Independent Auditor's Report

To the Shareholders of Questor Technology Inc.

Opinion

We have audited the consolidated financial statements of Questor Technology Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brad Frampton.

MNP LLP

Calgary, Alberta

April 1, 2019

Chartered Professional Accountants

MNP LLP

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Stated in Canadian dollars

For the years ended December 31,	Notes	2018	2017
ASSETS			
Current assets			
Cash		**$8,809,644**	$3,847,863
Trade and other receivables	19	**4,698,093**	5,226,831
Inventories	4	**1,070,541**	1,097,624
Prepaid expenses and deposits	5	**1,382,581**	1,086,626
Current tax assets		**530,158**	-
Total current assets		**16,491,017**	11,258,944
Non-current assets			
Property and equipment	6,16	**13,419,524**	11,356,463
Intangible assets	7	**692,535**	922,597
Deferred tax assets	14	**339,169**	294,096
Total non-current assets		**14,451,228**	12,573,156
Total assets		**$30,942,245**	$23,832,100
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables, accrued liabilities and provisions	19	**$1,955,019**	$3,437,873
Customer deposits	23	**1,169,780**	16,462
Current portion of lease inducement	20	**45,200**	26,131
Current tax liabilities		**216,093**	924,228
Total current liabilities		**3,386,092**	4,404,694
Non-current liabilities			
Lease inducement		**258,233**	240,002
Deferred tax liabilities	14	**918,465**	408,185
Total non-current liabilities		**1,176,698**	648,187
Total liabilities		**4,562,790**	5,052,881
Shareholders' equity			
Issued capital	10	**6,381,520**	6,262,931
Reserves	13	**1,702,303**	1,395,010
Retained earnings		**18,265,088**	11,127,564
Cumulative translation adjustment		**30,544**	(6,286)
Total shareholders' equity		**26,379,455**	18,779,219
Total liabilities and shareholders' equity		**$30,942,245**	$23,832,100

Subsequent event 24
Commitments and contingencies 20, 22

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Board of Directors:

(signed) Jean-Michel Gires — Jean-Michel Gires, Director

(signed) Audrey Mascarenhas — Audrey Mascarenhas, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Stated in Canadian dollars except per share data

For the years ended December 31,	Notes	**2018**	2017
Revenue	16	**$23,472,526**	$19,458,016
Cost of sales	12	**9,691,119**	8,234,984
Gross profit		**13,781,407**	11,223,032
Administration expenses	12	**3,813,353**	3,334,274
Depreciation of property and equipment	6	**53,317**	35,648
Amortization of intangible assets	7	**230,062**	358,211
Net foreign exchange losses (gains)		**(406,524)**	489,392
Impairment	7,8	**-**	1,200,000
Other expenses	11	**101,149**	195,095
Profit before tax		**9,990,050**	5,610,412
Income tax expense	14	**2,852,526**	1,761,081
Profit for the year		**$7,137,524**	$3,849,331
Exchange differences on translating foreign operations		**36,830**	(73,333)
Total comprehensive income		**$7,174,354**	$3,775,998
Earnings per share	15		
Basic		**$0.27**	$0.15
Diluted		**$0.26**	$0.14

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Stated in Canadian dollars

	Notes	Issued capital	Reserves	Retained earnings	Cumulative translation adjustment	Total equity
Balance at December 31, 2016		$6,256,990	$1,163,705	$7,278,233	$67,047	$14,765,975
Profit for the year		-	-	3,849,331	-	3,849,331
Share-based payments		-	233,746	-	-	233,746
Stock options exercised		5,941	(2,441)	-	-	3,500
Translation of foreign operations		-	-	-	(73,333)	(73,333)
Balance at December 31, 2017		$6,262,931	$1,395,010	$11,127,564	$(6,286)	$18,779,219
Profit for the period		**-**	**-**	**7,137,524**	**-**	**7,137,524**
Share-based payments	**13**	**-**	**353,543**	**-**	**-**	**353,543**
Stock options exercised	**10**	**118,589**	**(46,250)**	**-**	**-**	**72,339**
Translation of foreign operations		**-**	**-**	**-**	**36,830**	**36,830**
Balance at December 31, 2018		**$6,381,520**	**$1,702,303**	**$18,265,088**	**$30,544**	**$26,379,455**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Stated in Canadian dollars

For the years ended December 31,	Notes	**2018**	2017
Cash flows from operating activities			
Profit for the year		**$7,137,524**	$3,849,331
Adjustments for:			
Income tax expense	14	**2,852,526**	1,761,081
Depreciation of property and equipment	6	**1,491,252**	930,382
Lease inducement		**37,300**	8,797
Non-cash portion of sale of property and equipment		**(45,015)**	(87,143)
Amortization of intangible assets	7	**230,062**	358,211
Share-based payments	13	**353,543**	233,746
Impairment	7,8	**-**	1,200,000
Movements in non-cash working capital	18	**546,034**	(2,983,817)
Income taxes paid		**(3,599,524)**	(494,622)
Net cash generated from operating activities		**9,003,702**	4,775,966
Cash used in investing activities			
Payments for property and equipment	6	**(3,624,482)**	(7,743,501)
Proceeds of disposition of property and equipment	6	**125,915**	207,000
Change in non-cash working capital	18	**(662,283)**	-
Net cash used in investing activities		**(4,160,850)**	(7,536,501)
Cash from financing activities			
Proceeds from exercise of stock options	10	**72,340**	3,500
Net cash from financing activities		**72,340**	3,500
Net increase (decrease) in cash		**4,915,192**	(2,757,035)
Cash at beginning of the year		**3,847,862**	6,733,897
Effects of exchange rate changes on the balance of cash held in foreign currencies		**46,590**	(128,999)
Cash at end of the year		**$8,809,644**	$3,847,863

