Independent auditor's report

To the Shareholders of Questor Technology Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Questor Technology Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Comparative information

The consolidated financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on April 1, 2019.

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Other information

Management is responsible for the other information. The other information comprises the 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 audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, 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 IFRS, 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 Company 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Courtney Kolla.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Calgary, Alberta
March 31, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Stated in Canadian dollars

For the years ended December 31,	Notes	2019	2018
ASSETS			
Current assets			
Cash		**$13,491,383**	$8,809,644
Trade and other receivables	20	**5,571,950**	4,698,093
Inventories	4	**2,167,750**	1,070,541
Prepaid expenses and deposits	5	**954,784**	1,382,581
Current tax assets	12	**318,488**	530,158
Total current assets		**22,504,355**	16,491,017
Non-current assets			
Property and equipment	7,17	**17,923,848**	13,419,524
Right-of-use assets	8	**792,033**	-
Intangible assets	6	**810,728**	692,535
Deferred tax assets	12	**79,048**	339,169
Total non-current assets		**19,605,657**	14,451,228
Total assets		**$42,110,012**	$30,942,245
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables, accrued liabilities and provisions	20	**$2,485,445**	$1,955,019
Deferred revenue	24	**1,982,166**	1,169,780
Current portion of lease inducement	3	**-**	45,200
Current portion of lease obligations	13	**273,266**	-
Current tax liabilities	12	**337,617**	216,093
Total current liabilities		**5,078,494**	3,386,092
Non-current liabilities			
Lease obligations	13	**526,891**	-
Lease inducement	3	**-**	258,233
Deferred tax liabilities	12	**1,170,960**	918,465
Total non-current liabilities		**1,697,851**	1,176,698
Total liabilities		**6,776,345**	4,562,790
Shareholders' equity			
Issued capital	10,11	**8,256,566**	6,381,520
Contributed surplus	10	**1,326,096**	1,702,303
Retained earnings		**25,807,778**	18,265,088
Cumulative translation adjustment		**(56,773)**	30,544
Total shareholders' equity		**35,333,667**	26,379,455
Total liabilities and shareholders' equity		**$42,110,012**	$30,942,245

Subsequent events *25*
Commitments and contingencies *21, 23*

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

Approved by the Board of Directors:

(*signed*) Stewart Hanlon
Stewart Hanlon, 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	2019	2018
Revenue	17	**$30,194,235**	$23,472,526
Cost of sales	15	**13,932,078**	9,691,119
Gross Profit		**16,262,157**	13,781,407
Administration expenses	15	**4,702,152**	3,813,353
Depreciation of property and equipment and right-of-use assets	7,8	**111,775**	53,317
Amortization of intangible assets	6	**229,861**	230,062
Net foreign exchange losses (gains)	20	**286,894**	(406,524)
Other expenses	14	**710,559**	101,149
Profit before tax		**10,220,916**	9,990,050
Income tax expense	12	**2,792,326**	2,852,526
Profit for the year		**$7,428,590**	$7,137,524
Exchange differences on translating foreign operations		**(87,317)**	36,830
Total comprehensive income		**$7,341,273**	$7,174,354
Earnings per share	16		
Basic		**$0.28**	$0.27
Diluted		**$0.27**	$0.26

