
DYNACERT INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL
STATEMENTS
THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2023
(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,	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 52,568	\$ 156,499
Accounts and other receivable (note 3)	188,022	182,833
Sales tax receivable	65,060	77,662
Inventory (note 4)	2,834,458	2,635,696
Prepaid expenses	46,357	123,667
Deposits	79,235	166,182
Total current assets	3,265,700	3,342,539
Non-current assets		
Property and equipment (note 5)	1,344,130	1,619,232
Intangible assets (note 6)	819,769	885,502
Right-of-use asset (note 7)	979,717	1,277,742
Total assets	\$ 6,409,316	\$ 7,125,015
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 16)	\$ 2,130,866	\$ 1,168,238
Customer deposits	449,622	111,973
Lease obligation (note 8)	440,145	436,670
Warranty provision	386,048	329,330
Loans payable (note 10)	986,959	-
Convertible note (note 11)	1,982,378	-
Total current liabilities	6,376,018	2,046,211
Non-current liabilities		
Lease obligation (note 8)	662,658	967,639
Total liabilities	7,038,676	3,013,850
Shareholders' equity		
Share capital (note 12)	90,462,830	90,462,830
Warrant reserve	1,181,073	1,119,998
Share-based payments reserve	10,015,685	10,998,823
Deficit	(102,288,948)	(98,470,486)
Total shareholders' equity	(629,360)	4,111,165
Total liabilities and shareholders' equity	\$ 6,409,316	\$ 7,125,015

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)

Commitments and contingencies (note 18)

Subsequent event (note 21)

DynaCERT INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 139,145	\$ 69,088	\$ 355,569	\$ 263,864
Operating expenses				
Cost of goods sold (note 4)	501,133	312,906	1,303,021	1,133,305
Inventory impairment write down	(27,160)	72,545	(1,937)	531,385
Provision for warranties	43,532	357	119,461	13,996
Accretion (note 10 and 11)	154,735	-	360,397	-
Business development and marketing	107,759	372,903	573,564	911,800
General and administrative	288,376	340,186	1,129,653	1,235,006
Interest expense (income)	100,710	(13,488)	174,426	(30,862)
Legal and audit	29,965	99,517	154,095	684,343
Research and development	47,058	429,819	370,008	1,228,190
Share-based compensation (note 10 and 13)	-	1,670,534	-	1,670,534
Wages, benefits, and third-party consultants (note 16)	481,025	401,605	1,443,787	1,264,411
Total operating expenses	1,727,133	3,686,884	5,626,475	8,642,108
Other items				
Foreign exchange (gain) loss	(4,683)	3,635	(33,083)	8,705
Provision for credit losses (note 3 and 19)	60,000	-	60,000	-
Reversal of loss on loans, investment and prepayments (note 19)	-	(340,000)	-	(539,238)
Total loss and comprehensive loss	\$ (1,643,305)	\$ (3,281,431)	\$ (5,297,823)	\$ (7,847,711)
Basic and diluted net loss per share (note 15)	\$ (0.004)	\$ (0.009)	\$ (0.014)	\$ (0.020)
Weighted average number of common shares outstanding - basic and diluted (note 15)	380,512,515	381,531,282	380,853,265	384,500,111

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

	Nine months ended September 30,	
	2023	2022
Operating activities		
Net loss for the period	\$ (5,297,823)	\$ (7,847,711)
<i>Adjustments for:</i>		
Accretion on loans payable	360,397	-
Accrued interest	164,300	-
Amortization of intangible assets	113,446	124,586
Amortization of right-of-use asset	308,402	313,393
Depreciation of property and equipment	275,102	329,543
Interest paid	58,949	76,575
Share-based compensation	-	1,670,534
Inventory impairment write down	(1,937)	531,385
Provision for warranties	119,461	13,996
Reversal of loss on loan, investment, and prepayments	-	(539,238)
Write off of property and equipment	-	48,937
Provision for credit losses	60,000	-
<i>Changes in non-cash working capital items:</i>		
Sales tax receivable, and accounts and other receivables	(52,587)	(158,898)
Inventory	(196,825)	(1,050,982)
Prepaid expenses	77,310	259,100
Accounts payable and accrued liabilities	962,628	(595,328)
Customer deposits	337,649	62,212
Deposits	86,947	-
Warranty provision	(62,743)	(13,996)
Net cash used in operating activities	(2,687,324)	(6,775,892)
Investing activities		
Acquisition of intangible assets	(47,713)	(82,462)
Net cash used in investing activities	(47,713)	(82,462)
Financing activities		
Proceeds from issuance of convertible note	2,000,000	-
Proceeds from issuance of loans	500,000	-
Proceeds from related party loans	709,550	-
Repayment of shareholder loan and related party loan	(207,885)	199,238
Proceeds from exercise of options	-	100,000
Lease obligation expense	(370,559)	(375,414)
Net cash provided by (used in) financing activities	2,631,106	(76,176)
Decrease in cash and cash equivalents	(103,931)	(6,934,530)
Cash and cash equivalents, beginning of period	156,499	8,337,506
Cash and cash equivalents, end of period	\$ 52,568	\$ 1,402,976

