

Introduction

The following interim Management's Discussion & Analysis ("Interim MD&A") of CHAR Technologies Ltd. (the "Company" or "CHAR") for the three and six months ended March 31, 2020 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 quarter ended March 31, 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, 2019 and 2018, together with the notes thereto, and unaudited condensed interim consolidated financial statements for the six months ended March 31, 2020 and 2019, 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 May 28, 2020, 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.

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

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 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 pyrolysis process, used to produce various biocarbons, including SulfaCHAR, an activated carbon material. 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 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 pyrolysis equipment used to produce biocarbons, including 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.

Corporate Highlights

Stock option grants

On January 30, 2020, the Company granted 930,000 stock options to directors, officers, employees and consultants of the Company. The stock options may be exercised for a period of five years at a price of \$0.115 per share. These stock options vest as follows: 625,000 stock options vested immediately and 305,000 stock options vest based on the achievement of specific performance criteria and EBITDA milestones. In addition, on February 27, 2020 grants were made for 100,000 that vested immediately and on April 1, 2020 further grants were made for 100,000 options.

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.

Discussion of Operations

Three months ended March 31, 2020 compared with the three months ended March 31, 2019

The Company's net loss totaled \$326,313 for the three months ended March 31, 2020, with basic and diluted loss per share of \$0.01. This compares with a net loss of \$313,312 with basic and diluted loss per share of \$0.01 for the three months ended March 31, 2019. There was a nominal increase in net loss of \$13,001:

- During the three months ended March 31, 2020, the Company achieved revenue growth of 79% to \$534,343 compared to \$298,003 in the second quarter last year. As a result of increased sales the Company recorded gross profit of \$219,378 compared to \$189,200 for the three months ended March 31, 2020. The increase in gross profit is mainly derived from growth in consulting services. The Company is positioning itself towards larger environmental projects.
- During the three months the Company recognized \$210,506 of grant income compared to \$308,179 received in the same period last year. This represented a 32% decline in grant income that more than offset the Company's revenue growth in the quarter.
- Depreciation decreased by \$79,101 for the three months ended March 31, 2020 compared to the same three months in 2019. The decrease is largely attributable to the change in useful life of its demonstration kiln and building from 2.5 years to 5 years.
- During the three months ended March 31, 2020, office expenses increased by \$41,467 over the 2019 comparative period as it utilizes its resources to increase revenues and bidding activities on larger projects. Office expenses include salaries, rent, insurance, travel and administrative services.
- Other expenses generally related to progressively increasing capacity to capitalize on growing market opportunities.

Cash Flow

At March 31, 2020, the Company had cash of \$216,383 compared to \$225,396 at September 30, 2019. The small decrease in cash of \$9,013 from September 30, 2019 that was primarily due to working capital:

Operating activities were affected by non-cash items of share-based payments of \$114,890, depreciation of \$209,381, amortization of \$63,512, partially offset by a reduction in deferred grant income of \$253,358 and reversal of flow-through liability of \$10,311. The net change in non-cash working capital of \$622,082 resulted due to a decrease in amounts receivable of \$144,066, a decrease in work-in-progress of \$130,366, a small increase in inventory of \$245, a decrease in prepaid expenses of \$95,047, a decrease in deferred income of \$127,877 and an increase in accounts payable and accrued liabilities of \$139,368.

The Company spent \$44,785 for the purchase of property and equipment for its production facility.

The Company received \$16,769 for an auto loan and made repayments of \$1,646.

Liquidity and Financial Position

The Company's total assets at March 31, 2020 were \$3,775,859 (September 30, 2019 - \$4,274,249) against total liabilities of \$2,233,964 (September 30, 2019 - \$2,361,229). The decrease in total assets of \$378,247 resulted from the use of funds primarily for day to day operations. The Company believes it has sufficient current assets and cash flows to cover its existing current liabilities of \$955,480 at March 31, 2020. Deferred grant income comprises \$442,022 of the current liabilities outstanding.

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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 budgeted to require capital expenditures by CHAR of \$50,000. 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 payments of \$903,028. The first milestone has been successfully completed. The second milestone, which consists of a 20 tonne industrial trial of CleanFyre, is anticipated to be completed by the end of 2020.

During fiscal 2020, 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 March 31, 2020 and anticipated cash from operations is sufficient to fund its remaining development budget of \$50,000 and personnel and corporate head office costs of \$1,100,000 for the remainder of fiscal 2020. The Company is estimated to earn revenue of over \$1,000,000 for the remainder of fiscal 2020.

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

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:

	Three Months Ended March 31, 2020 (\$)	Three Months Ended March 31, 2019 (\$)
Marrelli Support Services Inc. ("MSSI")(i)	8,100	6,000
DSA Corporate Services ("DSA")(ii)	2,250	2,397
1456087 Ontario Inc. ("1456087")(iii)	15,000	15,000
Merko-Nicholson Inc. ("Merko-Nicholson")(iv)	3,000	15,000
Numbers & Co. (v)	15,000	nil

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

(ii) DSA is affiliated with Marrelli Support through a common officer. DSA provides corporate secretarial services.

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

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

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

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

	Three Months Ended March 31, 2020 (\$)	Three Months Ended March 31, 2019 (\$)
Salaries	64,525	61,552

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 six months ended March 31, 2020, 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.

Change in accounting policies

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity's lease obligations.

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

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by the incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonable certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining (revised) lease term.

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, 2019 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.

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 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 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 unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements; and (ii) the unaudited condensed consolidated interim 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:

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- 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 unaudited condensed consolidated interim 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.