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	Contributed surplus	Retained earnings	Cumulative Translation Adjustment	Total equity
Balance at December 31, 2018		$6,381,520	$1,702,303	$18,265,088	$30,544	$26,379,455
Impact of change in accounting policy	3	-	-	114,100	-	114,100
January 1, 2019		$6,381,520	$1,702,303	$18,379,188	$30,544	$26,493,555
Profit for the year		**-**	**-**	**7,428,590**	**-**	**7,428,590**
Share-based payments	**10,11**	**-**	**393,300**	**-**	**-**	**393,300**
Stock options exercised	**10,11**	**1,875,046**	**(769,507)**	**-**	**-**	**1,105,539**
Translation of foreign operations		**-**	**-**	**-**	**(87,317)**	**(87,317)**
Balance at December 31, 2019		**$ 8,256,566**	**$ 1,326,096**	**$25,807,778**	**$(56,773)**	**$35,333,667**
Balance at December 31, 2017		$6,262,931	$1,395,010	$11,127,564	$(6,286)	$18,779,219
Profit for the year		-	-	7,137,524	-	7,137,524
Share-based payments	10,11	-	353,543	-	-	353,543
Stock options exercised	10,11	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	**2019**	2018
Cash flows from operating activities			
Earnings for the year		**$7,428,590**	$7,137,524
Adjustments for:			
Income tax expense	12	**2,792,326**	2,852,526
Depreciation of property, equipment and right-of-use assets	7,8	**2,310,654**	1,491,252
Lease inducement	3	-	37,300
Amortization of intangible assets	6	**229,861**	230,062
Lease interest	13	**36,448**	-
Share-based payments	10,11	**393,300**	353,543
Book value of used fleet sales		**561,069**	(45,015)
Movements in non-cash working capital	19	**(294,207)**	546,034
Income taxes paid		**(1,877,945)**	(3,599,524)
Net cash from operating activities		**11,580,096**	9,003,702
Cash used in investing activities			
Payments for property and equipment	7	**(7,249,719)**	(3,624,482)
Payments for intangibles	6	**(348,054)**	-
Proceeds of disposition of property and equipment		**-**	125,915
Change in non-cash working capital		**-**	(662,283)
Net cash used in investing activities		**(7,597,773)**	(4,160,850)
Cash from financing activities			
Proceeds from exercise of stock options	10,11	**1,105,538**	72,340
Lease obligations principal payments	13	**(369,191)**	-
Net cash from financing activities		**736,347**	72,340
Net increase in cash		**4,718,670**	4,915,192
Cash at beginning of the period		**8,809,644**	3,847,862
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(36,931)**	46,590
Cash at end of the period		**$13,491,383**	$8,809,644

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 clean technology 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 improve 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 combustion technology is utilized in the effective management of Methane, Hydrogen Sulfide gas, Volatile Organic Hydrocarbons, Hazardous Air Pollutants and BTEX (Benzene, Toluene, Ethylbenzene and Xylene) 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 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 interpretations by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Directors on March 31, 2020.

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 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 U.S. dollars.

Accounting estimates and judgments

In the application of the Company's accounting policies management is required to make judgments, 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 judgments 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:

<u>Componentization and useful lives of property and equipment and intangible assets</u>

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.

<u>Determining CGUs</u>

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.

<u>Impairment of non-financial assets</u>

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.

<u>Share-based payments</u>

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 monitors current and potential changes to Canadian and foreign tax laws 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.

Allowance for doubtful accounts

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.

Provisions and contingencies

The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, the probability of loss, and if a reliable estimate can be formulated. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to 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 probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

2. BASIS OF PREPARATION (continued)

Right-of-use assets and lease liabilities

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of the right-of-use assets and lease liabilities, and the resulting interest and depreciation expense. Actual results could differ significantly as a result of these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- Incremental borrowing rate: The rates used to present value the future lease payments are based on judgments about the economic environment in which the Company operates and theoretical analyses about the security provided by the underlying leased asset, the amount of funds required to be borrowed in order to meet the future lease payments associated with the leased asset, and the term for which these funds would be borrowed.
- Lease term: In determining the period which the Company has the right to use an underlying asset, management considers the non-cancellable period along with all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

With the exception of IFRS 16, Leases, which was applied on a modified retrospective basis on January 1, 2019, 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 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 period. All assets and liabilities are translated at the rate of exchange at the reporting date. Differences arising on translation are recognized as other comprehensive income ("OCI").

Inventories

Inventory is measured at the lower of cost and net realizable value. Inventory cost is recorded on a weighted-average basis and the balance includes 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 price 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, and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deposits on equipment purchase

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

Property and equipment and ROU assets

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 part of an item of property and equipment is recognized in the carrying amount of the property and equipment 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.

Depreciation is recorded so as to recognize the cost of assets 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
ROU Assets	Over 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. 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 finished goods inventory. These costs, plus any additional costs to ready the unit for the customer are transferred to finished goods inventory when completed and then to cost of sales once the incinerator is transported to the customer's site and/or legal title passes.

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 several 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)

Intangible assets

Intangible assets acquired separately

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 lives and amortization method are reviewed at the end of each financial year end, with any changes in estimate being accounted for on a prospective basis.

Internally generated intangible assets - research and development expenditures

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 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;
- Understanding of how the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and,
- The ability to reliably measure 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.