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, 2021	\$ 90,629,495	\$ 1,403,573	\$ 12,531,242	\$ (91,049,274)	\$ 13,515,036
Exercise of stock options	173,335	-	(73,335)	-	100,000
Reversal of impairment related to option loan	(340,000)	-	-	-	(340,000)
Share-based compensation	-	-	1,670,534	-	1,670,534
Expiry of options	-	-	(2,729,872)	2,729,872	-
Expiry of warrants	-	(283,575)	-	283,575	-
Net loss for the period	-	-	-	(7,847,711)	(7,847,711)
Balance, September 30, 2022	\$ 90,462,830	\$ 1,119,998	\$ 11,398,569	\$ (95,883,538)	\$ 7,097,859
Balance, December 31, 2022	\$ 90,462,830	\$ 1,119,998	\$ 10,998,823	\$ (98,470,486)	\$ 4,111,165
Cancellation of shares (note 12)	(708,312)	-	-	-	(708,312)
Loan receivable (note 12)	708,312	-	-	-	708,312
Stock options issued for financing costs	-	-	215,435	-	215,435
Expiry of options	-	-	(1,479,361)	1,479,361	-
Issuance of convertible note	-	61,075	280,788	-	341,863
Net loss for the period	-	-	-	(5,297,823)	(5,297,823)
Balance, September 30, 2023	\$ 90,462,830	\$ 1,181,073	\$ 10,015,685	\$ (102,288,948)	\$ (629,360)

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 Nine Months Ended September 30, 2023

(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 point 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, 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 unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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 nine months ended September 30, 2023, the Company incurred a net loss of \$5,297,823 (September 30, 2022 - \$7,847,711) and had negative operating cash flows of \$2,687,324 (September 30, 2022 - \$6,775,892). Although the Company has generated revenue from customer sales, the sales volumes achieved to date have not been sufficient to generate the margins required to cover the Company’s operating costs and research and development costs. The Company has an accumulated deficit of \$102,288,948 since inception (December 31, 2022 - \$98,470,486).

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. Management has determined that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

While the Company has been successful in arranging financing in the past, there can be no assurance that any debt financing or any equity offerings will be sufficient to create cash flow runway in light of the impact of the current state of the capital markets, the COVID-19 virus epidemic on global capital markets and other geopolitical events that could possibly curtail supply chain or orders for the Company’s products.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

2. 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 IFRS, which have been applied consistently to all periods presented. These unaudited condensed consolidated interim financial statements were issued and effective as of November 13, 2023, 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, 2022.

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.

Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's presentation currency. The functional currency of each individual entity is measured using the currency of the primary economic environment in which the entity operates.

Basis of consolidation

These unaudited condensed consolidated interim financial statements include the results of DynaCERT and its wholly-owned subsidiaries, which include DynaCERT GmbH Inc., its wholly-owned German subsidiary, and DISH.

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.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

2. Basis of preparation (continued)

New accounting standards adopted

There were no new accounting standards adopted during the period that would have a significant effect on the Company's 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, 2024. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

3. Accounts and other receivables

	As at September 30, 2023	As at December 31, 2022
Accounts receivables	\$ 268,048	\$ 202,859
Allowance for expected credit losses ⁽¹⁾	(80,026)	(20,026)
	\$ 188,022	\$ 182,833

⁽¹⁾The expected credit loss provision arose due to the nature of applying the ECL model on the trade receivables.

