



**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management) (Amounts expressed in Canadian Dollars)

**These condensed consolidated interim financial statements and the notes thereto  
have not been reviewed by the Company's external auditors.**

**DYNACERT INC.**

**INDEX TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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**DYNACERT INC.****INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

	As at September 30, 2016	As at December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 484,668	\$ 925,919
Accounts receivable	12,922	12,816
Inventory	179,376	173,641
Prepaid expenses and deposits	<u>97,391</u>	<u>9,683</u>
<b>TOTAL CURRENT ASSETS</b>	774,357	1,122,059
<b>NON-CURRENT ASSETS</b>		
Property and equipment (note 5)	<u>134,827</u>	<u>94,190</u>
<b>TOTAL ASSETS</b>	\$ <u><u>909,183</u></u>	\$ <u><u>1,216,249</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	523,949	1,005,189
<b>NON-CURRENT LIABILITIES</b>		
Promissory note (note 6)	<u>391,730</u>	<u>367,086</u>
<b>TOTAL LIABILITIES</b>	915,679	1,372,275
<b>SHAREHOLDERS' DEFICIT</b>		
Share capital (note 8)	26,218,786	25,505,358
Warrant reserve (note 8)	3,796,885	3,090,849
Share based payment reserve (note 8)	4,351,867	4,200,436
Deficit	<u>(34,374,034)</u>	<u>(32,952,669)</u>
<b>TOTAL EQUITY (DEFICIT)</b>	(6,496)	(156,026)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT</b>	\$ <u><u>909,183</u></u>	\$ <u><u>1,216,249</u></u>

See condensed notes to the interim consolidated financial statements

**DYNACERT INC.****INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
<b>REVENUE</b>	\$ -	\$ -	\$ -	\$ 12,898
<b>COST OF SALES</b>	-	-	-	3,759
<b>GROSS PROFIT</b>	-	-	-	9,139
<b>OPERATING EXPENSES</b>				
Amortization	6,892	23,050	18,324	62,932
Consulting and professional fees	221,138	87,375	605,614	245,687
Foreign exchange loss	(139)	510	(83)	3,967
General and administrative	72,628	78,004	289,600	132,960
Insurance	7,107	8,227	22,880	20,186
Interest	8,910	8,594	25,373	26,770
Research and development	55,940	22,825	266,811	94,814
Occupancy costs	12,909	11,138	38,739	31,345
Share based compensation	145,157	-	154,107	557,324
<b>TOTAL OPERATING EXPENSES</b>	<u>(530,542)</u>	<u>(239,723)</u>	<u>(1,421,365)</u>	<u>(1,175,986)</u>
<b>LOSS FROM OPERATIONS AND COMPREHENSIVE (LOSS)</b>	\$ <u>(530,542)</u>	\$ <u>(239,723)</u>	\$ <u>(1,421,365)</u>	\$ <u>(1,166,847)</u>
<b>Loss per share</b>				
<b>Basic and diluted (Note 11)</b>	\$ -	\$ -	\$ -	\$ -
<b>Weighted average number of common shares outstanding</b>	<u>209,499,871</u>	<u>178,978,822</u>	<u>208,021,002</u>	<u>178,415,838</u>

