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**CHAR Technologies Ltd.**  
**Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended March 31, 2023 and 2022**  
**(Expressed in Canadian Dollars)**

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**Notice to Reader**

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

# CHAR Technologies Ltd.

## Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

Unaudited

|                                                           | As at<br>March 31,<br>2023 | As at<br>September 30,<br>2022 |
|-----------------------------------------------------------|----------------------------|--------------------------------|
| <b>ASSETS</b>                                             |                            |                                |
| <b>Current assets</b>                                     |                            |                                |
| Cash                                                      | \$ 1,043,555               | \$ 460,483                     |
| Amounts receivable (note 3)                               | 1,080,987                  | 1,192,321                      |
| Work-in-progress                                          | 381,630                    | 314,647                        |
| Inventory (note 4)                                        | 8,933                      | 8,933                          |
| Prepaid expenses                                          | 203,257                    | 229,459                        |
| <b>Total current assets</b>                               | <b>2,718,362</b>           | <b>2,205,843</b>               |
| Property and equipment (note 5)                           | 7,706,340                  | 3,772,543                      |
| Right-of-use assets (note 6)                              | 1,254,573                  | 43,505                         |
| Goodwill                                                  | 652,916                    | 652,916                        |
| Intangible assets (note 7)                                | 2,609,426                  | 3,274,562                      |
| <b>Total assets</b>                                       | <b>\$ 14,941,617</b>       | <b>\$ 9,949,369</b>            |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>               |                            |                                |
| <b>Liabilities</b>                                        |                            |                                |
| Accounts payable and accrued liabilities (notes 8 and 15) | \$ 5,881,006               | \$ 3,092,935                   |
| Lease liabilities (note 10)                               | 50,586                     | 34,122                         |
| Loan payable (note 9)                                     | 95,180                     | 628,360                        |
| Deferred income tax liability                             | 5,114                      | 5,114                          |
| Deferred revenue                                          | 160,909                    | 155,259                        |
| Asset retirement obligation (note 14)                     | -                          | 60,414                         |
| Deferred grant income (note 5)                            | 220,407                    | 440,814                        |
| <b>Total current liabilities</b>                          | <b>6,413,202</b>           | <b>4,417,018</b>               |
| Lease liabilities (note 10)                               | 1,257,174                  | 14,636                         |
| Loan payable (note 9)                                     | 206,701                    | 209,784                        |
| Deferred grant income (note 5)                            | 2,618,720                  | 610,106                        |
| <b>Total liabilities</b>                                  | <b>10,495,797</b>          | <b>5,251,544</b>               |
| <b>Shareholders' equity</b>                               |                            |                                |
| Share capital (note 11)                                   | 17,671,372                 | 15,255,158                     |
| Share-based payment reserves (note 13)                    | 5,567,670                  | 5,101,933                      |
| Contributed surplus                                       | 53,744                     | 53,744                         |
| Deficit                                                   | (18,846,966)               | (15,713,010)                   |
| <b>Total shareholders' equity</b>                         | <b>4,445,820</b>           | <b>4,697,825</b>               |
| <b>Total shareholders' equity and liabilities</b>         | <b>\$ 14,941,617</b>       | <b>\$ 9,949,369</b>            |

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<br>March 31, |                       | Six Months Ended<br>March 31, |                       |
|---------------------------------------------------------------------------------|---------------------------------|-----------------------|-------------------------------|-----------------------|
|                                                                                 | 2023                            | 2022                  | 2023                          | 2022                  |
| <b>Revenue</b>                                                                  |                                 |                       |                               |                       |
| Consulting revenue                                                              | \$ 235,691                      | \$ 263,348            | \$521,442                     | \$ 448,605            |
| Technology revenue                                                              | 166,107                         | 197,773               | 379,157                       | 324,705               |
| Product sales                                                                   | -                               | -                     | -                             | -                     |
| Total revenue                                                                   | \$ 401,798                      | \$ 461,121            | \$900,599                     | \$ 773,310            |
| Cost of revenue                                                                 | (171,176)                       | (272,967)             | (450,264)                     | (430,810)             |
| <b>Gross profit</b>                                                             | <b>230,622</b>                  | <b>188,154</b>        | <b>450,335</b>                | <b>342,500</b>        |
| <b>Expenses</b>                                                                 |                                 |                       |                               |                       |
| Research and development                                                        | 175,163                         | 209,022               | 324,011                       | 415,462               |
| Professional fees                                                               | 462,392                         | 347,043               | 705,574                       | 649,617               |
| Consulting fees                                                                 | -                               | 45,000                | 4,163                         | 47,220                |
| Office expenses                                                                 | 1,061,166                       | 605,076               | 1,804,884                     | 1,172,585             |
| Regulatory and filing fees                                                      | 32,158                          | 25,894                | 34,498                        | 29,931                |
| Depreciation (notes 5 and 6)                                                    | 159,574                         | 109,758               | 272,164                       | 217,714               |
| Amortization (note 7)                                                           | 332,401                         | 334,255               | 673,358                       | 675,028               |
| Share-based payments (note 13)                                                  | 862,325                         | 452,580               | 1,044,723                     | 649,538               |
|                                                                                 | (3,085,179)                     | (2,128,628)           | (4,863,375)                   | (3,857,095)           |
| Loss from operations                                                            | (2,854,557)                     | (1,940,474)           | (4,413,040)                   | (3,514,595)           |
| Grant income (note 5)                                                           | 672,391                         | 110,204               | 1,279,086                     | 220,408               |
| <b>Net loss and comprehensive loss for the period</b>                           | <b>\$ (2,182,166)</b>           | <b>\$ (1,830,270)</b> | <b>\$ (3,133,954)</b>         | <b>\$ (3,294,187)</b> |
| <b>Net loss per share - basic and diluted</b> (note 12)                         | <b>(0.02)</b>                   | <b>(0.02)</b>         | <b>(0.03)</b>                 | <b>(0.04)</b>         |
| <b>Weighted average common shares outstanding – basic and diluted</b> (note 12) | <b>88,036,404</b>               | <b>83,003,165</b>     | <b>88,036,404</b>             | <b>83,003,165</b>     |

