CHAR Technologies Ltd.
(Formerly Cleantech Capital Inc.)
Consolidated Financial Statements
Years Ended September 30, 2017 and 2016

(Expressed in Canadian Dollars)

Independent Auditors' Report

To the Shareholders of CHAR Technologies Ltd.:

We have audited the accompanying consolidated financial statements of CHAR Technologies Ltd., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditors' 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 audits 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, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that CHAR Technologies Ltd. has a history of losses. These conditions, along with other matters as set forth in Note 1 of the consolidated financial statements, indicate the existence of a material uncertainty that casts significant doubt about CHAR Technologies Ltd.'s ability to continue as a going concern.

MNP LLP

Toronto, Ontario
January 12, 2018

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

CHAR Technologies Ltd. (Formerly Cleantech Capital Inc.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at September 30, 2017	As at September 30, 2016
ASSETS		
Current assets		
Cash	**$ 831,556**	$ 1,283,813
Amounts receivable (note 4)	**339,083**	107,805
Investment tax credits recoverable	**35,314**	26,178
Prepaid expenses	**12,513**	188,221
Total current assets	**1,218,466**	1,606,017
Due from related parties (note 15)	**-**	18,000
Property and equipment (note 5)	**739,126**	16,297
Goodwill (note 3)	**-**	910,893
Intangible assets (note 6)	**1,003,000**	1,121,000
Total assets	**$ 2,960,592**	$ 3,672,207
SHAREHOLDERS' EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (notes 7 and 15)	**$ 176,246**	$ 135,060
Deferred grant income	**631,451**	-
Loans payable (note 8)	**-**	3,438
Total current liabilities	**807,697**	138,498
Deferred taxes (note 16)	**-**	27,145
Total liabilities	**807,697**	165,643
Shareholders' equity		
Share capital (note 9)	**3,869,361**	3,869,361
Reserves (notes 11 and 12)	**270,590**	150,857
Contributed surplus	**53,744**	53,744
Deficit	**(2,040,800)**	(567,398)
Total shareholders' equity	**2,152,895**	3,506,564
Total shareholders' equity and liabilities	**$ 2,960,592**	$ 3,672,207

Nature of business and going concern (note 1)
Subsequent events (note 17)

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. (Formerly Cleantech Capital Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended September 30, 2017	Year Ended September 30, 2016
Revenue	**$ 140,033**	$ 223,443
Cost of revenue	**(57,783)**	(152,342)
Gross profit	**82,250**	71,101
Expenses		
Research and development	**102,499**	138,941
Professional fees	**135,438**	276,363
Consulting fees	**248,054**	-
Office expenses	**156,243**	66,172
Regulatory and filing fees	**22,087**	28,634
Depreciation (note 5)	**8,009**	7,753
Amortization (note 6)	**118,000**	59,000
Share-based payments	**119,733**	40,581
Goodwill impairment (note 3)	**910,893**	-
	(1,820,956)	(617,444)
Loss from operations	**(1,738,706)**	(546,343)
Grant income	**238,159**	31,697
Net loss before income taxes	**(1,500,547)**	(514,646)
Deferred tax recovery (note 16)	**27,145**	178,020
Net loss and comprehensive loss for the year	**$ (1,473,402)**	$ (336,626)
Net loss per share - basic (note 10)	**$ (0.04)**	$ (0.01)
Net loss per share - diluted (note 10)	**$ (0.04)**	$ (0.01)
Weighted average common shares outstanding - basic (note 10)	**33,522,276**	24,213,237
Weighted average common shares outstanding - diluted (note 10)	**33,522,276**	24,213,237

