

Decarbonizing for a Circular Economy
through Advanced Design, Technology
and Environmental Services



Q3 REPORT 2021

MANAGEMENT'S DISCUSSION & ANALYSIS FOR
THE QUARTER ENDED: JUNE 30, 2021
DISCUSSION DATED: AUGUST 30, 2021



INTRODUCTION

The following interim Management's Discussion & Analysis ("Interim MD&A") of CHAR Technologies Ltd. (the "Company" or "CHAR") for the three and nine months ended June 30, 2021 has been prepared to provide material updates to the business operations, liquidity and capital resources of the Company since its last annual management's discussion & analysis, being the Management's Discussion & Analysis ("Annual MD&A") for the fiscal year ended September 30, 2020. This Interim MD&A does not provide a general update to the Annual MD&A, or reflect any non-material events since date of the Annual MD&A.

This Interim MD&A has been prepared in compliance with section 2.2.1 of Form 51-102F1, in accordance with National Instrument 51-102 – Continuous Disclosure Obligations. This discussion should be read in conjunction with the Company's Annual MD&A, audited annual consolidated financial statements for the years ended September 30, 2020 and 2019, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the nine months ended June 30, 2021 and 2020, together with the notes thereto. Results are reported in Canadian dollars, unless otherwise noted. The Company's unaudited condensed interim consolidated financial statements and the financial information contained in this Interim 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. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, Interim Financial Reporting. Accordingly, information contained herein is presented as of August 30, 2021, unless otherwise indicated.



For the purposes of preparing this Interim 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.



OUR BUSINESS

CHAR is a cleantech development and services company, specializing in high temperature pyrolysis, converting woody materials and organic waste into renewable gases (renewable natural gas and green hydrogen) and biocarbon (activated charcoal “SulfaCHAR” and solid biofuel “CleanFyre”). Additional services include custom equipment for industrial water treatment, and providing services in environmental compliance, environmental management, site investigation and remediation, engineering and resource efficiency.

The Company continues to be listed on the Exchange trading under the symbol YES.V. The Company’s head office address is 789 Don Mills Road, Suite 403, Toronto, Ontario, M3C 1T5.

CHAR has three operating groups: CharTech Solutions, CHAR Biocarbon and Altech Environmental Consulting.

OPERATIONS

CHAR continues to focus on commercial opportunities to deploy CHAR’s pyrolysis process, used to produce various biocarbons, including CleanFyre and SulfaCHAR utilizing low value or waste streams as feedstock, including woody biomass, compost and biosolids. 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 pyrolysis system to produce biocarbon, which allowed the company to produce commercial quantities of SulfaCHAR. Commissioning was completed and operation began in the first quarter of fiscal 2019. The SD Natural Gas Fund provided a \$750,000 non-repayable grant toward the project from SDTC and the CGA. In addition, the Ontario Centres of Excellence is provided a \$1,000,000 non- repayable grant toward the project following the same milestones and payment schedules as the SD Natural Gas Fund which the Company has adhered to.

In October 2018, the Company initially announced that it had successfully commissioned the pyrolysis equipment used to produce biocarbons, including SulfaCHAR. The system has been operational for two years and is producing commercial quantities of SulfaCHAR and pilot quantities of CleanFyre. The system has showcased the Company’s proprietary pyrolysis technology using various waste streams to create quality byproducts. The Company is now confident it is able to move forward and move into the commercial phase for HTP systems.

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



CORPORATE HIGHLIGHTS

Private placements

In February 2021, the Company completed a non-brokered private placement whereby the Company issued 18,461,537 units at a price of \$0.325 per unit for gross proceeds of \$6,000,000. Each unit is comprised of one common share and one half of a warrant exercisable at \$0.40 within two years.

In October 2020, the Company completed a small private placement for 6,950,000 common shares at a price of \$0.10 for gross proceeds of \$695,000. The proceeds are intended to be used for technology commercialization and working capital purposes.

Previously, 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 were used for continued technology development.

Stock option grants

On January 30, 2021, the Company granted 1,333,000 stock options to directors, officers, employees and consultants of the Company. The stock options may be exercised for a period of five years at a price of \$0.49 per share. These stock options vest as follows: 860,000 stock options vested immediately and 473,000 stock options vest based on the achievement of specific performance criteria and EBITDA milestones. On March 31, 2021 grants were made for 150,000 that vested immediately. In addition, on April 5, 2021 further grants were made for 95,000 options. These stock options vest as follows: 35,000 stock options vested immediately and 60,000 stock options vest based on the achievement of specific performance criteria. Subsequent to the end the third quarter, in July 21, another 75,000 stock options were granted to a consultant of the Company. These stock options may be exercised for a period of five years at a strike price of \$0.52 per share.