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

The Company filed its Canadian patent on November 3, 1999 and received approval on May 1, 2007, at which time amortization commenced. This patent expired November 2, 2019 at which time the associated costs were 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, are recognized in profit or loss when the asset is derecognized.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Non-Derivative Financial Assets

Financial Assets at Fair Value Through Profit and Loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial Assets at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Cash and Cash Equivalents

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

Impairment of Financial Assets

The carrying amount of the Company's financial assets includes cash and cash equivalents and trade and other receivables. A lifetime expected credit loss (ECL) is recognized on financial assets when there is objective evidence of a significant increase in credit risk as a result of one or more events that occurred after the initial recognition of the asset. Evidence of impairment would include default or delinquency by a debtor, restructuring of an amount based upon terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

Financial assets at amortized cost consist of trade and other receivables. Trade receivables are recorded at original invoice value less any amounts estimated to be uncollectable. Loss allowances are measured at fair value in the statement of financial position, with value changes recognized in profit or loss. Changes in ECL at the end of each reporting date involves a two-stage approach:

- 12-month ECL - credit risk has not increased significantly since initial recognition
- Lifetime ECL - credit risk has increased significantly since initial recognition

Impairment is assessed using historical trends of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment in relation to how the current economic and credit environment will impact losses being greater or less than historical trends. An impairment loss is determined as the difference between an asset's carrying amount and the present value of future cash flows. Losses are recognized in profit and loss and reflected in a provision account against loans and receivables. When an event occurring after the impairment was recognized causes the amount of impairment to decrease, the recovery is reversed and recognized in profit and loss.

Non-Derivative Financial Liabilities

Financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest rate method.

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expire. The Company has the following non-derivative financial liabilities: loans and borrowings, and trade and other payables.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position once the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized at the point in time that the Company transfers control of goods or services to a customer in the amount to which the Company expects to be entitled.

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;

ii. Incinerator services and repairs is recognized:

   a. For installation services, upon completion of the incinerator installation;

   b. For time and material contracts, based on the contractual hourly rates and direct expenses as incurred.

iii. 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.

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 and the entity has an enforceable right to payment for performance completed to date. 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.

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 where revenue recognition criteria have not been met are recorded as deferred revenue.

Interest income

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 reliably measured. Interest income is accrued on a calendar basis referencing the principal outstanding 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 relevant conditions 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 such expenditures 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, indirect overhead related to field offices, and depreciation relating to 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 for the amount expected to be paid is recognized as a 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 reliably estimated.

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 is recognized as an employee expense, with a corresponding increase in contributed surplus, 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 equity settled employee benefit reserve in contributed surplus.

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 its 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 due to 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.

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 are 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 senior 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. 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 allocated to individual CGUs. Otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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. The increased carrying amount must 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.

Stated in Canadian dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting policies

The IASB issued IFRS 16, Leases, which requires that lessees recognize lease liabilities and right-of-use ("ROU") assets related to its lease commitments on the balance sheet. The Company adopted IFRS 16 on the effective date of January 1, 2019. For the 12 months ended December 31, 2018, the Company followed IAS 17.

Initial Adoption

The Company has elected to apply IFRS 16 using a modified retrospective approach which does not require the restatement of prior period financial information. Modified retrospective application recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings at January 1, 2019 and applies the standard prospectively. The following table details the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019:

Impact on Balance Sheet Item		**$**
ROU assets	Increase	790,596
Current portion of lease obligations	Increase	261,723
Long-term portion of lease obligations	Increase	528,873
Current and long-term portion of lease inducement	Decrease	303,433
Properties and equipment	Decrease	189,333
Retained earnings	Increase	114,100

At January 1, 2019, the Company applied the following optional expedients permitted under the standard:

- Leases whose terms end within 12 months of initial adoption have been recognized as short-term leases;
- Leases having similar characteristics are measured on transition as a portfolio by applying a single discount rate;
- Leases having a low dollar value are not recognized as a ROU asset; and
- Use hindsight in determining the lease term where a contract contains terms to extend or terminate the lease.

On transition to IFRS 16 under the modified retrospective approach, lease payments are discounted using the Company's incremental borrowing rate as of January 1, 2019. The Company used a weighted average incremental borrowing rate of 4.95 percent to measure the present value of the future lease payments on January 1, 2019.