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

CHAR Technologies Ltd. (Formerly Cleantech Capital Inc.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended September 30, 2017	Year Ended September 30, 2016
Operating activities		
Net loss for the year	**$ (1,473,402)**	$ (336,626)
Adjustments for:		
Share-based payments	**119,733**	40,581
Depreciation (note 5)	**8,009**	7,753
Amortization (note 6)	**118,000**	59,000
Goodwill impairment (note 3)	**910,893**	-
Deferred tax recovery	**(27,145)**	(178,020)
Net change in non-cash working capital:		
Amounts receivable	**(231,278)**	(90,419)
Investment tax credits recoverable	**(9,136)**	-
Prepaid expenses	**175,708**	(177,001)
Due from related parties	**18,000**	(15,000)
Accounts payable and accrued liabilities	**41,186**	47,423
Deferred grant income	**631,451**	-
Net cash provided by (used in) operating activities	**282,019**	(642,309)
Investing activities		
Purchase of property and equipment (note 5)	**(730,838)**	(801)
Cash acquired on Amalgamation (note 3)	**-**	492,085
Net cash (used in) provided by investing activities	**(730,838)**	491,284
Financing activities		
Proceeds from issuance of common shares, net of costs	**-**	541,807
Repayment of long-term loans payable	**(3,438)**	(36,100)
Net cash (used in) provided by financing activities	**(3,438)**	505,707
Net change in cash	**(452,257)**	354,682
Cash, beginning of year	**1,283,813**	929,131
Cash, end of year	**$ 831,556**	$ 1,283,813

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

CHAR Technologies Ltd. (Formerly Cleantech Capital Inc.)

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

	Share Capital		Reserves				
	Number of Shares	Amount	Warrant Reserve	Equity Settled Share-Based Payments Reserve	Contributed Surplus	Deficit	Total
Balance, September 30, 2015	**14,500,001**	**$ 972,940**	**$ 31,269**	**$ 132,605**	**$ -**	**$ (230,772)**	**$ 906,042**
Common shares issued for private placement (note 3)	3,522,280	607,447	-	146	-	-	607,593
Common shares issued pursuant to Amalgamation (note 3)	15,499,995	2,337,327	-	-	-	-	2,337,327
Issuance costs, net of tax	-	(48,353)	-	-	-	-	(48,353)
Warrant expiry	-	-	(31,269)	-	31,269	-	-
Stock option expiry	-	-	-	(22,475)	22,475	-	-
Share-based payments	-	-	-	40,581	-	-	40,581
Net loss and comprehensive loss for the year	-	-	-	-	-	(336,626)	(336,626)
Balance, September 30, 2016	**33,522,276**	**3,869,361**	**-**	**150,857**	**53,744**	**(567,398)**	**3,506,564**
Share-based payments	-	-	-	119,733	-	-	119,733
Net loss and comprehensive loss for the year	-	-	-	-	-	(1,473,402)	(1,473,402)
Balance, September 30, 2017	**33,522,276**	**$ 3,869,361**	**$ -**	**$ 270,590**	**$ 53,744**	**$ (2,040,800)**	**$ 2,152,895**

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

1. Nature of business and going concern

CHAR Technologies Ltd. (formerly Cleantech Capital Inc.) (the "Company" or "CHAR") was a Capital Pool Company as defined in the Policy 2.4 of the TSX Venture Exchange (the “Exchange”). The Company’s principal business was to identify and evaluate potential acquisitions of businesses, and once identified and evaluated, to negotiate an acquisition thereof or participation therein subject to receipt of regulatory and, if required, shareholders’ approval.

On March 31, 2016, as described in note 3, the Company completed its qualifying transaction (the “Qualifying Transaction”) with CHAR Technologies Inc. ("Original CHAR"). The Qualifying Transaction involved a three-cornered amalgamation in which Original CHAR amalgamated with a new wholly owned subsidiary of the Company, 2500281 Ontario Inc. formed solely for the purpose of facilitating the transaction (the “Amalgamation”). Immediately prior to the completion of the Qualifying Transaction, the Company changed its name to CHAR Technologies Ltd.

The Company continues to be listed on the Exchange trading under the symbol YES.V. The Company’s head office address is 2425 Matheson Boulevard East, 8th floor, Mississauga, Ontario, L4W 5K4.

CHAR is a technology company that specializes in commercializing a hydrogen sulfide recovery system to solve a global problem caused by toxic and corrosive hydrogen sulfide in the biogas industry.

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 profit levels of operations. These conditions indicate the existence of material uncertainties that may cause significant 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.