**DYNACERT INC.**

**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

	Number of Shares	Share Capital	Warrant Reserve	Share Based Payment Reserve	Deficit	Total Equity (Deficit)
<b>Balance, January 1, 2015</b>	175,996,154	\$ 24,005,525	\$ 2,686,229	\$ 3,417,298	\$ (31,241,844)	\$ (1,132,792)
Share based compensation	-	-	-	557,324	-	557,324
Private placement of units	2,574,418	221,618	164,545	-	-	386,163
Issued on exercise of warrants	408,250	40,825	-	-	-	40,825
Exercise of warrants	-	8,977	(8,977)	-	-	-
Net loss for the period	-	-	-	-	(1,166,847)	(1,166,847)
<b>Balance, September 30, 2015</b>	<b>178,978,822</b>	<b>24,276,945</b>	<b>2,841,797</b>	<b>3,974,622</b>	<b>(32,408,691)</b>	<b>(1,315,327)</b>
Share based compensation	-	-	-	225,814	-	225,814
Private placement of units	15,491,049	1,228,413	249,052	-	-	1,477,465
Net loss for the year	-	-	-	-	(543,978)	(543,978)
<b>Balance, December 31, 2015</b>	<b>194,469,871</b>	<b>25,505,358</b>	<b>3,090,849</b>	<b>4,200,436</b>	<b>(32,952,669)</b>	<b>(156,026)</b>
Share based compensation	-	-	-	154,107	-	154,107
Issued on exercise of options	30,000	3,000	-	-	-	3,000
Exercise of options	-	2,676	-	(2,676)	-	-
Private placement of units	15,000,000	707,752	706,036	-	-	1,413,788
Net loss for the period	-	-	-	-	(1,421,365)	(1,421,365)
<b>Balance, September 30, 2016</b>	<b>209,499,871</b>	<b>\$ 26,218,786</b>	<b>\$ 3,796,885</b>	<b>\$ 4,351,867</b>	<b>\$ (34,374,034)</b>	<b>\$ (6,496)</b>

See condensed notes to the interim consolidated financial statements

**DYNACERT INC.****INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

	<b>Nine months ended September 30, 2016</b>	<b>Nine months ended September 30, 2015</b>
<b>CASH USED IN OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,421,365)	\$ (1,166,847)
Items not requiring an outlay of cash		
Depreciation of property and equipment	18,324	62,932
Accretion of Interest on promissory note	24,645	24,645
Share based compensation	154,107	557,324
Cash Loss from Operations	(1,224,290)	(521,945.69)
Changes in non-cash working capital		
Accounts receivable	(106)	4,590
Inventory	(5,735)	(122,636)
Prepaid expenses and deposits	(87,707)	4,959
Accounts payable and accrued liabilities	(481,240)	58,452
	(1,799,078)	(576,581)
<b>CASH USED IN INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(58,961)	(54,033)
<b>Net Cash used</b>	(1,858,039)	(630,614)
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from issuance of units	1,413,788	386,163
Proceeds from exercise of Warrants	-	40,825
Proceeds from units pending allocation	-	276,725
Proceeds from exercise of Options	3,000	-
<b>Cash Provided</b>	1,416,788	703,713
<b>NET INCREASE (DECREASE) IN CASH</b>	(441,251)	73,099
<b>CASH, beginning of period</b>	925,919	1,954
<b>CASH, end of the period</b>	\$ 484,668	\$ 75,053

See condensed notes to the interim consolidated financial statements

## **DYNACERT INC.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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#### **1. THE COMPANY AND ITS OPERATIONS**

dynaCERT Inc. ("dynaCERT") is a Canadian public company primarily domiciled in Canada. The Company's registered head office is located at 501 Alliance Avenue, Suite 101, Toronto Ontario, M6N 2J1. The Company is listed on the TSX Venture Exchange (TSX.V – DYA). dynaCERT Inc. and entities it controls are together referred to in these consolidated financial statements as "the Company". These consolidated financial statements include the results of dynaCERT and its wholly-owned subsidiary, Dynamic Fuel Systems USA Inc. ("Dynamic USA"). Dynamic USA is an investment holding company.

The Company is engaged in the design, engineering, manufacturing, testing, distributing and installation of its patent pending transportable hydrogen generator aftermarket product, originally targeted for use in the heavy tractor trailer industry and now expanding into large stationary power generation, with potential for application in the shipping and rail industries. 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 greater fuel efficiency and reduced toxic emissions. Over the past year, the company has initiated ongoing programs within North America and abroad to further test and validate this technology. The Company has aligned itself with companies globally to introduce and market the HydraGen™ product. The Company assembles the HydraGen™ units at its Toronto facility and continues to market its product to generate sales.