The accompanying notes are an integral part of these consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Questor Technology Inc. ("Questor" or the "Company") is incorporated in Canada under the Business Companies Act (*Alberta*). Questor is a public, environmental Cleantech company founded in 1994 and headquartered in Calgary, Alberta, with field offices located in; Grande Prairie, Alberta; Brighton, Colorado; Watford City, North Dakota and Brooksville, Florida. The Company is active in Canada and the United States and is focused on clean air technologies that safely and cost effectively improves air quality, support energy efficiency and greenhouse gas emission reductions. Questor designs, manufactures and services high efficiency waste gas combustion systems. The Company's proprietary incinerator technology is utilized in the effective management of Methane, Hydrogen Sulphide gas, Volatile Organic Hydrocarbons, Hazardous Air Pollutants and BTEX gases ensuring sustainable development, community acceptance and regulatory compliance. Questor and its subsidiary, ClearPower Systems Inc. has developed heat to power generation technology and is currently marketing the power generation solutions to various markets including landfill biogas, syngas, waste engine exhaust, geothermal and solar, cement plant waste heat in addition to a wide variety of oil and gas projects.

The Company's common shares are traded on the TSX Venture Exchange under the symbol "QST". The address of the Company's corporate and registered office is 2240, 140 – 4 Avenue S.W. Calgary, Alberta, Canada,
T2P 3N3.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective on January 1, 2018.

These consolidated financial statements were approved by the Board of Directors on April 1, 2019.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries which are consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

Details of the entities contained in the consolidated financial statements are as follows:

Name of subsidiary	Principle activity	Place of business and operations	Equity percentage
Questor Technology Inc.	Parent and operating company	Canada	
Questor Solutions & Technology Inc.	Operating company	Unites States	100%
ClearPower Systems Inc.	Research and development company	United States	100%

2. BASIS OF PREPARATION (continued)

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Company's functional currency. The functional currency of the Company's subsidiaries, ClearPower Systems Inc. and Questor Solutions & Technology Inc. is the U.S. dollar.

Accounting estimates and judgments

In the application of the Company's accounting policies management is required to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the years presented. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of the valuation 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 year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgements in applying accounting policies and key sources of estimation uncertainty at the end of the reporting year that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Componentization and useful lives of property and equipment and intangible assets

Amounts recorded for depreciation and amortization expense are based on the Company's componentization of its property and equipment and intangible assets and management's estimates of the useful life, pattern of consumption of future economic benefits of the Company's property and equipment and intangible assets. These estimates affect the carrying amount of property and equipment and intangible assets.

Determining CGUs

For the purpose of assessing impairment of non-financial assets, the Company must determine its cash-generating units (CGUs). Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. The determination of a CGU is based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Management has determined that the two appropriate CGU's for the Company are Incineration and Heat to Power.

Impairment of non-financial assets

The determination of whether indicators of impairment exist is based on management's judgment of whether there are internal and external factors that would indicate that a non-financial asset is impaired. The recoverable amounts used for impairment calculations require estimates of future net cash flows related to the assets or CGU's, probability of successful contract proposals and estimates of discount rates applied to these cash flows.

Carrying value of goodwill

Goodwill represents an excess of the purchase price over the fair value of net assets acquired and is not amortized. The Company assesses impairment of goodwill at least annually. Goodwill is allocated to each CGU, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The fair value of each CGU is compared to the carrying value of its net assets.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the option, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends.

2. BASIS OF PREPARATION (continued)

Taxation

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in Canadian and foreign tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to Canadian and foreign tax law and bases its estimates on the best available information at each reporting date. The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

Expected credit losses

The Company's trade and other receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses (ECL) on receivables for which there has been a significant increase in credit risk since initial recognition. The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

Impairment of inventories

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of impairment recognized.

Depreciation and amortization

Depreciation and amortization are calculated to write off the cost, less estimated residual value, of assets on a systematic and rational basis over their expected useful lives. Estimates of residual value and useful lives are based on data and information from various sources including industry practice and historic experience. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions. Although management believes the estimated useful lives of the Company's property and equipment and intangible assets are reasonable, it is possible that changes in estimates could occur, which may affect the expected useful lives and salvage values of the property and equipment and intangible assets.

Contingencies

Management used judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when on or more future events occur or fail to occur. Management also uses judgment assess the likelihood of the occurrence of one or more future events.

Revenue recognition

Where the outcome of performance obligations for contracts can be estimated reliably, revenue is recognized. Incinerator sales revenue that is recognized based on performance over-time is measured primarily based on the milestones achieved which approximates the value to the customer relative to the total expected value. Variations in contract work, claims, and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of performance obligations for incinerator sales contracts cannot be reliably measured, contract revenue is recognized in the current year to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant estimation assumptions are required to estimate total contract costs, which are recognized as expenses in the year in which they are incurred. When it is probably that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are considered to be significant and have been applied consistently by the Company to all years presented in these consolidated financial statements.

Cash

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less.

The Company's short-term deposits with original maturities of three months or less are considered to be cash and are recorded at cost, which approximates fair value.

Foreign currency translation and transaction

For entities whose functional currency is the Canadian dollar, transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences on monetary items are recognized in profit or loss in the year in which they arise.

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of foreign operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive income ("OCI").

Deposits on equipment purchase

Progress payments made to third party vendors on equipment under construction not completed at year-end are recorded as deposits.

Inventories

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is determined using a standard costing method which approximates weighted average. Inventory balances include all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its existing location and condition.

Net realizable value is the estimated selling prices in the ordinary course of business, less estimated costs of completion and selling expenses.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, slow moving or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, and subsequent expenditures to the extent that they can be measured and future economic benefit is probable. The carrying values of replaced parts are derecognized when they are replaced. The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Repairs and maintenance expenditures, which do not extend the useful life of the property and equipment, are expensed in the year in which they are incurred.