The Company has not yet realized profitable operations and has incurred significant losses to date resulting in a cumulative deficit of $2,040,800 as at September 30, 2017 (2016 - $567,398). 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, 2017, the Company had current assets of $1,218,466 (2016 - $1,606,017) to cover current liabilities of $807,697 (2016 - $138,498).

On January 12, 2018, 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”).

2. Significant accounting policies (continued)

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company together with its subsidiaries. All intercompany transactions and balances have been eliminated. The consolidated financial statements of CHAR and its subsidiaries CHAR Technologies Inc. and 2500281 Ontario 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.

(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 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

2. Significant accounting policies (continued)

(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 segments 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 10 years for purchased technology. The estimated useful life and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis.

(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.

2. Significant accounting policies (continued)

(h) Segmented Information

The Company currently operates as a single segment. Its principal business relates to commercializing a hydrogen sulfide recovery system to solve a global problem caused by toxic and corrosive hydrogen sulfide in the biogas industry in Canada. All of the assets of the Company are situated in Canada and the Company has not yet commercialized its technology to generate income.

(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
Amounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term loans payable	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.

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 account 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 services. Revenue is measured at the fair value of consideration received or receivable and is recognized when the amount of revenue can be measured reliably, the costs incurred or to be incurred in respect of the transaction can be measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

(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.

2. Significant accounting policies (continued)

(n) 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.

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.

(o) 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.

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 discussed above, 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.

2. Significant accounting policies (continued)

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

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 intangibles

As described above, the Company reviews the estimated useful lives of property and equipment and intangibles 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, 2017, 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 closely 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.

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.

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.

2. Significant accounting policies (continued)

(p) 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.

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.

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 December 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. Qualifying Transaction

On March 31, 2016, the Company completed its Qualifying Transaction with Original CHAR. The Qualifying Transaction involved a three-cornered amalgamation in which Original CHAR amalgamated with a new wholly owned subsidiary of the Company, 2500281 Ontario Inc. formed solely for the purpose of facilitating the transaction (the "Amalgamation"). Immediately prior to the completion of the Qualifying Transaction, the Company changed its name to CHAR Technologies Ltd.

Pursuant to the Amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Original CHAR (the "CHAR Shares"), being 313,875 CHAR shares and issued 15,499,995 common shares of the Company on the basis of approximately 49.382716 shares for each one CHAR Share.

For accounting purposes, the Company is considered the accounting acquirer and Original CHAR is considered the acquired company in accordance with *IFRS 3 Business Combinations*. Accordingly, the acquisition of Original CHAR is accounted at the fair value of the equity instruments issued to the shareholders of Original CHAR. 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 Original CHAR with those of the Company and intangible assets that do not qualify for separate recognition.

(Expressed in Canadian Dollars)

3. Qualifying Transaction (continued)

The fair value of the consideration is as follows:

Issuance of 15,499,995 CHAR shares	$ 2,337,327

The consideration has been allocated as follows:

Cash	$ 492,085
Investment tax credits recoverable	26,178
Amounts receivable	17,386
Prepaid expenses	11,220
Due from related parties	3,000
Property and equipment	23,249
Accounts payable and accrued liabilities	(64,548)
Long-term payable	(39,538)
Goodwill	910,893
Deferred tax liability	(222,598)
Intangible asset: Purchased technology	1,180,000
	$ 2,337,327

The value of the common shares was based on the concurrent private placement price of $0.1725 and factoring an appropriate restricted stock discount related to shares held in escrow as disclosed in note 9.

On February 29, 2016 and March 10, 2016, in connection with the Amalgamation, CHAR completed brokered private placements of an aggregate of 3,522,280 Subscription Receipts at a price of $0.1725 per Subscription Receipt, for aggregate gross proceeds of $607,593. An aggregate of 1,826 Compensation Options were issued to the Agent of the private placement. Share issuance costs of $48,353 (net of tax) were incurred for this private placement.

These Compensation Options were assigned a value of $146 using the Black-Scholes valuation model. The underlying weighted average assumptions used in the estimation of fair value in the Black-Scholes valuation model are as follows:

- Risk free rate: 0.54%
- Expected life: 2 years;
- Expected volatility: 100% based on comparable companies; and
- Weighted average share price: $0.1725.

