
CHAR Technologies Ltd.
Condensed Interim Consolidated Financial Statements
Three Months Ended December 31, 2019
(Expressed in Canadian Dollars)

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, 2019	As at September 30, 2019
ASSETS		
Current assets		
Cash	\$ 298,328	\$ 225,396
Amounts receivable (note 3)	447,033	538,466
Work-in-progress	114,936	244,157
Inventory (note 4)	112,728	15,227
Prepaid expenses	98,419	177,632
Total current assets	1,071,444	1,200,878
Property and equipment (note 5)	1,282,205	1,356,118
Right-of-use assets (note 6)	122,899	-
Goodwill	917,306	917,306
Intangible assets (note 7)	768,191	799,947
Total assets	\$ 4,162,045	\$ 4,274,249
SHAREHOLDERS' EQUITY AND LIABILITIES		
Liabilities		
Accounts payable and accrued liabilities (notes 8 and 15)	\$ 272,382	\$ 231,089
Lease liabilities (note 10)	42,445	-
Loan payable (note 9)	2,327	-
Deferred income tax liability	7,383	7,383
Deferred revenue	241,019	233,296
Deferred grant income (note 5)	331,517	406,286
Flow-through premium liability (note 11)	-	10,311
Total current liabilities	897,073	888,365
Lease liabilities (note 10)	81,580	-
Loan payable (note 9)	12,796	-
Deferred grant income (note 5)	1,346,057	1,414,141
Asset retirement obligation (note 14)	59,061	58,723
Total liabilities	2,396,567	2,361,229
Shareholders' equity		
Share capital (note 11)	6,290,039	6,290,039
Share-based payment reserves (note 13)	424,553	412,263
Contributed surplus	53,744	53,744
Deficit	(5,002,858)	(4,843,026)
Total shareholders' equity	1,765,478	1,913,020
Total shareholders' equity and liabilities	\$ 4,162,045	\$ 4,274,249

Nature of business and going concern (note 1)

Subsequent event (note 18)

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 Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

Unaudited

	Three Months Ended December 31,	
	2019	2018
Revenue		
Consulting revenue	\$ 595,735	\$ 277,627
Product sales	-	157,771
Total revenue	595,735	435,398
Cost of revenue	(296,081)	(169,786)
Gross profit	299,654	265,612
Expenses		
Research and development	14,061	5,000
Professional fees	85,585	44,211
Consulting fees	-	72,131
Office expenses	365,196	354,237
Regulatory and filing fees	-	1,960
Depreciation (notes 5 and 14)	103,762	184,720
Amortization (note 7)	31,756	32,699
Share-based payments (note 13)	12,290	-
Reversal of flow-through liability (note 11)	(10,311)	-
	(602,339)	(694,958)
Loss from operations	(302,685)	(429,346)
Grant income (note 5)	142,853	150,428
Net loss and comprehensive loss for the period	\$ (159,832)	\$ (278,918)
Net loss per share - basic and diluted (note 12)	\$ (0.00)	\$ (0.01)
Weighted average common shares outstanding - basic and diluted (note 12)	45,137,314	43,960,402

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

	Three Months Ended	
	December 31,	
	2019	2018
Operating activities		
Net loss for the period	\$ (159,832)	\$ (278,918)
Adjustments for:		
Share-based payments	12,290	-
Depreciation	103,762	184,720
Amortization	31,756	32,699
Accretion	2,908	330
Deferred grant income	(142,853)	(149,250)
Reversal of flow-through liability	(10,311)	-
Net change in non-cash working capital:		
Amounts receivable	91,433	23,332
Prepaid expenses	79,213	(5,970)
Work-in-progress	129,221	54,031
Inventory	(97,501)	-
Deferred income	7,723	(37,161)
Accounts payable and accrued liabilities	41,293	(65,298)
Net cash provided by (used in) operating activities	89,102	(241,485)
Investing activities		
Purchase of property and equipment	(16,769)	(153,107)
Lease payments	(14,524)	-
Net cash (used in) investing activities	(31,293)	(153,107)
Financing activities		
Bank overdraft	-	100,305
Proceeds from issuance of common shares, net of costs	-	241,000
(Repayment) of line of credit	-	(5,000)
Proceeds from loan payable	16,769	-
Repayment of loans payable	(1,646)	-
Net cash provided by financing activities	15,123	336,305
Net change in cash	72,932	(58,287)
Cash, beginning of period	225,396	283,200
Cash, end of period	\$ 298,328	\$ 224,913

