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**CHAR Technologies Ltd.**

**Condensed Interim Consolidated Financial Statements  
Three Months Ended December 31, 2018**

**(Expressed in Canadian Dollars)  
(Unaudited)**

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**Notice to Reader**

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

# CHAR Technologies Ltd.

## Condensed Interim Consolidated Statements of Financial Position (Expressed in Canadian Dollars) (Unaudited)

	As at December 31, 2018	As at September 30, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 224,913	\$ 283,200
Term deposit (note 8)	850,000	850,000
Amounts receivable (note 4)	603,512	626,844
Work-in-progress	113,234	167,265
Prepaid expenses	116,543	110,573
<b>Total current assets</b>	<b>1,908,202</b>	<b>2,037,882</b>
Property and equipment (note 5)	1,480,395	1,512,008
Goodwill (note 3)	917,306	917,306
Intangible assets (note 3 and 6)	895,214	927,913
<b>Total assets</b>	<b>\$ 5,201,117</b>	<b>\$ 5,395,109</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Liabilities</b>		
Bank overdraft (note 8)	\$ 189,547	\$ 89,242
Accounts payable and accrued liabilities (notes 7 and 12)	252,466	317,764
Line of credit (note 8)	600,000	605,000
Deferred income tax liability (note 3)	12,111	12,111
Deferred revenue	-	37,161
Deferred grant income (note 5)	447,750	597,000
<b>Total current liabilities</b>	<b>1,501,874</b>	<b>1,658,278</b>
Flow-through premium liability (note 9)	28,690	-
Deferred grant income (note 5)	1,290,235	1,290,235
Asset retirement obligation (note 13)	57,733	57,403
<b>Total liabilities</b>	<b>2,878,532</b>	<b>3,005,916</b>
<b>Shareholders' equity</b>		
Share capital (note 9)	6,257,365	6,055,370
Share-based payment Reserves	301,896	301,896
Contributed surplus	53,744	53,744
Deficit	(4,290,420)	(4,021,817)
<b>Total shareholders' equity</b>	<b>2,322,585</b>	<b>2,389,193</b>
<b>Total shareholders' equity and liabilities</b>	<b>\$ 5,201,117</b>	<b>\$ 5,395,109</b>

Nature of business and going concern (note 1)

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

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

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	Three Months Ended December 31,	
	2018	2017
<b>Revenue</b>		
Consulting revenue	\$ 277,627	\$ -
Product sales	157,771	-
Total revenue	435,398	-
Cost of revenue	(169,786)	-
<b>Gross profit</b>	265,612	-
<b>Expenses</b>		
Research and development	5,000	22,841
Professional fees	44,211	45,539
Consulting fees	72,131	104,783
Office expenses	354,237	45,438
Regulatory and filing fees	1,960	7,835
Depreciation (note 5)	184,720	2,024
Amortization (note 6)	32,699	29,500
Share-based payments	-	2,479
	(694,958)	(260,439)
Loss from operations	(429,346)	(260,439)
Grant income	150,428	-
<b>Net loss and comprehensive loss for the period</b>	\$ (278,918)	\$ (260,439)
<b>Net loss per share - basic and diluted</b> (note 10)	\$ (0.01)	\$ (0.01)
<b>Weighted average common shares outstanding - basic and diluted</b> (note 10)	43,960,402	34,094,229

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

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**CHAR Technologies Ltd.****Condensed Interim Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars) (Unaudited)**

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	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Net loss for the period	\$ (278,918)	\$ (260,439)
Adjustments for:		
Share-based payments	-	2,479
Depreciation (note 5)	184,720	2,024
Amortization (note 6)	32,699	29,500
Accretion	330	-
Deferred income	(37,161)	-
Deferred grant income	(149,250)	-
Net change in non-cash working capital:		
Amounts receivable	23,332	127,331
Prepaid expenses	(5,970)	(200,793)
Work-in-progress	54,031	-
Accounts payable and accrued liabilities	(65,298)	(12,619)
<b>Net cash (used in) operating activities</b>	<b>(241,485)</b>	<b>(312,517)</b>
<b>Investing activities</b>		
Purchase of property and equipment (note 5)	(153,107)	(26,481)
Purchase of intangible assets	-	(6,230)
<b>Net cash (used in) investing activities</b>	<b>(153,107)</b>	<b>(32,711)</b>
<b>Financing activities</b>		
Bank overdraft	100,305	-
Proceeds from issuance of common shares, net of costs	241,000	1,037,040
Repayment of line of credit	(5,000)	-
<b>Net cash provided by financing activities</b>	<b>336,305</b>	<b>1,037,040</b>
<b>Net change in cash</b>	<b>(58,287)</b>	<b>691,812</b>
<b>Cash, beginning of period</b>	<b>283,200</b>	<b>831,556</b>
<b>Cash, end of period</b>	<b>\$ 224,913</b>	<b>\$ 1,523,368</b>

