
CHAR Technologies Ltd.
Consolidated Financial Statements
Years ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of CHAR Technologies Ltd.,

We have audited the accompanying consolidated financial statements of CHAR Technologies Ltd., which comprise the consolidated statement of financial position as at September 30, 2018, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CHAR Technologies Ltd. as at September 30, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about CHAR Technologies Ltd.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements for the year ended September 30, 2017, were audited by another auditor whose report dated January 12, 2018 expressed an unqualified opinion.

Vancouver, Canada
January 28, 2019

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

CHAR Technologies Ltd.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at September 30, 2018	As At September 30, 2017 (Restated, Note 18)
ASSETS		
Current assets		
Cash	\$ 283,200	\$ 831,556
Term Deposit (note 9)	850,000	-
Amounts receivable (note 5)	626,844	404,526
Work-in-progress	167,265	-
Investment tax credits recoverable	-	35,314
Prepaid Expenses	110,573	12,513
Total current assets	2,037,882	1,283,909
Property and equipment (note 6)	1,512,008	739,126
Goodwill (notes 3 and 4)	917,306	-
Intangible assets (notes 3 and 7)	927,913	1,003,000
Total assets	5,395,109	3,026,035
SHAREHOLDERS' EQUITY AND LIABILITIES		
Liabilities		
Bank overdraft (note 9)	\$ 89,242	\$ -
Accounts payable and accrued liabilities (notes 8 and 15)	317,764	176,246
Line of credit (note 9)	605,000	-
Deferred income tax liability (notes 3 and 17)	12,111	-
Deferred revenue	37,161	-
Deferred grant income (note 6)	597,000	-
Total current liabilities	1,658,278	176,246
Deferred grant income (note 6)	1,290,235	1,285,880
Asset retirement obligation (note 16)	57,403	-
Total liabilities	3,005,916	1,462,126
Shareholders' equity		
Share capital (note 10)	6,055,370	3,869,361
Share-based payments reserves (note 12)	301,896	270,590
Contributed surplus	53,744	53,744
Deficit	(4,021,817)	(2,629,786)
Total shareholders' equity	2,389,193	1,563,909
Total shareholders' equity and liabilities	\$ 5,395,109	\$ 3,026,035

Approved on behalf of the Board:
(Signed) "William White", Director

(Signed) "Ian Anderson", Director

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

CHAR Technologies Ltd.**Consolidated Statements of Loss and Comprehensive Loss**
(Expressed in Canadian Dollars)

	As at September 30, 2018	As at September 30, 2017 (Restated, Note 18)
Revenue		
Consulting revenue	\$ 853,497	\$ 140,033
Product sales	188,291	-
Total revenue	1,041,788	140,033
Cost of revenue	(440,967)	(57,783)
Gross profit	600,821	82,250
Expenses		
Research and development	161,699	102,499
Professional fees	337,457	135,438
Consulting fees	317,225	248,054
Office expenses	963,642	156,243
Regulatory and filing fees	30,302	22,087
Depreciation (notes 6 and 16)	10,772	8,009
Amortization (note 7)	127,017	118,000
Share-based payments	126,456	119,733
Reversal of flow through liability (note 10)	(50,800)	-
Goodwill impairment (note 4)	-	910,893
	(2,023,770)	(1,820,956)
Loss from operations	(1,422,949)	(1,738,706)
Grant income (Note 6)	30,918	400
Net loss before income taxes	(1,392,031)	(1,738,306)
Deferred tax recovery (note 17)	-	27,145
Net loss and comprehensive loss for the year	\$ (1,392,031)	\$ (1,711,161)
Loss per share – basic and diluted (note 11)	\$ (0.03)	\$ (0.05)
Weighted average common shares outstanding - basic and diluted (note 11)	41,250,006	33,522,276

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

CHAR Technologies Ltd.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	As at September 30, 2018	As at September 30, 2017 (Restated, Note 18)
Operating activities		
Net loss for the year	\$ (1,392,031)	\$ (1,711,161)
Adjustments for:		
Share-based payments	126,456	119,733
Depreciation	10,772	8,009
Amortization	127,017	118,000
Goodwill impairment	-	910,893
Reversal of flow through liability	(50,800)	-
Deferred tax recovery	-	(27,145)
Net cash in non-cash working capital:		
Amounts receivable	288,516	(231,278)
Investment tax credits recoverable	35,314	(9,136)
Prepaid expenses	(95,557)	175,708
Work-in-progress	331	-
Due from related parties	-	18,000
Accounts payable and accrued liabilities	(149,341)	41,186
Net cash used in operating activities	(1,099,323)	(587,191)
Investing activities		
Purchase of term deposit	(850,000)	-
Purchase of intangible assets	(6,230)	-
Purchase of property and equipment	(715,723)	(730,838)
Net cash paid for Altech	(124,556)	-
Net cash used in investing activities	(1,696,509)	(730,838)
Financing Activities		
Bank overdraft	89,242	-
Proceeds from issuance of common shares, net of costs	1,169,040	-
Proceeds from line of credit	605,000	-
Grant received	531,193	868,210
Repayment of loans payable	(147,000)	(3,438)
Net cash provided by financing activities	2,247,476	865,772
Net change in cash	(548,356)	(452,257)
Cash, beginning of year	831,556	1,283,813
Cash, end of year	\$ 283,200	\$ 831,556