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

	<u>Share Capital</u>		Equity Settled Share-Based Payments Reserve	Contributed Surplus	Deficit	Total
	Number of Shares	Amount				
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 11)	1,147,619	241,000	-	-	-	241,000
Flow-through share premium (note 11)	-	(28,690)	-	-	-	(28,690)
Cancellation of shares (note 11)	(75,000)	(10,315)	-	-	10,315	-
Net and comprehensive loss for the year	-	-	-	-	(278,918)	(278,918)
Balance, December 31, 2018	45,102,314	\$ 6,257,365	\$ 301,896	\$ 53,744	\$ (4,290,420)	\$ 2,322,585
Balance, September 30, 2019	45,137,314	\$ 6,290,039	\$ 412,263	\$ 53,744	\$ (4,843,026)	\$ 1,913,020
Share-based payments (note 13)	-	-	12,290	-	-	12,290
Net and comprehensive loss for the year	-	-	-	-	(159,832)	(159,832)
Balance, December 31, 2019	45,137,314	\$ 6,290,039	\$ 424,553	\$ 53,744	\$ (5,002,858)	\$ 1,765,478

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

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

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, water and organics 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 789 Don Mills Road, Suite 403, Toronto, Ontario, M3C 1T5.

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 \$5,002,858 as at December 31, 2019 (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 December 31, 2019, the Company had current assets of \$1,071,444 (September 30, 2019 - \$1,200,878) to cover current liabilities of \$897,073 (September 30, 2019 - \$888,365).

On February 27, 2020, 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 27, 2020, 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, 2019, 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, 2020 could result in restatement of these unaudited condensed interim consolidated financial statements.

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

2. Significant accounting policies (continued)

(b) Basis of consolidation

These 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 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.

(c) 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.

At October 1, 2019, the Company adopted IFRS 16 and recognized right-of-use assets of \$135,978 and lease liabilities of \$135,978 (notes 6 and 10).

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.

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.

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

2. Significant accounting policies (continued)

(c) Change in accounting policies (continued)

IFRS 16 - Leases (continued)

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.

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

The preparation of these condensed interim 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 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, 2019, the Company was not required to adjust the useful lives of any assets based on the factors described above.

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

2. Significant accounting policies (continued)

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

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.

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.

3. Amounts receivable

	December 31, 2019	September 30, 2019
Trade receivables	\$ 199,257	\$ 254,624
Government grant receivable (note 5)	175,000	175,000
HST receivable	72,776	108,842
Total amounts receivable	\$ 447,033	\$ 538,466

4. 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.

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended December 31, 2019
(Expressed in Canadian Dollars) (Unaudited)

5. Property and Equipment

Cost	Computer Equipment	Production Equipment	Asset Retirement Cost	Building and Kiln	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	-	16,769	-	-	16,769
Balance, December 31, 2019	\$ 20,968	\$ 58,621	\$ 56,430	\$ 1,633,124	\$ 1,769,143

Accumulated depreciation	Computer Equipment	Production Equipment	Asset Retirement Cost	Building and Kiln	Total
Balance, September 30, 2018	\$ 1,160	\$ 38,005	\$ 1,576	\$ -	\$ 40,741
Depreciation	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	3,486	838	4,702	81,656	90,682
Balance, December 31, 2019	\$ 10,878	\$ 42,690	\$ 25,088	\$ 408,282	\$ 486,938

Net book value	Computer Equipment	Production Equipment	Asset Retirement Cost	Building and Kiln	Total
Balance, September 30, 2019	\$ 13,576	\$ -	\$ 36,044	\$ 1,306,498	\$ 1,356,118
Balance, December 31, 2019	\$ 10,090	\$ 15,931	\$ 31,342	\$ 1,224,842	\$ 1,282,205

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 was completed on October 31, 2018.

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

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements Three Months Ended December 31, 2019 (Expressed in Canadian Dollars) (Unaudited)

5. Property and Equipment (continued)

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 (note 3).

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 \$531,193 and \$371,835 for milestones 1 and 2, respectively. The next payment will be disbursed as stipulated in the agreement.

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 March 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, 2019	September 30, 2019
Grant received from SDTC	\$ 675,000	\$ 675,000
Grant received from OCE	900,000	900,000
Holdback (note 3)	175,000	175,000
Grant received from LCIF	903,027	903,027
Recognized as grant income	(975,453)	(832,600)
Total deferred grant income	1,677,574	1,820,427
Less current portion	(331,517)	(406,286)
Long-term portion	\$ 1,346,057	\$ 1,414,141

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 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 this regard \$1,179 was recognized as grant income in the consolidated statements of loss and comprehensive loss for the year end September 30, 2019.