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

# CHAR Technologies Ltd.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars) (Unaudited)

	Share Capital		Reserves			Total
	Number of Shares	Amount	Equity Settled Share-Based Payments Reserve	Contributed Surplus	Deficit	
<b>Balance, September 30, 2017</b> (note 15)	<b>33,522,276</b>	<b>\$ 3,869,361</b>	<b>\$ 270,590</b>	<b>\$ 53,744</b>	<b>\$ (2,629,786)</b>	<b>\$ 1,563,909</b>
Common shares issued for cash (note 9(b)(i))	3,513,609	737,858	-	-	-	737,858
Flow-through shares issued for cash (note 9(b)(i))	1,270,000	317,500	-	-	-	317,500
Issuance costs	-	(23,318)	-	-	-	(23,318)
Share-based payments	-	-	2,479	-	-	2,479
Net loss for the period	-	-	-	-	(260,439)	(260,439)
<b>Balance, December 31, 2017</b>	<b>38,305,885</b>	<b>\$ 4,901,401</b>	<b>\$ 273,069</b>	<b>\$ 53,744</b>	<b>\$ (2,890,225)</b>	<b>\$ 2,337,989</b>
<b>Balance, September 30, 2018</b>	<b>44,029,695</b>	<b>6,055,370</b>	<b>301,896</b>	<b>53,744</b>	<b>(4,021,817)</b>	<b>2,389,193</b>
Flow-through shares issued for cash (note 9(b)(ii))	1,147,619	241,000	-	-	-	241,000
Flow-through share premium (note 9(b)(ii))	-	(28,690)	-	-	-	(28,690)
Cancellation of shares	(75,000)	(10,315)	-	-	10,315	-
Net loss for the period	-	-	-	-	(278,918)	(278,918)
<b>Balance, December 31, 2018</b>	<b>45,102,314</b>	<b>\$ 6,257,365</b>	<b>\$ 301,896</b>	<b>\$ 53,744</b>	<b>\$ (4,290,420)</b>	<b>\$ 2,322,585</b>

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

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 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 condensed interim 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 \$4,290,420 as at December 31, 2018 (September 30, 2018 - \$4,021,817). 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 December 31, 2018, the Company had current assets of \$1,908,202 (September 30, 2018 - \$2,037,882) to cover current liabilities of \$1,501,874 (September 30, 2018 - \$1,658,278).

On February 26, 2019, the Board of Directors approved these condensed interim consolidated financial statements.

### 2. Significant accounting policies

#### (a) Statement of compliance

The Company applies International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the IASB.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRSs issued and outstanding as of February 26, 2019, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent audited annual consolidated financial statements as at and for the year ended September 30, 2018, except as noted below. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2019 could result in restatement of these unaudited condensed interim consolidated financial statements.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 2. Significant accounting policies (continued)

(b) Basis of consolidation

The unaudited condensed interim 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., 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.

(c) Change in accounting policies

*IFRS 9, Financial Instruments*

The Company adopted all of the requirements of IFRS 9 as of October 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

<b>Classification</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Cash	FVTPL	FVTPL
Term deposit	FVTPL	FVTPL
Amounts receivable	Loans and receivables (amortized cost)	Amortized cost
Bank overdraft	Other financial liabilities (amortized cost)	Amortized cost
Accounts payable	Other financial liabilities (amortized cost)	Amortized cost
Line of credit	Other financial liabilities (amortized cost)	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on October 1, 2018.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 2. Significant accounting policies (continued)

(c) Change in accounting policies (continued)

#### IFRS 9, Financial Instruments (continued)

(ii) Measurement

Financial assets and liabilities at amortized cost - Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL - Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

Financial assets and liabilities at FVTOCI - Financial assets and liabilities carried at FVTOCI are initially recorded at fair value and transaction costs are capitalized in the consolidated statements of financial position. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTOCI are included in the accumulated other comprehensive income in the period in which they arise and will be transferred into the consolidated statements of net (loss) income in the period in which the instrument is sold.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets - The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income.