4. Inventory

	As at September 30, 2023	As at December 31, 2022
Raw materials	\$ 1,580,875	\$ 1,656,114
Work in process	452,958	240,726
Finished goods	800,625	738,856
	\$ 2,834,458	\$ 2,635,696

During the nine months ended September 30, 2023, \$1,303,021 of inventory has been included in cost of goods sold (September 30, 2022 - \$1,133,305).

The amounts presented are net of inventory write-down provision.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

5. Property and equipment

	September 30, 2023			December 31, 2022		
	Accumulated Cost	Net Amortization	Book Value	Accumulated Cost	Net Amortization	Book Value
Plant equipment	\$ 1,713,873	\$ 1,350,848	\$ 363,025	\$ 1,713,873	\$ 1,286,796	\$ 427,077
Tooling equipment	390,274	291,649	98,625	390,274	235,881	154,393
Office equipment	243,760	239,565	4,195	243,760	238,825	4,935
Furniture and fixtures	603,902	548,102	55,800	603,902	538,705	65,197
Leasehold improvements	1,557,624	773,455	784,169	1,557,624	635,072	922,552
Vehicles	61,983	23,667	38,316	61,983	16,905	45,078
	\$ 4,571,416	\$ 3,227,286	\$ 1,344,130	\$ 4,571,416	\$ 2,952,184	\$ 1,619,232

During the period ended September 30, 2022, the Company expensed \$48,937 of construction in progress related to third party testing for research and development.

6. Intangible assets

	September 30, 2023			December 31, 2022		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patents	\$ 1,031,275	\$ 460,008	\$ 571,267	\$ 988,833	\$ 398,722	\$ 590,111
Trademarks	163,578	50,010	113,568	158,307	38,537	119,770
Software	599,403	464,469	134,934	599,403	423,782	175,621
	\$ 1,794,256	\$ 974,487	\$ 819,769	\$ 1,746,543	\$ 861,041	\$ 885,502

7. Rights-of-use assets

Balance, January 1, 2022	\$ 1,700,976
Amortization	(423,234)
Balance, December 31, 2022	1,277,742
Additions	10,377
Amortization	(308,402)
Balance, September 30, 2023	\$ 979,717

Right-of-use assets consist of office equipment amortized over 48 months, and office lease is amortized over 60 months.

Maturity analysis - contractual undiscounted cash flows

As at September 30, 2023	
Less than one year	\$ 434,222
Greater than one year	833,956
Total undiscounted lease obligation	\$ 1,268,178

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

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 6.5% (2021 - 6.5%) which was the incremental borrowing rate when the lease liability was incurred. The lease liabilities are operating-type leases for office equipment and its premises. The continuity of the lease liabilities is presented in the table below:

Balance, January 1, 2022	\$ 1,811,246
Interest expense	98,696
Lease payments	(505,906)
Balance, December 31, 2022	1,404,036
Additions	10,377
Interest expense	58,949
Lease payments	(370,559)
Balance, September 30, 2023	\$ 1,102,803

As at September 30, 2023

Less than one year	\$ 440,145
Greater than one year	662,658
Total lease obligation	\$ 1,102,803

9. Investment in associate

Galaxy Power

In July 2021, the Company acquired 20% of the shares of Galaxy Power Inc. ("Galaxy Power"), a private Canadian corporation for \$250,000, as the investment represents a 20% holding in issued and outstanding common shares of Galaxy. Two directors of the Company are also directors in Galaxy Power, however the Company has accounted for the investment in accordance with IFRS 9 as the Company does not have significant influence over the investment. During the year ended December 31, 2021, a full loss was recognized on the investment. There was no impact to the unaudited condensed consolidated interim statements of loss and comprehensive loss during the nine months ended September 30, 2023 and 2022.

KarbonKleen Inc

During the year ended December 31, 2020, the Company purchased 2,000 shares in KarbonKleen Inc ("KK"), a private Delaware corporation, for \$516,479 (US\$367,000) in cash payments. The Company has granted to KK, dynaCERT's Preferred Service Provider, the exclusive Dealership rights in the trucking industry in the United States of America until December 31, 2024, subject to certain conditions. The investment represents a 20% holding in the issued and outstanding common shares of KK, and, as a result, the Company has accounted for the investment under the equity method. During the year ended December 31, 2020, the Company advanced \$1,020,293 (US\$725,000) to KK as a note receivable. The note bears interest at 10% per annum calculated monthly and matured on December 31, 2021. The fair value of the loan on the date of purchase was determined to be \$750,522, and the fair value of the investment in associate was determined to be \$786,249.