Ongoing Recognition and Measurement

On the date that the leased asset becomes available for use, the Company recognizes a ROU asset and a corresponding lease obligation. Interest expense associated with the lease obligation is charged to the consolidated statements of comprehensive income over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation of property and equipment expense.

Several key judgments and estimates were made such as assessing whether an arrangement contains a lease, determining the lease term, calculating the incremental borrowing rate and whether to account for the lease and any non-lease components as a single lease component. The Company is subject to financial covenants relating to working capital, leverage and the generation of cash flow in respect of its operating and revolving credit facilities.

See note 13 for further information on leases.

Stated in Canadian dollars

4. INVENTORIES

For the years ended December 31,	**2019**	2018
Materials and supplies	**$1,041,443**	$747,508
Work in progress	**207,053**	323,033
Finished goods	**919,254**	-
	$2,167,750	$1,070,541

Inventory costs included in cost of sales:

For the years ended December 31,	**2019**	2018
Expensed inventories	**$8,599,518**	$1,914,171

Inventory write-down included in cost of sales:

For the years ended December 31,	**2019**	2018
Inventory write-down	**$38,859**	$106,567

5. PREPAID EXPENSES AND DEPOSITS

For the years ended December 31,	**2019**	2018
Deposits on equipment and material orders	**$388,459**	$1,030,940
Prepaid insurance	**308,641**	171,827
Building and utility deposits	**94,169**	120,237
Other prepaid expenses	**163,515**	59,577
	$954,784	$1,382,581

Stated in Canadian dollars

6. INTANGIBLE ASSETS

Cost	**Heat to power development**	**Design drawings**	**Patents**	**Total**
Balance at December 31, 2017 & 2018	$1,732,839	$341,952	$15,225	$2,090,016
Additions	**348,054**	**-**	**-**	**348,054**
Balance at December 31, 2019	**$2,080,893**	**$341,952**	**$15,225**	**$2,438,070**
Accumulated Amortization				
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
Amortization expense	226,443	2,403	1,015	229,861
Balance at December 31, 2019	**$1,279,961**	**$332,156**	**$15,225**	**$1,627,342**
Carrying Amounts				
Balance at December 31, 2018	$679,321	$12,199	$1,015	$692,535
Balance at December 31, 2019	**$800,932**	**$9,796**	**$-**	**$810,728**

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 both 2018 and 2019, management assessed whether indicators of impairment existed and concluded no indicators were present, therefore a test for impairment was not required.

Stated in Canadian dollars

7. PROPERTY AND EQUIPMENT

	Rental incinerators and trailers	Light vehicles, tools & equipment	Office equipment & leasehold improvements	Total
Cost				
Balance at December 31, 2017	$13,134,166	$955,406	$427,077	$14,516,649
Additions	3,434,313	161,510	$28,659	3,624,482
Disposals	(142,188)	-	-	(142,188)
Foreign currency translation	-	11,035	(222)	10,813
Balance at December 31, 2018	$16,426,291	$1,127,951	$455,514	$18,009,756
Additions	**6,922,498**	**292,323**	**34,898**	**7,249,719**
Disposals and transfers	**(624,180)**	**-**	**-**	**(624,180)**
Impact of changes in accounting policy (Note 3)	**-**	**-**	**(240,000)**	**(240,000)**
Foreign currency translation	**-**	**(29,266)**	**(504)**	**(29,770)**
Balance at December 31, 2019	**$22,724,609**	**$1,391,008**	**$249,908**	**$24,365,525**
Accumulated depreciation				
Balance at December 31, 2017	$2,620,223	$425,095	$114,868	$3,160,186
Depreciation charges included in:				
Cost of sales	1,334,740	103,229	-	1,437,969
Disposal	(61,240)	-	-	(61,240)
Depreciation expense	-	-	53,317	53,317
Balance at December 31, 2018	$3,893,723	$528,324	$168,185	$4,590,232
Depreciation charges included in:				
Cost of sales	**1,798,116**	**145,582**	**-**	**1,943,698**
Disposals and transfers	**(62,753)**	**-**	**-**	**(62,753)**
Impact of changes in accounting policy (Note 3)	**-**	**-**	**(50,667)**	**(50,667)**
Depreciation expense	**-**	**(87)**	**25,252**	**25,165**
Foreign currency translation		**(4,213)**	**215**	**(3,998)**
Balance at December 31, 2019	**$5,629,086**	**$669,606**	**$142,985**	**$6,441,677**
Carrying amounts				
At December 31, 2018	$12,532,568	$599,627	$287,329	$13,419,524
At December 31, 2019	**$17,095,523**	**$721,402**	**$106,923**	**$17,923,848**