Financial liabilities - A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company did not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.



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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 2. Significant accounting policies (continued)

(c) Change in accounting policies (continued)

IFRS 15, Revenue from Contracts and Customers ("IFRS 15")

IFRS 15 was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity recognizes revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The Company adopted this new standard on October 1, 2018 using the modified retrospective method. The Company applied this standard retrospectively only to contracts that were not completed at the date of initial application.

The Company concluded that the main areas of impact relate to the allocation of the transaction price to the various performance obligations under the contracts and the timing of revenue recognition for sales arrangement that contain customer acceptance clauses. The adoption of the new standard had no material impact on the Company's consolidated financial statements.

(d) 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.

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.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 2. Significant accounting policies (continued)

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

#### 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 three months ended December 31, 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 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.

#### 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.

#### 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.

(e) 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 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.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 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.

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	\$ 972,619
Cash	150,000
<hr/>	
Total consideration	<hr/> 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 5)	10,528
Accounts payable and accrued liabilities	(290,859)
Loan payable	(147,000)
Deferred tax liability	(12,111)
Customer relationship (note 6)	42,000
Backlog (note 6)	3,700
Goodwill	917,306
<hr/>	
	<hr/> \$ 1,122,619

### 4. Amounts receivable

	December 31, 2018	September 30, 2018
Trade receivables	\$ 248,581	\$ 304,713
HST receivable	219,327	186,527
Government grant receivable	135,604	135,604
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<b>Total amounts receivable</b>	<b>\$ 603,512</b>	<b>\$ 626,844</b>

## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three Months Ended December 31, 2018  
(Expressed in Canadian Dollars) (Unaudited)

### 5. Property and Equipment

Cost	Computer Equipment	Production Equipment	Asset Retirement Cost	Building and Kiln	Total
<b>Balance, September 30, 2017</b>	\$ 1,224	\$ 22,826	\$ -	\$ 730,838	\$ 754,888
Additions	2,792	-	56,430	712,931	772,153
Acquired from Altech	3,939	3,846	-	2,743	10,528
<b>Balance, September 30, 2018</b>	<b>7,955</b>	<b>26,672</b>	<b>56,430</b>	<b>1,446,512</b>	<b>1,537,569</b>
Additions	-	-	-	153,107	153,107
<b>Balance, December 31, 2018</b>	<b>\$ 7,955</b>	<b>\$ 26,672</b>	<b>\$ 56,430</b>	<b>\$ 1,599,619</b>	<b>\$ 1,690,676</b>
Accumulated depreciation	Computer Equipment	Production Equipment	Asset Retirement Cost	Building and Kiln	Total
<b>Balance, September 30, 2017</b>	\$ 538	\$ 15,224	\$ -	\$ -	\$ 15,762
Depreciation	622	7,601	1,576	-	9,799
<b>Balance, September 30, 2018</b>	<b>1,160</b>	<b>22,825</b>	<b>1,576</b>	<b>-</b>	<b>25,561</b>
Depreciation	1,319	963	4,703	177,735	184,720
<b>Balance, December 31, 2018</b>	<b>\$ 2,479</b>	<b>\$ 23,788</b>	<b>\$ 6,279</b>	<b>\$ 177,735</b>	<b>\$ 210,281</b>
Net book value	Computer Equipment	Production Equipment	Asset Retirement Cost	Asset Under Construction	Total
<b>Balance, September 30, 2018</b>	\$ 6,795	\$ 3,847	\$ 54,854	\$ 1,446,512	\$ 1,512,008
<b>Balance, December 31, 2018</b>	<b>\$ 5,476</b>	<b>\$ 2,884</b>	<b>\$ 50,151</b>	<b>\$ 1,421,884</b>	<b>\$ 1,480,395</b>

The kiln consists of the SulfaCHAR production system which commenced operation in October 2018. 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.

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## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three Months Ended December 31, 2018  
(Expressed in Canadian Dollars) (Unaudited)

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### 5. 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 and OCE \$237,759. 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 and OCE \$441,759. This milestone has 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. This milestone has 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 Mar 2023.

