INDEPENDENT AUDITORS' REPORT

To the Shareholders of Questor Technology Inc.:

We have audited the accompanying consolidated financial statements of Questor Technology Inc., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Questor Technology Inc. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter
The consolidated financial statements of Questor Technology Inc. as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 25, 2016.

Calgary, Alberta

MNP LLP

March 27, 2017

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Stated in Canadian dollars

As at:	Notes	**December 31 2016**	December 31 2015
ASSETS			
Current assets			
Cash		**$6,733,897**	$5,127,371
Trade receivables	20	**1,055,393**	2,148,171
Inventories	4	**689,083**	1,905,429
Prepaid expenses and deposits	5	**541,530**	119,144
Current tax assets		**155,736**	655,587
Total current assets		**9,175,639**	9,955,702
Non-current assets			
Property and equipment	6	**4,593,863**	3,840,751
Intangible assets	7	**1,793,410**	1,797,033
Deferred tax assets	14	**96,236**	-
Goodwill	8	**687,398**	687,398
Total non-current assets		**7,170,907**	6,325,182
Total assets		**$16,346,546**	$16,280,884
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables, accrued liabilities and provisions		**$1,029,201**	$893,398
Deferred revenue and deposits		**534,034**	78,176
Current portion of lease inducement	21	**17,336**	52,002
Current tax liabilities		**-**	77,206
Total current liabilities		**1,580,571**	1,100,782
Non-current liabilities			
Deferred tax liabilities	14	**-**	293,523
Lease inducement		**-**	17,334
Total non-current liabilities		**-**	310,857
Total liabilities		**1,580,571**	1,411,639
Shareholders' equity			
Issued capital	10	**6,256,990**	6,031,141
Reserves		**1,163,705**	1,108,074
Retained earnings		**7,278,233**	7,722,999
Cumulative translation adjustment		**67,047**	7,031
Total shareholder' equity		**14,765,975**	14,869,245
Total liabilities and shareholders' equity		**$16,346,546**	$16,280,884

Subsequent event 24
Commitments and contingencies 21, 23

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

Approved by the Board of Directors:

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Stated in Canadian dollars

For the years ended December 31,	Notes	**2016**	2015
Revenue	11	**$7,078,333**	$8,112,913
Cost of sales	4,12	**4,397,558**	4,760,469
Gross profit		**2,680,775**	3,352,444
Administration expenses	12	**3,057,790**	2,835,155
Depreciation of property and equipment	6	**42,338**	44,314
Amortization of intangible assets	7	**3,621**	3,620
Net foreign exchange losses (gains)		**101,164**	(323,591)
Other expense (income)	11	**(197,293)**	652,274
(Loss) profit before tax		**(326,845)**	140,672
Income tax expense	14	**117,921**	158,820
Loss for the year		**$(444,766)**	$(18,148)
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations		**60,016**	(5,518)
Total comprehensive loss		**$(384,750)**	$(23,666)
Loss per share	15		
Basic		**$(0.02)**	$(0.00)
Diluted		**$(0.02)**	$(0.00)

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Stated in Canadian dollars

	Notes	Issued capital	Reserves	Retained earnings	Cumulative translation adjustment	Total equity
Balance at December 31, 2014		$5,934,704	$875,288	$7,741,147	$12,549	$14,563,688
Loss for the year		-	-	(18,148)	-	(18,148)
Share-based payments	13	-	272,349	-	-	272,349
Stock options exercised	10	96,437	(39,563)	-	-	56,874
Translation of foreign operations		-	-	-	(5,518)	(5,518)
Balance at December 31, 2015		$6,031,141	$1,108,074	$7,722,999	$7,031	$14,869,245
Loss for the year		**-**	**-**	**(444,766)**	**-**	**(444,766)**
Share-based payments	**13**	**-**	**148,454**	**-**	**-**	**148,454**
Stock options exercised	**10**	**225,849**	**(92,823)**	**-**	**-**	**133,026**
Translation of foreign operations		**-**	**-**	**-**	**60,016**	**60,016**
Balance at December 31, 2016		**$6,256,990**	**$1,163,705**	**$7,278,233**	**$67,047**	**$14,765,975**