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

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

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|                                                                        | <b>Six Months Ended</b> |                       |
|------------------------------------------------------------------------|-------------------------|-----------------------|
|                                                                        | <b>March 31,</b>        |                       |
|                                                                        | <b>2023</b>             | <b>2022</b>           |
| <hr/>                                                                  |                         |                       |
| <b>Operating activities</b>                                            |                         |                       |
| Net loss for the period                                                | <b>\$ (3,133,954)</b>   | <b>\$ (3,294,187)</b> |
| Adjustments for:                                                       |                         |                       |
| Share-based payments                                                   | <b>1,044,723</b>        | 660,283               |
| Depreciation                                                           | <b>272,164</b>          | 217,714               |
| Amortization                                                           | <b>673,358</b>          | 675,028               |
| Deferred grant income                                                  | <b>1,788,207</b>        | (198,122)             |
| Net change in non-cash working capital:                                |                         |                       |
| Amounts receivable                                                     | <b>111,334</b>          | (40,131)              |
| Prepaid expenses                                                       | <b>26,202</b>           | (288,618)             |
| Work-in-progress                                                       | <b>(66,983)</b>         | (14,151)              |
| Inventory                                                              | -                       | -                     |
| Deferred revenue                                                       | <b>5,650</b>            | -                     |
| Accounts payable and accrued liabilities                               | <b>2,788,071</b>        | (305,615)             |
| <b>Net cash provided by (used in) operating activities</b>             | <b>3,508,770</b>        | <b>(2,587,799)</b>    |
| <hr/>                                                                  |                         |                       |
| <b>Investing activities</b>                                            |                         |                       |
| Purchase of property and equipment                                     | <b>(4,205,961)</b>      | (1,589,707)           |
| Purchase of intangible assets                                          | <b>(8,222)</b>          | (7,371)               |
| Purchase of right of use assets                                        | <b>(1,211,068)</b>      | 23,060                |
| <b>Net cash (used in) investing activities</b>                         | <b>(5,425,251)</b>      | <b>(1,597,096)</b>    |
| <hr/>                                                                  |                         |                       |
| <b>Financing activities</b>                                            |                         |                       |
| Asset retirement obligation                                            | <b>(60,414)</b>         | -                     |
| Proceeds from loans payable                                            | <b>(536,263)</b>        | 3,227                 |
| Proceeds from issuance of common shares, net of costs (note 11 and 12) | -                       | 4,442,577             |
| Proceeds from warrants exercised                                       | <b>1,705,229</b>        | -                     |
| Proceeds from options exercised                                        | <b>132,000</b>          | -                     |
| Proceeds from issuance of unit warrants                                | -                       | 271,937               |
| Lease payments                                                         | <b>1,259,002</b>        | (23,078)              |
| <b>Net cash provided by financing activities</b>                       | <b>2,499,554</b>        | <b>4,717,741</b>      |
| <hr/>                                                                  |                         |                       |
| <b>Net change in cash</b>                                              | <b>583,072</b>          | <b>532,846</b>        |
| <b>Cash, beginning of period</b>                                       | <b>460,483</b>          | <b>3,001,384</b>      |
| <b>Cash, end of period</b>                                             | <b>\$ 1,043,555</b>     | <b>\$ 3,534,230</b>   |

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

# CHAR Technologies Ltd.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

Unaudited

|                                                  | Share Capital       |                      | Equity Settled<br>Share-Based<br>Payments<br>Reserve | Contributed<br>Surplus | Deficit                | Total               |
|--------------------------------------------------|---------------------|----------------------|------------------------------------------------------|------------------------|------------------------|---------------------|
|                                                  | Number<br>of Shares | Amount               |                                                      |                        |                        |                     |
| <b>Balance, September 30, 2021</b>               | <b>71,505,751</b>   | <b>\$ 11,704,439</b> | <b>\$ 2,594,459</b>                                  | <b>\$ 53,744</b>       | <b>\$ (8,808,659)</b>  | <b>\$ 5,543,983</b> |
| Common shares/warrants issued for cash (note 11) | 10,877,514          | 4,622,944            | 271,937                                              | -                      | -                      | \$ 4,894,881        |
| Share issuance costs (note 12)                   | -                   | (295,103)            | -                                                    | -                      | -                      | \$ (295,103)        |
| Share-based payments (note 13)                   | -                   | -                    | 649,538                                              | -                      | -                      | \$ 649,538          |
| Broker Warrants (note 13)                        | -                   | (17,774)             | 17,774                                               | -                      | -                      | \$ -                |
| Exercise of stock options (note 12 and 14)       | 556,000             | 99,920               | -                                                    | -                      | -                      | \$ 99,920           |
| Net and comprehensive loss for the period        | -                   | -                    | -                                                    | -                      | (3,294,187)            | \$ (3,294,187)      |
| <b>Balance, March 31, 2022</b>                   | <b>83,003,165</b>   | <b>\$ 16,147,016</b> | <b>\$ 3,526,679</b>                                  | <b>\$ 53,744</b>       | <b>\$ (12,102,846)</b> | <b>\$ 7,624,593</b> |
| <b>Balance, September 30, 2022</b>               | <b>83,003,165</b>   | <b>\$ 15,255,158</b> | <b>\$ 5,101,933</b>                                  | <b>\$ 53,744</b>       | <b>\$ (15,713,010)</b> | <b>\$ 4,697,825</b> |
| Share-based payments (note 13)                   | -                   | -                    | 1,044,723                                            | -                      | -                      | \$ 1,044,723        |
| Exercise of unit warrants (note 12)              | 3,518,272           | 1,794,708            | (386,843)                                            | -                      | -                      | \$ 1,407,865        |
| Exercise of broker warrants (note 12)            | 914,967             | 489,507              | (192,143)                                            | -                      | -                      | \$ 297,364          |
| Exercise of stock options (note 12 and 13)       | 600,000             | 132,000              | -                                                    | -                      | -                      | \$ 132,000          |
| Net and comprehensive loss for the period        | -                   | -                    | -                                                    | -                      | (3,133,954)            | \$ (3,133,954)      |
| <b>Balance, March 31, 2023</b>                   | <b>88,036,404</b>   | <b>\$ 17,671,372</b> | <b>\$ 5,567,670</b>                                  | <b>\$ 53,744</b>       | <b>\$ (18,846,966)</b> | <b>\$ 4,445,820</b> |

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

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# CHAR Technologies Ltd.

## Notes to the Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars)

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### 1. Nature of business and going concern

CHAR Technologies Ltd. (the “Company” or “CHAR”) is a cleantech development and services company, specializing in 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 condensed interim consolidated 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 \$18,846,966 as at March 31, 2023 (September 30, 2022 - \$15,713,010). 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 March 31, 2023, the Company had current assets of \$2,718,362 (September 30, 2022 - \$2,205,843) to cover current liabilities of \$6,413,202 (September 30, 2022 - \$4,417,018).

On May 29, 2023, 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., Altech Environmental Consulting Ltd. Char Technologies Thorold Inc. and Char Technologies USA, LLC. are consolidated from the date that control commences until the date that control ceases.