#### **2. GOING CONCERN**

These unaudited interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize the carrying value of its assets and discharge its liabilities when due at the amounts stated in these unaudited interim consolidated financial statements. This assumption is dependent on future events including sales of HydraGen™. Due to the existence of losses from operations, total accumulated losses of \$34,374,034 at September 30, 2016, management acknowledges that uncertainty remains over the ability of the Company to obtain adequate financing and to reach profitable levels of sales, which creates uncertainty as to the Company's continuance as a going concern. Management is confident that raising such additional capital is an achievable and reasonable expectation. The Company has repeatedly been able to raise additional capital as required. There is no certainty that these or other strategies will be sufficient to permit the Company to continue operations beyond 2016.

These unaudited interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these unaudited interim consolidated financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses and the statement of financial position classifications used.

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) STATEMENT OF COMPLIANCE**

These condensed unaudited interim consolidated financial statements ("interim financial statements") of dynaCERT Inc. were prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These interim financial statements do not include all disclosures normally provided in consolidated annual financial statements and should be read in conjunction with the audited annual financial statements for the year ended December 31, 2015.

The Board of Directors approved these interim financial statements for issue on August 29, 2016.

**(b) SIGNIFICANT ACCOUNTING POLICIES**

These interim financial statements were prepared using the same accounting policies and methods as those described in the Company's consolidated annual financial statements for the year ended December 31, 2015.

The amendments to IFRS 11, IAS 16 and IAS 18, to be applied prospectively for annual periods beginning on or after January 1, 2016 do not have a significant impact on the Company's financial statements.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

**Accounting Standards Issued but Not Yet Implemented**

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single expected loss impairment method to be used, replacing the incurred loss impairment methods in IAS 39. The new standard also introduced a new hedge accounting model in November 2013, and expands the scope of eligible hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 also introduces own credit risk charges to OCI for fair valued liabilities. IFRS 9 is to be effective for fiscal years beginning on or after January 1, 2018. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.



## **DYNACERT INC.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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#### **IFRS 15 Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 to establish principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 - Leases or other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets such as property, plant and equipment. Additional disclosures will also be required under the new standard. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on the Company's consolidated financial statements

#### **IFRS 16 – Leases**

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

**5. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Equipment</b>	<b>Office Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Computer Software</b>	<b>TOTAL</b>
As at January 1, 2015	\$ 959,837	\$ 226,395	\$ 7,558	\$ 158,232	\$ 11,904	\$ 1,363,926
Additions	46,347	-	476	-	-	46,823
Disposals	-	-	-	-	-	-
Balance, December 31, 2015	1,006,184	226,395	8,034	158,232	11,904	1,410,749
Additions	44,957	13,641	-	-	363	58,961
Balance, September 30, 2016	<u>\$ 1,051,141</u>	<u>\$ 240,036</u>	<u>\$ 8,034</u>	<u>\$ 158,232</u>	<u>\$ 12,267</u>	<u>\$ 1,469,710</u>
<b>Accumulated Depreciation</b>	<b>Equipment</b>	<b>Office Equipment</b>	<b>Furniture and Fixtures</b>	<b>Leasehold Improvements</b>	<b>Computer Software</b>	<b>TOTAL</b>
As at January 1, 2015	\$ 913,181	\$ 217,641	\$ 1,979	\$ 93,642	\$ 7,250	\$ 1,233,693
Depreciation expense	13,966	1,751	1,163	64,590	1,396	82,866
Balance, December 31, 2015	927,147	219,392	3,142	158,232	8,646	1,316,559
Depreciation expense	14,923	1,897	734	-	770	18,324
Balance, September 30, 2016	942,070	221,289	3,876	158,232	9,416	1,334,883
<b>Property &amp; Equipment, September 30, 2016</b>	<u>\$ 109,071</u>	<u>\$ 18,747</u>	<u>\$ 4,158</u>	<u>\$ -</u>	<u>\$ 2,851</u>	<u>\$ 134,827</u>
<b>Property &amp; Equipment , December 31, 2015</b>	<u>\$ 79,037</u>	<u>\$ 7,003</u>	<u>\$ 4,892</u>	<u>\$ -</u>	<u>\$ 3,258</u>	<u>\$ 94,190</u>

Depreciation expense for the period ended September 30, 2016 amounted to \$18,324 (2015 - \$62,932).