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 (note 11), 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.

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended December 31, 2019
(Expressed in Canadian Dollars) (Unaudited)

6. Right-of-use Assets

	Office space and land
Balance - October 1, 2019	\$ -
Additions	135,978
Amortization	(13,079)
Balance - December 31, 2019	\$ 122,899

7. Intangible assets

Cost	Purchased Technology	Patents	Customer Relationship	Backlog	Total
Balance, September 30, 2019 and December 31, 2019	\$ 1,180,000	\$ 6,230	\$ 42,000	\$ 3,700	\$ 1,231,930

Accumulated amortization	Purchased Technology	Patents	Customer Relationship	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	29,500	156	2,100	-	31,756
Balance, December 31, 2019	\$ 442,500	\$ 779	\$ 16,760	\$ 3,700	\$ 463,739

Net book value	Purchased Technology	Patents	Customer Relationship	Backlog	Total
Balance, September 30, 2019	\$ 767,000	\$ 5,607	\$ 27,340	\$ -	\$ 799,947
Balance, December 31, 2019	\$ 737,500	\$ 5,451	\$ 25,240	\$ -	\$ 768,191

8. Accounts payable and accrued liabilities

	December 31, 2019	September 30, 2019
Trade accounts payable (note 15)	\$ 194,593	\$ 170,608
Accrued liabilities	77,789	60,481
Total accounts payable and accrued liabilities	\$ 272,382	\$ 231,089

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

9. Loan Payable

During the three months ended December 31, 2019, the Company obtained an auto loan for the purchase of a vehicle. The table below is a summary of the continuity of the auto loan:

	Three Months Ended December 31, 2019
Balance, beginning of the period	\$ -
Addition	16,769
Repayments	(1,646)
Balance, end of the period	\$ 15,123
Current portion	\$ 2,327
Non-current portion	\$ 12,796

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

10. Lease Liabilities

On October 1, 2019, the Company adopted IFRS 16. As at October 1, 2019, the Company recognized right-of-use asset of \$135,978 and lease liability of \$135,978. The Company did not apply IFRS 16 on a fully retrospective basis.

The Company recorded right-of-use assets (note 6) and lease liabilities for office space and land in the statement of financial position as at December 31, 2019. At the commencement date of the leases, 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%, which is the Company's incremental borrowing rate.

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

	Office space and land
Balance - October 1, 2019	\$ -
Additions	135,978
Accretion expense	2,570
Lease payments	(14,523)
Balance - December 31, 2019	\$ 124,025
Current portion	\$ 42,445
Non-current portion	\$ 81,580

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended December 31, 2019
(Expressed in Canadian Dollars) (Unaudited)

11. 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)
Cancellations of shares (ii)	(75,000)	(10,315)
Balance, December 31, 2018	45,102,314	\$ 6,257,365
Balance, September 30, 2019 and December 31, 2019	45,137,314	\$ 6,290,039

(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 three months ended December 31, 2018, the Company cancelled 75,000 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:

	December 31, 2019	September 30, 2019
Balance, beginning	\$ 10,311	\$ -
Additions	-	28,690
Reversal	(10,311)	(18,379)
Balance, ending	\$ -	\$ 10,311

12. Net loss per common share

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

	Three Months Ended December 31,	
	2019	2018
Numerator:		
Net loss	\$ (159,832)	\$ (278,918)
Denominator		
Weighted average number of common shares - basic and diluted	45,137,314	43,960,402
Net loss per share - basic and diluted	\$ (0.00)	\$ (0.01)

CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
Three Months Ended December 31, 2019
(Expressed in Canadian Dollars) (Unaudited)

13. Stock options

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

	Number of Stock Options	Weighted Average Exercise Price (\$)
Balance, September 30, 2018 and December 31, 2018	2,030,000	0.19
Balance, September 30, 2019 and December 31, 2019	3,009,125	0.19

The following table reflects the actual stock options issued and outstanding as of December 31, 2019:

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	1.65	660,000	660,000	-
January 27, 2022	0.18	2.08	715,000	495,000	220,000
January 18, 2023	0.22	3.05	620,000	620,000	-
January 28, 2024	0.20	4.08	936,000	480,000	456,000
August 16, 2024	0.16	4.63	78,125	78,125	-
	0.19	2.87	3,009,125	2,333,125	676,000

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.