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

	December 31, 2018	September 30, 2018
Grant received from SDTC	\$ 540,920	\$ 540,920
Grant received from OCE	679,518	679,518
Holdback (note 4)	135,604	135,604
Grant received from LCIF	531,193	531,193
Recognized into grant income	(149,250)	-
<b>Total deferred grant income</b>	<b>1,737,985</b>	<b>1,887,235</b>
Less current portion	(447,750)	(597,000)
<b>Long-term portion</b>	<b>\$ 1,290,235</b>	<b>\$ 1,290,235</b>

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 Condensed Interim Consolidated Financial Statements  
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### 6. Intangible assets

Cost	Purchased Technology	Patents	Customer Relationship	Backlog	Total
<b>Balance, September 30, 2017</b>	<b>\$ 1,180,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,180,000</b>
Additions	-	6,230	-	-	6,230
Acquired from Altech	-	-	42,000	3,700	45,700
<b>Balance, September 30, 2018 and December 31, 2018</b>	<b>\$ 1,180,000</b>	<b>\$ 6,230</b>	<b>\$ 42,000</b>	<b>\$ 3,700</b>	<b>\$ 1,231,930</b>
Accumulated amortization	Purchased Technology	Patents	Customer Relationship	Backlog	Total
<b>Balance, September 30, 2017</b>	<b>\$ 177,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 177,000</b>
Amortization	118,000	-	6,260	2,757	127,017
<b>Balance, September 30, 2018</b>	<b>295,000</b>	<b>-</b>	<b>6,260</b>	<b>2,757</b>	<b>304,017</b>
Amortization	29,500	156	2,100	943	32,699
<b>Balance, December 31, 2018</b>	<b>\$ 324,500</b>	<b>\$ 156</b>	<b>\$ 8,360</b>	<b>\$ 3,700</b>	<b>\$ 336,716</b>
Net book value	Purchased Technology	Patents	Customer Relationship	Backlog	Total
<b>Balance, September 30, 2018</b>	<b>\$ 885,000</b>	<b>\$ 6,230</b>	<b>\$ 35,740</b>	<b>\$ 943</b>	<b>\$ 927,913</b>
<b>Balance, December 31, 2018</b>	<b>\$ 855,500</b>	<b>\$ 6,074</b>	<b>\$ 33,640</b>	<b>\$ -</b>	<b>\$ 895,214</b>

### 7. Accounts payable and accrued liabilities

	December 31, 2018	September 30, 2018
Trade accounts payable (note 12)	\$ 162,885	\$ 211,675
Accrued liabilities	89,581	106,089
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 252,466</b>	<b>\$ 317,764</b>

### 8. Line of credit

In June 2018, the Company secured a credit facility of up to \$850,000 with interest at the prime rate to be utilized for its day-to-day working capital needs. This facility is secured by a \$850,000 term deposit. As at December 31, 2018, the Company utilized \$600,000 (September 30, 2018 - \$605,000) of this credit facility. The Company also has an overdraft of \$189,547 as at December 31, 2018 (September 30, 2018 - \$89,242) collateralized by this term deposit.

# CHAR Technologies Ltd.

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## 9. Share capital

### (a) Authorized share capital

Unlimited number of common shares, with no par value.

### (b) Issued common shares

	Number of Shares	Amount
<b>Balance, September 30, 2017</b>	33,522,276	\$ 3,869,361
Common shares issued for cash (i)	3,513,609	737,858
Common shares issued pursuant to the Offering (i)	1,270,000	317,500
Issue costs	-	(23,318)
<b>Balance, December 31, 2017</b>	<b>38,305,885</b>	<b>\$ 4,901,401</b>
<b>Balance, September 30, 2018</b>	44,029,695	\$ 6,055,370
Flow-through shares issued for cash (ii)	1,147,619	241,000
Flow-through share premium (ii)	-	(28,690)
Cancellation of shares	(75,000)	(10,315)
<b>Balance, December 31, 2018</b>	<b>45,102,314</b>	<b>\$ 6,257,365</b>

(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 were incurred and premium was reversed during the year ended September 30, 2018.

(ii) On December 31, 2018, CHAR closed a private placement for 1,147,619 flow-through shares at a price of \$0.21 per flow-through share for gross proceeds of \$241,000. 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 \$28,690.