Management bases the estimate of the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation is recorded so as to recognize the cost of assets (other than capital projects in progress) over their useful lives, using the method specified for the particular assets:

Asset	Rate	Method
Rental incinerators and trailers	5 – 20 years	Straight-line
Light vehicles, tools & equipment	20 - 30%	Declining balance
Waste heat to power generator	5 years	Straight-line
Leasehold improvements	Shorter of estimated useful life and lease term	Straight-line
Office equipment	20 - 30%	Declining balance

Property and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property and equipment assets, commences when the assets are ready for their intended use.

The estimated useful lives and depreciation methods are reviewed at the end of each financial year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

When an incinerator from the rental fleet is sold to a customer, the depreciated cost of the incinerator is transferred from property and equipment to work in progress. These costs, plus any additional costs to ready the unit for the customer are transferred to finished goods when completed and then to cost of sales once the incinerator is transported to the customer's site and/or legal title passes.

Intangible assets

<u>Intangible assets acquired separately</u>

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each financial year end, with the effect of any changes in estimate being accounted for on a prospective basis.

<u>Internally-generated intangible assets - Research and development expenditures</u>

Expenditures on research activities are recognized as an expense in the period incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and,
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally-generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortization is recorded so as to recognize the cost of assets over their useful lives, using the method specified for the particular assets:

Intangible asset	Useful life	Method
Waste heat to power development	5 years	Straight-line
Design drawings	10 years	Straight-line
Patents	Shorter of estimated useful life and patent life	Straight-line

Questor filed its Canadian patent on November 3, 1999 and received approval on May 1, 2007, at which time amortization commenced. This patent will remain in effect until November 2, 2019 at which time the associated costs will be fully amortized.

Derecognition of intangible assets

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Leasing

Operating leases are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit and loss on a straight-line basis over the term of the lease. Operating lease payments are recognized as an expense as incurred.

In the event that lease incentives, such as deferral of cash payments, are received to enter into operating leases, such incentives are recognized as a liability lease inducement. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the term of the related lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Warranties

Provisions for the expected cost of warranty obligations are recorded in cost of sales at the date of sale of incinerators. The provision is estimated based on a number of factors including historical warranty claims and cost experience, the type and duration of warranty coverage and the nature of products sold and in service. The Company reviews its recorded product warranty provisions quarterly and any adjustment is recorded in cost of sales.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when or as the Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled.

Revenue is recognized when control of the goods is transferred to the customer at a point-in-time for the following revenue streams:

i. Incinerator sales (except for unique customer fabrication) is recognized when control passes to the customer, which is generally at the time of shipment of the incinerator to the customer. Revenue is recorded at the stated contract value; and,
ii. Incinerator services and repairs is recognized upon:
    a. For installation service, upon completion of the incinerator installation; and,
    b. For time and material contracts, based on the contractual hourly rates and direct expenses as incurred.

Revenue is recognized in a manner that best reflects the Company's performance over-time for the following revenue stream:

i. Incinerator sales relating to unique customer fabrication which does not provide an asset with an alternative usage for the Company is recognized based on the stated contract value. Revenue is recognized on a percentage of completion basis proportionate to the milestones outlined in the contract and when an enforceable right of payment exists.

Incinerator rental revenue is recognized in accordance with the terms of the relevant agreement with the customer, either recognized on a daily or monthly basis based on the terms of the contract governing usage of the incinerator.

If it is expected that the unavoidable costs required to satisfy the remaining performance obligations of a revenue contract will exceed its expected economic benefits, the Company will recognize an onerous provision with a corresponding loss in the consolidated statement of comprehensive income.

At contract inception, the Company expects that the period between when the Company transfers control of a promised service to a customer and when the customer pays for that service will be one year or less. As a practical expedient, the consideration is not adjusted for the effects of a significant financing component.

Deposits received upon signing of contracts for incinerator purchases on which revenue recognition criteria have not been met are recorded as customer deposits.

<u>Interest income</u>

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government assistance

Government grants and investment tax credits are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants and/or investment tax credits will be received.

Government grants are recognized as a reduction in the carrying value of the related asset when the money is more likely than not to be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the year in which they become receivable.

Investment tax credits on Scientific Research and Experimental Development expenditures are reflected in intangible assets as deductions from development costs when the expenditures giving rise to the investment tax credits that have been capitalized to intangible assets. Otherwise, investment tax credits on Scientific Research and Experimental Development expenditures are recorded as other income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of sales

Cost of sales includes direct materials, direct labour, warranties and indirect overhead related to the field office and depreciation relating to the rental incinerators, detachable trailers for rental incinerators, light vehicles and tools and equipment.

Employee benefits

Short-term benefits

Short-term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is recognized as an employee expense, with a corresponding increase in reserves, over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Taxation

The Company uses the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized as the difference between the carrying amounts of assets and liabilities and their respective tax basis (temporary differences).

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated by using the treasury stock method for equity based compensation arrangements. The treasury stock method assumes that any proceeds obtained on exercise of equity based compensation arrangements would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the difference between the number of shares issued from the exercise of equity based compensation arrangements and shares repurchased from the related proceeds.

Operating segments

The Company generates revenue primarily from incinerator rentals, incinerator sales and other related services for use in the drilling, completion, stimulation and reworking of oil and gas wells in Canada and the United States. Management has determined that the Company has one reportable segment as the Company does not have any segment managers who are directly accountable to and maintain regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts or plans broken down by the different types of products/services or by geographical location. Discrete financial information is reviewed by the Company's chief executive officers for the purpose of resource allocation and assessing performance.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, other than inventories and deferred taxes, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

The Company assesses goodwill at least annually. Goodwill is allocated to each CGU, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The fair value of each CGU is compared to the carrying value of its net assets.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future net cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, limited such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. Impairment recognized on goodwill is not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies

The Company has adopted IFRS 9, Financial instruments and IFRS 15, Revenue from Contracts with Customers effective January 1, 2018.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The details of IFRS 9 and the nature and effect of changes to previous accounting policies are discussed below.

