CHAR Technologies Ltd.

Consolidated Financial Statements

Years ended September 30, 2020 and 2019

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Char Technologies Ltd.:

Opinion

We have audited the consolidated financial statements of Char Technologies Ltd. (the “Company”), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders’ equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes certain events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

January 26, 2021

CHAR Technologies Ltd.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at September 30, 2020	As at September 30, 2019
ASSETS		
Current assets		
Cash	**$ 129,127**	$ 225,396
Amounts receivable (note 4)	**352,434**	538,466
Work-in-progress	**101,362**	244,157
Inventory (note 5)	**13,272**	15,227
Prepaid expenses	**62,172**	177,632
Total current assets	**658,367**	1,200,878
Property and equipment (note 6)	**1,035,600**	1,356,118
Right-of-use assets (note 7)	**123,918**	-
Goodwill (note 3)	**917,306**	917,306
Intangible assets (note 8)	**672,924**	799,947
Total assets	**$ 3,408,115**	$ 4,274,249
SHAREHOLDERS' EQUITY AND LIABILITIES		
Liabilities		
Accounts payable and accrued liabilities (notes 9 and 18)	**$ 303,157**	$ 231,089
Lease liabilities (note 11)	**38,099**	-
Loans payable (note 10)	**3,489**	-
Deferred income tax liability (note 21)	**5,114**	7,383
Deferred revenue	**84,153**	233,296
Deferred grant income (note 6)	**440,814**	406,286
Flow-through premium liability (note 12)	**-**	10,311
Total current liabilities	**874,826**	888,365
Lease liabilities (note 11)	**82,552**	-
Loans payable (note 10)	**177,369**	-
Deferred grant income (note 6)	**905,243**	1,414,141
Asset retirement obligation (note 17)	**60,074**	58,723
Total liabilities	**2,100,064**	2,361,229
Shareholders' equity		
Share capital (note 12)	**6,290,039**	6,290,039
Share-based payment reserve (note 14)	**511,096**	412,263
Contributed surplus	**53,744**	53,744
Deficit	**(5,546,828)**	(4,843,026)
Total shareholders' equity	**1,308,051**	1,913,020
Total shareholders' equity and liabilities	**$ 3,408,115**	$ 4,274,249

Nature of business and going concern (note 1)

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

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

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

	Year Ended September 30, 2020	Year Ended September 30, 2019
Revenue		
Consulting revenue	**$ 1,737,678**	$ 1,476,453
Product sales	**22,227**	146,214
Total revenue	**1,759,905**	1,622,667
Cost of revenue	**(850,484)**	(752,335)
Gross profit	**909,421**	870,332
Expenses		
Research and development	**90,420**	47,200
Professional fees	**338,687**	322,601
Consulting fees	**37,870**	171,861
Office expenses	**1,025,736**	1,420,040
Regulatory and filing fees	**20,466**	13,018
Depreciation (notes 6 and 7)	**441,843**	355,515
Amortization (note 8)	**127,023**	127,966
Share-based payments (note 14)	**98,833**	120,226
Reversal of flow-through liability (note 12)	**(10,311)**	(18,379)
	(2,170,567)	(2,560,048)
Loss from operations	**(1,261,146)**	(1,689,716)
Grant income (note 6)	**555,075**	863,779
Net loss before income tax	**(706,071)**	(825,937)
Deferred tax recovery (note 21)	**2,269**	4,728
Net loss and comprehensive loss for the year	**$ (703,802)**	$ (821,209)
Net loss per share - basic and diluted (note 13)	**$ (0.02)**	$ (0.02)
Weighted average common shares outstanding - basic and diluted (note 13)	**45,137,314**	44,807,531