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

CHAR Technologies Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Share Capital		Reserves		Contributed surplus	Deficit	Total
	Number of Shares	Amount	Share-Based Payments Reserve				
Balance, September 30, 2016	33,522,276	\$3,869,361	\$150,857		\$53,744	\$(567,398)	\$3,506,564
Prior year adjustment (note 18)	-	-	-		-	(351,227)	(351,227)
Share-based payments (note 12)	-	-	119,733		-	-	119,733
Net and comprehensive loss for the year (Restated, Note 18)	-	-	-		-	(1,711,161)	(1,711,161)
Balance, September 30, 2017 (Restated, Note 18)	33,522,276	3,869,361	270,590		53,744	(2,629,786)	1,563,909
Common shares issued for cash (note 10)	3,513,609	737,858	-		-	-	737,858
Flow-through shares issued for cash (note 10)	1,270,000	317,500	-		-	-	317,500
Issue costs	-	(18,318)	-		-	-	(18,318)
Flow-through share premium (note 10)	-	(50,800)	-		-	-	(50,800)
Shares issued for acquisition (notes 3 and 10)	4,523,810	972,619	-		-	-	972,619
Exercise of options (note 10)	1,200,000	227,150	(95,150)		-	-	132,000
Share-based payments (note 12)	-	-	126,456		-	-	126,456
Net and comprehensive loss for the year	-	-	-		-	(1,392,031)	(1,392,031)
Balance, September 30, 2018	44,029,695	\$ 6,055,370	\$ 301,896		\$ 53,744	\$ (4,021,817)	\$ 2,389,193

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

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

Year Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

1. Nature of business and going concern

CHAR Technologies Ltd. (the "Company" or "CHAR") is a cleantech development and services company, specializing in biocarbon development (activated charcoal "SulfaCHAR" and solid biofuel "CleanFyre") and custom equipment for industrial air and water treatment, and providing services in environmental management, site investigation and remediation, engineering, and resource efficiency. The Company is listed on the TSX Venture Exchange (the "Exchange") trading under the symbol YES.V. The Company's head office address is 12 Banigan Drive, Toronto, Ontario, M4H 1E9.

These consolidated financial statements have been prepared on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern, and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the company will be able to raise adequate financing or to ultimately attain profitable of operations. These conditions indicate the existence of material uncertainties that may cause doubt about the Company's ability to continue as a going concern. Changes in future conditions could require material write downs of the carrying values of assets

The Company has not yet realized profitable operations and has incurred significant losses to date resulting in a cumulative deficit of \$4,021,817 as at September 30, 2018 (September 30, 2017 - \$2,629,786). The recoverability of the carrying value of the assets and the Company's continued existence is dependent upon the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary. While management has been historically successful in raising the necessary capital, it cannot provide assurance that it will be able to execute on its business strategy or be successful in future financing activities. As at September 30, 2018, the Company had current assets of \$2,037,882 (September 30, 2017 - \$1,283,909) to cover current liabilities of \$1,658,278 (September 30, 2017 - \$176,246).

On January 28, 2019, the Board of Directors approved these consolidated financial statements.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation. The consolidated financial statements of CHAR and its subsidiaries CharTech Solutions Inc., Applecar Holdings Limited, Altech Environmental Consulting Ltd. and Altech Technology Systems Inc. are consolidated from the date that control commences until the date that control ceases. A change in the ownership of its subsidiaries, without a loss of control, is accounted for as an equity transaction.

CHAR Technologies Ltd.
Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(c) Investment tax credits

The Company follows the income approach to account for investment credits, whereby investment tax credits are recorded when there is a reasonable assurance that the amounts will be received and that the Company will comply with all relevant conditions. Under this method, investment tax credits related to operating expenditures are recorded as a reduction of the related expense and recognized in the period in which the related expenditures are charged to operations. Investment tax credits related to capital expenditures are recorded as a reduction of the cost of the related asset. The investment tax credits recorded are based on management's best estimates of amounts expected to be received and are subject to audit by the taxation authorities.

(d) Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Maintenance and repair expenditures that do not improve or extend the life are expensed in the period incurred.

Depreciation is recognized so as to write off the cost or valuation of assets (other than land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis. No depreciation is recognized for property and equipment until it is completed and ready for its intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Estimated useful lives for the principal asset categories are as follows:

Computer equipment	3 years
Production equipment	5 years
Asset retirement costs	3 years

(e) Goodwill

Goodwill is initially measured at cost, which is the excess of the cost of the business combination over the net fair value of the acquiree's identifiable assets and liabilities. Any negative difference is recognized directly in the consolidated statements of loss.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each operating segment that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those segments.

(f) Intangible assets

Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over their estimated useful lives. The estimated useful lives and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis.

CHAR Technologies Ltd.
Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(f) Intangible assets (continued)

The estimated useful lives of the intangibles are as follow:

Purchase Technology	10 years
Customer relationship	5 years
Backlog	1 year
Patents	10 years

(g) Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets including goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately.

Goodwill is tested for impairment annually at year-end and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each segment to which the goodwill relates. Where the recoverable amount of the segment is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

(h) Segmented Information

The Company currently operates in two segments. The segments relates to commercializing a hydrogen sulfide recovery system to solve a global problem caused by toxic and corrosive hydrogen sulfide in the biogas industry and environmental consulting. All of the assets of the Company are situated in Canada and the Company has not yet commercialized its hydrogen sulfide technology to generate income.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

Year Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(i) Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in the statement of loss and comprehensive loss. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive loss, net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Category	Measurement
Cash	FVTPL	Fair value
Term deposit	FVTPL	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Bank Overdraft	Other liabilities	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Line of credit	Other liabilities	Amortized cost

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The carrying value of cash, term deposit, amounts receivable, bank overdraft, accounts payable and line of credit approximate their fair values.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

Year Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(j) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss. Changes in the carrying amount of the allowance are recognized in profit or loss.

