

Introduction

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operation of CHAR Technologies Ltd. (formerly Cleantech Capital Inc.) (the "Company" or "CHAR") should be read in conjunction with CHAR's audited consolidated financial statements and notes thereto as at and for the year ended September 30, 2016 and 2015.

The Company's consolidated financial statements and the financial information contained in this MD&A are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee. Results are reported in Canadian dollars, unless otherwise noted.

Information contained herein is presented as of January 20, 2017, unless otherwise indicated.

For the purposes of preparing this MD&A, management, in conjunction with the Board of Directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Further information about the Company and its operations can be obtained from the offices of the Company or on SEDAR at www.sedar.com.

Caution Note Regarding Forward-Looking Statements

Certain statements contained in this MD&A and in certain documents incorporated by reference in this MD&A, contain "forward-looking information" for the purposes of applicable Canadian securities laws (the "forward-looking statements"). All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements, including those risk factors identified below in the section "Risk Factors". The forward-looking statements in this MD&A speak only as of the date of this MD&A unless an alternative date is specified in such statement. Certain forward-looking statements contained in this MD&A relate to the Company's ability to continue its business activities and to execute on its business plan as currently anticipated. These forward look-statements as well as the other forward-looking statements contained herein, are based upon certain material assumptions, including the Company's expectation that its costs will remain consistent with the costs currently anticipated and that financing through equity raises, debt financing or a combination thereof will continue to be available to the Company and on terms anticipated and reasonably acceptable to the Company. The risk factors identified in the "Risk Factors" section below may cause such assumptions and/or the forward-looking statements to be untrue.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company's ability to predict or control. Please see the "Risk Factors" section included in this MD&A. Readers are cautioned that actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A.

The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Description of Business

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

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

CHAR is a technology company that specializes in commercializing the production of an activated charcoal like material (SulfaCHAR), which can be used to remove hydrogen sulfide from various gas streams (focusing on methane-rich and odourous air).

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

Operations

CHAR has focused on developing and commercializing CHAR's principal product, SulfaCHAR. The Company has received the first tranche of funding from the SD Natural Gas Fund (supported by Sustainable Development Technology Canada and the Canadian Gas Association) to execute on a project to build a 1-tonne per day SulfaCHAR production system, which will allow the company to produce commercial quantities of SulfaCHAR to begin product delivery in early 2017. The SD Natural Gas Fund is providing a \$750,000 non-repayable grant toward the project.

Corporate

Amalgamation

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

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

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For accounting purposes, the Company is considered the accounting acquirer and Original CHAR is considered the acquired company in accordance with *IFRS 3 Business Combinations*. Accordingly, the acquisition of Original CHAR is accounted at the fair value of the equity instruments issued to the shareholders of Original CHAR. The excess of consideration over the net assets acquired has been recorded as goodwill. Goodwill represents cost savings and other benefits expected to result from combining the operations of Original CHAR with those of the Company and intangible assets that do not qualify for separate recognition.

The fair value of the consideration is as follows:

Issuance of 15,499,995 CHAR shares	\$2,337,327
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The consideration has been allocated as follows:

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

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

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

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

Risk free rate: 0.54%
Expected life: 2 years;
Expected volatility: 100% based on historical trends; and
Weighted average share price: \$0.1725.

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The Company completed a goodwill impairment test as at September 30, 2016 using the fair value less costs to sell. The following are the key assumptions upon which management based its determination of the recoverable amount of the cash generating unit.

Cash flow projections have been discounted using a discount rate derived from the Company's pre-tax weighted average cost of capital adjusted for specific risks relating to the cash generating unit. At September 30, 2016, the pre-tax discount rate used in the discounted cash flow analysis was 49.0%. The cash flow forecasts were extrapolated beyond the nine year projection period using an estimated long term growth rate of 3.0%.

As at September 30, 2016, a 1% increase in the pre-tax discount rate results in a decline in the recoverable amount of the cash generating unit of approximately \$109,000. A 3% increase in the pre-tax discount results in an impairment in the amount \$97,000 of the cash generating unit.