Classification and measurement of financial assets and liabilities

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through OCI (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification categories are as follows:

- A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost are measured using the effective interest method.
- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

Financial liabilities – The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the Consolidated Statement of Comprehensive Income.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognized in the Consolidated Statement of Comprehensive Income.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Cash, trade and other receivables and deposits on customer fabrication orders that were classified as loans and receivables under IAS 39 are now classified as financial assets at amortized cost. Trade payables, accrued liabilities, provisions, and customer deposits which were previously classified as other financial liabilities under IAS 39 are now classified as financial liabilities at amortized cost under IFRS 9. No change in measurement related to these items was recorded on the transition to IFRS 9 on the prior year comparative information as there was no material impact.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model for calculating impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables No change in measurement related to these items was recorded on the prior year comparative information as there was no material impact.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies (continued)

Impairment of financial assets (continued)

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

There were no material adjustments to the carrying amounts of any of the Company's financial instruments following the adoption of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. The Standard replaces IAS 11, Construction Contracts, IAS 18, Revenue, and related interpretations. The Company has adopted IFRS 15 effective January 1, 2018 retrospectively. The Company's revenue consists of incinerator sales, rentals and services and repairs. The Company has assessed incinerator sales and services and repairs to fall within the scope of IFRS 15 and incinerator rentals to fall within the scope of IAS 17. The Company has determined that there is no material impact to the timing of recognition or measurement of revenue under IFRS 15. The Company enters into contracts with customers that have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IRFS 15 and does not disclose information about the remaining performance obligations that have original expected durations of one year of less, or for performance where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to customer in the Company's performance to date.

Future accounting pronouncements

The International Accounting Standards Board (IASB) issued IFRS 16, Leases, in January 2016. The new standard replaces IAS 17, Leases. Under the new standard, more leases will be recognized on the statement of financial position for lessees, with the exception of leases with a term not greater than 12 months and "small value" leases. Lease accounting for lessors remains substantially the same as existing guidance.

The standard is effective for years beginning on or after January 1, 2019, IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. The Company plans to use the modified retrospective approach for its adoption of IFRS 16 effective January 1, 2019.

At December 31, 2018, the Company's IFRS 16 transition project consists of three key phases: project scoping, impact analysis, and implementation phase. The Company anticipates the adoption of IFRS 16 will have a material impact on the consolidated statement of financial position primarily due to the capitalization of real estate leases which are currently recognized as operating leases in the consolidated statement of comprehensive income.

The Company leases a portfolio of real estate assets/holdings that are expected to be recorded as right of use (ROU) assets with a corresponding lease liability of approximately $522,092.

On initial adoption, the Company intends to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of low dollar value; and,
- Use hindsight in determining the lease term where a contract contains terms to extend or terminate the lease.

A process for identifying potential leases under IFRS 16 has been established and the Company is currently implementing changes to policies, internal controls, information systems, and business and accounting processes.

4. INVENTORIES

For the years ended December 31,	**2018**	2017
Materials and supplies	**$747,508**	$307,047
Work in progress	**323,033**	790,577
	$1,070,541	$1,097,624

Inventory costs included in cost of sales:

For the years ended December 31,	**2018**	2017
Expensed inventories	**$1,914,171**	$2,832,143

Inventory write-down included in cost of sales:

For the years ended December 31,	**2018**	2017
Inventory write-down	**$106,567**	$29,030

5. PREPAID EXPENSES AND DEPOSITS

For the years ended December 31,	**2018**	2017
Deposits on customer fabrication orders	**$1,030,940**	$847,951
Insurance deposits	**171,827**	128,314
Building and utility deposits	**120,237**	70,363
Other prepaid expenses	**59,577**	39,998
	$1,382,581	$1,086,626

6. PROPERTY AND EQUIPMENT

	Rental incinerators and trailers	Light vehicles, tools & equipment	Waste heat to power generator	Office equipment & leasehold improvements	Total
Cost					
Balance at December 31, 2016	$5,851,845	$762,462	$159,268	$340,486	$7,114,061
Additions	7,424,706	83,403	-	$305,697	7,813,806
Disposals	(142,385)	(49,727)	-	(219,106)	(411,218)
Balance at December 31, 2017	$13,134,166	$796,138	$159,268	$427,077	$14,516,649
Additions	**3,434,313**	**161,510**	**-**	**28,659**	**3,624,482**
Disposals	**(142,188)**	**-**	**-**	**-**	**(142,188)**
Foreign operation adjustments	**-**	**11,035**	**-**	**(222)**	**10,813**
Balance at December 31, 2018	**$16,426,291**	**$968,683**	**$159,268**	**$455,514**	**$18,009,756**
Accumulated depreciation					
Balance at December 31, 2016	$1,904,896	$341,898	$-	$273,404	$2,520,198
Disposal	(37,383)	(47,734)	-	(205,277)	(290,394)
Depreciation charges included in:					
Cost of sales	752,710	99,077	31,854	11,093	894,734
Depreciation expense	-	-	-	35,648	35,648
Balance at December 31, 2017	$2,620,223	$393,241	$ 31,854	$114,868	$3,160,186
Disposals	**(61,240)**	**-**	**-**	**-**	**(61,240)**
Depreciation charges included in:					
Cost of sales	**1,334,740**	**103,229**	**-**	**-**	**1,437,969**
Depreciation expense	**-**	**-**	**-**	**53,317**	**53,317**
Balance at December 31, 2018	**$3,893,723**	**$496,470**	**$31,854**	**$168,185**	**$4,590,232**
Carrying amounts					
At December 31, 2017	$10,513,943	$402,897	$127,414	$312,209	$11,356,463
At December 31, 2018	**$12,532,568**	**$472,213**	**$127,414**	**$287,329**	**$13,419,524**