**DYNACERT INC.****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

**6. PROMISSORY NOTE PAYABLE**

In 2010, the Corporation entered into a licensing agreement with an unrelated Ontario based development corporation ("development corporation") with which the company had worked closely in the development of the first Generation HydraGen™. Under the agreement the Company was granted licensing rights on the HydraGen™ hydrogen generating unit. In return, the Company would pay a royalty fee of 6% on the net invoice price of any such product sales.

On October 30, 2014, dynaCERT acquired the technology that underlies its principal product, the HydraGen™ from the development corporation. DynaCERT now has the right to manufacture, sell and distribute the products anywhere in the world. The Technology (including all patents, patents pending, intellectual property, etc.) was acquired for a purchase price of \$750,000 payable out of the sales of HydraGen™ units, (50% of the gross profits from sales) over five years. During 2014, dynaCERT paid the development company \$250,000 from proceeds of warrants exercised.

The balance of \$500,000 has been discounted at a rate of 15% which represents management estimate of the cost of capital and is reflected in the consolidated financial statements as follows:

	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Promissory note payable	\$500,000	\$500,000
Deferred interest	<u>(108,270)</u>	<u>(132,914)</u>
	<u>\$391,730</u>	<u>\$367,086</u>

The deferred interest is being accreted on a straight-line basis over five years.

The technology acquired was written off as at December 31, 2014.

**7. CONTINGENCIES AND COMMITMENTS**

The Company has commitments for leasing its office premises (suite 101) in Toronto, Canada, to December 31, 2017, at a rent of \$4,303 per month. Further, since October 1, 2016 the Company has commitments to lease the suite next to its head office location until September 30, 2018 with rent of \$6,446 per month. This strategic initiative will provide additional production space of 7,032 square feet as the Company begins scaling up production capacity for manufacturing of the HydraGen™ product.

Management of dynaCERT has approved a purchase order for Electronic Control Units from RMF Design and Manufacturing for approximately \$500,000. First instalment of 15 % was paid during the period with the balance payable upon the planned delivery of units throughout Q1 2017.

**DYNACERT INC.****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

**8. SHARE CAPITAL****Authorized**

Unlimited number of Common shares

	<b>Number of Common Shares</b>	<b>Stated Value</b>
<b>Issued</b>		
Balance, January 1, 2015	175,996,154	\$ 24,005,525
Issued under private placement net of warrants (note d)	1,233,334	138,773
Issued on exercise of warrants (note e)	408,250	49,802
Issued under private placement net of warrants (note f)	1,341,084	171,229
Issued under private placement net of warrants (note g)	3,579,648	336,172
Issued under private placement net of warrants (note h)	1,100,000	91,776
Issued under private placement net of warrants (note i)	10,811,401	712,082
Balance, December 31, 2015	<u>194,469,871</u>	<u>25,505,359</u>
Issued on exercise of options (note e)	30,000	5,676
Issued under private placement net of warrants (note g)	15,000,000	707,752
Balance, September 30, 2016	<u><u>209,499,871</u></u>	<u><u>\$ 26,218,787</u></u>

**Warrants Reserve**

A summary of the Company's outstanding and exercisable warrants is as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
		\$
Outstanding, January 1, 2015	15,898,535	0.18
Granted during the year	10,319,943	0.17
Exercised during the year	(408,250)	
(0.10)		
Expired during the year	<u>(12,805,285)</u>	<u>(0.17)</u>
Outstanding, December 31, 2015	13,004,943	0.18
Granted during the period	7,500,000	0.15
Expired during the period	<u>(2,685,000)</u>	<u>0.15</u>
Outstanding, September, 2016	<u><u>17,819,943</u></u>	<u><u>0.16</u></u>

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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**8. SHARE CAPITAL (continued)**