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

	Quarter ended June 30, 2021 (\$)	Quarter Ended June 30, 2020 (\$)	Quarter ended June 30, 2019 (\$)
Revenue	375,988	351,193	464,824
Net loss	(925,702)	(205,570)	237,372
Net loss per share – basic and diluted	(0.01)	(0.01)	0.01
	As at June 30, 2021 (\$)	As at June 30, 2020 (\$)	As at June 30, 2019 (\$)
Total assets	8,481,829	3,601,453	4,187,343
Total long-term liabilities	1,011,327	1,717,864	1,419,234

Summary of Quarterly Result

Period	Revenue (\$)	NET INCOME OR (LOSS)		Total assets (\$)
		Total (\$)	Basic and diluted income (loss) per share ⁽¹³⁾ ⁽¹⁴⁾ (\$)	
June 30, 2021	375,988	(925,702) ⁽¹⁾	(0.01)	8,481,829
March 31, 2021	323,444	(505,913) ⁽²⁾	(0.01)	9,083,916
December 31, 2020	319,970	(194,470) ⁽³⁾	(0.00)	3,817,836
September 30, 2020	278,634	(12,087) ⁽⁴⁾	(0.00)	3,408,115
June 30, 2020	351,193	(205,570) ⁽⁵⁾	(0.01)	3,601,453
March 31, 2020	534,343	(326,313) ⁽⁶⁾	(0.01)	3,775,859
December 31, 2019	595,735	(159,832) ⁽⁷⁾	(0.00)	4,162,045
September 30, 2019	424,442	(466,351) ⁽⁸⁾	(0.01)	4,274,249
June 30, 2019	464,824	237,372 ⁽⁹⁾	0.01	4,187,343
March 31, 2019	298,003	(313,312) ⁽¹⁰⁾	(0.01)	4,893,986
December 31, 2018	435,398	(278,918) ⁽¹¹⁾	(0.01)	5,201,117
September 30, 2018	328,880	(502,184) ⁽¹²⁾	(0.01)	5,395,109
June 30, 2018	324,201	(249,673) ⁽¹³⁾	(0.01)	5,244,426

(1) Net loss of \$925,702 consisted of \$209,961 of professional fees, \$96,888 of depreciation, \$406,348 of office expenses offset by gross profit of \$160,441 and grant income of \$110,204.

(2) Net loss of \$505,913 consisted of \$127,251 of professional fees, \$96,725 of depreciation, \$295,810 of office expenses offset by gross profit of \$162,859 and grant income of \$110,204.

(3) Net loss of \$194,470 consisted of \$82,749 of professional fees, \$120,965 of depreciation, \$234,611 of office expenses offset by gross profit of \$171,976 and grant income of \$132,087.

(4) Net loss of \$12,087 consisted of \$40,326 of professional fees, \$126,843 of depreciation \$153,489 of office expenses and other general working capital expenses offset by gross profit of \$216,984 and grant income of \$172,460.

(5) Net loss of \$205,570 consisted of \$84,552 of professional fees, \$105,619 of depreciation \$162,046 of office expenses and other general working capital expenses offset by gross profit of \$173,405 and grant income of \$29,256.

(6) Net loss of \$326,313 consisted of \$128,224 of professional fees, \$105,619 of depreciation \$345,005 of office expenses and other general working capital expenses offset by gross profit of \$219,378 and grant income of \$210,506.

(7) Net loss of \$159,832 consisted of \$85,585 of professional fees, \$103,762 of depreciation \$365,196 of office expenses and other general working capital expenses offset by gross profit of \$299,654 and grant income of \$142,853.

(8) Net loss of \$466,351 consisted of \$119,008 of professional fees, \$185,702 of depreciation \$359,514 of office expenses and other general working capital expenses offset by gross profit of \$241,513 and grant income of \$207,332.

(9) Net profit of \$237,372 consisted of \$84,903 of professional fees, \$184,690 of depreciation \$351,531 of office expenses and other general working capital expenses offset by gross profit of \$302,873 and grant income of \$644,204.

(10) Net loss of \$313,312 consisted of \$84,631 of consulting fees, \$184,720 of depreciation \$354,237 of office expenses and other general working capital expenses offset by gross profit of \$189,200 and grant income of \$308,179.