During the year ended December 31, 2021, a full loss was recognized on the investment. There was no impact to the unaudited condensed consolidated interim statements of loss and comprehensive loss during the nine months ended September 30, 2023 and 2022.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements Three and Nine Months Ended September 30, 2023 (Expressed in Canadian Dollars) Unaudited

9. Investment in associate (continued)

Summarized financial information of associate

The following table summarized, in aggregate, the financial information of KK in USD:

	As at September 30, 2023 \$	As at December 31, 2022 \$
Total current assets	239,965	239,965
Total assets	277,075	277,075
Current liabilities (excluding accounts payable)	736,848	737,048
Total current liabilities	1,311,883	1,312,084
Non-current liabilities	-	-

	For the Nine Months Ended September 30, 2023 \$	For the Nine Months Ended September 30, 2022 \$
Loss from continuing operations	136	58,246
Total comprehensive loss	136	58,246

10. Loans

Loans from a shareholder

On February 8, 2023, the Company received loan of \$350,000 from a shareholder of the Company. The loan bears interest at 1% per month and is due upon the Company receiving \$3,500,000 in equity funding from any source including the exercise of any options by the Lender. As part of the loan agreement, the Company agreed to issue 6,000,000 stock options with an exercise price of \$0.175, and a fair value of \$151,000 (note 13(v)). The shareholder agreed to exercise 1,000,000 stock options within a period of time expiring no later than three consecutive days of the shares of the borrower trading at no lower than \$0.50 per share for three consecutive days on the TSX and a further 1,000,000 stock options within a period of time expiring no later than three consecutive days of the shares of the borrower trading at no lower than \$0.75 per share for three consecutive days on the TSX, after the date of this loan agreement. For the purposes of determining relevant accounting disclosure in these statements, the Company assumes that the probability related to the exercise provisions to be remote. During the nine months ended September 30, 2023, the Company recorded accretion of \$81,250 on the loan.

On March 22, 2023, the Company received short-term loan of \$150,000 from a shareholder of the Company. The loan bears no interest and was due on April 30, 2023. As part of the loan agreement, the Company agreed to issue 1,500,000 stock options with an exercise price of \$0.175 and a fair value of \$64,435 (note 13(vi)). The shareholder agreed to exercise 1/3 of the options for shares within a period of time expiring no later than three consecutive days of the shares trading at no lower than \$0.50 per share on the TSX for three consecutive days and 1/3 of these options for shares of the Borrower within a period of time expiring no later than three consecutive of shares trading at no lower than \$0.75 per share for three consecutive days after the date of this loan agreement. For the purposes of determining relevant accounting disclosure in these statements, the Company assumes that the probability related to the exercise provisions to be remote. During the nine months ended September 30, 2023, the Company recorded accretion of \$64,435 on the loan, and as at September 30, 2023, the loan remains outstanding.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

10. Loans (continued)

Loans from a related party

During the nine months ended September 30, 2023, the CEO and director of the Company provided in aggregate \$709,550 in cash advances to the Company. The cash advances bears interest at 9% per annum, and are payable upon demand. During the nine months ended September 30, 2023, the Company repaid \$207,885 of the advances provided and recorded accrued interest expense of \$26,193 on the loan.

11. Convertible note

On April 11, 2023, the Company issued a \$2,000,000 convertible note to third party arm's length company, and 666,667 common share purchase warrants. The note will bear interest at 10% per annum with a maturity date December 31, 2023. The principal amount is convertible, at the option of the holder, in whole or in part, at any time following the issue date but on or before maturity, into common shares of the Company at \$0.30 per common share. Each share purchase warrant entitles the holder to purchase one additional common share at a price of \$0.30 per share until March 31, 2026.

The fair value of the convertible note was determined to be \$280,788 using a net present value calculation assuming a discount rate of 19.10% per annum.