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

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

	Year Ended September 30, 2020	Year Ended September 30, 2019
Operating activities		
Net loss for the year	**$ (703,802)**	$ (821,209)
Adjustments for:		
Share-based payments	**98,933**	120,226
Depreciation	**441,843**	355,515
Amortization	**127,023**	127,966
Accretion	**13,988**	1,320
Interest	**501**	-
Deferred grant income	**(555,075)**	(863,779)
Reversal of flow-through liability	**(10,311)**	(18,379)
Income tax recovery	**(2,269)**	(4,728)
Net change in non-cash working capital:		
Amounts receivable	**86,032**	127,771
Prepaid expenses	**67,461**	(67,059)
Work-in-progress	**142,795**	(16,357)
Inventory	**1,955**	(15,227)
Deferred income	**(149,143)**	135,600
Accounts payable and accrued liabilities	**72,067**	(86,674)
Net cash (used in) operating activities	**(368,102)**	(1,025,014)
Investing activities		
Proceeds from (purchase of) term deposit	**-**	850,000
Purchase of property and equipment	**(26,210)**	(199,625)
Net cash provided by (used in) investing activities	**(26,210)**	(650,375)
Financing activities		
Bank overdraft	**-**	(89,242)
Proceeds from issuance of common shares, net of costs	**-**	253,500
Grants received	**118,750**	757,577
(Repayment) proceeds from line of credit	**-**	(605,000)
Lease payments	**(44,427)**	**-**
Proceeds from loan payable	**228,323**	-
Repayment of loans	**(4,603)**	**-**
Net cash provided by financing activities	**298,043**	316,835
Net change in cash	**(96,269)**	(57,804)
Cash, beginning of year	**225,396**	283,200
Cash, end of year	**$ 129,127**	$ 225,396

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

CHAR Technologies Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital					
	Number of Shares	Amount	Share-Based Payments Reserve	Contributed Surplus	Deficit	Total
Balance, September 30, 2018	**44,029,695**	**$ 6,055,370**	**$ 301,896**	**$ 53,744**	**$ (4,021,817)**	**$ 2,389,193**
Flow-through shares issued for cash (note 12)	1,147,619	241,000	-	-	-	241,000
Flow-through share premium (note 12)	-	(28,690)	-	-	-	(28,690)
Cancellation of shares (note 12)	(100,000)	-	-	-	-	-
Exercise of options (note 12)	60,000	22,359	(9,859)	-	-	12,500
Share-based payments (note 14)	-	-	120,226	-	-	120,226
Net and comprehensive loss for the year	-	-	-	-	(821,209)	(821,209)
Balance, September 30, 2019	**45,137,314**	**6,290,039**	**412,263**	**53,744**	**(4,843,026)**	**1,913,020**
Share-based payments (note 14)	-	-	98,833	-	-	98,833
Net and comprehensive loss for the year	-	-	-	-	(703,802)	(703,802)
Balance, September 30, 2020	**45,137,314**	**$ 6,290,039**	**$ 511,096**	**$ 53,744**	**$ (5,546,828)**	**$ 1,308,051**

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. (the "Company" or "CHAR") is a cleantech development and services company, specializing in high temperature pyrolysis, converting woody materials and organic waste into renewable gases (renewable natural gas and green hydrogen) and biocarbon (activated charcoal "SulfaCHAR" and solid biofuel "CleanFyre"). Additional services include custom equipment for industrial water treatment, and providing services in environmental compliance, 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 789 Don Mills Road, Suite 403, Toronto, Ontario, M3C 1T5.

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

The Company has not yet realized profitable operations and has incurred significant losses to date resulting in a cumulative deficit of $5,546,828 as at September 30, 2020 (September 30, 2019 - $4,843,026). 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, 2020, the Company had current assets of $658,367 (September 30, 2019 - $1,200,878) to cover current liabilities of $874,826 (September 30, 2019 - $888,365).

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of on-going public health and emergency measures that have been put in place to combat the spread of the virus. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the Company in future periods.

On January 26, 2021, the Board of Directors approved these consolidated financial statements.

2. Significant accounting policies

(a) Statement of compliance

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

(b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation. The consolidated financial statements of CHAR and its wholly owned subsidiaries Char Biocarbon Inc. and Altech Environmental Consulting Ltd. are consolidated from the date that control commences until the date that control ceases.

2. Significant accounting policies (continued)

(c) 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
Asset retirement costs	3 years
Building and Kiln	5 years
Leasehold improvements	Amortized over the term of the lease

(d) 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.

(e) 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 the estimated useful life. 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.

The estimated useful lives of the intangible assets are as follows:

Purchased technology	10 years
Customer relationships	5 years
Backlog	1 year
Patents	10 years

2. Significant accounting policies (continued)

(f) 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.

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.

(g) Financial instruments

(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.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

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

Classification	**IFRS 9**
Cash	FVTPL
Amounts receivable	Amortized cost
Accounts payable	Amortized cost
Loans payable	Amortized cost

(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 generally 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.

2. Significant accounting policies (continued)

(g) Financial instruments (continued)

(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.

(h) 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.

2. Significant accounting policies (continued)

(i) Revenue from Contracts and Customers (“IFRS 15”)

The Company derives revenues from the delivery of engineering services and sale of products.