7. INTANGIBLE ASSETS

Cost	**Waste heat to power development**	**Development & design drawings**	**Patents**	**Total**
Balance at December 31, 2018 and 2017	**$1,732,839**	**$341,952**	**$15,225**	**$2,090,016**
Accumulated Amortization				
Balance at December 31, 2016	$-	$324,953	$11,774	$336,727
Amortization expense	314,472	2,400	1,218	358,211
Impairment	512,602	-	-	512,602
Balance at December 31, 2017	$827,074	$327,353	$12,992	$1,167,419
Amortization expense	**226,444**	**2,400**	**1,218**	**230,062**
Balance at December 31, 2018	**$1,053,518**	**$329,753**	**$14,210**	**$1,397,481**
Carrying Amounts				
At December 31, 2017	$905,765	$14,599	$2,233	$922,597
At December 31, 2018	**$679,321**	**$12,199**	**$1,015**	**$692,535**

During fiscal 2017, the Company completed development of the waste heat to power technology and commenced marketing efforts. The Company assessed that a market exists for the technology and expects the technology will provide future economic benefits. The Company moved to the commercialization phase and commenced amortization in 2017.

During 2018, management assessed whether indicators of impairment existed and concluded no indicators were present, therefore a test for impairment was not required.

During 2017, management assessed whether indicators of impairment existed and concluded indicators of impairment existed, and an impairment test was performed. As a result, the Company recorded a $512,602 impairment charge to waste heat to power development intangible assets relating to the Heat to Power CGU.

The recoverable amount of the Heat to Power CGU of approximately $1,306,000 was determined based on a value in use calculation using pre-tax cash flow projections over a five year period based on management's best estimates, and a pre-tax discount rate of 19%. The most significant assumptions used in the impairment calculation are the discount rate and the estimates used in determining future expected cash flows.

A sensitivity analysis was performed on the 2017 impairment test on the discount rate and expected future cash-flows. A change in these items would have the following impact on impairment:

	Impairment
10% decrease in expected future cash-flows	**$480,599**
1 % increase in discount rate	**$114,289**

8. GOODWILL

Balance at December 31, 2016	$ 687,398
Impairment	687,398
Balance at December 31, 2017 and 2018	$ -

The Company acquired ClearPower Systems in 2014 and recorded $687,398 of goodwill relating to that acquisition. The results of the impairment test completed at December 31, 2017 determined the estimated fair value of this CGU was less than its carrying amount. An impairment charge was recorded for the year ended December 31, 2017, with a corresponding charge to goodwill of $687,398.

9. BORROWING FACILITES

During the year ended December 31, 2018, Company renegotiated its existing Operating Loan Facility and secured an additional Capital Loan Facility and Export Development Canada ("EDC") Secured Letter of Guarantee Facility.

Operating Loan Facility

The Company's revolving demand operating loan has been increased to a maximum of $1,000,000 (2017 - $560,000), the availability of which is subject to specified margin requirements. The revolving demand operating loan bears interest at bank prime plus 1 percent per annum (2017 - 1 percent). Up to $100,000 (2017 - $100,000) of this loan is available to secure the issue of letters of credit and/or letters of guarantee for suppliers.

Capital Loan Facility

The new capital loan facility was secured to assist in the financing of capital expenditures. The facility makes available a revolving demand capital loan to a maximum of $5,000,000. The revolving demand capital loan bears interest at bank prime plus 1.25 percent per annum.

The capital loan is available by way of multiple advances by delivery of a required notice to the bank. The initial advance, to a maximum amount of 60% of net book value ("NBV)", can be made available and completed based on the NBV of existing fixed assets. Fixed assets are defined as rental fleet, equipment and vehicles/trailers.

Subsequent advances are to be supported by a true and complete summary of capital expenditures, to a maximum amount of 100% of costs incurred.

The combined advances of the capital loan facility cannot, at any time, exceed 60% loan to value ("LTV") of the combination of: i) NBV of fixed assets, as per the most recent fiscal year-end financial reporting; and, ii) the aggregate amount of all invoices funded under the capital loan facility subsequent to the most recent fiscal year end reporting but prior to an updated reporting being received. Should advances exceed 60% LTV, the Company is to pay down the capital loan by an amount equal to or greater than that which is required to reduce LTV to less than or equal to 60%, based on the then most recent reporting.

9. BORROWING FACILITES *(continued)*

Export Development Canada ("EDC") Secured Letter of Guarantee Facility

The EDC facility was secured to assist in the financing of the day-to-day operations of the Company through the issuance by the Bank of letters of guarantee, standby letters of credit, performance bonds, counter guarantees, counter standby letters of credit or similar credits from time to time (each an "LG") upon the instructions of the Company. The EDC facility is available to maximum of $2,000,000 and bears interest at bank prime plus 1.0 percent per annum. The availability of each LG shall be at the discretion of the EDC and subject to the various stated conditions. LG's are available for term of up to 12 months and require satisfactory performance of security guarantees ("PSG") from EDC (or guarantees from private insurance companies acceptable to the EDC) in the amount and terms of the obligation. In the event EDC (or private insurance company) does not extend coverage under the PSG, the Company is required to provide security in form and substance satisfactory to the Bank. At the time of issuance by the EDC of each Performance LG, a fee equal to 1.50% per annum is charged against the face amount and over the term of the Performance LG.

Borrowing Facilities

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities. At the end of each fiscal quarter the Company's debt-to-tangible-net-worth must be less than 2.5 and the Company's working capital ratio must be greater than 1.25. At the end of each fiscal year, Questor's debt service coverage ratio must be in excess of 1.25. The Company was in compliance with the borrowing facilities covenants. No amounts have been drawn on the borrowing facilities at year end.

None of the borrowing facilities are subject to standby fees and there is no specified facility expiration or renewal date. The Company has provided a general security agreement and an assignment of insurance proceeds as security.