Release from Escrow

On April 26, 2016 and October 7, 2016, the following common shares were release from escrow:

	<u>April 26, 2016 release</u>	<u>October 7, 2016 release</u>
CPC Escrow Agreement	602,500	903,750
Qualifying Transaction Escrow Agreement	436,934	436,934
Value Escrow Agreement	422,222	633,333
Total	1,461,656	1,974,017

Appointment of Officer

On June 21, 2016, the Company announced the appointment of Cindy Davis as Chief Financial Officer ("CFO") of the Company effective June 8, 2016. Ms Davis replaces Eric Beutel who has resigned as interim CFO. Mr. Beutel will continue in his role as a director of the Company.

Grant of stock options

On August 25, 2016, the Company granted stock options to two officers and a consultant of the Company to acquire an aggregate of 660,000 common shares. The stock options may be exercised for a period of five years at a price of \$0.1725 per share. The 200,000 stock options vested on the date of grant and the remaining 400,000 will be vest in 100,000 increments every six months, beginning March 31, 2017.

Signing of Memorandum of Understanding

On September 7, 2016, the Company announced the signing of a Memorandum of Understanding (the "MOU") with Sulfatech Chile SpA ("Sulfatech") pursuant to which the Company and Sulfatech have agreed to establish a joint venture in Chile pursuant to which Sulfatech will produce "SulfaCHAR", the Company's principal product, under license from the Company, and will engage in the sales and distribution of SulfaCHAR to the Chilean market.

Trends

Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in both short-term operating and longer-term strategic decisions. During the quarter, equity markets in Canada showed signs of improvement, with equities increasing significantly during this period. Strong equity markets are favourable conditions for completing a public merger or financing. Apart from these and the risk factors noted under the heading "Risk Factors", management is not aware of any other trends, commitments, events or uncertainties that would have a material effect on the Company's business, financial condition or results of operations. See "Risk Factors" below.

Selected Annual Financial Information

	Year ended September 30, 2016 (\$)	Year ended September 30, 2015 (\$)	Period from October 3, 2013 to September 30, 2014 (\$)
Revenue	223,443	nil	nil
Net loss	(336,626)	(58,939)	(171,833)
Net loss per share – basic and diluted	(0.01)	(0.01)	(0.03)
	As at September 30, 2016 (\$)	As at September 30, 2015 (\$)	As at September 30, 2014 (\$)
Total assets	3,672,207	929,131	984,475
Total long-term liabilities	27,145	nil	nil

Summary of Quarterly Result

Period	Revenue (\$)	Profit or (Loss)		Total assets (\$)
		Total (\$)	Basic and diluted loss per share ⁽⁹⁾⁽¹⁰⁾ (\$)	
September 30, 2016	46,967	(205,191) ⁽¹⁾	(0.01)	3,672,207
June 30, 2016	218,442	(101,680) ⁽²⁾	(0.00)	4,113,750
March 31, 2016	Nil	19,071 ⁽³⁾	0.00	4,096,187
December 31, 2015	Nil	(48,826) ⁽⁴⁾	(0.01)	923,782
September 30, 2015	Nil	(18,581) ⁽⁵⁾	(0.00)	929,131
June 30, 2015	Nil	(11,057) ⁽⁶⁾	(0.00)	933,635
March 31, 2015	Nil	(24,377) ⁽⁷⁾	(0.00)	954,934
December 31, 2014	Nil	(4,924) ⁽⁸⁾	(0.00)	980,655