If the Company has recognized revenues from engineering services, but not issued an invoice, then the entitlement to consideration is recognized as a work-in progress presented as costs and anticipated profits in excess of billings on the Company’s consolidated statement of financial position. The work-in progress is transferred to trade receivables when the invoice is issued indicating that the entitlement to payment has become unconditional. If payments are received, or invoices are issued to a customer, prior to the rendering of services, the Company recognizes a deferred revenue. The deferred revenue is transferred to revenues once related services have been rendered.

Revenues are measured based on the consideration specified in a contract with a customer. The Company typically recognizes revenues over time, using an input measure, as it fulfills its performance obligations in line with contracted terms.

A performance obligation is a promise in the contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenues when, or as, the performance obligation is satisfied. The Company’s contracts have a single performance obligation as the promise to transfer individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Any modifications or variations to contracts in progress are assessed to determine if they fall under the scope of the existing contract performance obligation or form part of a new performance obligation.

Revenues (and profits) from cost-plus contracts with ceilings and from fixed-price contracts are recognized progressively based on a percentage-of-completion method, which is calculated on the ratio of contract costs incurred to total anticipated costs.

Revenues (and profits) from cost-plus contracts without stated ceilings are recognized when costs are incurred and are calculated based on billing rates for the services performed.

Certain costs incurred by the Company for sub-consultants and other expenses that are recoverable directly from customers are billed to them and therefore are included in revenues.

The effect of revisions to estimate revenues and costs, including the impact from any modifications or variations to contracts in progress, are recorded when the amounts are known and can be reasonably estimated. These revisions can occur at any time and could be significant. Where total contract costs exceed total contract revenues, the expected loss is recognized as an expense immediately via a provision for losses to completion, irrespective of the stage of completion and based on a best estimate of forecast results including, where appropriate, rights to additional income or compensation (e.g. award or incentive fees).

For product sales, the Company transfers control and satisfies its performance obligation when collection has taken place, compliant documentation has been signed and the product was accepted by the buyer.

2. Significant accounting policies (continued)

(j) 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 vesting period for directors and officers and over the performance period for awards provided to non-employees in exchange for goods and services.

(k) Government grants

Government grants are not recognized until there is reasonable assurance that they will be received and that the Company will be incompliance 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. Grants related to assets are presented as deferred income and recognized in profit or loss on a systematic basis over the useful life of the asset.

(l) Asset retirement obligation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to property and equipment along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as the asset it relates to.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred.

(m) Earnings or Loss per Share

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

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) Foreign currency transactions

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

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

(p) Change in accounting policies

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

On October 1, 2019, the Company adopted IFRS 16 and recognized right-of-use assets of $137,159 and lease liabilities of $89,160 (Office space and land) and right-of-use assets of $65,104 and lease liabilities of $65,104 (Vehicles) (notes 7 and 11).

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

2. Significant accounting policies (continued)

(p) Change in accounting policies (continued)

IFRS 16 - Leases (continued)

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonable certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

(q) 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.

2. Significant accounting policies (continued)

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

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

Going concern

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

Deferred taxes

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

Useful lives of property and equipment and intangibles

The Company reviews the estimated useful lives of property and equipment and intangibles with finite 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, 2020, 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.

(Expressed in Canadian Dollars)

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
Total consideration	$	1,122,619

The consideration has been allocated as follows:

Cash	$	25,444
Amounts receivable		440,673
Work-in-progress		130,435
Prepaid expenses		2,503
Property and equipment		10,528
Accounts payable and accrued liabilities		(290,859)
Loan payable		(147,000)
Deferred tax liability		(12,111)
Customer relationship (note 8)		42,000
Backlog (note 8)		3,700
Goodwill		917,306
	$	1,122,619

4. Amounts receivable

		September 30, 2020		September 30, 2019
Trade receivables	**$**	**214,312**	$	254,624
CEWS receivable (note 20)		**63,122**		-
Government grant receivable (note 6)		**75,000**		175,000
HST receivable		**-**		108,842
Total amounts receivable	**$**	**352,434**	$	538,466

5. Inventory

The Company’s inventory consists of activated carbon acquired from third parties for the purposes of selling to the Company’s customers or using in the operations of the engineering services.

