| December 9, 2024 | 0.52 | 4.45 | 2,804,500 |
| December 17, 2024 | 0.55 | 4.47 | 400,000 |
| February 12, 2025 | 0.70 | 4.62 | 275,000 |
| | | 2.75 | 24,205,806 |

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

Unaudited

13. Warrants

On February 4, 2019, the Company received approval from the TSX Venture Exchange to extend and reprice non-dealer outstanding share purchase warrants with expiry dates ranging from February 2019 to August 2020 to December 1, 2020 and exercise prices of \$0.50 and \$1.00 to \$0.35.

| | Number of warrants | Weighted average exercise price |
|--------------------------------|--------------------|---------------------------------|
| Balance, December 31, 2018 | 19,638,897 | \$ 0.47 |
| Issued (note 11b(i)) | 10,500,000 | 0.35 |
| Warrants issued | 2,000,000 | 0.35 |
| Balance, June 30, 2019 | 32,138,897 | \$ 0.35 |
| Balance, December 31, 2019 | 37,014,268 | \$ 0.48 |
| Warrants issued (note 11b(ii)) | 6,750,760 | 0.97 |
| Exercised | (2,626,666) | 0.36 |
| Balance, June 30, 2020 | 41,138,362 | \$ 0.45 |

The following table reflects the actual share purchase warrants issued and outstanding as of June 30, 2020:

| Expiry date | Remaining contractual life (years) | Number of warrants outstanding | Exercise price (\$) |
|----------------------------------|------------------------------------|--------------------------------|---------------------|
| December 1, 2020 ⁽¹⁾ | 0.42 | 18,221,252 | 0.35 |
| December 1, 2020 ⁽²⁾ | 0.42 | 16,350 | 1.00 |
| November 15, 2021 ⁽³⁾ | 1.38 | 1,150,000 | 0.65 |
| November 28, 2021 ⁽³⁾ | 1.41 | 14,000,000 | 0.65 |
| December 13, 2021 ⁽³⁾ | 1.45 | 1,000,000 | 0.65 |
| June 18, 2022 | 1.97 | 6,152,500 | 1.00 |
| June 18, 2022 ⁽²⁾ | 1.97 | 598,260 | 0.68 |
| | | 41,138,362 | |

(1) If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than \$0.50 per Common Share for a period of 10 consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder.

(2) Broker warrants

(3) If at any time after the date that is four months and one day after the date hereof, the closing trading price of the Common Shares on the TSX Venture Exchange is greater than \$0.80 per Common Share for a period of 10 consecutive Business Days, then the Company may, at its discretion give notice of the acceleration of some or all of the Warrants to the Holder and, in such case, the Expiry Time shall be 5:00 p.m. (Toronto time) on the 30th day after the date on which such notice is deemed to have been given by the Company to the Holder.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

14. Loss per share

For the period ended June 30, 2020, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of \$4,545,434 (June 30, 2019 - \$6,016,632) and the weighted average number of common shares outstanding of 343,777,617 (June 30, 2019 - 281,714,433). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

15. Related party transactions

The Company paid or accrued the following amounts to directors, companies controlled by directors or companies having common directors during the six months ended June 30, 2020 and June 30, 2019:

| | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|-----------------------------------|---|---|---|---|
| Rent | \$ 60,630 | \$ 60,161 | \$ 121,260 | \$ 120,322 |
| Consulting fees paid to directors | 202,684 | 45,000 | 351,091 | 93,000 |
| | \$ 263,314 | \$ 105,161 | \$ 472,351 | \$ 213,322 |

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.

Included in accounts payable and accrued liabilities as at June 30, 2020 is \$nil (December 31, 2019 is \$47,670) owed to directors, companies controlled by former directors or companies having certain directors in common.

The compensation paid to these key management personnel for the six months ended June 30, 2020 and June 30, 2019 is:

| | Three Months Ended June 30, 2020 | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2020 | Six Months Ended June 30, 2019 |
|--|---|---|---|---|
| Short-term benefits | \$ 111,935 | \$ 131,305 | \$ 248,620 | \$ 206,188 |
| Share based compensation (note 2 - restated) | - | - | 185,260 | 261,014 |
| | \$ 111,935 | \$ 131,305 | \$ 433,880 | \$ 467,202 |

The Chief Financial Officer ("CFO") of the Company is a senior employee of Marrelli Support Services Inc. ("MSSI"). During the three and six months ended June 30, 2020, the Company paid or accrued professional fees of \$15,000 and \$30,000 (three and six months ended June 30, 2019 - \$15,000 and \$30,000) to MSSI. These services were incurred in the normal course of operations for general accounting and financial reporting matters. MSSI also provides bookkeeping services to the Company. As at June 30, 2020, MSSI was owed \$nil (December 31, 2019 - \$5,700) with respect to services provided.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Six Months Ended June 30, 2020

(Expressed in Canadian Dollars)

Unaudited

16. Segmented information

The Company currently has one business segment, being the development, production and sale of hydrogen generating systems. During the period June 30, 2020, the Company held \$14,707 of cash (December 31, 2019 - \$6,769) and during the three and six months ended June 30, 2020 incurred \$42,809 and \$76,571 (June 30, 2019 - \$33,762 and \$116,631) of expenses in Germany through its German subsidiary. The Company's subsidiary DISH holds the shares in the Company's investment in KK (note 9).

17. Contingencies

In the ordinary course of business and from time to time, the Company is involved in various claims related to software, intellectual property rights, commercial, employment and other claims. Although such matter cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these consolidated financial statements.

18. Subsequent events

Subsequent to June 30, 2020, certain warrant holders exercised 1,253,500 stock purchase warrants with exercise prices between \$0.25 and \$1.00.

Subsequent to June 30, 2020, certain option holders exercised 750,000 stock purchase options with exercise prices between \$0.15 and \$0.70.

Subsequent to June 30, 2020, the Company issued 6,765,000 stock options to certain directors, employees, and consultants of the Company. The stock options are exercisable at \$0.70, vest immediately and have an expiry date of 5 years from the date of issuance.

Effective at market open on Tuesday, July 7, 2020, the common shares of the Company commenced trading on the Toronto Stock Exchange under the same symbol "DYA" and were concurrently delisted from the TSX Venture Exchange.