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- (1) Net loss of \$205,191 consisted of \$83,632 of research and development, \$231,712 of professional fees, \$40,581 of share-based payments, \$37,027 of office expenses, \$1,164 of regulatory and filing fees, \$59,000 of amortization and \$1,933 of depreciation offset by gross profit of \$40,141, grant income of \$31,697 and deferred tax recovery of \$178,020
- (2) Net loss of \$101,680 consisted of gross profit of \$30,960 offset by \$55,309 of research and development, \$38,897 of professional fees, \$7,269 of regulatory and filing fees, \$25,345 of office expenses and \$5,820 of depreciation.
- (3) Net income of \$19,071 consisted of a recovery of \$31,395 of professional fees, \$10,493 of regulatory and filing fees and \$1,831 of office expenses.
- (4) Net loss of \$48,826 consisted of \$37,149 of professional fees, \$9,708 of regulatory and filing fees and \$1,969 of office expenses.
- (5) Net loss of \$18,581 consisted of \$10,388 of professional fees, \$2,187 of regulatory and filing fees and \$6,006 of office expenses.
- (6) Net loss of \$11,057 consisted of \$3,505 of professional fees, \$3,484 of regulatory and filing fees and \$4,068 of office expenses.
- (7) Net loss of \$24,377 consisted of \$6,820 of professional fees, \$9,310 of regulatory and filing fees and \$8,247 of office expenses.
- (8) Net loss of \$4,924 consisted of \$2,000 of professional fees, \$780 of regulatory and filing fees and \$2,144 of office expenses.
- (9) Per share amounts are rounded to the nearest cent, therefore aggregating quarterly amounts may not reconcile to year-to-date per share amounts.
- (10) As the Company has reported a net loss, it has not calculated the diluted loss per common share as its effect would be anti-dilutive.

Discussion of Operations

Year ended September 30, 2016 compared with the year ended September 30, 2015

The Company's net loss totaled \$336,626 for the year ended September 30, 2016, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$58,939 with basic and diluted loss per share of \$0.01 for the year ended September 30, 2015. The increase in net loss of \$277,687 was principally because:

- During the year ended September 30, 2016, the Company recorded gross profit of \$71,101 from the delivery and installation of a SulfaCHAR utilization system under a contract with Build in Canada Innovation Procurement.
- Research and development increased by \$138,941 for the year ended September 30, 2016 compared to the year ended September 30, 2015. The increase is attributable to the Company actively advancing its research and development since the Amalgamation.
- Professional fees increased by \$253,650 for the year ended September 30, 2016, compared to the year ended September 30, 2015. The increase is attributable to approximately \$186,000 of costs associated with the Qualifying Transaction as well as increased corporate activity requiring external professional support.
- During the year ended September 30, 2016, the Company recorded amortization of intangible assets of \$59,000. This intangible asset was acquired from the Amalgamation and is being amortized over its estimated useful life.
- Depreciation increased by \$7,753 for the year ended September 30, 2016 compared to the year ended September 30, 2015. The increase is attributable to depreciated recorded on the property and equipment acquired on Amalgamation.
- During the year ended September 30, 2016, share-based payments amounted to \$40,581 compared to \$nil for the year ended September 30, 2015. During the current period, there were 660,000 stock options granted compared to no options granted in the prior period.

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- The Company's acquisition of Original CHAR resulted in a deferred tax liability of \$222,598. As a result of this deferred tax liability, the Company has recognized its pre-acquisition deferred tax asset and the current period loss for tax purposes, as it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Recognition of the deferred tax asset resulted in a deferred tax recovery of \$178,020.
- All other expenses related to general working capital.

Three months ended September 30, 2016 compared with the three months ended September 30, 2015

The Company's net loss totaled \$205,191 for the three months ended September 30, 2016, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$18,581 with basic and diluted loss per share of \$0.00 for the three months ended September 30, 2015. The increase in net loss of \$186,610 was principally because:

- During the three months ended September 30, 2016, the Company recorded gross profit of \$40,141 from the delivery and installation of a SulfaCHAR utilization system under a contract with Build in Canada Innovation Procurement.
- Research and development increased by \$83,632 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase is attributable to the Company actively advancing its research and development since the Amalgamation.
- Professional fees increased by \$221,324 for the three months ended September 30, 2016, compared to the three months ended September 30, 2015. The increase is attributable to approximately \$186,000 of costs associated with the Qualifying Transaction as well as increased corporate activity requiring external professional support.
- During the three months ended September 30, 2016, the Company recorded amortization of intangible assets of \$59,000. This intangible asset was acquired from the Amalgamation and is being amortized over its estimated useful life.
- Depreciation increased by \$1,933 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase is attributable to depreciated recorded on the property and equipment acquired on Amalgamation.
- During the three months ended September 30, 2016, share-based payments amounted to \$40,581 compared to \$nil for the three months ended September 30, 2015. During the current period, there were 660,000 stock options granted compared to no options granted in the prior period.
- The Company's acquisition of Original CHAR resulted in a deferred tax liability of \$222,598. As a result of this deferred tax liability, the Company has recognized its pre-acquisition deferred tax asset and the current period loss for tax purposes, as it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Recognition of the deferred tax asset resulted in a deferred tax recovery of \$178,020.
- All other expenses related to general working capital.