(a) On March 23, 2015, the Company completed the first tranche of a private placement financing of 1,233,334 units at a price of \$0.15 per unit and recorded an aggregate amount of \$185,000 (including non-cash portion which was converted from debt in amount of \$60,000, net proceeds were \$125,000). Each Unit consists of one (1) common share in the capital of the Company and one (1) common share purchase warrant (a "warrant"). Each warrant entitles the holder to acquire one (1) additional common share at a price of \$0.25 for a two (2) year period from the date of issuance. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: Expected dividend yield of 0%; risk free interest rate of 0.49%; expected volatility of 85.96%; expected life of two (2) years. The fair value of the warrants has been valued at \$46,227. The warrants include an acceleration clause to the effect that if at any time after four (4) months and one (1) day following the issuance of the private placement the closing trading price of the Company's common shares on the TSX Venture trade at \$0.50 or more for a period of ten (10) consecutive trading days, then the Company shall be entitled to notify the holders of the warrants of its intention to force the exercise of the warrants. Upon receipt of such notice, the holders of warrants shall have thirty (30) days to exercise the warrants, failing which the warrants will automatically expire.

(b) On April 13, 2015, 408,250 warrants (strike price \$0.10 per share), were exercised through a non cash transaction. The amount previously credited to warrant reserve of \$8,977 were re-classified to share capital.

(c) On May 8, 2015, the Company completed the second tranche of a private placement financing of 1,341,084 units at a price of \$0.15 per unit and recorded an aggregate amount of \$201,162. Each Unit consists of one (1) common share in the capital of the Company and one (1) common share purchase warrant (a "warrant"). Each warrant entitles the holder to acquire one (1) additional common share at a price of \$0.25 for a two (2) year period from the date of issuance. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: Expected dividend yield of 0%; risk free interest rate of 0.66%; expected volatility of 85.01%; expected life of two (2) years. The fair value of the warrants has been valued at \$29,933. The warrants include an acceleration clause to the effect that if at any time after four (4) months and one (1) day following the issuance of the private placement the closing trading price of the Company's common shares on the TSX Venture trade at \$0.50 or more for a period of ten (10) consecutive trading days, then the Company shall be entitled to notify the holders of the warrants of its intention to force the exercise of the warrants. Upon receipt of such notice, the holders of warrants shall have thirty (30) days to exercise the warrants, failing which the warrants will automatically expire.

(d) On October 2, 2015, the Company completed the first tranche of a private placement financing of 3,579,648 units at a price of \$0.10 per unit and recorded an aggregate amount of \$357,965 (including non-cash portion which was converted from debt in amount of \$65,400, net proceeds were \$292,565). Each Unit consists of one (1) common share in the capital of the Company and one half (1/2) common share purchase warrant (a "warrant"). Each whole warrant entitles the holder to acquire one (1) additional common share at a price of \$0.15 for a two (2) year period from the date of issuance. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: Expected dividend yield of 0%; risk free interest rate of 0.50%; expected volatility of 95.66%; expected life of two (2) years. The fair value of the warrants has been valued at \$21,793. The warrants include an acceleration clause to the effect that if at any time after four (4) months and one (1) day following the issuance of the private placement the closing trading price of the Company's common shares on the TSX Venture trade at \$0.30 or more for a period of ten (10) consecutive trading days, then

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

(Unaudited - Prepared by Management)

(Amounts expressed in Canadian Dollars)

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**8. SHARE CAPITAL (continued)**

the Company shall be entitled to notify the holders of the warrants of its intention to force the exercise of the warrants. Upon receipt of such notice, the holders of warrants shall have thirty (30) days to exercise the warrants, failing which the warrants will automatically expire.

(e) On December 1, 2015, the Company completed the second tranche of the private placement financing of 1,100,000 units as described in Note 8 (d) for aggregate proceeds of \$110,000. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: Expected dividend yield of 0%; risk free interest rate of 0.60%; expected volatility of 93.93%; expected life of two (2) years. The fair value of the warrants has been valued at \$18,224.