With the exception of available for sale ("AFS") equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

(k) Revenue recognition

The Company recognizes revenue from the rendering of contracted consulting services and the sale of goods. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of consideration received or receivable excluding discounts, sales taxes, returns and rebates.

Work in progress represents work in progress that has been recognized as revenue not yet invoiced to clients.

Amounts billed in advance of performance are recorded as deferred revenue. Deferred revenue is classified as non-current if it relates to performance obligations that are expected to fulfill after 12 months from the end of the reporting period.

Revenue from fixed-fee contracts is recognizing using the percentage of completion method of accounting. The Company generally uses the cost approach to measure the progress to completion for these contracts. Under this method, the stage of completion is measured by reference to actual cost incurred to date as a percentage of total estimated cost to complete the contract, which are reviewed and updated routinely for contracts-in-progress. The cumulative effect of any change in estimate is recorded in the period when the change in estimate is determined.

Revenue from time-and-material contracts is recognized as costs are incurred.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

Year Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(k) Revenue recognition (continued)

In the course of providing its services, the Company incurs certain direct costs such as travel and living expenses for its staff, and other expenditures such as sub-consultants and third party products or service providers that are recoverable directly from clients. These direct costs are included in the Company's gross revenue, as management has determined it is acting as principal in these projects. Since such direct costs can vary significantly from contract to contract, changes in revenue may not be indicative of the Company's revenue trends.

(l) Share-based payments

The Company accounts for all share-based payments awarded to directors and officers and non-employees using the fair value method. For employees, cost is measured at the grant date at fair value using the Black-Scholes option-pricing model that takes into account the exercise price, the expected life of the option, the current price of the underlying stock, the expected volatility, the expected dividends and the risk-free interest rate for the expected term of the option. For non-employees, the fair value of each tranche of options issued is determined by the fair value of goods and services received. If the fair value of such goods and services cannot be reliably measured, an option pricing model will be utilized. The compensation cost will be expensed in the statement of loss and comprehensive loss over the service period that is the vesting period for directors and officers and over the performance period for awards provided to non-employees in exchange for goods and services.

(m) Government grants

Government grants are not recognized until there is reasonable assurance that they will be received and that the Company will be in compliance with any conditions associated with the grant. Grants that compensate the Company for expenses are recognized in the consolidated statements of loss and comprehensive loss with the same classification as the related expense and in the same period in which the expense is recognized.

(n) Asset retirement obligation

The asset retirement obligation is based on projected future costs associated with dismantling and removing of the Company's equipment from the leased building and land.

(o) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

CHAR Technologies Ltd.
Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(o) Income taxes (continued)

Deferred tax is recognized in respect of taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Earnings or Loss per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(q) Foreign currency transactions

The functional currency of the Company and its subsidiaries is the Canadian dollar. The financial statements are presented in Canadian dollars which is the Company's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(r) Critical accounting judgments and key sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

CHAR Technologies Ltd.
Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(r) Critical accounting judgments and key sources of estimation uncertainty (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical areas of estimation and judgments in applying accounting policies include the following:

Going concern

As disclosed in note 1, these consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business within the foreseeable future. Management uses judgment in determining assumptions for cash flow projections, such as anticipated financing, anticipated sales and future commitments to assess the Company's ability to continue as a going concern. A critical judgment is that the Company continues to raise funds going forward and satisfy their obligations as they become due.

Deferred taxes

The calculation of deferred taxes is based on assumptions which are subject to uncertainty as to timing and which tax rates are expected to apply when temporary differences reverse. Deferred tax recorded is also subject to uncertainty regarding the magnitude of non-capital losses available for carry forward and of the balances in various tax pools. By their nature, these estimates are subject to measurement uncertainty, and the effect on the financial statements from changes in such estimates in future period could be material. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets are reviewed at each statement of financial position date and adjusted to the extent that it is no longer probable that the related tax benefit will be realized.

Useful lives of property and equipment and intangible assets

As described above, the Company reviews the estimated useful lives of property and equipment and intangible assets with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the year ended September 30, 2018, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are tied to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. The Company has disclosed the terms of the business combination in Note 3.

Share-based payments

The Company estimates the fair value of convertible securities such as warrants and options using the Black-Scholes option-pricing model which requires significant estimation around assumptions and inputs such as expected term to maturity, expected volatility and expected dividends.

CHAR Technologies Ltd.
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2. Significant accounting policies (continued)

- (r) Critical accounting judgments and key sources of estimation uncertainty (continued)

Investment tax credits recoverable

Investment tax credits are recorded based on management's estimate that all conditions attached to its receipt have been met. The Company has significant tax credits recoverable and expects to continue to apply for future tax credits as their research and development activities remain applicable. Therefore, the estimates related to the recoverability of these tax credits are important to the Company's financial position.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of loss and comprehensive loss in the periods which they become known.

- (s) Future accounting pronouncements

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are listed below. This list is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

IFRS 9, *Financial Instruments*, ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective as at January 1, 2018. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 9 will have on the Company's financial statements.