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# CHAR Technologies Ltd.

## Notes to the Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars)

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### 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 obligation | 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 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 of the 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 impairment losses and 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  |
| Patents                | 10 years |
| Technology license     | 3 years  |
| Proprietary design     | 10 years |

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# CHAR Technologies Ltd.

## Notes to the Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars)

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### 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 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.

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

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

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.

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# CHAR Technologies Ltd.

## Notes to the Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars)

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### 2. Significant accounting policies (continued)

(r) 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, 2022, the Company was not required to adjust the useful lives of any assets based on the factors described above.

#### Share-based payments

The Company estimates the fair value of 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.

#### Impairment testing goodwill

The Company performs annual impairment tests for impairment of goodwill at the end of each fiscal year or when events occur or circumstances change that would, more likely than not, indicate an impairment loss is present. Key assumptions in the impairment assessment include underlying recoverable amounts of respective CGUs, the discount rates applied, future growth rates and forecast cash flows (note 7).

## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three and Six Months Ended March 31, 2023  
(Expressed in Canadian Dollars) (Unaudited)

### 3. Amounts receivable

|                                                | March 31,<br>2023   | September 30,<br>2022 |
|------------------------------------------------|---------------------|-----------------------|
| Trade receivables                              | \$ 187,269          | \$ 316,764            |
| CEWS receivable (note 17)                      | -                   | -                     |
| CERS receivable (note 17)                      | -                   | -                     |
| Government grants receivable (note 5)          | 259,510             | 505,491               |
| HST receivable                                 | 283,894             | 43,507                |
| Loan receivable from related parties (note 15) | 350,314             | 326,559               |
| <b>Total amounts receivable</b>                | <b>\$ 1,080,987</b> | <b>\$ 1,192,321</b>   |

Loans receivable from related parties consist of loans extended by the Company to officers of the Company of \$350,314 (2022: \$326,559) to be paid on demand at the Bank of Canada's prime rate of 2.45% on loan origination (note 15). The table below is a summary of the loans extended to the officers of the Company:

|                           | March 31,<br>2023 | September 30,<br>2022 |
|---------------------------|-------------------|-----------------------|
| Andrew White (CEO)        | \$ 307,314        | \$ 283,559            |
| Mark Korol (CFO)          | 35,000            | 35,000                |
| Brian Bobbie (former COO) | 8,000             | 8,000                 |
| <b>Total</b>              | <b>\$ 350,314</b> | <b>\$ 326,559</b>     |

### 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 and Six Months Ended March 31, 2023 (Expressed in Canadian Dollars) (Unaudited)

### 5. Property and Equipment

| Cost                        | Computer<br>Equipment | Production<br>Equipment | Asset<br>Retirement<br>Costs | Building<br>and Kiln | Leasehold<br>Improvements | Construction<br>in progress | Total        |
|-----------------------------|-----------------------|-------------------------|------------------------------|----------------------|---------------------------|-----------------------------|--------------|
| Balance, September 30, 2021 | \$ 34,497             | \$ 278,444              | \$ 56,430                    | \$ 1,633,124         | \$ 20,215                 | \$ 488,700                  | \$ 2,511,410 |
| Additions                   | 16,834                | 108,379                 | -                            | -                    | 35,001                    | 2,622,615                   | 2,782,829    |
| Balance, September 30, 2022 | \$ 51,331             | \$ 386,823              | \$ 56,430                    | \$ 1,633,124         | \$ 55,216                 | \$ 3,111,315                | \$ 5,294,239 |
| Additions                   | 16,673                | 6,656                   | -                            | -                    | -                         | 4,120,218                   | 4,143,547    |
| Balance, March 31, 2023     | \$ 68,004             | \$ 393,479              | \$ 56,430                    | \$ 1,633,124         | \$ 55,216                 | \$ 7,231,533                | \$ 9,437,786 |

| Accumulated depreciation    | Computer<br>Equipment | Production<br>Equipment | Asset<br>Retirement<br>Costs | Building<br>and Kiln | Leasehold<br>Improvements | Construction<br>in progress | Total        |
|-----------------------------|-----------------------|-------------------------|------------------------------|----------------------|---------------------------|-----------------------------|--------------|
| Balance, September 30, 2021 | \$ 24,071             | \$ 55,939               | \$ 56,430                    | \$ 979,875           | \$ 7,580                  | -                           | \$ 1,123,895 |
| Additions                   | 6,030                 | 59,078                  | -                            | 326,624              | 6,069                     | -                           | 397,801      |
| Balance, September 30, 2022 | \$ 30,101             | \$ 115,017              | \$ 56,430                    | \$ 1,306,499         | \$ 13,649                 | -                           | \$ 1,521,696 |
| Additions                   | 6,016                 | 34,843                  | -                            | 163,313              | 5,578                     | -                           | 209,750      |
| Balance, March 31, 2023     | \$ 36,117             | \$ 149,860              | \$ 56,430                    | \$ 1,469,812         | \$ 19,227                 | -                           | \$ 1,731,446 |

| Net book value              | Computer<br>Equipment | Production<br>Equipment | Asset<br>Retirement<br>Costs | Building<br>and Kiln | Leasehold<br>Improvements | Construction<br>in progress | Total        |
|-----------------------------|-----------------------|-------------------------|------------------------------|----------------------|---------------------------|-----------------------------|--------------|
| Balance, September 30, 2022 | \$ 21,230             | \$ 271,806              | \$ -                         | \$ 326,625           | \$ 41,567                 | \$ 3,111,315                | \$ 3,772,543 |
| Balance, March 31, 2023     | \$ 31,887             | \$ 243,619              | \$ -                         | \$ 163,312           | \$ 35,989                 | \$ 7,231,533                | \$ 7,706,340 |

The Kiln consists of the High Temperature Pyrolysis (“HTP”) system used to produce SulfaCHAR and CleanFyre, which commenced operations 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 were as follows:

Milestone 1: Design and Fabrication of a 1 tonne per day SulfaCHAR production system. Funding from SDTC was \$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 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 was completed on February 18, 2021.

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## **CHAR Technologies Ltd.**

**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended March 31, 2023**  
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### **5. Property and Equipment (continued)**

The 10% holdback (\$75,000) from SDTC was received during the year ended September 30, 2021.

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

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 program has been cancelled by the Government of Ontario, no further reporting is required, and no further payments are expected.

The milestones were 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 been completed.