(f) On December 31, 2015, the Company completed the third tranche of the private placement financing of 10,811,141 units described in Note 8 (d) and recorded an aggregated amount of \$1,081,141. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: Expected dividend yield of 0%; risk free interest rate of 0.48%; expected volatility of 97.78%; expected life of two (2) years. The fair value of the warrants has been valued at \$297,419. The company also incurred a finder's fee in the amount of \$71,640.

(g) On January 8, 2016, 30,000 stock options were exercised for proceeds of \$3,000. The \$2,676 previously credited to share-based payment was re-classified to share capital.

(h) On January 28, 2016, the Company completed the non-brokered private placement (the "Offering") financing of 14,786,100 units at a price of \$0.10 per unit for gross proceeds of \$1,478,610. Additional 213,900 units were issued to finders (total issuance of 15,000,000 units). Each Unit consists of one (1) common share in the capital of the Company and one half (1/2) common share purchase warrant (each, a "warrant"), with each whole warrant being exercisable into one (1) common share at a price of \$0.15 for a two (2) year period from the date of issuance. The warrants include an acceleration clause to the effect that if at any time after four (4) months and one (1) day following the issuance of the private placement the closing trading price of the Company's common shares on the TSX Venture trade at \$0.25 or more for a period of ten (10) consecutive trading days, then the Company shall be entitled to notify the holders of warrants of its intention to force the exercise of the warrants. Upon receipt of such notice, the holders of warrants shall have thirty (30) days to exercise the warrants, failing which the warrants will automatically expire. The proceeds of the Offering will be used to fund working capital and manufacturing costs.

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**Share Based Payments**

The Company has a stock option plan under which employees, directors and consultants are periodically granted stock options to purchase common shares of the Company. Under the plan, the exercise price for purchasing these shares cannot be less than the market price of the common shares on the last day on which the common shares traded prior to the date of the granted option.

There have been no cancellations or significant modifications to the plan during the period ended September 30, 2016.

Year ended December 31, 2015

- (i) On February 27, 2015, the Company granted 3,925,000 options to directors, officers, consultants and employees at an exercise price of \$0.15 per share. These options vest immediately and are exercisable for a period of five (5) years from the date of the grant. Of this number, 2,525,000 options were granted to directors and officers. The other 1,400,000 options were granted to current consultants and employees. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 0.73%; expected dividends 0%; forfeiture rate 0%; expected volatility 102.90%. The Company expensed stock based compensation of \$375,829.
- (j) On December 1, 2015, the Company granted 6,500,000 options to directors, officers, consultants and employees at an exercise price of \$0.10 per share. These options vest immediately and are exercisable for a period of five (5) years from the date of the grant. Of this number, 4,050,000 options were granted to directors and officers. The other 2,450,000 options were granted to current consultants and employees. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 0.86%; expected dividends 0%; forfeiture rate 0%; expected volatility 93.20%. The Company expensed stock based compensation of \$351,182.
- (k) In 2015 the Company expensed stock based compensation expense of \$56,127 related to the accretion of the compensation expense over the vesting period of options granted on July 15, 2014. At that time the Company granted 1,734,000 options to consultants and employees, which vest over a period of thirty-six (36) months. One sixth (1/6) of the share options vested at date of grant and 1/6 will vest on each of January 14, 2014, July 14, 2015, January 14, 2016, July 14, 2016 and January 14, 2017. The fair value of each option used for the purpose of estimating the stock compensation was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 1.25%; expected dividends 0%; forfeiture rate 0%; expected volatility 234.10%.

Period ended September 30, 2016

- (l) As at September 30, 2016, the Company has expensed total of \$8,950 related to options vesting in January 14, 2016. Options originally issued on July 15, 2014 as described on note 8(k).
- (m) On July 13, 2016, the Company granted 1,450,000 options to employees and consultants at an exercise price of \$0.10 per share. These options vest immediately and are exercisable for a period of five (5) years from the date of the grant. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 0.25%; expected dividends 0%; forfeiture rate 0%; volatility 90.64%. The Company expensed stock based compensation of \$76,203.