The fair value of the warrants issued with the convertible note was determined to be \$61,075 using the Black-Scholes option pricing model. The inputs into the Black-Scholes valuation model and the following assumptions: risk free interest rate – 3.59%; expected life in years – 3; expected volatility 86.13%; and expected forfeiture rate – 0%. The Company recorded accretion of \$214,711 and accrued interest of \$109,530 for the nine months ended September 30, 2023.

12. Share capital

a) Authorized share capital

The authorized share capital consisted of an 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) As at December 31, 2022, there were \$708,311 of unpaid capital relating to loans granted to employees, officers, and directors of the Company for the exercise of options and warrants. These shares were originally issued in accordance with options and warrant loans granted in years ended December 31, 2020, and December 31, 2021. Included within the unpaid capital amount was \$550,000 related to officers and directors of the Company (note 16). The amount was recorded as a reduction of capital represents loans to employees secured by their respective unpaid shares. During the nine months ended September 30, 2023, the 1,305,000 common shares were returned for cancellation, and upon cancellation all option and warrant loans were settled. As at September 30, 2023, there are no option or warrant loans outstanding.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

12. Share capital (continued)

	Number of common shares	Amount
Balance, December 31, 2021	381,484,180	\$ 90,629,495
Exercise of stock options (note 13(ii))	333,335	173,335
Reversal of impairment related to option loan (note 19)	-	(340,000)
Balance, September 30, 2022	381,817,515	\$ 90,462,830
Balance, December 31, 2022	381,817,515	\$ 90,462,830
Cancellation of shares related to option and warrant loans (i)	(1,305,000)	708,312
Cancellation of option and warrant loans (i)	-	(708,312)
Balance, September 30, 2023	380,512,515	\$ 90,462,830

13. Stock options

(i) During the nine months ended September 30, 2022, 6,794,710 stock options with a Black-Scholes value of \$2,729,872 expired with exercise price of \$0.54.

(ii) During the nine months ended September 30, 2022, certain consultant exercised 333,335 stock options with a Black-Scholes value of \$73,335, and exercise price of \$0.30.

(iii) During the nine months ended September 30, 2022, the Company granted 7,593,335 stock options to its employees, consultants, directors and officers, with an exercise price \$0.30. Included within the 7,593,335 stock option grant was 2,825,000 stock options granted to directors and officers (note 16). The options vested immediately and expire on August 25, 2027. They have been valued using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 3.23%; expected life in years – 5; expected volatility 101.39%; and expected forfeiture rate – 0%.

(iv) During the nine months ended September 30, 2023, 4,318,096 stock options with a Black-Scholes value of \$1,479,361 expired with exercise prices between \$0.25 to \$0.70.

(v) During the nine months ended September 30, 2023, the Company granted 6,000,000 stock options in connection with a loan. The stock options have an exercise price of \$0.175 (note 10), vest immediately, and expire on February 7, 2028. The stock options were valued using a relative fair value basis, where the relative fair value of the loan payable and stock options were estimated by using the share price at the time of financing and the Black-Scholes option pricing model. The inputs into the Black-Scholes valuation model and the following assumptions: risk free interest rate – 3.20%; expected life in years – 5; expected volatility 99.86%; and expected forfeiture rate – 0%.

(vi) During the nine months ended September 30, 2023, the Company granted 1,500,000 stock options in connection with a loan. The stock options have an exercise price of \$0.175 (note 10), vest immediately, and expire on March 28, 2028. The stock options were valued using a relative fair value basis, where the relative fair value of the loan payable and stock options were estimated by using the share price at the time of financing and the Black-Scholes option pricing model. The inputs into the Black-Scholes valuation model and the following assumptions: risk free interest rate – 3.71%; expected life in years – 5; expected volatility 99.37%; and expected forfeiture rate – 0%.