Stated in Canadian dollars

8. ROU ASSETS

Cost	
Balance, January 1, 2019	$790,596
Additions	350,241
Foreign currency translation	(10,089)
Balance at December 31, 2019	**$1,130,748**

Accumulated Depreciation	
Balance, January 1, 2019	-
Depreciation expense	341,792
Foreign currency translation	(3,077)
Balance at December 31, 2019	**$338,715**

Carrying Amounts	
Balance, January 1, 2019	$790,596
Balance at December 31, 2019	**$792,033**

9. BORROWING FACILITIES

Operating Loan Facility

The Company has in place a revolving demand operating loan facility, which is available to a maximum of $1,000,000 (2018 - $1,000,000), subject to specified margin requirements. The revolving demand operating loan bears interest at bank prime plus 1 percent per annum (2018 – bank prime plus 1 percent). Up to $100,000 (2018 - $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 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 (2018 - $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 percent 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 percent of costs incurred.

The combined advances of the capital loan facility cannot, at any time, exceed 60 percent 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 updated reporting being received. Should advances exceed 60 percent 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 percent, based on the then most recent reporting.

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 a maximum of $2,000,000 (2018 - $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 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 EDC of each performance LG, a fee equal to 1.50 percent 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.

Stated in Canadian dollars

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, 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
Stock options exercised	**712,250**	**1,875,046**
Shares issued and outstanding, December 31, 2019	**27,215,120**	**$8,256,566**

Share options exercised under the Company's share option plan

During the year ended December 31, 2019, 712,250 (2018 – 45,500) options were exercised for cash consideration of $1,105,539 (2018 - $72,339). The fair value of these options, of $769,507 (2018 - $46,250), was transferred from contributed surplus to issued capital upon the exercise of the respective options.

Further details of the share option plan are provided in Note 11.

Stated in Canadian dollars

11. 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, 2016.

On May 14, 2019 the Board of Directors approved the performance share unit and restricted share unit plan ("PSU&RSU Plan"). The PSU&RSU Plan was subsequently approved by the shareholders of the Company on July 10, 2019. The implementation of the PSU&RSU Plan has been adopted to provide a vehicle by which equity-based incentives to directors and officers, as well as select employees and consultants to incentivize the long-term success of the Corporation. The Board, through the Company's compensation sub-committee, may in its sole discretion, grant PSUs and RSUs to select individuals. The maximum number of equity-based compensation units including stock options, PSUs and RSUs that may be reserved for issuances shall not exceed 10 percent of the outstanding common shares of the Corporation which is in accordance with the current Stock Option plan. At December 31, 2019, the Company has not granted any PSU's or RSU's to any directors and officers, employees or consultants.

The following share-based payment arrangements were in existence at December 31, 2019 and 2018:

At December 31, 2019

Number outstanding	Grant date	Expiry date	Remaining contractual life		Exercise price		Fair value at grant date	Number exercisable
50,000	**20-Jan-16**	**20-Jan-21**	**1.06**		**0.77**		**0.56**	**-**
427,500	**7-Dec-16**	**7-Dec-21**	**1.94**		**0.65**		**0.44**	**267,500**
75,000	**10-Oct-17**	**10-Oct-22**	**2.78**		**1.40**		**0.86**	**-**
294,750	**1-Dec-17**	**1-Dec-22**	**2.92**		**2.35**		**1.44**	**127,500**
257,500	**27-May-19**	**27-May-24**	**4.40**		**5.09**		**2.90**	**-**
1,104,750			**2.79**	**(1)**	**$ 2.19**	**(2)**		**395,000**

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

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

Share-based payment costs for the year ended December 31, 2019 were $393,300 (2018 - $353,543). Share-based payment costs are recorded to administration expenses.