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(n) On September 1, 2016, the Company granted 250,000 options to consultants at an exercise price of \$0.10 per share. These options vest immediately and are exercisable for a period of five (5) years from the date of the grant. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 0.46%; expected dividends 0%; forfeiture rate 0%; volatility 108.41%. The Company expensed stock based compensation of \$21,759.

(p) On September 1, 2016, upon the appointment of Mr. David Bridge as COO of dynaCERT Inc, the Company granted him 500,000 options at an exercise price of \$0.12 per share. These options vest immediately and are exercisable for a period of five (5) years from the date of the grant. The fair value of each option used for estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free rate 0.46%; expected dividends 0%; forfeiture rate 0%; volatility 108.41%. dynaCERT expensed stock based compensation of \$42,720.

(q) Summary of outstanding Options  
Period ended September 30, 2016

	<b>Number of options</b>	<b>Weighted average exercise price \$</b>	<b>Range of exercise price</b>
Outstanding, January 1, 2015	10,084,000	0.18	\$0.10 - \$1.00
Granted during the year	10,425,000	0.12	
Expired during the year	<u>(2,401,000)</u>	<u>(0.11)</u>	
Outstanding, December 31, 2015	<u>18,108,000</u>	<u>0.15</u>	\$0.10 - \$1.00
Expired during the period	(1,000,000)	(0.65)	\$0.19 - \$1.00
Granted during the period	2,100,000	0.10	\$0.10 - \$0.12
Exercised during the period	<u>(30,000)</u>	<u>(0.10)</u>	
Outstanding, September 30, 2015	<u>19,178,000</u>	<u>0.12</u>	\$0.10 - \$0.19



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**Share Based Payment Reserve**

Balance, January 1, 2015	\$ 3,417,298
Options exercised to share capital	-
Share-based compensation expense for the year	<u>783,138</u>
Balance, December 31, 2015	<u>4,200,436</u>
Options exercised to share capital	(2,676)
Share-based compensation expense for the year	<u>154,107</u>
Balance, September 30, 2016	<u>\$ 4,351,867</u>

**Share Options Exercised During the Year**Period ended September 30, 2016

On January 8, 2016, 30,000 stock options were exercised for proceeds of \$3,000. The amounts previously credited to share-based payment reserve of \$2,276 were re-classified to share capital.

**9. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are:

- ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintaining liquidity reserves and access to capital; and
- minimizing the after-tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The Company manages its capital structure and makes adjustments based on the funds available in order to maintain its daily operations. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the business.

As at September 30, 2016, the Company has financial capital consisting of cash and accounts receivable. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and therefore, does not have a numeric target for its capital structure.

Management regularly conducts a review of its capital management approach. There were no changes to the Company's approach to capital management during the period ended September 30, 2016, as compared to the year ended December 31, 2015.

## **DYNACERT INC.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**

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## **10. FINANCIAL RISK MANAGEMENT**

### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- liquidity risk; and
- market risk (including foreign currency and interest rate risk)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these interim financial statements and notes thereto.

### **Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial risk management policies are established to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls, and to monitor risks and adherence to limits. The financial risk management policies and systems are reviewed regularly to ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations. The Company's Audit Committee oversees how Management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company has in place foreign exchange, interest rate and equity risk management policies to manage its exposure to market risk. These policies establish guidelines on how the Company is to manage the market risk inherent to the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures. The Company does not enter into derivatives for speculative purposes. All such transactions are carried out within the guidelines established in the respective financial risk management policy as approved by the Board of Directors.

### **Foreign currency risk**

Foreign currency risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates.

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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A number of operating costs related to purchase of raw materials from USA and China are incurred in US dollar. To attempt to mitigate its foreign exchange risk and minimize the impact of exchange rate movements on operating results and cash flow, the Company has kept foreign currency received in a US bank account, in a manner that the need for purchasing foreign currency is minimal. There can be no assurance that the Company's strategies will be successful or that foreign exchange fluctuations will not negatively impact Company's financial performance and results of operations.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and interest-bearing debt that are subject to interest rate risk in the form of a floating based interest rate on loan to a director. Management monitors the market interest rate and makes necessary adjustments on cash balances maintained and interest-bearing debt repayment.