10. ISSUED CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Shares issued and outstanding	Number of shares	Share capital
Shares issued and outstanding, December 31, 2016	26,444,870	$6,256,990
Stock options exercised	12,500	5,941
Shares issued and outstanding, December 31, 2017	26,457,370	$6,262,931
Stock options exercised	**45,500**	**118,589**
Shares issued and outstanding, December 31, 2018	**26,502,870**	**$6,381,520**

Share options exercised under the Company's share option plan

During the year ended December 31, 2018, 45,500 (2017 – 12,500) options were exercised for cash consideration of $72,340 (2017 - $3,500). The fair value of these options, of $46,249 (2017 - $2,441), was transferred from reserves to issued capital upon the exercise of the respective options exercised.

Further details of the share option plan are provided in Note 13.

11. OTHER EXPENSES

The following is an analysis of the Company's other expenses:

For the years ended December 31,	**2018**	2017
Bad debt expense	**$136,537**	$190,731
Net interest (income)	**(35,388)**	(8,228)
Other expense	**-**	12,592
	$101,149	$195,095

12. NATURE OF EXPENSES

The nature of the Company's expenses is as follows:

For the year ended December 31, 2018	**Cost of sales**	**Administration expenses**
Salaries and benefits excluding share-based payments	**$1,122,534**	**$1,930,257**
Share-based payments	**-**	**$353,543**
Depreciation (Note 6)	**1,437,969**	**-**
Direct materials, repairs and maintenance, and filed operations	**7,130,616**	**-**
Office and corporate related	**-**	**1,529,553**
	$9,691,119	**$3,813,353**

For the year ended December 31, 2017	Cost of sales	Administration expenses
Salaries and benefits excluding share-based payments	$809,889	$1,922,372
Share-based payments	-	233,746
Depreciation	894,734	-
Direct materials, repairs and maintenance, and filed operations	6,530,361	-
Office and corporate related	-	1,178,156
	$8,234,984	$3,334,274

13. SHARE-BASED PAYMENTS

The Board of Directors has adopted and approved a share option plan for the directors, officers, consultants and key employees and affiliates of the Company. The share option plan was approved by the shareholders of the Company on June 15, 2001 and as amended on September 15, 2017.

The maximum number of common shares reserved for issuance is fixed at 10% of the number of common shares of the Company issued and outstanding.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. Options granted under the plan have a term of five years to expiry and one quarter of the options vest on each of the first, second, third and fourth anniversary dates of the grant date on a cumulative basis.

The following share-based payment arrangements were in existence at December 31, 2018 and 2017:

At December 31, 2018

Number outstanding	Grant date	Expiry date	Remaining contractual life		Exercise price		Fair value at grant date	Number exercisable
252,500	**15-Apr-14**	**15-Apr-19**	**0.29**		**$ 2.48**		**$ 1.76**	**252,500**
20,000	**09-Jun-14**	**09-Jun-19**	**0.44**		**3.99**		**2.78**	**20,000**
200,000	**20-Jan-16**	**20-Jan-21**	**2.06**		**0.77**		**0.56**	**100,000**
640,000	**7-Dec-16**	**7-Dec-21**	**2.94**		**0.65**		**0.44**	**320,000**
112,500	**10-Oct-17**	**10-Oct-22**	**3.77**		**1.40**		**0.86**	**-**
338,000	**1-Dec-17**	**1-Dec-22**	**3.92**		**2.35**		**1.44**	**84,500**
1,563,000			**2.64**	**(1)**	**$ 1.43**	**(2)**		**777,000**

At December 31, 2017

Number outstanding	Grant date	Expiry date	Remaining contractual life		Exercise price		Fair value at grant date	Number exercisable
268,000	15-Apr-14	15-Apr-19	1.29		$ 2.48		$ 1.76	201,000
20,000	09-Jun-14	09-Jun-19	1.44		3.99		2.78	15,000
200,000	20-Jan-16	20-Jan-21	3.06		0.77		0.56	50,000
640,000	7-Dec-16	7-Dec-21	3.94		0.65		0.44	160,000
150,000	10-Oct-17	10-Oct-22	4.77		1.40		0.86	-
343,500	1-Dec-17	1-Dec-22	4.92		2.35		1.44	-
1,621,500			3.64	(1)	$ 1.44	(2)		426,000

(1) *Weighted average number of years.*
(2) *Weighted average.*

Share-based payment costs for the year ended December 31, 2018 were $353,543 (2017 - $233,746). Share-based payment costs is recorded to administration expenses.

13. SHARE-BASED PAYMENTS (continued)

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Grant date	**January 2018**	December 2017	October 2017
Grant date share price ($)	**2.35**	2.35	1.40
Exercise price ($)	**2.35**	2.35	1.40
Expected volatility (%)	**75**	75	74
Expected life (years)	**5**	5	5
Expected dividend yield (%)	**-**	-	-
Risk-free interest rate (%)	**1.68**	1.68	1.76
Forfeiture rate (%)	**10**	10	10
Fair value per option ($)	**1.44**	1.44	0.86

The share options outstanding and exercisable at the beginning and end of the years ended December 31 is as follows:

	Options Outstanding			
		2018		2017
	Number	**Exercise price[(1)]**	Number	Exercise price[(1)]
Balance at beginning of the year	**1,621,500**	**$1.44**	1,145,500	$1.16
Granted	**7,000**	**2.35**	493,500	2.06
Forfeited	**(20,000)**	**2.40**	(5,000)	2.48
Exercised	**(45,500)**	**1.59**	(12,500)	0.28
Balance at end of the year	**1,563,000**	**$1.43**	1,621,500	$1.44
Exercisable at end of the year	**777,000**	**$1.53**	426,000	$2.49

(1) Weighted average.

At December 31, 2018, there were 1,563,000 (2017 - 1,621,500) share options issued and outstanding out of 2,650,287 (2017 –2,645,737) available for issuance.