Stated in Canadian dollars

11.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. The weighted average fair value of options granted during 2019, determined using the Black-Scholes valuation method, was $2.90 per option. The Company applied the following assumptions in determining the fair value of options on the date of grant:

Grant date	**May 27, 2019**
Grant date share price ($)	**5.09**
Exercise price ($)	**5.09**
Expected volatility (1) (%)	**72**
Expected life (years)	**5**
Expected dividend yield (%)	**-**
Risk-free interest rate (%)	**1.47**
Forfeiture rate (%)	**17**
Fair value per option ($)	**2.90**

(1) *Expected volatility is estimated by considering historical average share price volatility.*

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

	Options Outstanding			
		2019		2018
	Number	**Exercise price (1)**	Number	Exercise price (1)
Balance at beginning of the year	**1,563,000**	**$1.43**	1,621,500	$1.44
Granted	**257,500**	**5.09**	7,000	2.35
Forfeited	**(3,500)**	**2.35**	(20,000)	2.40
Exercised	**(712,250)**	**1.55**	(45,500)	1.59
Balance at end of the year	**1,104,750**	**$2.19**	1,563,000	$1.43
Exercisable at end of the year	**395,000**	**$1.20**	777,000	$1.53

(1) *Weighted average.*

At December 31, 2019, there were 1,104,750 (2018 - 1,563,000) share options issued and outstanding out of 2,721,512 (2018 –2,650,287) available for issuance.

Stated in Canadian dollars

12. 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,	**2019**	2018
Earnings before tax	**$10,220,916**	$9,990,050
Statutory income tax rate (%)	**26.50**	27.00
Expected taxes at statutory rate	**2,708,543**	2,697,313
Increase (decrease) in taxes resulting from:		
Non-deductible expenses/non-taxable income	**141,294**	111,104
Deferred income tax adjustment from tax rate changes	**(178,426)**	-
Foreign tax rate and other foreign differences	**(14,468)**	(13,968)
Other items	**135,383**	58,077
Income tax expense	**2,792,326**	$2,852,526

The provision for income taxes is comprised of the following:

For the years ended December 31,	**2019**	2018
Current	**$2,291,249**	$2,360,887
Deferred	**501,077**	491,639
Income tax expense	**$2,792,326**	$2,852,526

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

As at December 31,	**2019**	2018
Intangible assets	**$43,377**	$104,541
Property and equipment	**(1,279,181)**	(967,136)
Lease inducement	**-**	13,680
Unrealized foreign exchange (gains) losses	**64,844**	(69,550)
Deferred tax liabilities	**$(1,170,960)**	$(918,465)

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

As at December 31,	**2019**	2018
Intangible assets	**$141,621**	$148,785
Property and equipment	**(63,525)**	(75,578)
Deferred revenue	**-**	323,825
Prepaid expenses and deposits	**-**	(57,863)
Other	**952**	-
Deferred tax asset	**$79,048**	$339,169

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.

Stated in Canadian dollars

13. LEASES

The Company's leasing activities comprise of buildings and yard leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

From January 1, 2019, leases are recognized as a right-of-use (ROU) asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability (principal) and interest. The interest is charged to the statement of comprehensive income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROU asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Company recognizes a ROU asset at cost consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received.

The Company recognizes a lease liability equal to the present value of the lease payments during the lease term that are not yet paid. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease payments to be made under reasonably certain extension options are also included in the measurement of the lease liability.

Payments associated with short-term leases and leases of low value assets are recognized as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of twelve months or less.

On initial application of IFRS 16 on January 1, 2019, the Company recorded ROU assets and lease obligations of $790,596 on the balance sheet. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.95 percent.

The following table sets out the movement in the right-of-use assets by class of underlying asset:

Lease Obligations	**2019**
Balance, January 1, 2019	$790,596
Additions	350,241
Interest	36,448
Lease payments	(369,191)
Foreign currency translation	(7,937)
Balance at December 31, 2019	**$800,157**
Lease obligations due within one year	$273,266
Lease obligations due beyond one year	$526,891
	$800,157

Stated in Canadian dollars

13. LEASES (continued)

The following table summarizes the reconciliation between the Company's operating lease commitments as at December 31, 2018 to the lease obligations recognized on January 1, 2019 upon the adoption of IFRS 16.