(Expressed in Canadian Dollars)

6. Property and Equipment

Cost	Computer Equipment	Production Equipment	Asset Retirement Costs	Building and Kiln	Leasehold Improvements	Total
Balance, September 30, 2018	**$ 7,955**	**$ 41,852**	**$ 56,430**	**$1,446,512**	**-**	**$ 1,552,749**
Additions	13,013	-	-	186,612	-	199,625
Balance, September 30, 2019	**20,968**	**41,852**	**56,430**	**1,633,124**	**-**	**1,752,374**
Additions	5,995	16,769	-	-	20,215	42,979
Balance, September 30, 2020	**$ 26,963**	**$ 58,621**	**$ 56,430**	**$ 1,633,124**	**$ 20,215**	**$ 1,795,353**

Accumulated depreciation	Computer Equipment	Production Equipment	Asset Retirement Costs	Building and Kiln	Leasehold Improvements	Total
Balance, September 30, 2018	**$ 1,160**	**$ 38,005**	**$ 1,576**	**$ -**	**-**	**$ 40,741**
Additions	6,232	3,847	18,810	326,626	-	355,515
Balance, September 30, 2019	**7,392**	**41,852**	**20,386**	**326,626**	**-**	**396,256**
Additions	13,193	3,354	18,810	326,625	1,516	363,498
Balance, September 30, 2020	**$ 20,585**	**$ 45,206**	**$ 39,196**	**$ 653,251**	**$ 1,516**	**$ 759,753**

Net book value	Computer Equipment	Production Equipment	Asset Retirement Costs	Building and Kiln	Leasehold Improvements	Total
Balance, September 30, 2019	**$ 13,576**	**$ -**	**$ 36,044**	**$ 1,306,498**	**-**	**$ 1,356,118**
Balance, September 30, 2020	**$ 6,380**	**$ 13,415**	**$ 17,234**	**$ 979,873**	**$ 18,699**	**$ 1,035,600**

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.

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 (2019: $175,000) from SDTC (note 4).

(Expressed in Canadian Dollars)

6. Property and Equipment (continued)

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 payments of $531,192 and $371,835 for milestones 1 and 2, respectively. The next payment will be disbursed as stipulated in the agreement.

The Company received during the year ended September 30, 2020 $18,750 from SDTC as additional funding in response to COVID-19.

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 $531,192. 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 is expected to grant the Company yearly disbursements of $53,119 on reporting annual metrics. These will be received in March 2021, March 2022 and March 2023.

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

	September 30, 2020	**September 30, 2019**
Grant received from SDTC	**$ 693,750**	$ 675,000
Grant received from OCE	**1,000,000**	900,000
Holdback (note 4)	**75,000**	175,000
Grant received from LCIF	**903,027**	903,027
Total accumulated recognized grant income	**(1,325,720)**	(832,600)
Total deferred grant income	**1,346,057**	1,820,427
Less current portion	**(440,814)**	(406,286)
Long-term portion	**$ 905,243**	$ 1,414,141

The holdback consists of grants held by SDTC 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 project have been expensed, the Company has recognized this grant income on systematic basis based on the related expenses recognized in the profit and loss. The Company for recognized $1,179 was recognized as grant income in the consolidated statements of loss and comprehensive loss for the year end September 30, 2019 in relation to this agreement.

The Company entered into a Project Agreement with Northumberland Business Development Assistance Corp. ("NBDA") on January 17, 2019, where NBDA had received funding from the Government of Canada to accelerate promising technology startups and innovation-driven SMEs, and had agreed to make a non-repayable matching contribution up to $30,000 to the Company upon the Company successfully raising up to $30,000 in private investments. Since the Company completed a private placement on December 31, 2018 for gross process of $241,000, the full amount of $30,000 was recognized as grant income in the consolidated statements of loss and comprehensive loss for the year end September 30, 2019.

(Expressed in Canadian Dollars)

6. Property and Equipment (continued)

The Company recognized during the year ended September 30, 2020, $493,120 (2019: $863,779) grant income for the grant received from projects above. In addition, the Company recognized $61,955 grant income during the year ended September 30, 2020 related to the discount of the CEBA loans and RRRF loan received from the Government of Canada (Note 10).