Impairment of long-lived assets including 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.

(Expressed in Canadian Dollars)

3. Qualifying Transaction (continued)

Impairment charge:

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, for the year ended September 30, 2017, the Company recorded an impairment charge of $910,893 (2016 – $nil) against the carrying value of the allocated goodwill.

4. Amounts receivable

	September 30, 2017	September 30, 2016
Trade receivables	**$ 174,538**	$ 41,983
HST receivable	**164,545**	65,822
Total amounts receivable	**$ 339,083**	$ 107,805

5. Property and Equipment

Cost	Computer Equipment	Production Equipment	Asset Under Construction	Total
Balance, September 30, 2015	**$ -**	**$ -**	**$ -**	**$ -**
Acquired on Amalgamation (note 3)	423	22,826	-	23,249
Additions	801	-	-	801
Balance, September 30, 2016	**1,224**	**22,826**	**-**	**24,050**
Additions	-	-	730,838	730,838
Balance, September 30, 2017	**$ 1,224**	**$ 22,826**	**$ 730,838**	**$ 754,888**

Accumulated depreciation	Computer Equipment	Production Equipment	Asset Under Construction	Total
Balance, September 30, 2015	**$ -**	**$ -**	**$ -**	**$ -**
Depreciation	130	7,623	-	7,753
Balance, September 30, 2016	**130**	**7,623**	**-**	**7,753**
Depreciation	408	7,601	-	8,009
Balance, September 30, 2017	**$ 538**	**$ 15,224**	**$ -**	**$ 15,762**

Net book value	Computer Equipment	Production Equipment	Asset Under Construction	Total
Balance, September 30, 2016	**$ 1,094**	**$ 15,203**	**$ -**	**$ 16,297**
Balance, September 30, 2017	**$ 686**	**$ 7,602**	**$ 730,838**	**$ 739,126**

(Expressed in Canadian Dollars)

6. Intangible assets

Cost	Purchased Technology
Balance, September 30, 2015	**$ -**
Acquired on Amalgamation (note 3)	1,180,000
Balance, September 30, 2016 and September 30, 2017	**$ 1,180,000**

Accumulated amortization	Purchased Technology
Balance, September 30, 2015	**$ -**
Amortization	59,000
Balance, September 30, 2016	**59,000**
Amortization	118,000
Balance, September 30, 2017	**$ 177,000**

Net book value	Purchased Technology
Balance, September 30, 2016	**$ 1,121,000**
Balance, September 30, 2017	**$ 1,003,000**

7. Accounts payable and accrued liabilities

	September 30, 2017	September 30, 2016
Trade accounts payable	**$ 116,889**	$ 44,666
Due to related parties	**-**	40,136
Accrued liabilities	**59,357**	50,258
Total accounts payable and accrued liabilities	**$ 176,246**	$ 135,060

As at September 30, 2017, $nil (September 30, 2016 - $21,307) of accounts payable and accrued liabilities has been outstanding for more than 90 days, which represents nil% (September 30, 2016 - 16%) of the Company's accounts payable and accrued liabilities.

8. Loan payable

On August 7, 2012, Original CHAR signed a loan agreement with the Business Development Bank of Canada ("BDC"), under which the lender loaned $35,000 with full repayment due October 10, 2017. The loan payable bore interest at a 5% floating rate per annum. This loan was repaid in full during the year ended September 30, 2016.

On August 29, 2012, Original CHAR signed a loan agreement with Futurpreneur Canada (formerly "CYBF"), under which the lender loaned $15,000 with full repayment due August 29, 2017. The loan payable bears interest at 2.85% floating rate per annum. As at September 30, 2017, the Company owed CYBF $nil (September 30, 2016 - $3,438).

(Expressed in Canadian Dollars)

9. 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, 2015	14,500,001	$ 972,940
Common shares issued for private placement (note 3)	3,522,280	607,593
Common shares issued pursuant to Amalgamation (note 3)	15,499,995	2,337,327
Cost of issue - cash (net of tax)	-	(48,353)
Cost of issue - compensation options (note 3)	-	(146)
Balance, September 30, 2016 and September 30, 2017	**33,522,276**	**$ 3,869,361**

(c) Escrowed shares

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

All common shares acquired on exercise of stock options granted to directors and officers prior to the completion of a Qualifying Transaction, must also be deposited in escrow until the final Exchange bulletin is issued.