(11) Net loss of \$278,918 consisted of \$72,131 of consulting fees, \$184,720 of depreciation \$303,538 of office expenses and other general working capital expenses offset by gross profit of \$265,612 and grant income of \$150,428.

(12) 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.

(13) 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.

DISCUSSION OF OPERATIONS

Quarter ended June 30, 2021 compared with the Quarter ended June 30, 2020

The Company's net loss totaled \$925,702 for the three months ended June 30, 2021, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$205,570 with basic and diluted loss per share of \$0.01 for the three months ended June 30, 2020. There was an increase in net loss of \$720,132 as explained below:

- During the three months ended June 30, 2021, the Company's revenues increased by 7% to \$375,988 compared to \$351,193 for the three months ended June 30, 2020. The Company is in the early commercialization phase of its high temperature pyrolysis technology and has placed increased emphasis on this growing business unit, after several years of R&D. This emphasis on high temperature pyrolysis included the phase-out of the Company's low margin air pollution control segment, while simultaneously directing additional resources to position the Company's business strategy to capitalize on the pyrolysis technology opportunity. The Company is positioning itself towards larger technology system sales as well as "Cleantech-as-a-Service" utility offerings, both of which require more front-end resources. While Engineering Services revenue has increased slightly, it has not rebounded to pre-COVID levels both as a result of resource allocation to larger technology projects, as well as continued deferred contracts due to the COVID-19 pandemic business environment. In alignment with the increased emphasis of high temperature pyrolysis technology projects, the Company is enhancing and repositioning its Engineering Services to better capitalize on the "decarbonization" opportunities in the marketplace.
- During the three months ended June 30, 2021, the Company recorded a gross profit of \$160,441 compared to \$173,405 for the three months ended June 30, 2020. The decrease in gross profit of 7.5% is mainly attributable to the contraction in Engineering Services gross profit. The reduction in gross profit was less than the reduction in revenue, the effect of which is attributed to the phase out of low margin air pollution control systems and products. Furthermore, Engineering resources have been diverted to internal projects and potential projects which has had a dampening impact on both revenues and gross profit.
- During the three months the Company recognized \$110,204 of grant income compared to \$29,256 received in the same period last year. This represented a 48% decline in grant income on a quarter over quarter basis.
- Depreciation decreased by \$8,731 for the three months ended June 30, 2021 compared to the same three months in 2020, while amortization remained essentially flat.
- During the three months ended June 30, 2021, office expenses increased by \$244,302 over the 2020 comparative period. Consulting fees decreased by \$701 over last year's third quarter while professional fees increased by \$125,409. Office expenses include salaries, rent, insurance, travel and administrative services.



- During the quarter ended June 30, 2021, the Company incurred \$98,513 on research and development compared to \$23,557 for the same period last year. During the 2021 fiscal year, the Company completed additional research and development to prepare the pyrolysis technology for the commercialization phase. The Company has been identifying opportunities to enhance its technology portfolio to further capitalize on future opportunities.
- Other expenses generally related to progressively increasing capacity to capitalize on growing market opportunities.

CASH FLOW

At June 30, 2021, the Company had cash of \$4,992,704 compared to \$129,127 at September 30, 2020. The substantial increase in cash of \$4,863,577 from September 30, 2020 was primarily due to Gross Proceeds of \$6,000,000 from an equity financing completed on February 5, 2021.

Other cash flow highlights in the first nine months are highlighted as follows:

Operating activities were affected by non-cash expense items of share-based payments of \$530,950, depreciation of \$314,582, amortization of \$95,598, partially offset by a reduction in deferred grant income of \$352,495. The net change in non-cash working capital of \$316,373 resulted due to an increase in amounts receivable of \$86,193, an increase in work-in-progress of \$156,539, a small increase in inventory of \$6,996, an increase in prepaid expenses of \$68,168, an increase in deferred revenue of \$18,209 and a decrease in accounts payable and accrued liabilities of \$16,686.

The Company made expenditures for the purchase of property and equipment for its production facility of \$185,610 compared with \$59,721 last year for the nine-month period. In addition, there were intangible assets purchased for \$26,810 compared to nil last year, for the nine-month period.

