

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 years ended September 30, 2018 and 2017.

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 28, 2019, 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.

Description of Business

CHAR is a cleantech development and services company, specializing in biocarbon development (activated charcoal "SulfaCHAR" and solid biofuel "CleanFyre"), custom equipment for industrial air and water treatment, and providing services in environmental management, site investigation and remediation, engineering, and resource efficiency.

The Company continues to be listed on the Exchange trading under the symbol YES.V. The Company's head office address is 12 Banigan Drive, Toronto, Ontario, M4H 1E9.

Operations

CHAR's acquisition of the Altech Group has expanded the operations of the Company. Altech Environmental Consulting Ltd. ("Altech Environmental") continues to service its clients through engineering, energy and audit consulting services, which includes resource efficiency services as well as emissions review and reduction strategies. Altech Environmental, also services clients with site investigation and remediation work. Altech Technology Systems Inc., which has been rebranded as CharTech Solutions Inc., continues to provide innovative, custom equipment to help clients reduce their air and water emissions, with a particular focus on food & beverage manufacturers, the mining industry, organics and other waste processors, as well as clients in varied industrial areas.

CHAR also continues to focus on developing and commercializing CHAR's principal product, SulfaCHAR. The Company has received the three tranches of funding from the SD Natural Gas Fund (supported by Sustainable Development Technology Canada ("SDTC") and the Canadian Gas Association ("CGA") to execute on a project to build and operate a 1-tonne per day SulfaCHAR production system, which allowed the company to produce commercial quantities of SulfaCHAR. Commissioning was completed and operation began in the first quarter of

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fiscal 2019. The SD Natural Gas Fund is providing a \$750,000 non-repayable grant toward the project from SDTC and the CGA. In addition, the Ontario Centres of Excellence is providing a \$1,000,000 non-repayable grant toward the project following the same milestones and payment schedules as the SD Natural Gas Fund.

On October 22, 2018, the Company announced that it had successfully commissioned the equipment used to produce SulfaCHAR. The commissioning of the equipment signified the commencement of milestone 3 of the Company's SD Natural Gas Fund (supported by SDTC and the CGA) project. The system is now operational and is producing commercial quantities of SulfaCHAR and pilot quantities of CleanFyre.

Corporate Highlights

Release from Escrow

The following common shares were released from escrow:

	<u>October 7, 2017</u> <u>release</u>	<u>April 7, 2018</u> <u>release</u>
CPC Escrow Agreement	903,750	903,750
Qualifying Transaction Escrow Agreement	873,868	1,310,802
Value Escrow Agreement	633,333	633,333
Total	2,410,951	2,847,885

Private placement oversubscribes and closes \$1,055,358

On December 20, 2017, CHAR closed 3,513,609 non flow-through shares at a price of \$0.21 per share for gross proceeds of \$737,858 and 1,270,000 flow-through shares at a price of \$0.25 per flow-through share for gross proceeds of \$317,500. The Company closed total gross proceeds of \$1,055,358. The net proceeds from the non-brokered private placement are intended to be used for general working capital and continued technology development.

Acquisition of the Altech Group

On January 1, 2018, the Company acquired the Altech Group ("Altech"), which is comprised of Altech Environmental Consulting Ltd. and Altech Technologies Systems Inc. Altech provides solutions to environmental engineering challenges. Founded in 1986, Altech has 12 employees and a diverse and stable client base. CHAR acquired all of the outstanding shares in both Altech Environmental Consulting Ltd. and Altech Technology Systems Inc. (the "Purchased Shares"). Altech shareholders received an aggregate of 4,523,810 in common shares of CHAR plus \$150,000 cash in exchange for the Purchased Shares.

Grant of stock options

On January 18, 2018, the Company granted 650,000 stock options to directors, officers and consultants of the Company, which are exercisable into common shares of the Company at a price of \$0.22 per common share. The options have a term of five years and will expire on January 18, 2023.

Cancellation of shares

On February 1, 2018, the Company announced that a shareholder agreed to surrender for cancellation an aggregate of 100,000 common shares (the "Shares") of CHAR. The Shares are currently held in escrow pursuant to a Form 2F CPC Escrow Agreement dated December 11, 2013. Upon release from escrow the Shares will be returned to CHAR for cancellation. On October 7, 2018, 75,000 common shares were cancelled.