All common shares of the Company acquired in the secondary market prior to the completion of a Qualifying Transaction by a Control Person, as defined in the policies of the Exchange, are required to be deposited in escrow. Subject to certain permitted exemptions, all securities of the Company held by principals of the resulting issuer will also be escrowed.

As at September 30, 2017, there were 3,615,001 common shares held in escrow pursuant to the requirements of the Exchange.

(Expressed in Canadian Dollars)

9. 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, 2017, there were 6,990,945 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, 2017, there were 2,533,334 common shares held in escrow pursuant to the requirements of the Exchange.

(Expressed in Canadian Dollars)

10. Net loss per common share

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

	Year Ended September 30, 2017	Year Ended September 30, 2016
Numerator:		
Net loss	**$ (1,473,402)**	$ (336,626)
Denominator		
Weighted average number of common shares - basic and diluted	**33,522,276**	24,213,237
Net loss per share - basic and diluted	**$ (0.04)**	$ (0.01)

11. Warrants

The following table reflects the continuity of warrants for the years presented:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, September 30, 2015	**595,000**	**0.10**
Expired	(595,000)	0.10
Balance, September 30, 2016 and September 30, 2017	**-**	**-**

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, 2015	**1,450,000**	**0.11**
Granted (note 3 and (i))	661,826	0.17
Balance, September 30, 2016	**2,111,826**	**0.13**
Granted (ii)	720,000	0.18
Cancelled	(250,000)	0.10
Balance, September 30, 2017	**2,581,826**	**0.15**

(Expressed in Canadian Dollars)

12. Stock options (continued)

(i) On August 25, 2016, the Company granted stock options to two officers and a consultant of the Company to acquire an aggregate of 660,000 common shares. The stock options may be exercised for a period of five years at a price of $0.1725 per share. The 260,000 stock options vested on the date of grant and the remaining 400,000 will be vest in 100,000 increments every six months, beginning March 31, 2017.

A value of $97,680 was estimated for the 660,000 stock options on the date of grant with the following assumptions and inputs: share price of $0.1725; exercise price of $0.1725; expected dividend yield of 0%; expected volatility of 100% which is based on comparable companies; risk-free interest rate of 0.69%; and an expected average life of five years.

(ii) 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.

The following table reflects the actual stock options issued and outstanding as of September 30, 2017:

Expiry Date	Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (exercisable)	Number of Options Unvested
March 31, 2018	0.22	0.50	1,826	1,826	-
January 7, 2019	0.10	1.27	1,000,000	1,000,000	-
April 21, 2019	0.16	1.56	200,000	200,000	-
August 25, 2021	0.1725	3.90	660,000	460,000	200,000
January 27, 2022	0.18	4.33	720,000	500,000	220,000
	0.15	2.82	2,581,826	2,161,826	420,000

13. Capital management

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

The Company's objective when managing its capital is to safeguard the 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.

(Expressed in Canadian Dollars)

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 or liabilities.

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, 2017, the Company had a cash of $831,556 to settle current liabilities of $807,697. The Company's accounts payable and accrued liabilities and deferred grant income are due within one year from the date of the statement of financial position.

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, amounts receivable and accounts payable and accrued liabilities 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, 2017	Year Ended September 30, 2016
Boyle & Co. LLP ("B & Co.") (i)	**$ -**	$ 117,790
Marrelli Support Services Inc. ("MSSI") (ii)	**$ 24,000**	$ 7,681
DSA Corporate Services ("DSA") (iii)	**$ 10,225**	$ 3,470
1456087 Ontario Inc. ("1456087") (iv)	**$ 60,000**	$ 25,000
Merko-Nicholson Inc. ("Merko-Nicholson") (v)	**$ 60,000**	$ -
Due from a related party written off	**$ 3,000**	$ -

(i) A former officer and director of the Company is a partner of B & Co. The transactions are for legal services provided by B & Co. to the Company. For the year ended September 30, 2016, the legal fees were allocated to share capital as cost associated with the Qualifying Transaction.