LIQUIDITY AND FINANCIAL POSITION

The Company's total assets at June 30, 2021 were \$8,481,829 (September 30, 2020 - \$3,408,115) against total liabilities of \$1,856,785 (September 30, 2020 - \$2,100,064). The increase in total assets of \$5,073,714 resulted from the proceeds of equity financings completed in the first nine months of the fiscal year. The most recent financing was in the gross amount of \$6,000,000 before expenses which closed in the second quarter. Net proceeds from this Equity issue were \$5,397,363. The Company believes it has sufficient current assets of \$5,929,841 to cover its existing current liabilities of \$845,458 at June 30, 2021 and adequate resources to execute its current business plan.

Deferred grant income comprises \$110,204 of the current liabilities outstanding.

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 the CGA, 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 biocarbon (including SulfaCHAR) production system is completed. The second milestone, which is the commissioning and initial operation of the 1-tonne per day biocarbon (including 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 completed. 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 payments of \$903,028.

The first milestone has been successfully completed. The second milestone, consisted of a 20 tonne industrial trial of CleanFyre, was completed by the end of 2020.

During the quarter ended June 30, 2021, the Company entered into a commercialization services agreement with Bioindustrial Innovation Canada (“BIC”), where BIC is supporting the balance of plant requirements for upgrading the existing CHAR biocarbon production facility to add the production of renewable natural gas (“RNG”). COMM SCI is providing \$95,000 in a non-repayable cash contribution and \$105,000 in in-kind support from BIC. Balance of plant work includes the civil, structural, mechanical, electrical and other engineering disciplines required to connect the CHAR RNG production system to the various utility requirements.

During the quarter ended June 30, 2021, the Company entered into a contribution agreement with Natural Gas Innovation Fund (“NGIF”), where NGIF will be providing \$300,000 in non-repayable grant funding towards the installation of CHAR RNG production system to the current CHAR biocarbon system. The grant includes a 10% holdback to be disbursed on project completion, with the remaining funds being disbursed at the commencement of each of three milestones. The RNG system is expected to enter commissioning in March, 2022. The milestones are as follows: Milestone 1 - Detailed Engineering Design. This milestone is in progress. Milestone 2 - Fabrication and Commissioning. This milestone has not yet begun. Milestone 3 - Validation. This milestone has not yet begun.

During the remainder of fiscal 2021 and into fiscal 2022, the Company’s corporate head office cash expenses are estimated to average approximately \$475,000 per quarter. Head office costs include professional fees, reporting issuer costs, consulting fees, salaries and general and administrative costs. The Company’s cash at June 30, 2021 and anticipated cash from operations is sufficient to fund its development budget of \$150,000 and personnel and corporate head office costs of \$1,400,000 for fiscal year 2021. The Company is estimated to earn revenue of approximately \$1,500,000 in fiscal 2021.

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

COMMITMENT

The Company has no further obligations with respect to flow through shares. As at December 30, 2020, \$nil remains to be spent as part of the flow-through funding agreement for shares issued in December 2018. The Company had indemnified the subscribers for any related tax amounts that could have become payable by the subscribers as a result of the Company not meeting its expenditure commitments.

The Company has entered into an exclusive license agreement with a mechanical equipment technology company which will complement CHAR’s existing process IP and patent portfolio. The exclusive license is for a minimum three-year term with minimum aggregate payments totaling \$3,000,000. The parties have agreed that the minimum payment amount for the exclusive license of \$3,000,000 will be prepaid in the first year, on a quarterly basis.

The Company’s operating lease agreement for its kiln building location which expired on December 11, 2020 was subsequently renewed on a month-to-month basis.

The Company’s minimum rental payments for its office space is as follows:

Yearly Minimum Rental Payments

Fiscal Year	Amount (\$)
2021	27,136
2022	27,136
2023	27,136
2024	2,261
Total	83,669

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:

Transactions with Related Parties Breakdown

	Quarter ended June 30, 2021 (\$)	Quarter ended June 30, 2020 (\$)
Marrelli Support Services Inc. ("MSSI") ⁽¹⁾	Nil	Nil
DSA Corporate Services ("DSA") ⁽²⁾	2,361	2,285
1456087 Ontario Inc. ("1456087") ⁽³⁾	30,000	15,000
Mark Korol, CFO ⁽⁴⁾	36,000	18,000

- (1) The former Chief Financial Officer of the Company was a senior employee of MSSI.
- (2) DSA is affiliated with Marrelli Support through a common officer. DSA provides corporate secretarial services.
- (3) 1456087 Ontario Inc. is a company controlled by James Sbrolla, a director of the Company. 1456087 Ontario Inc. provides consulting services to the Company.
- (4) Mark Korol was appointed Chief Financial Officer on April 1, 2020. He received a performance bonus of \$45,000 on the completion of the Q2 Equity financing.