Grant approval

On March 29, 2018, the Company announced it has been approved for a grant totalling \$1,062,385 provided by the Government of Ontario through the Low Carbon Innovation Fund ("LCIF"). The grant is in support of CHAR's CleanFyre biocoal project, with participation from ArcelorMittal Dofasco, Canada's largest flat roll steel producer and a lead user of CleanFyre within the project, Walker Environmental as a feedstock supplier and BioLine Corporation as a feedstock pre-processor. Project funding of \$531,192 was disbursed in April, which will be followed by four additional payments on successful milestone completion.

On January 17, 2019, CHAR received approval for a \$30,000 non-repayable grant from the Northumberland Business Development Assistance Corp, supported by FedDev Ontario. The grant will be disbursed in one lump-sum payment, and will be used for the advancement of CleanFyre.

Private placement – flow-through shares

On December 31, 2018, CHAR closed 1,147,619 flow-through shares at a price of \$0.21 per share for gross proceeds of \$241,000. The net proceeds from the non-brokered private placement are intended to be used for continued technology development.

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.

Acquisition of Altech Group

On January 1, 2018, the Company acquired the Altech Group ("Altech"), which is comprised of Altech Environmental Consulting Ltd ("AEC") and Altech Technologies Systems Inc ("ATS"). CHAR acquired all of the outstanding shares in both AEC and ATS (the "Purchased Shares"). Altech shareholders received an aggregate of 4,523,810 in common shares of CHAR plus \$150,000 cash in exchange for the Purchased Shares.

The acquisition was accounted for accordance with IFRS 3 Business Combinations. Accordingly, the acquisition of Altech is accounted at the fair value of the equity instruments issued to the shareholders of Altech plus the cash paid. The excess of consideration over the net assets acquired has been recorded as goodwill. Goodwill represents cost savings and other benefits expected to result from combining the

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operations of Altech with those of the Company and intangible assets that do not qualify for separate recognition.

The fair value of the consideration is as follows:

Issuance of 4,523,810 common shares	\$	972,619
Cash		150,000
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Total consideration		1,122,619

The consideration has been allocated as follows:

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

Restatement

The Company identified certain errors in its consolidated financial statements for the year ended September 30, 2017. In accordance with IAS 20, Government Grants must be recognized as income over the period necessary to match the grants with the related costs, for which they are intended to compensate, on a systematic basis. The Company recognized in the consolidated statements for the year ended September 30, 2017 \$237,759 as grant income (2016: \$351,227) for grants related to SulfaCHAR production system which was under construction at September 30, 2018 and 2017. As a result, the funds received as grant income should be deferred as deferred grant income until the completion of construction. The grant income should be recognized on the same basis as the amortization of the related assets.

Furthermore, it was identified that the holdback of 10% for the SulfaCHAR production system related to the grant funds received as at September 30, 2017 of \$65,443 was not recognized in the financial statements as an asset. As the Company is expecting to complete the project on time and the grants have been approved or paid, the Company believes that the holdback back related to the SDTC and OCE grants should be recorded as government grant receivable with a corresponding increase the deferred grant income.

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The consolidated financial statements have been restated for the adjustments discussed above, as at September 30, 2017 and the year then ended as detailed in the following tables:

Statement of Financial Position – September 30, 2017	As previously reported (\$)	Adjustment (\$)	As restated (\$)
Amounts receivable	339,083	65,443	404,526
Total current assets	1,218,466	65,443	1,283,909
Total assets	2,960,592	65,443	3,026,035
Deferred grant income	631,451	654,429	1,285,880
Total current liabilities	807,697	654,429	1,462,126
Deficit	(2,040,800)	(588,986)	(2,629,786)
Total shareholders' equity	2,152,895	(588,986)	1,563,909
Total shareholders' equity and liabilities	2,960,592	65,443	3,026,035
Statement of Loss and Comprehensive Loss – year ended September 30, 2017			
Grant income	238,159	(237,759)	400
Net loss before income taxes	(1,500,547)	(237,759)	(1,738,306)
Net loss and comprehensive loss for the year	(1,473,402)	(237,759)	(1,711,161)
Loss per share – basic and diluted	(0.04)	(0.01)	(0.05)