Operating lease commitments disclosed as at December 31, 2018	$1,785,298
Less:	
Leases that do not meet the definition of a lease under IFRS16	809,272
Low value leases recognized as an expense	29,314
Short term leases recognized as an expense	67,937
Discounted using the Company's incremental borrowing rate at January 1, 2019	88,179
Lease obligation recognized as at January 1, 2019	**$790,596**

14. OTHER EXPENSES

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

For the years ended December 31,	**2019**	2018
Bad debt expense	**$9,312**	$136,537
Net interest (income)	**(95,639)**	(35,388)
Litigation expenses	**839,347**	-
Other income	**(42,461)**	-
	$710,559	$101,149

The Company incurred $839,347 of litigation expenses for the twelve months ended December 31, 2019 (2018 - $nil) related to intellectual property litigation. The Company is the plaintiff and is taking action to protect and enforce certain intellectual property rights.

Stated in Canadian dollars

15. NATURE OF EXPENSES

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

For the year ended December 31, 2019	**Cost of sales**	**Administration expenses**
Employee costs excluding share-based payments	**$1,840,870**	**$2,459,093**
Share-based payments	**-**	**393,300**
Depreciation (Note 7,8)	**2,198,879**	**-**
Direct materials, repairs and maintenance, and field operations	**9,892,329**	**-**
Office and corporate related	**-**	**1,849,759**
	$13,932,078	**$4,702,152**

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

16. EARNINGS PER SHARE

For the years ended December 31,	**2019**	2018
Profit for the year attributable to ordinary equity holders	**$7,428,590**	$7,137,524
Weighted average number of common shares for the purpose of:		
Basic	**27,048,432**	26,465,110
Basic earnings per share	**$0.28**	$0.27

For the years ended December 31,	**2019**	2018
Profit for the year attributable to ordinary equity holders	**$7,428,590**	$7,137,524
Weighted average number of common shares for the purpose of:		
Diluted	**27,649,762**	27,358,637
Diluted earnings per share	**$0.27**	$0.26

Stated in Canadian dollars

17. 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, 2019			
	Canada	**United States**	**Consolidated**
Incinerator sales	**9,883,499**	**1,951,729**	**11,835,228**
Incinerator rentals	**21,400**	**15,722,701**	**15,744,101**
Incinerator service & repairs	**188,686**	**2,426,220**	**2,614,906**
	$10,093,585	**$20,100,650**	**$30,194,235**

For the year ended December 31, 2018			
	Canada	United States	Consolidated
Incinerator sales	1,297,493	3,925,675	5,223,168
Incinerator rentals	320,524	15,784,485	16,105,009
Incinerator service & repairs	269,189	1,875,159	2,144,348
	$1,887,206	$21,585,319	$23,472,525

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

For years ended December 31,	**2019**	2018
Property and equipment		
Canada	**$478,268**	$1,099,763
United States	**17,445,580**	12,319,761
	$17,923,848	$13,419,524
Intangible assets		
Canada	**$810,728**	$692,535
United States	**-**	-
	$810,728	$692,535

Stated in Canadian dollars

18. 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, 2019 and 2018, 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 2020.

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 percent.

19. MOVEMENTS IN NON-CASH WORKING CAPITAL

For the years ended December 31,	**2019**	2018
Trade and other receivables	**$(873,856)**	$617,936
Inventories	**(1,084,091)**	52,687
Prepaid expenses and deposits	**427,799**	(281,352)
Trade payables, accrued liabilities and provisions	**423,553**	(1,658,838)
Deferred revenue	**812,388**	1,153,318
	$(294,207)	$(116,249)

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

Operating	**$(294,207)**	$546,034
Investing	**-**	(662,283)
	$(294,207)	$(116,249)

Stated in Canadian dollars

20. FINANCIAL INSTRUMENTS

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

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, 2019 and 2018, 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, 2019, the Company had an impairment provision of $95,192 (2018 – $85,880).