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

The Company entered into a commercialization services agreement with Bioindustrial Innovation Canada ("BIC") on April 15, 2021, where BIC is supporting the balance of plant requirements for upgrading the existing CHAR biocarbon production facility to add the production of renewable natural gas ("RNG"). Commercialization of Sustainable Innovation ("COMM SCI") is providing \$95,000 in a non-repayable contribution and \$105,000 in in-kind support from BIC. Balance of plant work includes the civil, structural, mechanical, electrical and other engineering disciplines required to connect the CHAR RNG production system to the various utility requirements. BIC approves all eligible expenditures and pays the invoices directly to the suppliers.

The Company entered into a contribution agreement with Natural Gas Innovation Fund ("NGIF") on June 22, 2021, where NGIF will be providing \$300,000 in non-repayable grant funding towards the installation of CHAR RNG production system to the current CHAR biocarbon system. The grant includes a 10% holdback to be disbursed on project completion, with the remaining funds being disbursed at the commencement of each of three milestones. The RNG system was commissioned in March 2022. Included in Government grant receivable is the Initial Advance for \$81,000, after the deduction of the holdback for \$9,000, (30% of total NGIF contribution) invoiced during the year ended September 30, 2022. The milestones are as follows:

Milestone 1: Detailed Engineering Design. This milestone is in progress.

Milestone 2: Fabrication and Commissioning. This milestone has not yet begun.

Milestone 3: Validation. This milestone has not yet begun.

On September 29, 2022, the Federal Economic Development Agency for Southern Ontario ("FedDev") and CHAR entered into a Contribution Agreement where the Minister will make a repayable Contribution to CHAR in respect to the Thorold Project for 50% of eligible costs, starting from the date of April 19, 2021, up to \$1,500,000.

The Company recognized during the quarter ended March 31, 2023, \$672,391 (year ended September 30, 2022: \$440,814) grant income for the grant received from projects above.

## CHAR Technologies Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements Three and Six Months Ended March 31, 2023 (Expressed in Canadian Dollars) (Unaudited)

#### 5. Property and Equipment (continued)

In the first quarter of 2023 the Company signed a non-refundable contribution contract with the Department of Natural Resources, under the Investments in Forest Industry Transformation program. During the second quarter of 2023 the Company received a tranche of funding from the program in the amount of \$2,254,595 for Char's Thorold, Ontario HTP project. The Build, Own, Operate ("BOO") plant is anticipated to convert woody biomass waste into renewable natural gas and biocoal through its high temperature pyrolysis systems. The funding program will ultimately cover production plant costs up to a maximum amount of funding assistance of \$4,938,168.

|                                                      | March 31,<br>2023 | September 30,<br>2022 |
|------------------------------------------------------|-------------------|-----------------------|
| Grant received from SDTC                             | \$ 768,750        | \$ 768,750            |
| Grant received from OCE                              | 1,000,000         | 1,000,000             |
| Grant received from LCIF                             | 903,027           | 903,027               |
| Advance received from NGIF                           | 81,000            | 81,000                |
| NGIF 10% holdback (note 3)                           | 9,000             | 9,000                 |
| COMM SCI rebate to date (note 3)                     | -                 | -                     |
| Federal Development Economic Agency (note 3)         | -                 | 496,491               |
| Forest Industry Transformation program (note 3)      | 2,254,595         | -                     |
| Forest Industry Transformation 10% holdback (note 3) | 250,511           | -                     |
| Total accumulated recognized grant income            | (2,427,756)       | (2,207,349)           |
| <b>Total deferred grant income</b>                   | <b>2,839,127</b>  | <b>1,050,920</b>      |
| Less current portion                                 | (220,407)         | (440,814)             |
| Long-term portion                                    | \$ 2,618,720      | \$ 610,106            |

#### Assets under Construction

The Company is party to a HTP system acquisition and operation contract with Kompogas SLO LLC ("SLO"), a subsidiary of Hitachi Zosen Inova, entered into on July 21, 2021. Under the contract, the Company is to design, construct and commission a HTP system for processing anaerobic digestate into green hydrogen and biocarbon at SLO's facility in San Luis Obispo, California, and provide related technical and commercial services, including arranging of hydrogen and biocarbon offtake agreements. The HTP system will be owned by the Company and operated at SLO for a term of 5 years from the date of acceptance at an annual rent of USD1 SLO has an option to purchase the HTP system at any time after the first year. If the purchase option is exercised, the Company is required to assign the hydrogen and biochar offtake agreements to SLO and continue to market the hydrogen and biocarbon on a commission basis (note 18).

The Company has committed to building, owning and operating a woody biomass plant in Thorold, Ontario to process woody biomass into renewable energy (note 18).

As at March 31, 2023, both the SLO project and the Thorold project were under construction.

Assets under construction by the Company's subcontractors for the SLO system were recorded at \$1,947,317 at March 31, 2023.

Assets under construction by the Company's subcontractors for the Thorold plant were recorded at \$5,284,216 at March 31, 2023.

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## CHAR Technologies Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars) (Unaudited)

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#### 6. Right-of-use Assets

| <b>Cost</b>                                  | <b>Vehicles</b> |               | <b>Office space and land</b> |                  | <b>Total</b>        |
|----------------------------------------------|-----------------|---------------|------------------------------|------------------|---------------------|
| <b>Balance – September 30, 2021 and 2022</b> | <b>\$</b>       | <b>84,971</b> | <b>\$</b>                    | <b>137,159</b>   | <b>\$ 222,130</b>   |
| Additions                                    |                 | -             |                              | 1,273,483        | 1,273,483           |
| <b>Balance – March 31, 2023</b>              | <b>\$</b>       | <b>84,971</b> | <b>\$</b>                    | <b>1,410,642</b> | <b>\$ 1,495,613</b> |

  

| <b>Accumulated amortization</b>     | <b>Vehicles</b> |               | <b>Office space and land</b> |                | <b>Total</b>      |
|-------------------------------------|-----------------|---------------|------------------------------|----------------|-------------------|
| <b>Balance – September 30, 2021</b> | <b>\$</b>       | <b>35,634</b> | <b>\$</b>                    | <b>90,724</b>  | <b>\$ 126,358</b> |
| Additions                           |                 | 29,977        |                              | 22,290         | 52,267            |
| <b>Balance – September 30, 2022</b> |                 | <b>65,611</b> |                              | <b>113,014</b> | <b>178,625</b>    |
| Additions                           |                 | 7,595         |                              | 54,820         | 62,415            |
| <b>Balance – March 31, 2023</b>     | <b>\$</b>       | <b>73,206</b> | <b>\$</b>                    | <b>167,834</b> | <b>\$ 241,040</b> |