IFRS 15, *Revenue from Contracts and Customers* ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 15 will have on the Company's financial statements.

IFRS 16, *Leases* ("IFRS 16") was issued by the IASB on January 13, 2016. The Company will be required to adopt IFRS 16 in its financial statements for the annual period beginning on October 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 16 will have on the Company's financial statements.

3. Acquisition of Altech

On January 1, 2018, the Company acquired the Altech Group ("Altech"), which is comprised of Altech Environmental Consulting Ltd. ("AEC") and Altech Technologies Systems Inc. ("ATS"). CHAR acquired all of the outstanding shares in both AEC and ATS (the "Purchased Shares"). Altech shareholders received an aggregate of 4,523,810 in common shares of CHAR plus \$150,000 cash in exchange for the Purchased Shares.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

3. Acquisition of Altech (continued)

The acquisition was accounted for accordance with *IFRS 3 Business Combinations*. Accordingly, the acquisition of Altech is accounted at the fair value of the equity instruments issued to the shareholders of Altech plus the cash paid. The excess of consideration over the net assets acquired has been recorded as goodwill. Goodwill represents cost savings and other benefits expected to result from combining the operations of Altech with those of the Company and intangible assets that do not qualify for separate recognition.

The fair value of the consideration is as follows:

Issuance of 4,523,810 common shares (note 10)	\$	972,619
Cash		150,000
<hr/>		
Total consideration		1,122,619

The consideration has been allocated as follows:

Cash	25,444
Amounts receivable	440,673
Work-in-progress	130,435
Prepaid expenses	2,503
Property and equipment (note 6)	10,528
Accounts payable and accrued liabilities	(290,859)
Loan payable	(147,000)
Deferred tax liability	(12,111)
Customer relationships (Note 7)	42,000
Backlog (note 7)	3,700
Goodwill	917,306
<hr/>	
	\$ 1,122,619

4. Goodwill

The Company tested goodwill and long-lived assets for impairment as at September 30, 2017. When assessing whether or not there is impairment, the recoverable amount is determined based on value-in-use calculation. Key estimates and assumptions include:

- (a) Discounting estimated future cash flows over a period of 5 years to their present value, along with a terminal value;
- (b) The future cash flows are based on estimates and expected future operating results of the Company after considering future business plans, economic conditions and a general outlook for the industry in which the Company operates;
- (c) The discount rate of 43.0% (after tax), which is determined based on market rates of return, debt to equity ratios and certain risk premiums, among other things; and
- (d) The terminal value of 3.0%, which is the value attributed to the Company's operations used to determine recoverable amounts.

These assumptions are subjective judgments and estimates based on the Company's experience and knowledge of the economic environment in which it operates. The impairment loss was allocated to goodwill. At September 30, 2017, the recoverable amount of the goodwill and long-lived assets was determined to be \$2,784,346 as compared to the carrying value of \$3,695,239. As a result, at September 30, 2017, the Company recorded an impairment charge of \$910,893 against the carrying value of goodwill.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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5. Amounts receivable

	September 30, 2018	September 30, 2017
Trade receivables	\$ 304,713	\$ 174,538
Government grant receivable (note 6)	135,604	65,443
HST Receivable	186,527	164,545
Total amounts receivable	\$ 626,844	\$ 404,526

6. Property and equipment

	Computer equipment	Production equipment	Asset retirement cost	Assets under construction	Total
Cost:					
At September 30, 2017	\$ 1,224	\$ 22,826	\$ -	\$ 730,838	\$ 754,888
Additions	2,792	-	56,430	712,931	772,153
Acquired from Atech	3,939	3,846	-	2,743	10,528
At September 30, 2018	\$ 7,955	\$ 26,672	\$ 56,430	\$ 1,446,512	\$ 1,537,569
Amortization:					
At September 30, 2016	\$ 130	\$ 7,623	\$ -	\$ -	\$ 7,753
Charge for the year	408	7,601	-	-	8,009
At September 30, 2017	538	15,224	-	-	15,762
Charge for the year	622	7,601	1,576	-	9,799
At September 30, 2018	\$ 1,160	\$ 22,825	\$ 1,576	\$ -	\$ 25,561
Net book value:					
At September 30, 2017	\$ 686	\$ 7,602	\$ -	\$ 730,838	\$ 739,126
At September 30, 2018	\$ 6,795	\$ 3,847	\$ 54,854	\$ 1,446,512	\$ 1,512,008

The assets under construction consist of the development of the SulfaCHAR production system. On December 10, 2014, the Company entered into a funding agreement with SD Natural Gas Fund supported by Sustainable Development and Technology Canada ("SDTC") and the Canadian Gas Association to execute on a project to build a 1 tonne per day SulfaCHAR production system. Further to that funding agreement, a Contribution Agreement was signed on November 9, 2015. The grant supports \$750,000 to be paid according to stipulated milestones.

The 1 tonne a day SulfaCHAR production system project was also co-funded through Ontario Centres of Excellence ("OCE"). OCE approved a \$1,000,000 non-repayable grant on June 28, 2017 towards the project following the milestones of the SD Natural Gas Fund. Disbursements are subordinate to SD Natural Gas fund approvals and payments.

CHAR Technologies Ltd.
Notes to the Consolidated Financial Statements
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6. Property and Equipment (continued)

The milestones are as follows:

Milestone 1: Design and Fabrication of a 1 tonne per day SulfaCHAR production system. Funding from SDTC \$351,227 (received) and OCE \$237,759 (received). This milestone was completed on July 28, 2017.