7. Right-of-use Assets

Cost	Vehicles	Office space and land	Total
Balance – October 1, 2019	**$ -**	**$ -**	**$ -**
Additions	65,104	137,159	202,263
Balance – September 30, 2020	**$ 65,104**	**$ 137,159**	**$ 202,263**

Accumulated amortization	Vehicles	Office space and land	Total
Balance – October 1, 2019	**$** -	**$** -	**$** -
Amortization	17,787	60,558	78,345
Balance – September 30, 2020	**$ 17,787**	**$ 60,558**	**$ 78,345**

Net book value	Vehicles	Office space and land	Total
Balance, September 30, 2019	**$ -**	**$ -**	**$ -**
Balance, September 30, 2020	**$ 47,317**	**$ 76,601**	**$ 123,918**

8. Intangible assets

Cost	Purchased Technology	Patents	Customer Relationships	Backlog	Total
Balance, September 30, 2018 and 2019	**$ 1,180,000**	**$ 6,230**	**$ 42,000**	**$ 3,700**	**$ 1,231,930**
Additions	-	-	-	-	-
Balance, September 30, 2020	**$ 1,180,000**	**$ 6,230**	**$ 42,000**	**$ 3,700**	**$ 1,231,930**

Accumulated amortization	Purchased Technology	Patents	Customer Relationships	Backlog	Total
Balance, September 30, 2018	**$ 295,000**	**$ -**	**$ 6,260**	**$ 2,757**	**$ 304,017**
Amortization	118,000	623	8,400	943	127,966
Balance, September 30, 2019	**413,000**	**623**	**14,660**	**3,700**	**431,983**
Amortization	118,000	623	8,400	-	127,023
Balance, September 30, 2020	**$ 531,000**	**$ 1,246**	**$ 23,060**	**$ 3,700**	**$ 559,006**

Net book value	Purchased Technology	Patents	Customer Relationships	Backlog	Total
Balance, September 30, 2019	**$ 767,000**	**$ 5,607**	**$ 27,340**	**$ -**	**$ 799,947**
Balance, September 30, 2020	**$ 649,000**	**$ 4,984**	**$ 18,940**	**$ -**	**$ 672,924**

(Expressed in Canadian Dollars)

9. Accounts payable and accrued liabilities

		September 30, 2020		September 30, 2019
Trade accounts payable (note 18)	**$**	**209,577**	$	170,608
Accrued liabilities		**62,993**		60,481
HST payable		**30,587**		**-**
Total accounts payable and accrued liabilities	**$**	**303,157**	$	231,089

10. Loans Payable

During the year ended September 30, 2020, the Company obtained a loan for the purchase of a vehicle. The table below is a summary of the continuity of the loan as of September 30, 2020:

		September 30, 2020
Balance, beginning of the period	**$**	-
Addition		16,769
Repayments		(4,102)
Balance, end of the period	**$**	**12,667**
Current portion	**$**	3,489
Non-current portion	**$**	9,178

The terms of the loan are as follows: principal: $16,769, annual interest rate: 6.14%, maturity: October 17, 2024 and bi-weekly instalments of $150.

During the year ended September 30, 2020, the Company obtained two CEBA loans from TD Bank, for $40,000 each (“the CEBA loans”). The terms of the loan are as follows: principal $40,000, interest rate: 0% per annum during Initial Term and 5% during Extended Term, Initial Term date: December 31, 2022, Extended Term date: December 31, 2025, First Interest Payment date: January 31, 2023.

During the year ended September 30, 2020, the Company obtained the Regional Relief and Recovery Fund (RRRF) for $148,323 (“the RRRF loan”). The terms are as follows: principal: $148,323, annual interest rate: 0%, repayment starting: January 15, 2023, maturity: December 15, 2027 and monthly installments of $2,472.

The CEBA loans and RRRF loan were discounted at inception date using a market interest rate of 5%.

		September 30, 2020
Balance, beginning of the period	**$**	-
Addition		228,323
Recognized as grant income (Note 6)		(61,955)
Accretion		1,823
Balance, end of the year	**$**	**168,191**
Current portion	**$**	-
Non-current portion	**$**	168,191

(Expressed in Canadian Dollars)

11. Lease Liabilities

On October 1, 2019, the Company adopted IFRS 16. As at October 1, 2019, the Company recognized right-of-use asset of $137,159 and lease liability of $89,160 (Office space and land) and right-of-use asset of $65,104 and lease liability of $65,104 (Note 7). The Company did not apply IFRS 16 on a fully retrospective basis. On the date of adoption of IFRS 16, the lease liabilities were measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10% for Office space and land and an interest rate of 6% for Vehicles.