  

| <b>Net book value</b>              | <b>Vehicles</b> |               | <b>Office space and land</b> |                  | <b>Total</b>        |
|------------------------------------|-----------------|---------------|------------------------------|------------------|---------------------|
| <b>Balance, September 30, 2022</b> | <b>\$</b>       | <b>19,360</b> | <b>\$</b>                    | <b>24,145</b>    | <b>\$ 43,505</b>    |
| <b>Balance, March 31, 2023</b>     | <b>\$</b>       | <b>11,765</b> | <b>\$</b>                    | <b>1,242,808</b> | <b>\$ 1,254,573</b> |

# CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three and Six Months Ended March 31, 2023  
(Expressed in Canadian Dollars) (Unaudited)

## 7. Intangible assets and Goodwill

| Cost                        | Technology License | Purchased Technology | Patents   | Customer Relationships | Proprietary Design | Total        |
|-----------------------------|--------------------|----------------------|-----------|------------------------|--------------------|--------------|
| Balance, September 30, 2021 | \$ 3,669,408       | \$ 1,180,000         | \$ 14,824 | \$ 42,000              | \$ 20,197          | \$ 4,926,429 |
| Additions                   | 682,646            | -                    | 7,371     | -                      | -                  | 690,017      |
| Balance, September 30, 2022 | \$ 4,352,054       | \$ 1,180,000         | \$ 22,195 | \$ 42,000              | \$ 20,197          | \$ 5,616,446 |
| Additions                   | -                  | -                    | 8,220     | -                      | -                  | 8,220        |
| Balance, March 31, 2023     | \$ 4,352,054       | \$ 1,180,000         | \$ 30,415 | \$ 42,000              | \$ 20,197          | \$ 5,624,666 |

| Accumulated depreciation    | Technology License | Purchased Technology | Patents  | Customer Relationships | Proprietary Design | Total        |
|-----------------------------|--------------------|----------------------|----------|------------------------|--------------------|--------------|
| Balance, September 30, 2021 | \$ 304,946         | \$ 649,000           | \$ 2,382 | \$ 31,460              | \$ 504             | \$ 988,292   |
| Additions                   | 1,223,137          | 118,000              | 2,035    | 8,400                  | 2,020              | 1,353,592    |
| Balance, September 30, 2022 | \$ 1,528,083       | \$ 767,000           | \$ 4,417 | \$ 39,860              | \$ 2,524           | \$ 2,341,884 |
| Additions                   | 609,891            | 59,000               | 1,315    | 2,140                  | 1,010              | 673,356      |
| Balance, March 31, 2023     | \$ 2,137,974       | \$ 826,000           | \$ 5,732 | \$ 42,000              | \$ 3,534           | \$ 3,015,240 |

| Net book value              | Technology License | Purchased Technology | Patents   | Customer Relationships | Proprietary Design | Total        |
|-----------------------------|--------------------|----------------------|-----------|------------------------|--------------------|--------------|
| Balance, September 30, 2022 | \$ 2,823,971       | \$ 413,000           | \$ 17,778 | \$ 2,140               | \$ 17,673          | \$ 3,274,562 |
| Balance, March 31, 2023     | \$ 2,214,080       | \$ 354,000           | \$ 24,683 | \$ -                   | \$ 16,663          | \$ 2,609,426 |

During the year ended September 30, 2021, the Company signed an exclusive technology licensing agreement ("the Agreement") with Actinon PTE LTD, the parent company of CHAR's principal kiln technology supplier, Anergy Pte Ltd. ("Anergy"). CHAR has the technology rights to all the equipment intellectual property, including patents and designs, which will allow the Company to more efficiently lead the engineering, procurement and manufacturing of the entire HTP system. The effective date of the Agreement is July 1, 2021, and is effective for 3 years. Pursuant to the exclusive license agreement, the Company was obligated to make minimum advance royalty payments of US\$3,000,000, over the first 3 years.

The minimum royalty payment required is US\$500,000 in year 1, US\$1,000,000 in year 2 and US\$1,500,000 in year 3. The payments for the first three years of the Agreement are to be paid as follows: US\$750,000 in 2021 and US\$2,250,000 paid in 2022. The Company paid Actinon US\$750,000 during the year end September 30, 2021, and USD\$1,253,502 during the year ended September 30, 2022. The Agreement also includes 800 engineering hours of support to be provided by Anergy related to knowledge transfer and training. The fair value of the engineering hours was determined to be \$152,892 and was recorded as a prepaid expense and the remaining amount of \$3,669,408 royalty payments was recorded as an intangible asset in the consolidated statements of financial position as at September 30, 2021. During the year ended September 30, 2022, the Company extended the royalty agreement for an additional year for USD 500,000 which has been accrued in the consolidated financial statements. The Company has accrued liabilities \$2,046,685 related to the Agreement as at March 31, 2023 (note 8), for royalties payable.

# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements Three and Six Months Ended March 31, 2023 (Expressed in Canadian Dollars) (Unaudited)

### 7. Intangible assets and Goodwill (continued)

On January 1, 2018, the Company acquired all outstanding shares of the Altech Group ("Altech"). The acquisition was accounting as business combination and a goodwill of \$1,122,619 was recorded during the year ended September 30, 2018.

During 2022 and 2021, the Company tested the Company's Cash-Generating Unit ("CGU") related to the goodwill above for impairment and estimated the recoverable amount of the Altech CGU. The recoverable amount was estimated based on its value in use, which was determined using a pre-tax discount rate of 15% a growth rate of 5.3% for 2022, 20.1% for 2023, 21% for 2024, 5% for 2025 and 5% thereafter. The recoverable value of the CGU was estimated to be lower than its carrying value resulting in an impairment for the year ended September 30, 2021 of \$264,390. The carrying value of the goodwill as at March 31, 2023 is \$652,916 (2022: \$652,916).

### 8. Accounts payable and accrued liabilities

|                                                       | March 31,<br>2023   | September 30,<br>2022 |
|-------------------------------------------------------|---------------------|-----------------------|
| Trade accounts payable (note 15)                      | \$ 3,715,909        | \$ 807,607            |
| Royalties payable (note 7)                            | 2,046,685           | 2,047,524             |
| Accrued liabilities                                   | 118,412             | 237,804               |
| <b>Total accounts payable and accrued liabilities</b> | <b>\$ 5,881,006</b> | <b>\$ 3,092,935</b>   |

### 9. 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 March 31, 2023:

|                                       |                 |
|---------------------------------------|-----------------|
| <b>Balance, September 30, 2022</b>    | <b>5,818</b>    |
| Repayments                            | (1,680)         |
| <b>Balance, March 31, 2023</b>        | <b>\$ 4,138</b> |
| Current portion at March 31, 2023     | \$ 1,681        |
| Non-current portion at March 31, 2023 | \$ 2,457        |

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, 2023, 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.