Statement of Cash Flows - year ended September 30, 2017	As previously reported (\$)	Adjustment (\$)	Reclassification (\$)	As restated (\$)
Net loss and comprehensive loss for the year	(1,473,402)	(237,759)	nil	(1,711,161)
Deferred grant income	631,451	237,759	(869,210)	nil
Net cash provided by (used in) operating activities	282,019	nil	(869,210)	(587,191)
Grants received	nil	nil	869,210	868,210
Net cash (used in) provided by financing activities	(3,438)	nil	869,210	865,772

Selected Annual Financial Information

	Year ended September 30, 2018 (\$)	Year ended September 30, 2017 (\$)	Year ended September 30, 2016 (\$)
Revenue	1,041,788	140,033	223,443
Net loss	(1,392,031)	(1,711,161)	(336,626)
Net loss per share – basic and diluted	(0.03)	(0.05)	(0.01)
	As at September 30, 2018 (\$)	As at September 30, 2017 (\$)	As at September 30, 2016 (\$)
Total assets	5,395,109	3,026,035	3,672,207
Total long-term liabilities	nil	nil	27,145

Summary of Quarterly Result

Period	Revenue (\$)	Net income or (loss)		Total assets (\$)
		Total (\$)	Basic and diluted income (loss) per share ⁽⁹⁾⁽¹⁰⁾ (\$)	
September 30, 2018	328,880	(502,184) ⁽¹⁾	(0.01)	5,395,109
June 30, 2018	324,201	(249,673) ⁽²⁾	(0.01)	5,244,426
March 31, 2018	388,707	(379,735) ⁽³⁾	(0.01)	4,716,969
December 31, 2017	Nil	(260,439) ⁽⁴⁾	(0.01)	3,727,053
September 30, 2017	128,922	(1,048,301) ⁽⁵⁾	(0.02)	3,026,035
June 30, 2017	842	(269,146) ⁽⁶⁾	(0.01)	3,023,903
March 31, 2017	10,269	(267,982) ⁽⁷⁾	(0.01)	3,317,424
December 31, 2016	Nil	(125,732) ⁽⁸⁾	(0.01)	3,546,543

(1) Net loss of \$502,184 consisted of \$82,388 of consulting fees, \$157,375 of professional fees, \$218,392 of office expenses, \$38,517 of amortization and other general working capital expenses offset by gross profit of \$82,066 and deferred tax recovery of \$50,800.

(2) Net loss of \$249,673 consisted of \$52,298 of professional fees, \$395,448 of office expenses, \$34,650 of consulting fees and \$29,500 of amortization offset by \$266,094 of gross profit.

(3) Net loss of \$379,735 consisted of \$304,364 of office expenses, \$95,404 of consulting fees, \$82,245 of professional fees, \$108,259 of share-based payments, \$29,500 of amortization and other general working capital expenses offset by gross profit of \$252,661 and grant income of \$30,920.

(4) Net loss of \$260,439 consisted of \$104,783 of consulting fees, \$45,539 of professional fees, \$45,438 of office expenses and \$29,500 of amortization.

- (5) Net loss of \$1,048,301 consisted of goodwill impairment of \$910,893, \$99,293 of consulting fees, \$29,500 of amortization and other general working capital expenses offset by gross profit of \$71,420 and grant income of \$203,942.
- (6) Net loss of \$269,146 consisted of \$59,847 of consulting fees, \$103,872 of research and development, \$58,886 of office expenses, \$29,500 of amortization and other general working capital expenses offset by grant income of \$5,894.
- (7) Net loss of \$267,982 consisted of \$67,004 of consulting fees, \$21,565 of professional fees, \$85,287 of share-based payments, \$55,099 of office expenses, \$29,500 of amortization and other general working capital expenses offset by revenue of \$10,269 and grant income of \$14,019.
- (8) Net loss of \$125,732 consisted of \$21,910 of consulting fees, \$19,722 of professional fees, \$16,442 of share-based payments, \$39,225 of office expenses, \$29,500 of amortization and other general working capital expenses offset by grant income of \$14,304.
- (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, 2018 compared with the year ended September 30, 2017

The Company's net loss totaled \$1,392,031 for the year ended September 30, 2018, with basic and diluted loss per share of \$0.03. This compares with a net loss of \$1,711,161 with basic and diluted loss per share of \$0.05 for the year ended September 30, 2017. The decrease in net loss of \$319,130 was principally because:

- During the year ended September 30, 2018, the Company recorded gross profit of \$600,821 compared to \$82,250 for the year ended September 30, 2017. The increase in gross profit is mainly derived from the consulting operations of Altech.
- During the year ended September 30, 2017, the Company recorded goodwill impairment of \$910,893 compared to no goodwill impairment in 2018.
- Consulting fees increased by \$69,171 for the year ended September 30, 2018 compared to the year ended September 30, 2017. The increase is attributable to the Company's need for engineering and other consulting services in the course of its business.
- Professional fees increased by \$202,019 for the year ended September 30, 2018, compared to the year ended September 30, 2017. The increase is attributable to the increase in the Company's corporate activities.
- During the year ended September 30, 2018, office expenses increased by \$807,399 over the 2017 comparative period due to the cost to relocate the new head office as well as increase corporate overhead from the acquisition of Altech. Office expenses include salaries, rent, insurance, travel and administrative services.
- During the year ended September 30, 2018, the Company incurred \$161,699 on research and development compared to \$102,499 for the year ended September 30, 2017. During the 2018 year, the Company completed the research and development phase to construct the production system.
- During the year ended September 30, 2018, the Company recognized a recovery of \$50,800 from the reversal of flow-through liability of compared to \$nil during the year ended September 30, 2017. The flow-through liability is reversed on a pro-rata basis as eligible expenditures are incurred. The flow-through commitment was settled in full during the year ended September 30, 2018.
- All other expenses related to general working capital.

Three months ended September 30, 2018 compared with the three months ended September 30, 2017

The Company's net loss totaled \$502,184 for the three months ended September 30, 2018, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$1,048,301 with basic and diluted loss per share of \$0.03 for the three months ended September 30, 2017. The decrease in net loss of \$546,117 was principally because:

- During the three months ended September 30, 2018, the Company recorded gross profit of \$82,066 compared to \$71,420 for the three months ended September 30, 2017. The increase in gross profit is mainly derived from the consulting operations of Altech.
- During the three months ended September 30, 2017, the Company recorded goodwill impairment of \$910,893 compared to no goodwill impairment in the 2018 period.
- During the three months ended September 30, 2018, office expenses increased by \$215,359 over the 2017 comparative period due to the cost to relocate the new head office as well as increase corporate overhead from the acquisition of Altech. Office expenses include salaries, rent, insurance, travel and administrative services.
- Professional fees increased by \$77,361 for the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The increase is attributable to the increase in the Company's corporate activities.
- During the three months ended September 30, 2018, research and development increased by \$145,570 over the 2017 comparative period due to continued investigation of various projects.
- All other expenses related to general working capital.

Cash Flow

At September 30, 2018, the Company had cash of \$283,200 compared to \$831,556 at September 30, 2017. The decrease in cash of \$548,356 from September 30, 2017 resulted from the following:

Operating activities were affected by non-cash items of share-based payments of \$126,456, depreciation of \$10,772, amortization of \$127,017 and deferred tax recovery of \$50,800. The net change in non-cash working capital balances of \$79,264 because of a decrease in amounts receivable of \$288,516, a decrease in investment tax credits recoverable of \$35,314, an increase in work-in-progress of \$331, an increase in prepaid expenses of \$95,557 and an increase in accounts payable and accrued liabilities of \$149,341.

The Company spent \$721,953 for the purchase of intangible assets and property and equipment for its production facility under construction, \$850,000 on the purchase of a term deposit and spent cash of \$150,000 to acquire Altech offset by \$25,444 of cash acquired from Altech.

The Company received \$1,169,040 from the issuance of common shares net of costs, \$531,193 for grants, \$605,000 from its credit facility and \$89,242 from a bank overdraft offset by \$147,000 used to repay the loan assumed from the acquisition of Altech.

Liquidity and Financial Position

The Company's total assets at September 30, 2018 were \$5,395,109 (September 30, 2017 - \$3,026,035) against total liabilities of \$3,005,916 (September 30, 2017 - \$1,462,126). The increase in total assets of \$2,369,074 resulted from the proceeds from the private placement and exercise of stock options as well as the assets received from the Altech acquisition offset by use of funds during the day to day operations. The Company does not have sufficient current assets to cover its existing liabilities of \$3,005,916 at September 30, 2018.