**Fair value of financial instruments**

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the balance sheet date. The book value of all accounts receivable and accounts payable and accrued liabilities, approximate their fair values because of the short term nature of these financial instruments. All financial instruments except for cash are classified as level 2. Cash is classified as level 1.

**11. LOSS PER SHARE**

Loss per share is calculated on the basis of the weighted average number of common shares outstanding during the period.

As at September 30, 2016 and December 31, 2015, there is no effect of potentially dilutive securities. All outstanding stock options and warrants were excluded from the diluted weighted average number of common shares outstanding calculation, as their effect would have been anti-dilutive. If applicable, the average market value of the Company's shares for purposes of calculating the dilutive effect of share options and warrants would be based on quoted market prices for the period during which the options and warrants were outstanding.

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**12. RELATED PARTY AND KEY MANAGEMENT PERSONNEL TRANSACTIONS**

Period ended September 30, 2016

The Company entered into the following transactions with related parties and/or companies controlled by related parties as follows:

- (a) The Company accrued salary of \$90,000 to the CEO for the period ended September 30, 2016. Additionally, \$44,086 pertaining to consulting fees for 2014 and \$120,000 of salary pertaining to 2015 were also paid during the period.
- (b) The Company incurred in Directors fees of \$60,300. Additionally, \$23,700 pertaining to outstanding director's fees for 2015 were paid during the period.
- (c) The Company paid \$117,000 for consulting fees to a corporation controlled by a director of the Company. This amount includes \$50,000 accrued and not paid during 2015.
- (d) On January 8, 2016, the CFO exercised 30,000 options with a strike price of \$0.10 as described in note 8(g)
- (e) The outstanding amounts of \$50,552 (re: lease improvements 2013) and \$35,787 (re: short term loan 2015) owed to two different companies controlled by two directors of dynaCERT, were repaid during the first quarter of the year.
- (f) The Company paid \$45,050 as compensation to the CFO of the Company.
- (g) The company has paid \$64,000 as compensation to the COO of the company.

Period ended September 30, 2015

- (a) The Company incurred fees of \$90,000 to James Payne in his role as CEO for the period ended September 30, 2015. The aforementioned fees have been recorded in accounts payable, but have not been paid as of September 30, 2015.
- (b) The Board of Directors granted options to its directors and officers to acquire common shares. The Company expensed stock based compensation cost of \$324,380 for options issued to directors and officers. The Company expensed stock based compensation cost of \$4,779 for options issued to consultants who are related parties.
- (c) On February 27, 2015, Gordon J. Barr stepped down as the CFO. The Company has a business relationship with RLB LLP (Chartered Professional Accountants and Business Advisors), of which Gordon is a Partner of the firm. The company incurred fees of \$10,000 for the period ended June 30, 2015 for accounting fees paid to RLB LLP.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

**DYNACERT INC.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**13. SUBSEQUENT EVENTS**

On October 18, 2016, the company notified warrantholders of 15,245,524 warrants with exercise price of \$0.15 that the closing trading price of the Common Shares on the TSX Venture Exchange had been greater than Cdn \$0.30 per Common Share for a period of ten (10) consecutive Business Days. Therefore, the Warrants acceleration clause was triggered and November 17, 2016 became the new expiry day for these warrants. The company received gross proceeds of \$2,285,704 for the redemption of 15,238,024 warrants. The remaining 1,125 warrants expired on November 17, 2016.

On October 19, 2016, the company notified warrantholders of 2,574,417 warrants with exercise price of \$0.25 that the closing trading price of the Common Shares on the TSX Venture Exchange had been greater than Cdn \$0.50 per Common Share for a period of ten (10) consecutive Business Days. Therefore, the Warrants acceleration clause was triggered and November 18, 2016 became the new expiry day for these warrants. The company received gross proceeds of \$643,271 for the redemption of 2,573,083 warrants. The remaining 1,334 warrants expired on November 18, 2016.

dynaCERT has no warrants outstanding at this time.