14. TAXES

The tax provision recorded in the consolidated financial statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to profit before tax as follows:

For the years ended December 31,	2018	2017
Profit before tax	**$9,990,050**	$5,610,412
Statutory income tax rate (%)	**27.00**	27.00
Expected taxes at statutory rate	**2,697,313**	1,514,811
Increase (decrease) in taxes resulting from:		
Non-deductible expenses/non-taxable income	**111,104**	143,577
Foreign tax rate and other foreign differences	**(13,968)**	56,317
Other items	**58,077**	46,376
Income tax expense	**$2,852,526**	$1,761,081

The provision for income taxes is comprised of the following:

For the years ended December 31,	2018	2017
Current	**$2,360,887**	$1,555,715
Deferred	**491,639**	205,366
Income tax expense	**$2,852,526**	$1,761,081

Canadian deferred tax assets/ (liabilities) are composed of the following:

As at December 31,	2018	2017
Intangible assets	**$104,541**	$65,808
Property and equipment	**(967,136)**	(507,068)
Lease inducement	**13,680**	33,075
Unrealized foreign exchange gains	**(69,550)**	-
Deferred tax liabilities	**$(918,465)**	$(408,185)

US deferred tax assets/ (liabilities) are composed of the following:

As at December 31,	2018	2017
Intangible assets	**$148,785**	$147,812
Property and equipment	**(75,578)**	(43,422)
Customer deposits	**323,825**	88,053
Prepaid expenses	**(57,863)**	-
Non-capital losses	**-**	101,653
Deferred tax asset	**$339,169**	$294,096

Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred tax asset can be offset. Management estimates future income using forecasts based on the best available current information. Based on the current estimates, there is currently sufficient evidence that the deferred tax asset will be recovered.

15. EARNINGS PER SHARE

For the years ended December 31,	**2018**	2017
Profit for the year attributable to ordinary equity holders	**$7,137,524**	$3,849,331
Weighted average number of common shares for the purpose of:		
Basic	**26,465,110**	26,453,603
Diluted	**27,358,637**	26,886,460
Basic earnings per share	**$0.27**	$0.15
Diluted earnings per share	**$0.26**	$0.14

16. SEGMENTED INFORMATION

The Company reports its financial results as one reportable segment as this is how the financial information is reviewed by the chief decision makers of the Company.

The following table provides information regarding revenue on a geographic basis as determined by the location of the customer or third party:

For the year ended December 31, 2018	**Canada**	**United States**	**International**	**Consolidated**
Incinerator sales	**$1,297,493**	**$3,925,675**	**$-**	**$5,223,168**
Incinerator rentals	**320,524**	**15,784,485**	**-**	**16,105,009**
Incinerator services & repairs	**251,333**	**1,875,159**	**17,856**	**2,144,348**
	$1,869,350	**$21,585,320**	**$17,856**	**$23,472,526**

For the year ended December 31, 2017				
Incinerator sales	$791,896	$5,652,868	$-	$6,444,764
Incinerator rentals	834,924	10,554,324	-	11,389,248
Incinerator services & repairs	219,404	1,254,168	150,432	1,624,004
	$1,846,224	$17,461,360	$150,432	$19,458,016

The following table provides information regarding the location of the Company's non-current assets on a geographic basis.

For years ended December 31,	**2018**	2017
Property and equipment		
Canada	**$1,099,763**	$372,532
United States	**12,319,761**	10,983,931
	$13,419,524	$11,356,463
Intangible assets		
Canada	**$692,535**	$922,597
United States	**-**	-
	$692,535	$922,597

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

- Deploy capital to provide an appropriate return on investment to its shareholders;
- Maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and,
- Maintain a capital structure that provides financial flexibility to execute on strategic opportunities.

The Company's strategy is formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements other than the financial tests and covenants associated with its credit facilities as described in Note 9. At December 31, 2018 and 2017, Questor complied with these covenants.

The Company's capital structure consists of equity and cash. In order to maintain or alter the capital structure, the Company may adjust capital spending, refinance existing credit facilities, raise new debt and issue common shares. The Company expects that funds generated from operations and cash amounts will provide sufficient capital resources and liquidity to fund existing operations in 2019 and anticipated capital expenditures.

A key measure the Company utilizes in evaluating its capital structure is the ratio of debt-to-total capitalization. Debt-to-total capitalization is calculated as debt divided by total capitalization. Debt is defined as total short-term and long-term borrowings unadjusted for cash balances. Equity is defined as issued capital and reserves attributable to equity holders. Total capitalization is defined as the sum of debt unadjusted for cash balances and the book value of equity. The Company has no debt, therefore the total debt-to-total capitalization ratio is 0%.

18. MOVEMENTS IN NON-CASH WORKING CAPITAL

For the years ended December 31,	**2018**	2017
Trade and other receivables	**$617,936**	$(4,171,438)
Inventories	**52,687**	(408,541)
Prepaid expenses and deposits	**(281,352)**	(545,096)
Trade payables, accrued liabilities and provisions	**(1,658,838)**	2,410,034
Customer deposits	**1,153,318**	(268,776)
	$(116,249)	$(2,983,817)

The changes in non-cash working capital has been allocated to the following activities:

Operating	**$546,034**	$(2,983,817)
Investing	**(662,283)**	-
	$(116,249)	$(2,983,817)

19. FINANCIAL INSTRUMENTS

The Company's financial instruments included in the consolidated statements of financial position are comprised of cash, trade and other receivables, deposits on customer fabrication orders, trade payables, accrued liabilities and provisions, and customer deposits.

Fair values

The fair values of financial instruments included in the consolidated statements of financial position approximate their carrying amounts due to the short-term maturity of those instruments.