Cash Flow

At September 30, 2016, the Company had cash of \$1,283,813 compared to \$929,131 at September 30, 2015. The increase in cash and cash equivalents of \$354,682 from the September 30, 2015 was as a result of cash outflow from operating activities of \$642,309. Operating activities were affected by net change in non-cash working capital balances of \$234,997 because of an increase in amounts receivable of \$90,419, an increase in prepaid expenses of \$177,001, and increase in due to related parties of \$15,000 and an increase in accounts payable and accrued liabilities of \$47,423. Financing activities generated cash inflow of \$505,707 through the issue of common shares, net of costs, in the amount of \$541,807 offset by the repayment of \$36,100 of long-term loans payable. The Company acquired cash on Amalgamation of \$492,085 as well as spent \$801 for the purchase of property and equipment.

Liquidity and Financial Position

The Company's total assets at September 30, 2016 were \$3,672,207 (September 30, 2015 - \$929,131) against total liabilities of \$165,643 (September 30, 2015 - \$23,089). The increase in total assets of \$2,743,076 resulted from assets acquired from the Amalgamation. The Company has sufficient current assets to pay its existing current liabilities of \$138,498 at September 30, 2016.

The activities of the Company have been financed by private placements of securities, the exercise of warrants and its initial public offering.

The SD Natural Gas Fund project includes a \$750,000 non-repayable grant. The project builds on the previous research and development work conducted by CHAR. The project is split into 3 milestones. The first milestone, which is the design and fabrication of a 1-tonne per day SulfaCHAR production system is budgeted to require capital expenditures by CHAR of \$580,000 (\$169,000 spent). The second milestone, which is the commissioning and initial operation of the 1-tonne per day SulfaCHAR production unit is budgeted to require capital expenditures by CHAR of \$310,000. The third and final milestone, which is testing of the used SulfaCHAR for gas cleaning and agricultural applications, is budgeted to require capital expenditures by CHAR of \$175,000. The completion of phases 1 and 2 of this project will allow the Company to produce commercial quantities of SulfaCHAR, and is an important next step in the commercialization of SulfaCHAR.

For fiscal 2017, the Company's corporate head office costs are estimated to average approximately \$90,000 per quarter. Head office costs include professional fees, reporting issuer costs, business development costs and general and administrative costs.

The Company's cash at September 30, 2016 will be sufficient to fund its remaining development budget of \$896,000 and the operating expenses of \$360,000 for fiscal 2017. The Company will have to raise additional equity capital in amounts sufficient to continue to fund both development work and working capital requirements past its fiscal 2017. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or under terms favourable to the Company. See "Risk Factors" below and "Caution Note Regarding Forward-Looking Statements" above.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of CHAR.

Proposed Transactions

There were no proposed transactions as of the date of this MD&A.

Transactions with Related Parties

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

	Year ended September 30, 2016	Year ended September 30, 2015
Boyle & Co. LLP ("B & Co.")(i)	\$117,790	\$6,005
Marrelli Support Services Inc. ("MSSI")(ii)	\$7,681	\$nil
DSA Corporate Services ("DSA")(iii)	\$3,470	\$nil
1456087 Ontario Inc. ("1456087")(iv)	\$25,000	\$nil

(i) A former officer and director of the Company is a partner of B & Co. The transactions are for legal services provided by B & Co. to the Company. For the year ended September 30, 2016, the legal fees were allocated to share capital as cost associated with the Qualifying Transaction. As at September 30, 2016, B & Co. was owed \$nil (September 30, 2015 - \$10,166). These amounts are included in accounts payable and accrued liabilities.