Milestone 2: Commissioning and initial operation of the 1 tonne a day SulfaCHAR production system. Funding from SDTC \$189,692 (received) and OCE \$441,759 (received). This milestone has not been completed.

Milestone 3 (Final): Testing of the use of SulfaCHAR for biogas cleaning and agricultural applications. Funding from SDTC \$134,081 and OCE \$220,482. This milestone has not been completed

There is a 10% holdback which will be released on acceptance of final report. The holdback consists of \$75,000 from SDTC and \$100,000 from OCE.

On January 23, 2018, the Company received approval for \$1,062,385 from the Government of Ontario through the Low Carbon Innovation Fund ("LCIF") for the commercialization of "Cleanfyre", a carbon neutral coal replacement. The Company received an initial payment of \$531,193. The next payment will be disbursed on the successful completion of the milestone.

The milestones are as follows:

Milestone 1: Consistent production of 1 tonne batches of Cleanfyre that meet the technical specifications of Industrial partners. Funding from LCIF \$531,193 (received). This milestone has not been completed.

Milestone 2: 20 tonne field trial of Cleanfyre. Funding from LCIF \$371,835. This milestone has not been completed.

In addition, LCIF will grant the Company yearly disbursement of \$53,119 on annual reporting metrics. These will be received in March 2021, March 2022 and March 2023.

The grants received from SDTC, OCE and LCIF have been recorded as deferred grant income until the completion of the construction. The grant income will be recognized on systematic basis over the amortization period of the related assets.

Deferred grant income is as follows:

	September 30, 2018	September 30, 2017
Grant received from SDTC	\$ 540,919	\$ 540,919
Grant received from OCE	679,518	679,518
Holdback	135,604	65,443
Grant received from LCIF	531,193	-
Total deferred grant income	1,887,235	1,285,880
Less current portion	(597,000)	-
Long-term portion	\$ 1,290,235	\$ 1,285,880

The holdback consist of grants held by SDTC and OCE to be released on the completion of all milestones.

On December 16, 2016 the Company entered into a contribution agreement with Public Works and Government Services Canada for the estimated cost of \$465,270. The contribution is for certain engineering research projects. Since all expenditures incurred for this projects have been expensed, the Company has recognized this grant income on systematic basis based on the related expenses recognized in the profit and loss.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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7. Intangible assets

Cost	Purchased technology	Patents	Customer relationships	Backlog	Total
Balance, September 30, 2017	\$ 1,180,000	\$ -	-	-	\$1,180,000
Additions	-	6,230	-	-	6,230
Acquired from Atech (Note 3)	-	-	42,000	3,700	45,700
Balance, September 30, 2018	\$ 1,180,000	\$ 6,230	42,000	3,700	\$1,231,930

Accumulated amortization

Balance, September 30, 2016	\$ 59,000	\$ -	\$ -	\$ -	\$59,000
Amortization	118,000	-	-	-	118,000
Balance, September 30, 2017	177,000	-	-	-	177,000
Amortization	118,000	-	6,260	2,757	127,017
Balance, September 30, 2018	\$ 295,000	\$ -	\$ 6,260	\$ 2,757	\$304,017

Net book value

Balance, September 30, 2017	\$ 1,003,000	\$ -	\$ -	\$ -	\$1,003,000
Balance, September 30, 2018	\$ 885,000	\$ 6,230	\$ 35,740	\$ 943	\$ 927,913

8. Accounts payable and accrued liabilities

	September 30, 2018	September 30, 2017
Trade accounts payable (note 15)	\$ 211,675	\$ 116,889
Accrued liabilities	106,089	59,357
Total accounts payable and accrued liabilities	\$ 317,764	\$ 176,246

9. Line of credit

In June 2018, the Company entered into a credit facility agreed for up to \$850,000 bearing interest at the prime rate and maturity date on June 14, 2019 to be utilized for its day-to-day working capital needs. This facility is collateralized by a \$850,000 term deposit. As at September 30, 2018, the Company utilized \$605,000 of this credit facility. The Company also has an overdraft of \$89,242 as at September 30, 2018 (2017:\$Nil) collateralized by this term deposit.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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10. Share capital

(a) Authorized share capital

Unlimited number of common shares, with no par value.

(b) Issued common shares

	Number of Shares	Amount
Balance, September 30, 2016 and September 30, 2017	33,522,276	\$3,869,361
Common shares issued for cash (i)	3,513,609	737,858
Flow-through shares issued for cash (i)	1,270,000	317,500
Share issue costs	-	(18,318)
Flow-through share premium (i)	-	(50,800)
Shares issued for acquisition of Altech (note 3)	4,523,810	972,619
Shares issued on exercise of stock options	1,200,000	132,000
Fair value of options exercised	-	95,150
Balance, September 30, 2018	44,029,695	\$6,055,370

(i) On December 20, 2017, CHAR closed a private placement for 3,513,609 non flow-through shares at a price of \$0.21 per share for gross proceeds of \$737,858 and 1,270,000 flow-through shares at a price of \$0.25 per flow-through share for gross proceeds of \$317,500. The flow-through shares were issued at a premium to the market price in recognition of the tax benefits accruing to subscribers. The flow-through premium was calculated to be \$50,800. The related expenditures incurred and premium was reversed during the year ended September 30, 2018.