During the year ended September 30, 2021, the Company obtained two additional CEBA loans from TD Bank, for \$20,000 each ("the CEBA loans"). The terms of the loan are as follows: principal \$20,000, interest rate: 0% per annum during Initial Term and 5% during Extended Term, Initial Term date: December 31, 2023, Extended Term date: December 31, 2025, First Interest Payment date: January 31, 2023.

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

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## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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### 9. Loans Payable (continued)

|                                       |    |         |
|---------------------------------------|----|---------|
| Balance, September 30, 2022           | \$ | 207,326 |
| Accretion                             |    | 4,334   |
| Repayments                            |    | (7,416) |
| Balance, March 31, 2023               | \$ | 204,244 |
| <br>                                  |    |         |
| Current portion at March 31, 2023     | \$ | -       |
| Non-current portion at March 31, 2023 | \$ | 204,243 |

### Debentures

During the year ended September 30, 2022, the Company obtained a non-convertible unsecured financing among the Company and two non-arm's-length lenders, in the form of term promissory notes, whereby the Company received \$375,000 principal amount (note 15). Additionally, the Company obtained from arm's length parties an aggregate amount of \$250,000. The loans bear interest at 1% per month and matures in five months from issuance. The table below is a summary of the loans:

|                                                 | Original<br>Amount | Balance,<br>March 31, 2023 |
|-------------------------------------------------|--------------------|----------------------------|
| Covista Value Fund LP                           | \$ 125,000         | -                          |
| Debric Holdings Inc. (note 15)                  | 250,000            | -                          |
| James Joseph Sbrolla (note 15)                  | 125,000            | -                          |
| Dimitris Stubos (former officer of the Company) | 125,000            | -                          |
|                                                 | \$ 625,000         | -                          |

During the quarter ended March 31, 2023, the Company obtained a non-convertible unsecured financing among the Company and two non-arm's-length lenders, in the form of term promissory notes, whereby the Company received \$93,500 principal amount (note 15). The loans bear interest at 1% per month and matures in five months from issuance. The table below is a summary of the loans:

|                                                 | Balance,<br>March 31, 2023 |
|-------------------------------------------------|----------------------------|
| Covista Value Fund LP                           | \$ 60,000                  |
| Debric Holdings Inc. (note 15)                  | 13,500                     |
| Dimitris Stubos (former officer of the Company) | 20,000                     |
|                                                 | \$ 93,500                  |

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## CHAR Technologies Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended March 31, 2023

(Expressed in Canadian Dollars) (Unaudited)

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#### 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 \$137,159 and lease liability of \$89,160 (office space) and right-of-use asset of \$65,104 and lease liability of \$65,104 (vehicles) (note 6). 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 Company entered into a lease effective July 1, 2022 or when the facility could be occupied for its 17,000 square foot production facility in Thorold, Ontario. The term of the lease is five years with two additional options to renew of 5 years each. The annual basic rent for the first year is \$153,000 for the building and \$50.094 for the land area. The lease liabilities reflect the present value of the lease payments.

The table below is a summary of the continuity of the lease liabilities as of March 31, 2023:

|                                          |           | Office space<br>and land |
|------------------------------------------|-----------|--------------------------|
| <b>Balance, September 30, 2022</b>       | <b>\$</b> | <b>27,752</b>            |
| Additions                                |           | 1,273,483                |
| Accretion                                |           | 49,952                   |
| Lease payments                           |           | (56,375)                 |
| <b>Balance, March 31, 2023</b>           | <b>\$</b> | <b>1,294,812</b>         |
|                                          |           | <b>Vehicles</b>          |
| <b>Balance, September 30, 2022</b>       | <b>\$</b> | <b>21,007</b>            |
| Accretion                                |           | 905                      |
| Lease payments                           |           | (8,963)                  |
| <b>Balance, March 31, 2023</b>           | <b>\$</b> | <b>12,949</b>            |
| Current portion as at March 31, 2023     | <b>\$</b> | 50,586                   |
| Non-current portion as at March 31, 2023 | <b>\$</b> | 1,257,174                |

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# CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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## 11. Share capital

### (a) Authorized share capital

Unlimited number of common shares, with no par value.

### (b) Issued common shares

|                                                      | Number of Shares  | Amount               |
|------------------------------------------------------|-------------------|----------------------|
| <b>Balance, September 30, 2021</b>                   | <b>71,505,751</b> | <b>\$ 11,704,439</b> |
| Common shares issued for cash (i)                    | 10,877,514        | \$ 4,894,881         |
| Unit Warrants (i)                                    | -                 | (1,082,896)          |
| Share issuance costs- cash                           | -                 | (302,892)            |
| Fair value assigned to broker warrants (ii)          | -                 | (90,883)             |
| Shares issued on exercise of stock options (note 13) | 556,000           | 99,920               |
| Share issued on exercise of unit warrants            | 63,900            | 25,560               |
| Fair value of unit warrants exercised                | -                 | 7,029                |
| <b>Balance, September 30, 2022</b>                   | <b>83,003,165</b> | <b>\$ 15,255,158</b> |
| Shares issued on exercise of stock options (note 13) | 600,000           | 132,000              |
| Share issued on exercise of unit warrants            | 3,518,272         | 1,407,864            |
| Fair value of unit warrants exercised                | -                 | 386,843              |
| Share issued on exercise of broker warrants          | 914,967           | 297,364              |
| Fair value on exercise of broker warrants            | -                 | 192,143              |
| <b>Balance, March 31, 2023</b>                       | <b>88,036,404</b> | <b>\$ 17,671,372</b> |

(i) In March 2022, the Company completed a non-brokered private placement whereby the Company issued 10,877,514 units at a price of \$0.45 per unit for gross proceeds of \$4,894,881. Each unit is comprised of one common share and one half of a warrant exercisable at \$0.60 within 18 months. The Company has allocated \$3,811,985 to common stock and \$1,082,896 to the value of the warrants issued using the Black Scholes model.

(ii) In March 2022, with respect to the Company's unit financing, 355,472 broker warrants were issued for a 18 months term at a strike price of \$0.60. The fair value of the broker warrants of \$90,883 was determined using the Black Scholes model.

# CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
Three and Six Months Ended March 31, 2023  
(Expressed in Canadian Dollars) (Unaudited)

## 11. Share capital (continued)

The following table reflects the continuity of unit warrants for the periods presented:

|                                    | Number of<br>Unit Warrants | Exercise price |
|------------------------------------|----------------------------|----------------|
| <b>Balance, September 30, 2021</b> | <b>9,027,869</b>           | <b>\$ 0.40</b> |
| Warrants from Units                | 5,438,747                  | 0.60           |
| Unit warrants exercised            | (63,900)                   | 0.40           |
| <b>Balance September 30, 2022</b>  | <b>14,402,716</b>          | <b>\$ 0.47</b> |
| Unit warrants exercised            | (3,515,494)                | 0.40           |
| Unit warrants exercised            | (2,778)                    | 0.60           |
| <b>Balance March 31, 2023</b>      | <b>10,884,444</b>          | <b>\$ 0.50</b> |

The average share price of the Company stock on the dates of exercise of the warrants was \$0.79 (2022: \$0.65)

|                                    | Number of<br>Broker Warrants | Exercise price |
|------------------------------------|------------------------------|----------------|
| <b>Balance, September 30, 2021</b> | <b>914,967</b>               | <b>\$ 0.33</b> |
| Broker warrants issued             | 355,472                      | 0.60           |
| <b>Balance September 30, 2022</b>  | <b>1,270,439</b>             | <b>\$ 0.47</b> |
| Broker warrants exercised          | (914,967)                    | 0.325          |
| <b>Balance March 31, 2023</b>      | <b>355,472</b>               | <b>\$ 0.60</b> |

## 12. Net loss per common share

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

|                                          | Three Months Ended<br>March 31, |                  |
|------------------------------------------|---------------------------------|------------------|
|                                          | 2023                            | 2022             |
| <b>Numerator</b>                         |                                 |                  |
| Net loss                                 | \$ (2,182,166)                  | \$ (1,830,270)   |
| <b>Denominator</b>                       |                                 |                  |
| Weighted average number of common shares |                                 |                  |
| -basic                                   | 88,036,404                      | 83,003,165       |
| -diluted                                 | 106,986,380                     | 98,698,341       |
| <b>Net loss per share - basic</b>        | <b>\$ (0.02)</b>                | <b>\$ (0.02)</b> |

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## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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### 13. Stock options, restricted share units, and share appreciation rights

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

|                                    | Number of<br>Stock Options | Weighted Average<br>Exercise Price (\$) |
|------------------------------------|----------------------------|-----------------------------------------|
| <b>Balance, September 30, 2021</b> | <b>4,773,125</b>           | <b>0.25</b>                             |
| Granted (i)                        | 1,669,075                  | 0.45                                    |
| Exercised                          | (51,000)                   | 0.22                                    |
| Exercised                          | (505,000)                  | 0.18                                    |
| Expired                            | (240,000)                  | 0.18                                    |
| <b>Balance, September 30, 2022</b> | <b>5,646,200</b>           | <b>0.25</b>                             |
| Granted (ii)                       | 3,031,391                  | 0.41                                    |
| Exercised                          | (600,000)                  | 0.22                                    |
| Expired                            | (20,000)                   | 0.22                                    |
| <b>Balance, March 31, 2023</b>     | <b>8,057,591</b>           | <b>0.30</b>                             |

(i) On March 17, 2022, the Company granted 1,669,075 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 \$0.45 per share. These stock options vest as follows: 1,094,075 stock options immediately, 25,000 stock options over six months 550,000 stock options over one year.

(ii) On November 15, 2022, the Company granted 40,000 stock options to a consultant of the Company. The stock options may be exercised for a period of five years at a price of \$0.36 per share. These stock options vest immediately.

On February 6, 2023, the Company granted 1,991,391 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 \$0.4125 per share. These stock options vest as follows: 972,641 stock options immediately, 93,750 on quarterly milestones, 775,000 on year-end milestones and 150,000 on performance milestones.

On February 22, 2023, the Company granted 1,000,000 stock options to a consultant of the Company. The stock options may be exercised for a period of five years at a price of \$0.66 per share. These stock options vest immediately.

## CHAR Technologies Ltd.

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### 13. Stock options, restricted share units, and share appreciation rights (continued)

The following table reflects the actual stock options issued and outstanding as of March 31, 2023:

| Expiry Date       | Exercise Price (\$) | Weighted Average Remaining Contractual Life (years) | Number of Options Outstanding | Number of Options Vested (exercisable) | Number of Options Unvested |
|-------------------|---------------------|-----------------------------------------------------|-------------------------------|----------------------------------------|----------------------------|
| January 28, 2024  | 0.20                | 0.83                                                | 513,000                       | 513,000                                | -                          |
| August 16, 2024   | 0.16                | 1.38                                                | 78,125                        | 78,125                                 | -                          |
| January 30, 2025  | 0.115               | 1.84                                                | 858,000                       | 858,000                                | -                          |
| February 27, 2025 | 0.150               | 1.92                                                | 100,000                       | 100,000                                | -                          |
| April 1, 2025     | 0.075               | 2.01                                                | 160,000                       | 160,000                                | -                          |
| January 29, 2026  | 0.49                | 2.84                                                | 1,328,000                     | 1,328,000                              | -                          |
| March 31, 2026    | 0.72                | 3.00                                                | 150,000                       | 150,000                                | -                          |
| April 5, 2026     | 0.72                | 3.02                                                | 95,000                        | 95,000                                 | -                          |
| July 21, 2026     | 0.52                | 3.31                                                | 75,000                        | 75,000                                 | -                          |
| March 17, 2027    | 0.45                | 3.96                                                | 1,669,075                     | 1,094,075                              | 575,000                    |
| November 15, 2027 | 0.36                | 4.63                                                | 40,000                        | 40,000                                 | -                          |
| February 6, 2028  | 0.4125              | 4.86                                                | 1,991,391                     | 972,641                                | 1,018,750                  |
| February 22, 2028 | 0.66                | 4.90                                                | 1,000,000                     | 1,000,000                              | -                          |
|                   | 0.20                | 2.93                                                | 8,057,591                     | 6,463,841                              | 1,593,750                  |

#### **Restricted Share Units ("RSUs")**

On August 31, 2021, the Company granted 1,039,459 RSUs to officers and employees of the Company. The RSUs may be exercised for a period of five years. 61,000 RSUs vested immediately, 480,000 RSU are vesting on tranches of 3 tranches of 160,000 on December 31, 2021, 2022 and 2023 and 498,459 RSU are vesting 83,076 on September 31, 2021, and the on 10 tranches of 41,538 each vesting on quarterly basis.

On March 17, 2022, the Company granted 160,416 RSUs to employees and consultants of the Company that vested immediately.

On May 26, 2022, the Company granted 12,500 RSUs to an employee of the Company that vested immediately.

On November 15, 2022, the Company granted 40,000 RSUs to an employee of the Company that vested immediately.