(ii) On June 8, 2016, the Company retained Mrs. Cindy Davis, a senior employee of MSSI, as its Chief Financial Officer. As at September 30, 2016, MSSI was owed \$nil (September 30, 2015 - \$nil). These amounts are included in accounts payable and accrued liabilities.

(iii) DSA is affiliated with Marrelli Support through a common officer. DSA provides corporate secretarial services. As at September 30, 2016, DSA was owed \$1,319 (September 30, 2015 - \$nil). These amounts are included in accounts payable and accrued liabilities.

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

Remuneration of directors and key management of the Company was as follows:

	Year ended September 30, 2016 (\$)	Year ended September 30, 2015 (\$)
Salaries		
Andrew White	36,885	nil
Total	36,885	nil

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	Year ended September 30, 2016 (\$)	Year ended September 30, 2015 (\$)
Share-based payments		
Andrew White	23,340	nil
John Nicholson	15,815	nil
Total	39,155	nil

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

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

To the knowledge of the directors and senior officers of the Company, as at September 30, 2016, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the voting rights attached to all of the common shares of the Company other than as set out below:

	Number of common shares	Percentage of outstanding shares (approx.)
James Sbrolla	4,896,606	14.6%
Andrew White	4,870,000	14.6%

The remaining 70.8% of the shares are widely held, which includes various small holdings which are owned by directors and officers of the Company. The holding can change at any time at the discretion of the owner, subject to Exchange escrow agreement.

Risk Factors

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. In addition to the risks identified therein, additional risks not presently known to the Company may arise from time to time and may cause a material adverse effect on the Company and any investment in the Company. Investors are cautioned not to rely upon any forward-looking statements in this MD&A as such statements are subject to known and unknown risks.

- (1) **No History of Profits** – CHAR has not earned profits to date and there is no assurance that CHAR will earn profits in the future, or that profitability, if achieved, will be sustained. The success of CHAR ultimately depends upon its abilities to generate significant revenues to finance operations as opposed to external funding. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. If CHAR does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities;

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- (2) **Future Capital Requirements** – CHAR will require additional financing in order to grow and expand its operations. It is possible that required future financing will not be available, or if available, will not be available on favourable terms. There can be no assurances that CHAR will be able to raise additional capital if its capital resources are exhausted;
- (3) **Management of Growth** – CHAR may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. Any expansion of CHAR's business may place a significant strain on its financial, operational and managerial resources. There can be no assurances that CHAR will be able to manage growth successfully;
- (4) **Limited Operating History** – CHAR began carrying on business in February, 2011 and is therefore subject to many of the risks common to early-stage enterprises;
- (5) **Reliance on Management** – The success of CHAR is dependent upon the ability, expertise, judgment, discretion and good faith of their respective senior management;
- (6) **Additional Financing** – In order to execute the anticipated growth strategies, CHAR will likely require additional equity and/or debt financing beyond order to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions;
- (7) **Competition** – There is potential that CHAR, and the Resulting Issuer will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than CHAR;
- (8) **Operating Risk and Insurance Coverage** – CHAR has insurance to protect its assets, operations and employees. While CHAR believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which CHAR is exposed;
- (9) **Fluctuation of Market Price** – The market price of the Company's Shares may be subject to wide fluctuations in response to many factors;
- (10) **Dividends** – The Company has no earnings or dividend record, and does not anticipate paying any dividends on the Common Shares in the foreseeable future;
- (11) **Limited Market for Securities** – The Company's are listed on the Exchange, however, there can be no assurance that an active and liquid market for the Company's Shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company; and
- (12) **Environmental and Employee Health and Safety Regulations** – CHAR's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements; and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate filed by the Company does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing such certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's generally accepted accounting principles (IFRS).

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in such certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Changes in Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company together with its subsidiary. All intercompany transactions and balances have been eliminated. The consolidated financial statements of CHAR and its subsidiaries CHAR Technologies Inc. and 2500281 Ontario Inc. are consolidated from the date that control commences until the date that control ceases. A change in the ownership of its subsidiaries, without a loss of control, is accounted for as an equity transaction.