(c) Escrowed shares

Capital Pool Company ("CPC") Escrow Agreement

The 6,025,001 issued and outstanding common shares from the seed financing are held in escrow as per the CPC Escrow Agreement pursuant to the requirements of the Exchange. These escrowed shares will be released as follows:

Tier 2 Issuer % of Common Shares Released from Escrow	Release Date
10%	Date of Final Exchange Bulletin - April 26, 2016
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
15%	36 months from Final Exchange Bulletin

As at September 30, 2018, there were 1,807,501 common shares held in escrow pursuant to the requirements of the Exchange.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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10. Share capital (continued)

(c) Escrowed shares (continued)

Qualifying Transaction Escrow Agreement

The Qualifying Transaction Escrow Shares are subject to escrow as a result of the completion of the Qualifying Transaction pursuant to Exchange Policy 5.4. Pursuant to the Qualifying Transaction Escrow Agreement, escrowed shares will be released as follows:

Tier 2 Issuer % of Common Shares Released from Escrow	Release Date
5%	Date of Final Exchange Bulletin - April 26, 2016
5%	6 months from Final Exchange Bulletin
10%	12 months from Final Exchange Bulletin
10%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
40%	36 months from Final Exchange Bulletin

As at September 30, 2018, there were 4,806,275 common shares held in escrow pursuant to the requirements of the Exchange.

Shares Subject to Resale Restrictions ("Value Escrow")

There are 4,222,222 common shares held by arm's length parties which are subject to Tier 2 Value Escrow. Pursuant to the Qualifying Transaction Escrow Agreement, escrowed shares will be released as follows:

Tier 2 Issuer % of Common Shares Released from Escrow	Release Date
10%	Date of Final Exchange Bulletin - April 26, 2016
15%	6 months from Final Exchange Bulletin
15%	12 months from Final Exchange Bulletin
15%	18 months from Final Exchange Bulletin
15%	24 months from Final Exchange Bulletin
15%	30 months from Final Exchange Bulletin
15%	36 months from Final Exchange Bulletin

As at September 30, 2018, there were 1,266,668 common shares held in escrow pursuant to the requirements of the Exchange.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
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11. Net loss per common share

Basic and diluted loss per share are as follows for the years presented:

	Year Ended September 30,	
	2018	2017
Numerator:		
Net loss	\$ (1,392,031)	\$ (1,711,161)
Denominator:		
Weighted average number of common shares - basic and diluted	41,250,006	33,522,276
Net loss per share - basic and diluted	\$ (0.03)	\$ (0.05)

12. Stock options

The following table reflects the continuity of stock options for the years presented:

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, September 30, 2016	2,111,826	0.13
Granted (i)	720,000	0.18
Cancelled	(250,000)	0.10
Balance, September 30, 2017	2,581,826	0.15
Granted (ii)	650,000	0.22
Exercised	(1,200,000)	0.11
Expired	(1,826)	0.22
Balance, September 30, 2018	2,030,000	0.19

(i) On January 27, 2017, the Company granted 720,000 stock options to directors, officers and consultants of the Company. The stock options may be exercised for a period of five years at a price of \$0.18 per share. An aggregate of 500,000 options vested immediately and the remaining 220,000 options granted to a consultant of the Company will vest subject to, the successful completion of specific business development milestones.

A value of \$83,440 was estimated for the 720,000 stock options on the date of grant with the following assumptions and inputs: share price of \$0.18; exercise price of \$0.18; expected dividend yield of 0%; expected volatility of 100% which is based on comparable companies; risk-free interest rate of 1.14%; and an expected average life of five years.

(ii) On January 18, 2018, the Company granted 650,000 stock options to directors, officers and consultants of the Company. The stock options may be exercised for a period of five years at a price of \$0.22 per share. These stock options vested immediately.

A value of \$107,250 was estimated for the 650,000 stock options on the date of grant with the following assumptions and inputs: share price of \$0.22; exercise price of \$0.22; expected dividend yield of 0%; expected volatility of 100% which is based on comparable companies; risk-free interest rate of 2.03%; and an expected average life of five years.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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12. Stock options (continued)

The following table reflects the actual stock options issued and outstanding as of September 30, 2018:

Expiry Date	Exercise price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (exercisable)	Number of Options Unvested
August 25, 2021	0.1725	2.90	660,000	660,000	-
January 27, 2022	0.18	3.33	720,000	500,000	220,000
January 18, 2023	0.22	4.30	650,000	650,000	-
	0.19	3.50	2,030,000	1,810,000	220,000

The share-based payment reserve records items recognized as share-based payment expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

13. Capital management

The Company includes equity, which is comprised of share capital, reserves and deficit, in its definition of capital.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for its shareholders, and other stakeholders and to maintain a strong capital base to support the Company's core activities. The Company has no externally imposed capital requirements. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

14. Financial instruments and risk management

Risk management

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company's cash include cash held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any significant interest bearing assets. As at September 30, 2018, the Company has a line of credit of \$605,000 and an overdraft of \$89,242 which bear interest at prime rate and will fluctuate based on prime rate changes.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Company's strategy is to satisfy its liquidity needs using cash on hand, and cash flow provided by financing activities. As at September 30, 2018, the Company had cash of \$283,200 to settle current liabilities of \$1,658,278. The Company's accounts payable and accrued liabilities, overdraft, line of credit and deferred grant income are due within one year from the date of the statement of financial position.