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

13. Stock options (continued)

	Number of stock options	Weighted average exercise price
Balance, December 31, 2021	31,895,806	\$ 0.54
Issued (iii)	7,593,335	0.30
Exercised (ii)	(333,335)	(0.30)
Expired (i)	(6,794,710)	(0.54)
Balance, September 30, 2022	32,361,096	\$ 0.48
Balance, December 31, 2022	31,915,096	\$ 0.47
Issued (v)(vi)	7,500,000	0.175
Expired (iv)	(4,318,096)	(0.49)
Balance, September 30, 2023	35,097,000	\$ 0.41

The following table reflects the stock options issued and outstanding as of September 30, 2023:

Expiry Date	Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding
October 4, 2023	0.25	0.01	146,000
March 1, 2024	0.38	0.42	3,150,000
May 15, 2024	0.35	0.62	250,000
July 30, 2024	0.50	0.83	600,000
September 11, 2024	0.50	0.95	300,000
October 11, 2024	0.50	1.03	50,000
November 12, 2024	0.50	1.12	811,000
December 9, 2024	0.52	1.19	1,725,000
December 17, 2024	0.55	1.22	400,000
July 2, 2025	0.70	1.76	4,210,000
August 4, 2025	0.70	1.85	1,105,000
October 30, 2025	0.55	2.08	100,000
January 8, 2026	0.55	2.28	850,000
May 30, 2026	0.50	2.67	6,370,000
August 25, 2027	0.30	3.90	6,830,000
October 23, 2027	0.30	4.07	700,000
February 7, 2028	0.175	4.36	6,000,000
March 28, 2028	0.175	4.50	1,500,000
Total	0.41	1.86	35,097,000

DynaCERT INC.

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Unaudited

14. Warrants

	Number of warrants	Weighted average exercise price
Balance, December 31, 2021	21,650,260	\$ 0.75
Expired	(6,750,260)	(0.97)
Balance, September 30, 2022	14,900,000	\$ 0.65
Balance, December 31, 2022	14,900,000	\$ 0.65
Issued (note 11)	666,667	0.30
Balance, September 30, 2023	15,566,667	\$ 0.64

The following table reflects the share purchase warrants issued and outstanding as of September 30, 2023:

Expiry date	Remaining contractual life (years)	Number of warrants outstanding	Exercise price (\$)
November 14, 2023	0.12	14,900,000	0.65
March 31, 2026	2.50	666,667	0.30
		15,566,667	

15. Loss per share

For the year ended September 30, 2023, basic and diluted loss per share has been calculated based on the loss attributable to common shareholders of \$5,297,823 (September 30, 2022 - \$7,847,711) and the weighted average number of common shares outstanding of 380,853,265 (September 30, 2022 - 384,500,111). Diluted loss per share did not include the effect of stock options and warrants as they are anti-dilutive.

16. Related party transactions

Key management includes directors and other key employees, who have authority and responsibility for planning, directing, and controlling the activities of the Company.

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, 2023 and September 30, 2022:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Consulting fees paid to directors	\$ 169,229	\$ 80,992	\$ 408,595	\$ 271,418
Short-term benefits	66,000	66,000	198,000	198,000
Share based compensation	-	731,500	-	731,500
	\$ 235,229	\$ 878,492	\$ 606,595	\$ 1,200,918

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

16. Related party transactions (continued)

Included in consulting fees to directors above for the nine months ended September 30, 2023 is \$44,800 (September 30, 2022 - \$50,040) for business development services, \$198,000 (September 30, 2022 - \$198,000) for officer services. As at September 30, 2023, officers and directors were owed \$85,364 (December 31, 2022 - \$nil) with respect to services provided.

Included in research and development for the nine months ended September 30, 2023, is \$92,008 paid to key employees/consultants for research and development work. These key employees/consultants are also directors of Cipher Neutron Inc. See note 18.

See notes 10, 12(b)(i), and 13(v)(vi).

As at December 31, 2022, the Company had loans to officers, and directors of the Company in the aggregate amount of \$550,000 relating to share capital (note 12). The loans were non-interest bearing and due on demand. During the nine months ended September 30, 2023, the shares were returned to the Company and the loans were cancelled.

The Previous Chief Financial Officer ("CFO") of the Company is a senior employee of Marrelli Support Services Inc. ("MSSI"). During the three and nine months ended September 30, 2023, the Company paid or accrued professional fees of \$nil and \$15,135 (September 30, 2022 - \$15,135, and \$45,405, respectively) to MSSI. These services were incurred in the normal course of operations for general accounting and financial reporting services, while the individual was an officer of the Company. As at September 30, 2023, MSSI was owed \$10,335 (December 31, 2022 - \$5,700) with respect to services provided.