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

Remuneration of Directors and Key Management

	Quarter ended June 30, 2021 (\$)	Quarter ended June 30, 2020 (\$)
Salaries	82,465	63,281
Total	82,465	63,281

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 on a fully diluted basis as at June 30, 2021 are as follows:

Total Securities

Securities	As at June 30, 2021
Common shares outstanding	70,927,051
Issuable under options	5,142,125
Warrants	9,162,569
Broker Warrants	914,967
Total securities	86,146,712

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

The Company reviews the estimated useful lives of property and equipment and intangibles with finite useful lives at the end of each year and assesses whether the useful lives of certain items should be shortened or extended, due to various factors including technology, competition and revised service offerings. During the nine months ended June 30, 2021, 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.

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. Share-based payments include stock option grants and broker warrants issued as partial consideration from financings.

CAPITAL MANAGEMENT

The Company includes equity 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.

Credit Risk

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

Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company's cash includes 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 June 30, 2021, the Company had cash of \$4,992,704 to settle current liabilities of \$514,848. The Company's accounts payable and accrued liabilities, 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, amounts receivable, accounts payable and loans payable are estimated by management to approximate their carrying values due to their short-term nature.

RISK FACTORS

An investment in the securities of the Company is highly speculative and involves numerous and significant risks. Investors in the Company's securities should consider each of the risks identified under the heading "Risk Factors" in the Company's Annual MD&A for the fiscal year ended September 30, 2020 available on SEDAR at www.sedar.com. 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 Interim MD&A as such statements are subject 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 Interim MD&A and in certain documents incorporated by reference in this Interim 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 Interim MD&A speak only as of the date of this Interim MD&A unless an alternative date is specified in such statement. Certain forward-looking statements contained in this Interim 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 looking 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 Interim 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 Interim 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.

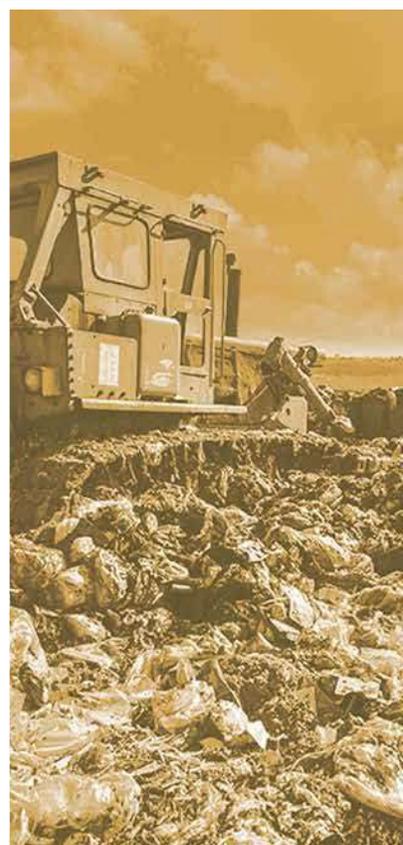
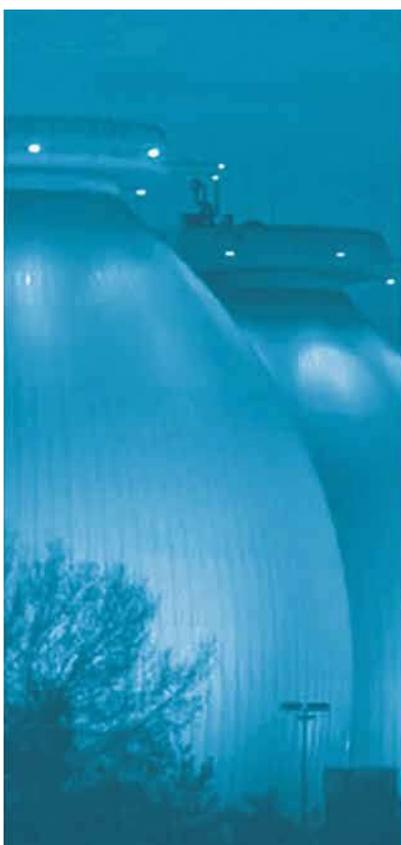
DISCLOSURE OF INTERNAL CONTROLS

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:

- 1 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
- 2 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.



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