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

Year Ended September 30, 2018 and 2017

(Expressed in Canadian Dollars)

14. Financial instruments and risk management (continue)

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Company's cash, term deposits, amounts receivable, accounts payable and overdraft and line of credit are estimated by management to approximate their carrying values due to their short-term nature.

15. Related party balances and transactions

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions. The transactions with related parties are as follows:

	Year Ended September 30,	
	2018	2017
Marrelli Support Services Inc. ("MSSI") (i)	\$ 24,000	\$ 24,000
DSA Corporate Services ("DSA") (ii)	\$ 10,368	\$ 10,225
1456087 Ontario Inc. ("1456087") (iii)	\$ 70,000	\$ 60,000
Merko-Nicholson Inc. ("Merko-Nicholson") (iv)	\$ 75,000	\$ 60,000
Lyle Clarke & Associates ("L. Clarke & Assoc.") (v)	\$ 5,000	\$ -
Due from a related party written off	\$ -	\$ 3,000

(i) The Chief Financial Officer of the Company is a senior employee of MSSI. As at September 30, 2018, MSSI was owed \$2,311 (September 30, 2017 - \$nil). These amounts are included in accounts payable and accrued liabilities. (Note 8)

(ii) DSA is affiliated with MSSI through a common officer. DSA provides corporate secretarial services. As at September 30, 2018, DSA was owed \$907 (September 30, 2017 - \$3,117). These amounts are included in accounts payable and accrued liabilities. (Note 8)

(iii) 1456087 is a company controlled by James Sbrolla, a director of the Company. 1456087 provides consulting services to the Company.

(iv) Merko-Nicholson is a company controlled by the Chief Operations Officer of the Company. Merko-Nicholson provides consulting services to the Company.

(v) L. Clarke & Assoc. is a company controlled by Lyle Clarke, a director of the Company. L. Clarke & Assoc. provides consulting services to the Company.

Remuneration of key management of the Company was as follows:

	Year Ended September 30,	
	2018	2017
Salaries	\$ 209,698	\$ 78,125
Share based payments (note 12)	\$ 107,250	\$ 83,440

CHAR Technologies Ltd.
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16. Asset retirement obligation

The following table shows the movement for the asset retirement obligation:

	September 30, 2018	September 30, 2017
Balance, beginning	\$ -	\$ -
Additions	56,430	
Accretion	973	-
Balance, ending	\$ 57,403	\$ -

The Company's asset retirement obligation consists of costs associated with SulfarCHAR production system (note 6). The land and building where the Company is building the project is leased from a third party for three years. According to the lease agreement, the Company must dismantle and remove all its equipment at the completion of the lease. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 2.3% and an inflation rate of 2%. The majority of the expenditures are expected to occur in or after 2020.

17. Income tax

The income tax provision is as follows:

	Year Ended September 30,	
	2018	2017
Net loss before income tax	\$ (1,392,031)	\$ (1,738,306)
Income tax at statutory tax rate of 26.5%	(368,888)	(460,458)
Non-deductible expenses	15,244	270,629
True up of prior year losses	(41,162)	
Change in unrecognized deferred taxes	394,806	162,877
Deferred tax recovery	\$ -	\$ (27,145)
Recognized deferred tax assets (liabilities)		
	As at September 30, 2018	As at September 30, 2017
Deferred tax assets:		
Property and equipment	\$ 7,731	\$ 2,273
Eligible capital expenditures	29,643	31,801
Non-capital losses carried forward	197,151	240,393
Deferred tax liabilities:		
Purchased Technology	(234,525)	(265,794)
Customer relationships	(12,111)	-
Federal and provincial investment tax credits	-	(8,673)
Net deferred tax asset (liability)	\$ (12,111)	\$ -

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements

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17. Income tax (continued)

Unrecognized deferred tax assets

Deferred tax assets are recognized for the carry-forward or unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized. The following represent the deductible temporary differences which have not been recognized in the financial statements.

	As at September 30, 2018	As at September 30, 2017
Non-capital losses carried forward	\$ 1,813,302	\$ 256,387
Investment tax credits	20,264	11,107
Share issue costs	43,842	74,377
	\$ 1,887,408	\$ 341,871

At September 30, 2018, the Company has accumulated non-capital losses of \$2,557,268, which are deductible from future years' taxable income. The losses expire as follows:

2033	\$ 12,418
2034	102,399
2035	314,525
2036	444,836
2037	444,679
2038	1,238,408
	\$ 2,557,268

18. Restatement

The Company identified certain errors in its consolidated financial statements for the year ended September 30, 2017 related to the government grant received previously recognized. In accordance with IAS 20, government grants must be recognized as income over the period necessary to match the grants with the related costs, for which they are intended to compensate, on a systematic basis. The Company recognized in the consolidated statements for the year ended September 30, 2017 \$ 237,759 as grant income (2016: \$351,227) for grants related to the SulfaCHAR production system (note 6) which was under construction at September 30, 2018, 2017 and 2016. The funds received as grant income should be recorded as deferred grant income until the completion of construction. The grant income should be recognized over the amortization period of the related assets.

Furthermore, it was identified that the holdback of 10% for the SulfaCHAR production system related to the grant funds received (note 6) as at September 30, 2017 of \$65,443 was not recognized in the financial statements as an asset. As the Company is expecting to complete the project on time and the grants have been approved or paid, the Company believes that the holdback back related to the SDTC and OCE grants should be recorded as government grant receivable with a corresponding increase the deferred grant income.