On May 26, 2023, the Company received a purchase order of 3,000 HydraGEN™ Units brokered through a director of the Company where he acts as a conduit for the purchase of the units on behalf of dynaCERT for the purchaser (note 21).

17. Segmented information

The Company currently has one business segment, being the development, production and sale of hydrogen generating systems. As at September 30, 2023, the Company held \$14,671 of cash (December 31, 2022 - \$66) and during the three and nine months ended September 30, 2023 incurred \$14,938 and \$217,507 (September 30, 2022 - \$274,419 and \$387,280) 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).

Revenue by geographical location:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Europe	\$ 96,530	\$ 29,428	\$ 96,530	\$ 48,967
Canada and other	185,964	39,600	259,039	214,897
	\$ 282,494	\$ 69,028	\$ 355,569	\$ 263,864

DynaCERT INC.

Notes to Condensed Consolidated Interim Financial Statements

Three and Nine Months Ended September 30, 2023

(Expressed in Canadian Dollars)

Unaudited

18. Commitments and 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 matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these unaudited condensed consolidated interim financial statements.

In February 2023, the Company entered into a Collaboration Agreement with Cipher Neutron Inc. ("CN"), a privately held Ontario based company, to further jointly develop, produce and market state-of-the-art Hydrogen technology, including AEM Electrolyser technology, that is designed to produce Green Hydrogen for world-wide large infrastructure projects, and Reversible Fuel Cell technology applied to emergency preparedness and efficient storage of Hydrogen as a long-term source of power. Under the Collaboration Agreement, the Company has been provided with options to acquire common shares of CN (the "CN options") at various expiry dates up to July 31, 2025, which, if fully exercised, could result in the Company obtaining up to a 50% ownership of CN (as at the date of the Collaboration Agreement). The total exercise price of such CN options is \$17,500,000. The Company has committed to exercise certain of its CN options in amounts ranging up to 50% of the net proceeds of any equity financing by dynaCERT up to a maximum of \$5,000,000 at favourable seed capital exercise prices of CN equity to dynaCERT. When dynaCERT exercises such options, dynaCERT may then own 25% of CN on an undiluted basis. Additional financing activities by dynaCERT are expected to be necessary in order to facilitate the exercise by dynaCERT of the foregoing CN options.

19. Loss on loans, investments, and prepayments

The Company incurred the following losses on loans, investments, and prepayments during the fiscal year ended December 31, 2021. Such losses were recorded after consultation with the Company's previous auditors, who noted questions regarding recoverability and cited insufficient audit evidence as the principal bases for recording such losses. Such assessments were made as of December 31, 2021.

During the three and nine months ended September 30, 2023, a loan due from an employee of the Company, in the principal amount of \$199,238 was repaid. During the three and nine months ended September 30, 2022, the Company reversed the impairment on the Option Loans in the amount of \$340,000.

20. Prior year reclassification

Certain prior period amounts on the consolidated statements of financial position, consolidated statements of loss and comprehensive loss, and the consolidated statements of cash flows have been reclassified to conform with the current period presentation.

21. Subsequent events

On October 16, 2023, the Company announced that it initiated a non-brokered private placement of equity of up to 40,000,000 units. Each unit shall be priced at \$0.15 per unit for a total maximum offering of \$6,000,000. Each unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant is exercisable into one common share at an exercise price of \$0.20 per warrant at any time for a period commencing upon the closing for a period of thirty-six months thereafter. If at any time after the date that is four months and one day after the closing, the closing trading price of the common shares on the Toronto Stock Exchange is greater than \$0.35 per common share for a period of ten consecutive business days, then the Company may give notice thereof to the holders of the warrants, and, in such case, the expiry time of the warrants shall be accelerated and shall be the 30th day after the date on which such notice is deemed to have been given by the Company.

October 19, 2023, the Company provided an update to its shareholders for clarity and announced that it has agreed with Cipher Neutron Inc. that dynaCERT will invest in Cipher Neutron equity ten percent of the net proceeds upon closing of the Company's proposed Unit Offering announced in dynaCERT's Press Release dated October 16, 2023. Further investments in Cipher Neutron by way of dynaCERT's options to purchase equity in Cipher Neutron, described in dynaCERT's Press Release dated February 22, 2023, remain in place.