IFRS establishes a three-level hierarchy that prioritizes the inputs relative to the valuation techniques used to measure fair value. Fair values of assets and liabilities include in Level 1 of the hierarchy are determined by reference to quoted prices in active markets for identical assets and liabilities. Fair value of assets and liabilities in Level 2 are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Fair value of assets and liabilities in Level 3 are determined based on inputs that are unobservable and significant to the overall fair value measurement. Accordingly, the Company has categorized its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At December 31, 2018 and 2017, Questor did not have any financial assets or liabilities measured at fair value on a recurring basis using Level 1, Level 2 or Level 3.

Credit risk

Substantial amounts of the Company's trade and other receivables, which relate to the Company's revenues, are with customers in the oil and natural gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. At December 31, 2018, the Company had an impairment provision of $85,880 (2017 – $183,862).

Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2018 and 2017, excluding any impaired accounts, are as follows:

For the years ended December 31	**2018**	2017
Current	**$2,192,427**	$2,025,594
31 – 60 days	**1,788,986**	2,815,077
61 – 90 days	**417,929**	351,597
Greater than 90 days	**298,751**	34,563
Trade and other receivables, net of allowance	**$4,698,093**	$5,226,831
Impairment provision	**$85,880**	$183,862

The movement in the impairment provision in respect of trade and other receivables during the year was as follows:

For the years ended December 31	**2018**	2017
Balance, beginning of year	**$183,862**	$-
Additional provision	**136,537**	190,731
Receivables written off	**(239,622)**	-
Foreign exchange rate changes	**5,103**	(6,869)
Balance, end of year	**$85,880**	$183,862

19. FINANCIAL INSTRUMENTS (continued)

Reliance on major customers risk

During the year ended December 31, 2018, considering individual customers comprising greater than 10% of total revenues, two customers (2017 – two) comprised 60% (2017 – 73%) of the Company's total revenue.

As at December 31, 2018, 55% (2017 - 21%) of the Company's accounts receivable are due from four (2017 – two) customers.

Liquidity risk

The Company's principal sources of liquidity are operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending to maintain liquidity. See Note 17 for further details on the Company's capital structure.

At December 31, 2018 and 2017, the Company had the following contractual undiscounted cash flows:

As at December 31,	Maturity	**2018**	2017
Trade payables, accrued liabilities and provisions	Within 1 year	**$1,955,019**	$3,437,873
Customer deposits	Within 1 year	**1,169,780**	16,462
		$3,124,799	$3,454,335

The Company has sufficient working capital to meet obligations as they come due.

Foreign currency risk

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in currencies other than Canadian dollars. The Company maintains cash balances and enters into transactions denominated in foreign currencies, principally in United States dollars, which exposes the Company to fluctuating balances and cash flows due to variations in foreign exchange rates. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on purchases of products and property and equipment from vendors in the United States.

The Canadian equivalent carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities was as follows:

As at December 31	**2018**	2017
Cash	**$2,603,377**	$3,914,131
Trade and other receivables	**4,014,963**	4,775,627
Monetary assets	**6,617,537**	8,689,758
Trade payables, accrued liabilities and provisions	**742,381**	290,993
Customer deposits	**1,114,404**	2,429
Monetary liabilities	**1,846,785**	293,422
Net monetary assets	**$4,760,752**	$8,396,336

Assuming all other variables remain constant, a fluctuation of +/- 5.0 percent in the exchange rate between the Canadian dollar and the foreign currencies would impact profit after tax by approximately $238,038 (2017 - $422,660).

To date, Questor has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates.

20. COMMITMENTS

Leases

The Company has lease commitments for three premises requiring aggregate minimum payments as follows:

As at December 31	**2018**	2017
2018	**$-**	$199,042
2019	**561,389**	301,360
2020	**323,957**	226,123
2021	**222,084**	232,979
2022 - 2024	**677,869**	711,211
	$1,785,299	$1,670,715

21. RELATED PARTY TRANSACTIONS

Key management personnel compensation

The Company defines key management personnel as being the directors, Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer. In addition to their salaries and directors' fees, the Company also provides non-cash benefits including participation in the Company's share option plan.

For the years ended December 31	**2018**	2017
Salaries, director's fees and other short-term employee benefits	**$1,023,900**	$683,666
Share-based payments	**308,017**	176,258
	$1,331,917	$859,924

The Company has entered into an employment agreement with an executive officer of the Company. In the event of termination without cause or resignation following constructive dismissal or change of control, the executive officer is entitled to any unpaid annual base salary and all accrued but unpaid bonuses and vacation pay through to the date of termination, a severance payment equal to 18 months of their annual base salary and accelerated vesting of any share options not then exercisable but which would have become exercisable within six months of the date of termination. In the event of a change of control, all share options that are not then exercisable shall vest immediately and become exercisable.

There were no amounts owing at December 31, 2018 and 2017 with respect to the preceding key management personnel compensation.

22. CONTINGENCIES

Litigation

From time to time, the Company is subject to costs and other effects of legal proceedings, settlements, investigations, claims and actions. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses potential liabilities by analyzing the claims using available information. The Company develops its views on estimated losses in consultation with outside counsel handling our defense in these matters. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Notwithstanding the uncertainty as to the final outcome, based on the information currently available to it, the Company does not currently believe these matters in aggregate will have a material adverse effect on its consolidated financial position.

23. CUSTOMER DEPOSITS

For the years ended December 31,	**2018**	2017
Balance, beginning of year	**$16,462**	$534,034
Additions from new contracts	**2,712,634**	1,362,115
Customer deposits recognized as revenue during the year	**1,559,316**	1,879,687
Balance, end of year	**$1,169,780**	$16,462

24. SUBSEQUENT EVENT

Facility lease

On February 22, 2019, the Company entered into a commercial building lease agreement. The term of the lease is twenty-six (26) months, commencing May 1, 2019 and expiring June 30, 2021. Total commitments over the lease period are $249,000, which is comprised of total base rent payable $214,000 and operating costs of $35,000.