The consolidated financial statements have been restated for the adjustments discussed above, as at September 30, 2017 and the year then ended as detailed in the following tables:

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
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(Expressed in Canadian Dollars)

18. Restatement (continue)

Consolidated Statement of Financial Position

	As previously reported	Adjustments	As Restated
ASSETS			
Current assets			
Cash	\$ 831,556	\$ -	\$ 831,556
Amounts receivable	339,083	65,443	404,526
Investment tax credits recoverable	35,314	-	35,314
Prepaid Expenses	12,513	-	12,513
Total current assets	1,218,466	65,443	1,283,909
Property and equipment	739,126	-	739,126
Intangible assets	1,003,000	-	1,003,000
Total assets	\$ 2,960,592	\$ 65,443	\$ 3,026,035
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Accounts payable and accrued liabilities	\$ 176,246	\$ -	\$ 176,246
Deferred grant income	631,451	654,429	1,285,880
Total current liabilities	807,697	654,429	1,462,126
Shareholders' equity			
Share capital	3,869,361	-	3,869,361
Share-based payments reserve	270,590	-	270,590
Contributed surplus	53,744	-	53,744
Deficit	(2,040,800)	(588,986)	(2,629,786)
Total shareholders' equity	2,152,895	(588,986)	1,563,909
Total shareholders' equity and liabilities	\$ 2,960,592	\$ 65,443	\$ 3,026,035

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

18. Restatement (continue)

Consolidated Statement of Loss and Comprehensive Loss

	As previously reported	Adjustments	As Restated
Revenue			
Consulting revenue	\$ 140,033	\$ -	\$ 140,033
Product sales	-	-	-
Total revenue	140,033	-	140,033
Cost of revenue	(57,783)	-	(57,783)
Gross profit	82,250	-	82,250
Expenses			
Research and development	102,499	-	102,499
Professional fees	135,438	-	135,438
Consulting fees	248,054	-	248,054
Office expenses	156,243	-	156,243
Regulatory and filing fees	22,087	-	22,087
Depreciation	8,009	-	8,009
Amortization	118,000	-	118,000
Share-based payments	119,733	-	119,733
Goodwill impairment	910,893	-	910,893
	(1,820,956)	-	(1,820,956)
Loss from operations	(1,738,706)	-	(1,738,706)
Grant income	238,159	(237,759)	400
Net loss before income taxes	(1,500,547)	(237,759)	(1,738,306)
Deferred tax recovery	27,145	-	27,145
Net loss and comprehensive loss for the year	\$ (1,473,402)	\$ (237,759)	\$ (1,711,161)
Loss per share – basic and diluted	\$ (0.04)		\$ (0.05)
Weighted average common shares outstanding - basic and diluted	33,522,276		33,522,276

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

18. Restatement (continue)

Consolidated Statement of Cash Flow

	As previously reported	Adjustments	Re-classifications	As Restated
Operating activities				
Net loss for the year	\$ (1,473,402)	\$ (237,759)	\$ -	\$(1,711,161)
Adjustments for:				
Share-based payments	119,733	-	-	119,733
Depreciation	8,009	-	-	8,009
Amortization	118,000	-	-	118,000
Goodwill impairment	910,893	-	-	910,893
Deferred tax recovery	(27,145)	-	-	(27,145)
Net cash in non-cash working capital:				
Amounts receivable	(231,278)	-	-	(231,278)
Investment tax credits recoverable	(9,136)	-	-	(9,136)
Prepaid expenses	175,708	-	-	175,708
Due from related parties	18,000	-	-	18,000
Accounts payable and accrued liabilities	41,186	-	-	41,186
Deferred grant income	631,451	237,759	(869,210)	-
Net cash used in operating activities	(282,019)	-	(869,210)	(587,191)
Investing activities				
Purchase of property and equipment	(730,838)	-	-	(730,838)
Net cash used in investing activity	(730,838)	-	-	(730,838)
Financing Activities				
Repayment of loans payable	(3,438)	-	-	(3,438)
Grants received	-	-	869,210	869,210
Net cash provided by (used in) financing activities	(3,438)	-	869,210	865,772
Net change in cash	(452,257)	-	-	(452,257)
Cash, beginning of year	1,283,813	-	-	1,283,813
Cash, end of year	\$ 831,556	\$ -	\$ -	\$ 831,556

CHAR Technologies Ltd.

Notes to the Consolidated Financial Statements
Year Ended September 30, 2018 and 2017
(Expressed in Canadian Dollars)

18. Restatement (continue)

Consolidated Statement of Changes in Shareholders' Equity

	As previously reported	Adjustments	As Restated
Share Capital	\$ 3,869,361	\$ -	\$ 3,869,361
Equity Settled Share-Based Payments Reserve	150,857		150,857
Contributed surplus	53,744	-	53,744
Deficit	(2,040,800)	(588,986)	(2,629,786)
Total shareholders' equity	\$ 2,152,895	\$ (588,986)	\$ 3,026,035

19. Commitments

The Company have entered into operating lease agreements for the corporate office and the land and building where the asset under construction is located expiring on September 30, 2019 and December 11, 2020. Future lease payments for the lease of the corporate office is \$75,000 and all the lease payments for the land and building has been prepaid as at September 30, 2018

20. Subsequent event

On December 31, 2018, CHAR closed a financing consisting of 1,147,619 flow-through shares at a price of \$0.21 per share for gross proceeds of \$241,000. The net proceeds are intended to be used for continued technology development.