### (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 December 31, 2018, there were 903,751 common shares held in escrow pursuant to the requirements of the Exchange.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 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:

<b>Tier 2 Issuer % of Common Shares Released from Escrow</b>	<b>Release Date</b>
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 December 31, 2018, there were 3,495,473 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:

<b>Tier 2 Issuer % of Common Shares Released from Escrow</b>	<b>Release Date</b>
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 December 31, 2018, there were 633,334 common shares held in escrow pursuant to the requirements of the Exchange.



# CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three Months Ended December 31, 2018  
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## 10. Net loss per common share

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

	Three Months Ended December 31,	
	2018	2017
<b>Numerator:</b>		
Net loss	\$ (278,918)	\$ (260,439)
<b>Denominator</b>		
Weighted average number of common shares - basic and diluted	43,960,402	34,094,229
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.01)

## 11. 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, 2017 and December 31, 2017	2,581,826	0.15
Balance, September 30, 2018 and December 31, 2018	2,030,000	0.19

The following table reflects the actual stock options issued and outstanding as of December 31, 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	2.65	660,000	660,000	-
January 27, 2022	0.18	3.08	720,000	500,000	220,000
January 18, 2023	0.22	4.05	650,000	650,000	-
	0.19	3.25	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.

## CHAR Technologies Ltd.

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Three Months Ended December 31, 2018  
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### 12. 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:

	Three Months Ended December 31,	
	2018	2017
Marrelli Support Services Inc. ("MSSI") (i)	\$ 6,000	\$ 6,000
DSA Corporate Services ("DSA") (ii)	\$ 2,397	\$ 2,744
1456087 Ontario Inc. ("1456087") (iii)	\$ 15,000	\$ 15,000
Merko-Nicholson Inc. ("Merko-Nicholson") (iv)	\$ 15,000	\$ 15,000

(i) The Chief Financial Officer of the Company is a senior employee of MSSI. As at December 31, 2018, MSSI was owed \$nil (September 30, 2018 - \$2,311). These amounts are included in accounts payable and accrued liabilities (note 7).

(ii) DSA is affiliated with MSSI through a common officer. DSA provides corporate secretarial services. As at December 31, 2018, DSA was owed \$1,248 (September 30, 2018 - \$907). These amounts are included in accounts payable and accrued liabilities (note 7).

(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.

Remuneration of key management of the Company was as follows:

	Three Months Ended December 31,	
	2018	2017
Salaries	\$ 55,816	\$ 18,750
Share based payments	\$ -	\$ 1,031

### 13. Asset retirement obligation

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

	December 31, 2018	September 30, 2018
Balance, beginning	\$ 57,403	\$ -
Addition	-	56,430
Accretion	330	973
<b>Balance, ending</b>	<b>\$ 57,733</b>	<b>\$ 57,403</b>

The Company's asset retirement obligation consists of costs associated with SulfarCHAR production system (note 5). 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.

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# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2018

(Expressed in Canadian Dollars) (Unaudited)

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### 14. Commitments

#### Flow-through commitment

The Company is obligated to spend \$241,000 by December 31, 2019. As at December 31, 2018, \$241,000 remains to be spent as part of the flow-through funding agreement for shares issued in December 2018. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's renewable energy and energy efficiency projects to flow-through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

#### Operating lease agreements

- i) Corporate offices expiring on September 30, 2019. Future lease payments for fiscal 2019 amount to \$56,250.
- ii) Kiln building location expiring on December 11, 2020. All lease payments have been prepaid.

### 15. Restatement

The Company identified certain errors in its consolidated financial statements for the year ended September 30, 2017. 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 5) which was under construction at September 30, 2018 and 2017. The funds received as grant income should be deferred as deferred grant income until the completion of construction. The grant income should be recognized on the same basis as the amortization 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 5) 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 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 as detailed in the following table:

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	As previously reported	Adjustment	Restated
<b>Statement of Financial Position - September 30, 2017</b>			
Amounts receivable	\$ 339,083	\$ 65,443	\$ 404,526
Total current assets	1,218,466	65,443	1,283,909
Total assets	2,960,592	65,443	3,026,035
Deferred grant income	631,451	654,429	1,285,880
Total current liabilities	807,697	654,429	1,462,126
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

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