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, 2019 and 2018, excluding any impaired accounts, are as follows:

For the years ended December 31,	**2019**	2018
Current	**$4,105,982**	$2,192,427
31 – 60 days	**1,253,984**	1,788,986
61 – 90 days	**186,311**	417,929
Greater than 90 days	**25,673**	298,751
Trade and other receivables, net of allowance	**$5,571,950**	$4,698,093
Impairment provision	**$95,192**	$85,880

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,	**2019**	2018
Balance, beginning of year	**$85,880**	$183,862
Additional provision	**9,312**	136,537
Receivables written off	**-**	(239,622)
Foreign exchange rate changes	**-**	5,103
Balance, end of year	**$95,192**	$85,880

Stated in Canadian dollars

20. FINANCIAL INSTRUMENTS (continued)

Reliance on major customers risk

During the year ended December 31, 2019, considering individual customers comprising greater than 10 percent of total revenues, two customers (2018 – two) comprised 50 percent (2018 – 60 percent) of the Company's total revenue.

For the years ended December 31,	**2019**	2018
Number of customers comprising greater than 10% of total revenues for the period	**2**	2
Revenue for each customer that represents greater than 10% of total revenues for the period:		
Customer#1	**$7,907,173**	$10,722,826
Customer#2	**$7,065,601**	$2,869,895

As at December 31,		
Number of customers comprising greater than 10% of total trade and other Receivables at the end of the period	**3**	4
Accounts receivable balance for each customer that represents greater than 10% of total trade and other receivables at the end of the period:		
Customer#1	**$1,588,418**	$875,747
Customer#2	**$841,737**	$599,102
Customer#3	**$785,700**	$584,344
Customer#4	**$-**	$523,829

20. FINANCIAL INSTRUMENTS (continued)

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 18 for further details on the Company's capital structure.

At December 31, 2019 and 2018, the Company had the following contractual undiscounted cash flows:

As at December 31,	Maturity	**2019**	2018
Trade payables, accrued liabilities and provisions	Within 1 year	**$2,485,445**	$1,955,019
Current portion of lease liability	Within 1 year	**273,266**	-
Deferred revenue	Within 1 year	**1,982,166**	1,169,780
Current tax liabilities	Within 1 year	**337,617**	-
		$5,078,494	$3,124,799

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,	**2019**	2018
Cash	**$4,881,246**	$2,603,377
Trade and other receivables	**4,557,098**	4,014,963
Monetary assets	**$9,438,344**	$6,618,340
Trade payables & accrued liabilities	**$681,866**	$742,381
Deferred revenue	**1,564,399**	1,114,404
Monetary liabilities	**$2,246,265**	$1,856,785
Net monetary assets	**$7,192,079**	$4,761,555

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 $359,604 (2018 - $238,078).

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

Stated in Canadian dollars

21. COMMITMENTS

As at December 31,	**2019**
2019	**$-**
2020	**184,008**
2021	**122,488**
2022 - 2024	**400,882**
	$707,378

The Company has various operating cost commitments related to facilities located in Alberta and Colorado.

22. 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,	**2019**	2018
Salaries, director's fees and other short-term employee benefits	**$879,325**	$1,023,900
Share-based payments	**304,656**	308,017
	$1,183,981	$1,331,917

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.

In April 2019, the Company provided loans to one senior executive officer and one Director. The purpose of the loans was to allow the individuals to exercise stock options and for payment of related taxes upon option exercise. The non-interest-bearing loans were on a recourse basis and secured by a promissory note. The Company loaned the senior executive officer $305,840 on April 15, 2019 and the full principal amount was repaid in full on November 12, 2019. The Company loaned the Director $83,640 on April 30, 2019 and the loan was repaid in full on May 27, 2019. There were no amounts due from related parties at December 31, 2019 and 2018.

Stated in Canadian dollars

23. 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 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. During the year, the Company has commenced intellectual property litigation. The Company is the plaintiff and is taking action to protect and enforce certain intellectual property rights.

24. DEFERRED REVENUE

For the years ended December 31,	**2019**	2018
Balance, beginning of year	**$1,169,780**	$16,462
Additions from new contracts	**11,011,515**	2,712,634
Deferred revenue recognized as revenue during the year	**10,199,129**	1,559,316
Balance, end of year	**$1,982,166**	$1,169,780

25. SUBSEQUENT EVENTS

First quarter 2020 global events have significantly impacted the global economy and downgraded the Company's near-term expectations of the energy industry. The spread of the COVID-19 virus in combination with OPEC's inability to maintain global oil supply during early March 2020 has significantly undermined commodity prices, customer cash flows and investor confidence. Further, the influence of these recent developments impact customers' capital spending budgets and their potential ability to pay for work completed on a timely basis.