14. Asset retirement obligation

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

	December 31, 2019	September 30, 2019
Balance, beginning	\$ 58,723	\$ 57,403
Accretion	338	1,320
Balance, ending	\$ 59,061	\$ 58,723

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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15. Related party balances and transactions

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

	Three Months Ended December 31,	
	2019	2018
Marrelli Support Services Inc. ("MSSI") (i)	\$ 6,000	\$ 6,000
DSA Corporate Services ("DSA") (ii)	\$ 2,305	\$ 2,397
1456087 Ontario Inc. ("1456087") (iii)	\$ 15,000	\$ 15,000
Merko-Nicholson Inc. ("Merko-Nicholson") (iv)	\$ -	\$ 15,000
Numbers & Co. (v)	\$ 15,000	\$ -

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

(ii) DSA is affiliated with MSSI through a common officer. DSA provides corporate secretarial services. As at December 31, 2019, DSA was owed \$1,695 (September 30, 2019 - \$849). These amounts are included in accounts payable and accrued liabilities (note 8).

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

(iv) Merko-Nicholson is a company controlled by the former Chief Operations Officer ("COO") of the Company. Merko-Nicholson provides consulting services to the Company. Mr. Nicholson ceased to be the COO in February 2019.

(v) Numbers & Co. is a company controlled by the Chief Administration Officer of the Company. Numbers & Co. provides consulting services to the Company. As at December 31, 2019, Numbers & Co. was owed \$nil (September 30, 2019 - \$5,650). These amounts are included in accounts payable and accrued liabilities (note 8).

Remuneration of key management of the Company was as follows:

	Three Months Ended December 31,	
	2019	2018
Salaries	\$ 63,136	\$ 55,816

16. Commitment

Flow-through commitment

The Company was obligated to spend \$241,000 by December 31, 2019. As at December 31, 2019, all funds were 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.

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17. Segmented Information

Three Months Ended December 31, 2019	Biocarbon	Engineering Services	Total
Revenue			
Consulting revenue	\$ -	\$ 595,735	\$ 595,735
Total revenue	-	595,735	595,735
Cost of revenue	-	(296,081)	(296,081)
Gross profit	-	299,654	299,654
Expenses			
Research and development	14,061	-	14,061
Professional fees	9,680	75,905	85,585
Office expenses	51,424	313,772	365,196
Depreciation	94,842	8,920	103,762
Amortization	29,656	2,100	31,756
Share-based payments	-	12,290	12,290
Reversal of flow-through liability	-	(10,311)	(10,311)
	(199,663)	(402,676)	(602,339)
Loss from operations	(199,663)	(103,022)	(302,685)
Grant income	142,853	-	142,853
Net and comprehensive loss for the period	\$ (56,810)	\$ (103,022)	\$ (159,832)

Three Months Ended December 31, 2018	Biocarbon	Engineering Services	Total
Revenue			
Consulting revenue	\$ -	\$ 277,627	\$ 277,627
Product sales	157,771	-	157,771
Total revenue	157,771	277,627	435,398
Cost of revenue	(58,529)	(111,257)	(169,786)
Gross profit	99,242	166,370	265,612
Expenses			
Research and development	5,000	-	5,000
Professional fees	22,277	21,934	44,211
Consulting fees	72,131	-	72,131
Office expenses	163,497	190,740	354,237
Regulatory and filing fees	1,960	-	1,960
Depreciation	178,101	6,619	184,720
Amortization	29,656	3,043	32,699
	(472,622)	(222,336)	(694,958)
Loss from operations	(373,380)	(55,966)	(429,346)
Grant income	150,428	-	150,428
Net and comprehensive loss for the period	\$ (222,952)	\$ (55,966)	\$ (278,918)

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Notes to the Condensed Interim Consolidated Financial Statements

Three Months Ended December 31, 2019

(Expressed in Canadian Dollars) (Unaudited)

17. Segmented Information (continued)

December 31, 2019	Biocarbon	Engineering Services	Total
Assets	\$ 2,439,315	\$ 1,722,730	\$ 4,162,045
Liabilities	\$ 1,754,469	\$ 642,098	\$ 2,396,567

September 30, 2019	Biocarbon	Engineering Services	Total
Assets	\$ 2,542,780	\$ 1,731,469	\$ 4,274,249
Liabilities	\$ 1,882,963	\$ 478,266	\$ 2,361,229

18. Subsequent Event

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 vest based on the achievement of specific performance criteria and EBITDA milestones.