Investment tax credits

The Company follows the income approach to account for investment credits, whereby investment tax credits are recorded when there is a reasonable assurance that the amounts will be received and that the Company will comply with all relevant conditions. Under this method, investment tax credits related to operating expenditures are recorded as a reduction of the related expense and recognized in the period in which the related expenditures are charged to operations. Investment tax credits related to capital expenditures are recorded as a reduction of the cost of the related asset. The investment tax credits recorded are based on management's best estimates of amounts expected to be received and are subject to audit by the taxation authorities.

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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

Goodwill

Goodwill is initially measured at cost, which is the excess of the cost of the business combination over the net fair value of the acquiree's identifiable assets and liabilities. Any negative difference is recognized directly in the consolidated statements of income.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each operating segments that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the acquiree are assigned to those segments.

Intangible assets

Intangible assets with finite lives that are acquired separately are measured on initial recognition at cost, which comprises its purchase price plus any directly attributable costs of preparing the asset for its intended use. Following initial recognition, such intangible assets are carried at cost less any accumulated amortization on a straight-line basis over 10 years for purchased technology. The estimated useful life and amortization method are reviewed annually, with the effect of any change in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets including goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately.

If an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately.

Goodwill is tested for impairment annually at year-end and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each segment to which the goodwill relates. Where the recoverable amount of the segment is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Segmented Information

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

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in the statement of loss and comprehensive loss. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive loss, net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. The Company's financial assets and liabilities are recorded and measured as follows:

<u>Asset or Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash	FVTPL	Fair value
Amounts receivable	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term loans payable	Other liabilities	Amortized cost

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The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of available for sale ("AFS") equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Revenue recognition

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of 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

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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

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.

Useful lives of property and equipment and intangibles

The Company reviews the estimated useful lives of property and equipment and intangibles with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the period ended September 30, 2016, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Business combinations

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. The Company has disclosed the terms of the business combination under the sub-heading "Amalgamation" in the "Corporate" section above.

Investment tax credits recoverable

Investment tax credits are recorded based on management's estimate that all conditions attached its receipt have been met. The Company has significant tax credits recoverable and expects to continue to apply for future tax credits as their research and development activities remain applicable. Therefore, the estimates related to the recoverability of these tax credits are important to the Company's financial position.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of loss and comprehensive loss in the periods which they become known.

Share-based payments

The Company estimates the fair value of convertible securities such as warrants and options using the Black-Scholes option-pricing model which requires significant estimation around assumptions and inputs such as expected term to maturity, expected volatility and expected dividends.

Future accounting pronouncements

Standards issued but not yet effective up to the date of issuance of these consolidated financial statements are listed below. This list is of standards and interpretations issued that the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS 7"). The Company will be required to adopt amendments to IFRS 7, requiring increased disclosure regarding derecognition of financial assets and the continuing involvement accounting for annual periods beginning on or after December 1, 2016. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 7 will have on the Company's financial statements.

IFRS 9, Financial Instruments, ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 will be effective as at January 1, 2018.

IFRS 15, Revenue from Contracts and Customers ("IFRS 15") was issued by the IASB on May 28, 2014, and will replace IAS 18, revenue, IAS 11, construction contracts, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018.

IFRS 16, Leases ("IFRS16") was issued by the IASB on January 13, 2016. The Company will be required to adopt IFRS 16 in its financial statements for the annual period beginning on December 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 16 will have on the Company's financial statements.

Capital management

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

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

Financial instruments and risk management

Risk management

In the normal course of its business, the Company is exposed to a number of financial risks that can affect its operating performance. These risks, and the actions taken to manage them, are as noted below.

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company's cash include cash held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any significant interest bearing assets or liabilities.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations as they fall due. The Company's strategy is to satisfy its liquidity needs using cash on hand, and cash flow provided by financing activities. As at September 30, 2016, the Company had a cash of \$1,283,813 to settle current liabilities of \$138,498. The Company's accounts payable and accrued liabilities and loans payable are due within one year from the date of the statement of financial position.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Company's cash, amounts receivable, due from related parties and accounts payable and accrued liabilities are estimated by management to approximate their carrying values due to their short-term nature. Loans payable are also fairly reflected by its book value as they have been financed at interest rates which are similar to current market interest rates.