The continuity of lease liabilities is presented in the table below:

		Office space and land
Balance – October 1, 2019	**$**	**-**
Additions		89,160
Accretion		7,459
Lease payments		(24,874)
Balance – September 30, 2020	**$**	**71,745**

		Vehicles
Balance – October 1, 2019	**$**	-
Additions		65,104
Accretion		3,355
Lease payments		(19,553)
Balance – September 30, 2020	**$**	**48,906**
Current portion	**$**	38,099
Non-current portion	**$**	82,552

12. 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, 2018	44,029,695	$	6,055,370
Flow-through shares issued for cash (i)	1,147,619		241,000
Flow-through share premium (i)	-		(28,690)
Shares issued on exercise of stock options (note 14)	60,000		12,500
Fair value of options exercised	-		9,859
Cancellation of shares (ii)	(100,000)		-
Balance, September 30, 2019	45,137,314	$	6,290,039
Balance, September 30, 2020	**45,137,314**	**$**	**6,290,039**

(Expressed in Canadian Dollars)

12. Share capital (continued)

(i) 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.

(ii) During the year ended September 30, 2019, the Company cancelled 100,000 common shares. The shares were originally issued in 2013 to a shareholder who also provided legal services to the Company. The shares were cancelled as settlement of a disagreement with respect to the consideration paid to the shareholder for the services provided to the Company.

For the purposes of calculation any premium related to the issuance of the flow-through units, the Company compared the market price of its shares to the subscription price of flow-through shares to determine if there was a premium paid on the flow-through shares. As a result, the Company's flow-through liability on issuance of flow through shares in connection with private placements is as follows:

		September 30, 2020		September 30, 2019
Balance, beginning	**$**	10,311	$	-
Additions		-		28,690
Reversal		(10,311)		(18,379)
Balance, ending	**$**	-	$	10,311

13. Net loss per common share

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

		Year Ended September 30, 2020		2019
Numerator				
Net loss	**$**	**(703,802)**	**$**	(821,209)
Denominator				
Weighted average number of common shares – basic and diluted		**45,137,314**		44,807,531
Net loss per share - basic and diluted	**$**	**(0.02)**	**$**	(0.02)

14. 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, 2018	**2,030,000**	**0.19**
Granted (i)(ii)	1,039,125	0.20
Exercised	(60,000)	0.21
Balance, September 30, 2019	**3,009,125**	**0.19**
Granted (iii)(iv)(v)(vi)	1,240,000	0.11
Forfeited	(321,000)	0.20
Balance, September 30, 2020	**3,928,125**	**0.17**

14. Stock options (continued)

(i) On February 7, 2019, the Company granted 961,000 stock options to directors, officers, employees and consultants of the Company. The stock options may be exercised for a period of five years at a price of $0.20 per share. These stock options vest as follows: 505,000 stock options vested immediately and 456,000 stock options vest based on the achievement of specific performance criteria.

A value of $162,294, of which $5,837 (2019: $102,246) was recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the options vested, was estimated for the 961,000 stock options on the date of grant with the following assumptions and inputs: share price of $0.18; exercise price of $0.20; expected dividend yield of 0%; expected volatility of 167% which is based on comparable companies; risk-free interest rate of 1.78%; and an expected average life of five years.

(ii) On August 16, 2019, the Company granted 78,125 stock options to an officer of the Company. The stock options may be exercised for a period of five years at a price of $0.16 per share. These stock options vested immediately.

A value of $12,031, recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2019, was estimated for the 78,125 stock options on the date of grant with the following assumptions and inputs: share price of $0.165; exercise price of $0.16; expected dividend yield of 0%; expected volatility of 161% which is based on comparable companies; risk-free interest rate of 1.19%; and an expected average life of five years.

The Company recognized an additional $5,949 share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2019 for options issued in previous years and vested during the year end September 30, 2019.

(iii) On January 30, 2020, the Company granted 930,000 stock options to directors, officers, employees and consultants of the Company. The stock options may be exercised for a period of five years at a price of $0.115 per share. These stock options vest as follows: 525,000 stock options vested immediately and 405,000 stock options vesting based on the achievement of specific performance criteria and EBITDA milestones. Management considered that the achievement of the EBITDA milestones is very probable and therefore the full stock-based compensation for these stock options were recognized.

A value of $78,615, of which $75,656 was recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2020 for the stock options vested immediately and the stock options vesting based on the achievement of specific performance criteria and EBITDA milestones was estimated for the 930,000 stock options on the date of grant with the following assumptions and inputs: share price of $0.115; exercise price of $0.115; expected dividend yield of 0%; expected volatility of 98%; risk-free interest rate of 1.34%; and an expected average life of five years.