On February 6, 2023, the Company granted 712,114 RSUs to employees and consultants of the Company that vest in one year.

#### **Share Appreciation Rights ("SARs")**

On August 31, 2021, the Company granted 480,000 SARs to an officer of the Company. The SARs may be exercised for a period of five years at a strike price of \$0.72 per share. The SARs are vested as follows: 160,000 immediately, 160,000 on August 31, 2022, and 160,000 on August 31, 2023.

#### **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.

# CHAR Technologies Ltd.

## Notes to the Condensed Interim Consolidated Financial Statements Three and Six Months Ended March 31, 2023 (Expressed in Canadian Dollars) (Unaudited)

### 14. Asset retirement obligation

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

|                            | March 31,<br>2023 | September 30,<br>2022 |
|----------------------------|-------------------|-----------------------|
| Balance, beginning         | \$ 60,414         | \$ 60,414             |
| Accretion                  | -                 | -                     |
| Dismantling costs payments | (60,414)          | -                     |
| <b>Balance, ending</b>     | <b>\$ -</b>       | <b>\$ 60,414</b>      |

The Company's asset retirement obligation consists of costs associated with SulfaCHAR 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 has dismantled and removed 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 lease expired in December 2020 and the Company continued on a month-to-month lease until the 2022 fiscal year end. In the quarter ended December 31, 2022, the Company moved its production to another location.

### 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:

| Fees for services charged by the related parties<br>are as follow: | Six Months Ended<br>March 31,<br>2023 | 2022      |
|--------------------------------------------------------------------|---------------------------------------|-----------|
| DSA Corporate Services ("DSA") (i) – corporate services            | \$ 5,808                              | \$ 5,576  |
| 1456087 Ontario Inc. ("1456087") (ii) - consulting                 | \$ 66,000                             | \$ 60,000 |
| Mark Korol, CFO (iii) – management fees                            | \$ 79,200                             | \$ 72,000 |
| Brian Bobbie (iv)                                                  | \$ -                                  | \$ 24,000 |

(i) DSA is affiliated with MSSl through a common officer. DSA provides corporate secretarial services. As at March 31, 2023, DSA was owed \$956 (September 30, 2022 - \$847). These amounts are included in accounts payable and accrued liabilities (note 8).

(ii) 1456087 is a company controlled by James Sbrolla, a director of the Company. 1456087 provides consulting services to the Company. As at March 31, 2023, 1456087 was owed \$nil (September 30, 2022 - \$nil).

(iii) Mark Korol was appointed Chief Financial Officer as of April 1, 2020. As at March 31, 2023, Mark Korol was owed \$nil (September 30, 2022 - \$nil). The fees charged during the year are for management fees.

(iv) Brian Bobbie is the former Chief Operating Officer of the Company. As at March 31, 2023, Brian Bobbie was owed \$nil.

At March 31, 2023, accounts payable balance due to related parties consist of \$145,000 (September 30, 2022: \$77,500) owed to directors and officers of the Company. These amounts are unsecured, non-interest bearing and due on demand (note 8).

As at March 31, 2023, included in receivables is an amount of \$350,314 (September 30, 2022: \$326,559) related to loans extended to officers of the Company (note 3).

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## CHAR Technologies Ltd.

Notes to the Condensed Interim Consolidated Financial Statements  
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### 15. Related party balances and transactions (continued)

Remuneration of key management of the Company was as follows:

|          | Six Months Ended<br>March 31, |           |
|----------|-------------------------------|-----------|
|          | 2023                          | 2022      |
| Salaries | \$ 214,580                    | \$ 77,500 |

During the quarter ended March 31, 2023, the Company recognized \$862,325 (September 30, 2022: \$1,087,037) of share-based compensation related to options and RSUs granted to officers and directors (note 13).

The Company Board of Directors compensation during the quarter ended March 31, 2023 was as follows:

|                 | Six Months Ended<br>March 31, |           |
|-----------------|-------------------------------|-----------|
|                 | 2023                          | 2022      |
| William White   | \$ 11,250                     | \$ 11,250 |
| James Sbrolla   | 10,000                        | 10,000    |
| Eric Beutel     | 11,250                        | 11,250    |
| Benj Gallander  | 10,000                        | 10,000    |
| Jane Pagel      | 10,000                        | 10,000    |
| Nikita Nanos    | 10,000                        | 10,000    |
| Paul Pellegrini | 10,000                        | 10,000    |
| Hugh Cleland    | 10,000                        | 9,500     |

The Company has a loan balance of \$93,500 due to a director of the Company and a company controlled by a director (note 9).

### 16. Commitments

The Company has committed to build a system under a build, own, operate, and transfer model for the SLO anerobic digestate facility in California (note 5). The Company subcontracted Anergy for the construction of the system. CHAR had paid \$1,919,164 during the year ended September 30, 2022.

The Company has commitments to build, own and operate a plant in Thorold, Ontario (note 5). The Thorold project has commitments for government support of \$12,137,827 (note 18), as at January 30, 2023.

The Thorold facility and the SLO system in aggregate are projected to cost between \$33,000,000 to \$38,000,000.

### 17. Subsidies received

In response to the 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 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 could receive up to 75% of their employees' wages.

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## **CHAR Technologies Ltd.**

### **Notes to the Condensed Interim Consolidated Financial Statements**

**Three and Six Months Ended March 31, 2023**

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#### **17. Subsidies received (continued)**

In the Consolidated Statements of Loss and Comprehensive Loss, the Wage Subsidy has been netted against employee salaries (under office expenses). The total Wage Subsidy amount received to date by the Company is \$580,555 (2021: \$580,555) in CEWS and \$9,751 (2021: \$9,751) in TWS (note 3).

The Canada Emergency Rent Subsidy (CERS) was announced in September 2020. Under this program, qualifying employers whose business has been adversely affected by COVID-19 can receive a subsidy to cover part of their commercial rent or property expenses. This subsidy provides payments directly to qualifying renters and property owners, without requiring the participation of landlords. The base subsidy rate applies to a maximum of \$75,000 in eligible expenses per location and an overall maximum of \$300,000 in expenses per claim period.

In the Consolidated Statements of Loss and Comprehensive Loss, the Rent Subsidy has been netted against rent expenses (under office expenses) related to the Company short term lease that has not been capitalized under IFRS16. The total Canada Emergency Rent Subsidy (CERS) amount received by the Company is \$90,665 (2021: \$90,665).

#### **18. Subsequent Events**

Subsequent to March 31, 2023, the Company has received additional grant funds under the IFIT program of \$2,189,756 for the Thorold project (note 5).