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

The SD Natural Gas Fund project includes a \$750,000 non-repayable grant from SDTC and a \$1,000,000 non-repayable grant from the Ontario Centres of Excellence. 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 completed. The second milestone, which is the commissioning and initial operation of the 1-tonne per day SulfaCHAR production system is completed. The third and final milestone, which is testing of the use of SulfaCHAR for gas cleaning and agricultural applications, is budgeted to require capital expenditures by CHAR of \$175,000. The completion of phase 2 of this project now allows the Company to produce commercial quantities of SulfaCHAR, and is an important next step in the commercialization of SulfaCHAR. The Company also received approval for approximately \$1 million from the Government of Ontario through LCIF for the commercialization of CleanFyre. The Company has received an initial payment of \$531,193. The next payment will be disbursed on the successful completion of the next milestone, which is production and testing of CleanFyre.

During fiscal 2019, the Company's corporate head office costs are estimated to average approximately \$370,000 per quarter. Head office costs include professional fees, reporting issuer costs, consulting fees, salaries and general and administrative costs.

The Company's cash at September 30, 2018 will not be sufficient to fund its remaining development budget of \$235,000 and corporate head office costs of \$1,480,000 for fiscal 2019. The Company is estimated to earn revenue of \$2,200,000 for fiscal 2019 and is able to access additional funds through its line of credit.

See "Risk Factors" and "Caution Note Regarding Forward-Looking Statements" below.

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, 2018 (\$)	Year ended September 30, 2017 (\$)
Marrelli Support Services Inc. ("MSSI")(i)	24,000	24,000
DSA Corporate Services ("DSA")(ii)	10,368	10,225
1456087 Ontario Inc. ("1456087")(iii)	70,000	60,000
Merko-Nicholson Inc. ("Merko-Nicholson")(iv)	75,000	60,000
Lyle Clarke & Associates ("L. Clarke & Assoc.") (v)	5,000	nil
Due from a related party written off	nil	3,000

(i) The Chief Financial Officer of the Company is a senior employee of MSSI. As at September 30, 2018, MSSI was owed \$2,311 (September 30, 2017 - \$nil). These amounts are included in accounts payable and accrued liabilities.

(ii) DSA is affiliated with Marrelli Support through a common officer. DSA provides corporate secretarial services. As at September 30, 2018, DSA was owed \$907 (September 30, 2017 - \$3,117). These amounts are included in accounts payable and accrued liabilities.

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

(iv) Merko-Nicholson is a company controlled by the Chief Operations Officer of the Company. Merko-Nicholson provides consulting services to the Company.

(v) L. Clarke & Assoc. is a company controlled by Lyle Clarke, a director of the Company. L. Clarke & Assoc. provides consulting services to the Company.

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

	Year ended September 30, 2018 (\$)	Year ended September 30, 2017 (\$)
Salaries	209,698	78,125
Share based payment	107,250	83,440
Total	316,948	161,565

Directors of the Company purchased 859,763 common shares of the private placement that closed on December 20, 2017.

Commitments

The Company has entered into operating lease agreements as follows:

- i) Corporate offices expiring on Sep 30, 2019. Future lease payments for fiscal 2019 amount to \$75,000
- ii) Kiln building location expiring on Dec 11, 2020. All lease payments have been prepaid.

Outstanding Share Data

The number of common shares of the Company outstanding and the number of common shares issuable pursuant to other outstanding securities of CHAR as at January 12, 2018 are as follows:

Securities	As at January 28, 2019
Common shares outstanding	43,954,695
Issuable under options	2,030,000
Total securities	45,984,695

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;
- (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 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.

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.

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.

Critical accounting judgments and key sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

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

Going concern

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

Deferred taxes

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

Useful lives of property and equipment and intangibles

As described above, the Company reviews the estimated useful lives of property and equipment and intangibles with definite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the year ended September 30, 2018, the Company was not required to adjust the useful lives of any assets based on the factors described above.

Business combinations

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

Share-based payments

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

Investment tax credits recoverable

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

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

Future accounting pronouncements

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

IFRS 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. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 9 will have on the Company's financial statements.

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. Management is currently evaluating the potential impact, if any, that the adoption of IFRS 15 will have on the Company's financial statements.

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

Management is currently evaluating the potential impact, if any, that the adoption of IFRS 16 will have on the Company's financial statements.

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, 2018, the Company had a cash of \$283,200 to settle current liabilities of \$1,658,278. The Company's accounts payable and accrued liabilities, line of credit and deferred grant income are due within one year from the date of the statement of financial position.

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, term deposits, amounts receivable, accounts payable and accrued liabilities and line of credit are estimated by management to approximate their carrying values due to their short-term nature.