(iv) On February 27, 2020 the Company granted 100,000 stock options to a consultant of the Company. The stock options may be exercised for a period of five years at a price of $0.150 per share. These stock options vested immediately.

A value of $5,598, recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2020, was estimated for the 100,000 stock options on the date of the grant with the following assumptions and inputs: share price of $0.085; exercise price of $0.15; expected dividend yield of 0%; expected volatility of 99%; risk-free interest rate of 1.14%; and an expected average life of five years.

(v) On April 1, 2020 the Company granted 160,000 stock options to an officer of the Company. The stock options may be exercised for a period of five years at a price of $0.075 per share. The stock options vest at the end of each quarter in equal tranches ending in March 2021.

(Expressed in Canadian Dollars)

14. Stock options (continued)

A value of $8,982, of which $7,105 was recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2020 for the options vested, was estimated for the 160,000 stock options on the date of the grant with the following assumptions and inputs: share price of $0.075; exercise price of $0.075; expected dividend yield of 0%; expected volatility of 102%; risk-free interest rate of 0.55%; and an expected average life of five years.

(vi) On July 1, 2020, the Company granted 50,000 stock options to a director of the Company. The stock options may be exercised for a period of five years at a price of $0.105 per share. These stock options vested immediately.

A value of $4,637, recognized as share-based payments in the consolidated statements of loss and comprehensive loss for the year ended September 30, 2020, was estimated for the 50,000 stock options on the date of the grant with the following assumptions and inputs: share price of $0.12; exercise price of $0.105; expected dividend yield of 0%; expected volatility of 104%; risk-free interest rate of 0.36%; and an expected average life of five years.

The following table reflects the actual stock options issued and outstanding as of September 30, 2020:

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	0.17	0.90	660,000	660,000	-
January 27, 2022	0.18	1.33	715,000	495,000	220,000
January 18, 2023	0.22	2.30	620,000	620,000	-
January 28, 2024	0.20	3.33	615,000	615,000	-
August 16, 2024	0.16	3.88	78,125	78,125	-
January 30, 2025	0.115	4.33	930,000	825,000	105,000
February 27, 2025	0.150	4.42	100,000	100,000	-
April 1, 2025	0.075	4.50	160,000	80,000	80,000
July 1, 2025	0.105	4.75	50,000	50,000	-
	0.17	2.74	3,928,125	3,523,125	405,000

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

Contributed surplus
The contributed surplus reserve records the corresponding amount share-based compensation for expired options and warrants.

15. Capital management

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

16. Financial instruments and risk management

The Company's financial instruments consist of cash, amounts receivable, accounts payable and loans payable.

The fair value of the Company's financial assets and liabilities approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's cash is measured using level 1 inputs.

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.

Credit Risk
Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The risk related to cash is managed through the use of a major financial institution which has high credit quality as determined by the rating agencies. Accounts receivable mainly consists of receivables from its customers and have historically been subject to very few bad debts. Credit risk is assessed as low.

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, 2020, the Company had cash of $129,127 to settle current liabilities of $874,826. The Company's accounts payable and accrued liabilities, line of credit and deferred grant income are due within one year from the date of the statement of financial position.

Foreign exchange risk
The Company is headquartered in Canada and its functional reporting currency is the Canadian dollar. A portion of Char Biocarbon Inc.'s revenues are denominated in US dollars. As such, the Company's results of operations are subject to foreign currency fluctuation risks and these fluctuations may adversely affect the financial position and operating results of the Company. As of September 30, 2020, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(Expressed in Canadian Dollars)

17. Asset retirement obligation

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

	September 30, 2020	September 30, 2019
Balance, beginning	**$ 58,723**	$ 57,403
Addition	**-**	-
Accretion	**1,351**	1,320
Balance, ending	**$ 60,074**	$ 58,723

The Company's asset retirement obligation consists of costs associated with SulfarCHAR production system (note 6). The land and building where the Company is building the project is leased from a third party for three years. According to the lease agreement, the Company must dismantle and remove all its equipment at the completion of the lease. In calculating the fair value of the Company's asset retirement obligations, the Company used a risk-free rate of 2.3% and an inflation rate of 2%. The majority of the expenditures are expected to occur in 2021 or thereafter.

18. 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, 2020	2019
Marrelli Support Services Inc. ("MSSI") (i)	**$ 14,100**	$ 24,000
DSA Corporate Services ("DSA") (ii)	**$ 9,102**	$ 9,576
1456087 Ontario Inc. ("1456087") (iii)	**$ 60,000**	$ 60,000
Numbers & Co. (iv)	**$ 32,750**	$ 52,500
Mark Korol, CFO (v)	**$ 39,000**	nil

(i) The former Chief Financial Officer of the Company was a senior employee of MSSI.