(ii) On June 8, 2016, the Company retained Mrs. Cindy Davis, a senior employee of MSSI, as its Chief Financial Officer. As at September 30, 2017, MSSI was owed $nil (September 30, 2016 - $nil).

(Expressed in Canadian Dollars)

15. Related party balances and transactions (continued)

(iii) DSA is affiliated with Marrelli Support through a common officer. DSA provides corporate secretarial services. As at September 30, 2017, DSA was owed $3,117 (September 30, 2016 - $1,319). These amounts are included in accounts payable and accrued liabilities.

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

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

Remuneration of key management of the Company was as follows:

	Year Ended September 30, 2017	Year Ended September 30, 2016
Salaries	**$ 78,125**	$ 36,885
Share based payments	**$ 108,056**	$ 39,155

As at September 30, 2017, the Company owed $nil (September 30, 2016 - $38,817) in accrued salaries to an executive officer of the Company and this amount was included in accounts payable and accrued liabilities.

As at September 30, 2017, an executive officer owed the Company $nil (September 30, 2016 - $15,000). As at September 30, 2017, there was $nil (September 30, 2016 - $3,000) due from a shareholder of Original CHAR, which was acquired on Amalgamation. These amounts were included in due from related parties.

16. Income tax

The income tax provision is as follows:

	Year Ended September 30, 2017	Year Ended September 30, 2016
Loss before income tax	**$ (1,500,547)**	$ (514,646)
Income tax at statutory tax rate of 26.5%	**(397,645)**	(136,381)
Non-deductible expenses	**270,629**	23,010
Change in unrecognized deferred taxes	**99,871**	(64,649)
Deferred tax recovery	**$ (27,145)**	$ (178,020)

(Expressed in Canadian Dollars)

16. Income tax (continued)
Deferred tax assets and liabilities

(a) Recognized deferred tax assets (liabilities)

	As at September 30, 2017	As at September 30, 2016
Deferred tax assets:		
Property and equipment	**$ 2,273**	$ 1,358
Eligible capital expenditures	**31,801**	34,195
Share issue costs and other	**-**	35,428
Non-capital losses carried forward	**240,393**	198,939
Deferred tax liabilities:		
Intangible asset	**(265,794)**	(297,065)
Federal and provincial investment tax credits	**(8,673)**	-
Net deferred tax assets (liabilities)	**$ -**	$ (27,145)

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, 2017	As at September 30, 2016
Non-capital losses carried forward	**$ 256,387**	$ -
Investment tax credits	**11,107**	-
Share issue costs	**74,377**	-
	$ 341,871	$ -

At September 30, 2017, the Company has accumulated non-capital losses of $1,163,532, which are deductible from future years' taxable income. The losses expire as follows:

2032	$ 90,320
2034	294,817
2035	88,097
2036	278,221
2037	412,077
	$ 1,163,532

(Expressed in Canadian Dollars)

17. Subsequent events

(i) On October 7, 2017, the following common shares were release from escrow:

CPC Escrow Agreement	903,750
Qualifying Transaction Escrow Agreement	873,868
Value Escrow Agreement	633,333
Total	**2,410,951**

(ii) On December 27, 2017, CHAR closed 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 Company closed total gross proceeds of $1,055,358. The net proceeds from the non-brokered private placement are intended to be used for general working capital and continued technology development.

(iii) On January 4, 2018, the Company announced that it had closed its previously announced acquisition of the Altech Group (“Altech”), which is comprised of Altech Environmental Consulting Ltd. and Altech Technologies Systems Inc. Altech provides solutions to environmental engineering challenges. Founded in 1986, Altech has 12 employees and a diverse and stable client base. CHAR acquired all of the outstanding shares in both Altech Environmental Consulting Ltd. and Altech Technology Systems Inc. (the “Purchased Shares”). Altech shareholders received an aggregate of 4,523,810 in common shares of CHAR as well as $150,000 in cash in exchange for the Purchased Shares.