(ii) DSA is affiliated with MSSI through a common officer. DSA provides corporate secretarial services. As at September 30, 2020, DSA was owed $849 (September 30, 2019 - $849). These amounts are included in accounts payable and accrued liabilities (note 9).

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

(iv) Numbers & Co. is a company controlled by the former Chief Administration Officer of the Company, Dimitris Stubos. Numbers & Co. provides consulting services to the Company. Mr. Stubos ceased to be the CAO in April, 2020. As at September 30, 2020, Numbers & Co. was owed $nil (September 30, 2019 - $5,650).

(v) Mark Korol was appointed Chief Financial Officer as of April 1, 2020. As at September 30, 2020, Mark Korol was owed $nil.

(Expressed in Canadian Dollars)

18. Related party balances and transactions (continued)

Remuneration of key management of the Company was as follows:

	Year Ended September 30, 2020	2019
Salaries	**$ 249,812**	$ 244,452
Share based payments (note 14)	**$ 85,811**	$ 95,627

19. Commitment

The Company entered into two insurance policies during the year ended September 30, 2020. The Company has a commitment of insurance premium payments for $20,311 payable in the fiscal year ending September 30, 2021.

20. Subsidies received

In response to the unprecedented impact of COVID-19 on Canadian business, in March 2020 the government announced a number of support programs for small businesses.

The Temporary Wage Subsidy (TWS) allows eligible employers to reduce the amount of payroll deductions they would otherwise be required to remit to the Canada Revenue Agency (CRA). The amount of the subsidy is 10% of remuneration, to a maximum of $1,375 per employee and a maximum of $25,000 per employer.

The Canada Emergency Wage Subsidy (CEWS) was announced on March 27, 2020. Under this program, qualifying employers whose business has been adversely affected by COVID-19 can receive up to 75% of their employees' wages. The maximum subsidy provided under this program is $847 per week per employee from period 1 to 6, and $461 from period 7 onwards.

In the Consolidated Statements of Loss and Comprehensive Loss, the Wage Subsidy has been netted against employee salaries (under office expenses).

The table below is a summary of the Wage Subsidy as of September 30, 2020:

	CEWS	TWS
First Period	$ 31,578	$ 2,514
Second Period	30,150	4,338
Third Period	33,249	2,611
Fourth Period	37,476	288
Fifth Period	37,877	-
Sixth Period	37,877	-
Seventh Period	25,245	-
Total Wage Subsidy	**233,452**	**9,751**
Wage Subsidy received as of September 30, 2020	170,330	9,751
Wage Subsidy receivable (note 4)	**63,122**	-

21. Income tax

The income tax provision is as follows:

	Year Ended September 30, 2020	2019
Loss before income tax	**$ (706,071)**	$ (825,937)
Combined statutory rate	**27.00%**	27.00%
Expected income tax recovery	**(190,639)**	(223,003)
Non-deductible expenses	**52,785**	(38,109)
True-up of prior year losses	**28,887**	-
Change in tax rate	**-**	9,159
Change in unrecognized deferred taxes	**113,236**	256,681
Deferred tax recovery	**$ 2,269**	$ 4,728

Deferred tax assets and liabilities

(a) Recognized deferred tax assets (liabilities)

	September 30, 2020	September 30, 2019
Property and equipment	**$ 170,239**	$ 71,223
Eligible capital expenditures	**30,321**	31,601
Non-capital losses carried forward	**839,786**	851,771
Purchased technology	**(174,894)**	(206,922)
Customer relationship	**(5,114)**	(7,382)
Share issuance costs	**1,978**	6,520
	862,316	746,811
Unrecognized deferred tax asset	**(867,430)**	(754,194)
Net deferred tax liability	**$ (5,114)**	$ (7,383)

At September 30, 2020, the Company has accumulated non-capital losses of $000, which are deductible from future years' taxable income. The losses expire as follows:

2033	$ 12,418
2034	134,075
2035	314,528
2036	444,836
2037	393,788
2038	1,185,017
2039	570,466
2040	55,190
	$ 3,110,318

22. Subsequent Event

The Company completed a non-brokered private placement in October 2020 for $695,000 through the issuance of 6,950,000 common shares at $0.10 per share.