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	**2016**	2015
Cash from (used in) operating activities			
Loss for the year		**$(444,766)**	$(18,148)
Adjustments for:			
Income tax expense	14	**117,921**	158,820
Depreciation of property and equipment	6	**606,900**	498,841
Amortization of intangible assets	7	**3,621**	3,620
Non-cash portion of sale of rental unit	6	**(152,441)**	-
Net unrealized foreign exchange losses		**-**	(115,164)
Share-based payments	13	**148,454**	272,349
Movements in non-cash working capital	18	**1,134,374**	238,117
Income taxes refund (paid)		**1,685**	(1,088,315)
Net cash generated from (used in) operating activities		**1,415,748**	(49,880)
Cash used in investing activities			
Payments for property and equipment	6	**(175,999)**	(222,789)
Proceeds from disposal of property and equipment	6	**246,627**	-
Payments for intangible assets	7	**-**	(1,096,137)
Research funding received	7	**-**	617,893
Net cash provided by (used in) investing activities		**70,628**	(701,033)
Cash from financing activities			
Proceeds from exercise of stock options	10	**133,025**	56,874
Net cash from financing activities		**133,025**	56,874
Net increase (decrease) in cash		**1,619,401**	(694,039)
Cash at beginning of the year		**5,127,371**	5,640,570
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(12,875)**	180,840
Cash at end of the year		**$6,733,897**	$5,127,371

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, international environmental Cleantech company founded in 1994 and headquartered in Calgary, Alberta, with field offices located in; Grande Prairie, Alberta; Brighton, Colorado; and Brooksville, Florida. The Company is active in Canada, the United States, Europe and Asia 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; as well as, power generation systems and water treatment solutions utilizing waste heat. The Company's proprietary incinerator technology is utilized worldwide 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 are providing solutions for landfill biogas, syngas, waste engine exhaust, geothermal and solar, cement plant waste heat in addition to a wide variety of oil and gas projects in Canada, throughout the United States, the Caribbean, Western Europe, Russia, Thailand, Indonesia and China.

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 1121, 940 – 6th Avenue S.W., Calgary, Alberta, Canada, T2P 3T1.

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, 2016.

These consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2017.

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%

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.

2. BASIS OF PREPARATION (continued)

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:

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

The determination of whether indicators of impairment exist and the aggregation of assets into cash-generating units ("CGU's") based on their ability to generate independent cash flows are subject to management's judgment. The recoverable amounts used for impairment calculations require estimates of future cash flows related to the assets or CGU's and estimates of discount rates applied to these cash flows.

<u>Carrying value of goodwill</u>

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 operating segment, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The fair value of each operating segment is compared to the carrying value of its net assets.

<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.

<u>Taxation</u>

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

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.

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 consists of bank balances and highly liquid short-term investments with a maturity date of less than 90 days which are convertible to known amounts of cash at any time by the Company without penalties.

Foreign currencies

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 period 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 loss.

Deposit on equipment purchase

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

Inventories

Inventories consist of materials and supplies used in operations and in the fabrication of incinerators, work in progress and finished goods. Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first-out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the construction or acquisition of the asset.

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	5 – 20 years	Straight-line
Detachable trailers for rental incinerators	10 years	Straight-line
Vehicles and utility trailers	30%	Declining balance
Tools and equipment	20%	Declining balance
Leasehold improvements	Shorter of estimated useful life and lease term	Straight-line
Office furniture and equipment	20%	Declining balance
Computer hardware and embedded systems software	30%	Declining balance

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Properties 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 assets, commences when the assets are ready for their intended use.

When a property and equipment asset has significant components with different useful lives, each significant component is depreciated separately. Such is the case for rental incinerators.

The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, 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.

Repairs and maintenance costs that do not improve or extend productive life are recognized in profit or loss in the period in which the costs are incurred.

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.

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 life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets - Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is 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 expenditure 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 expenditure is recognized in profit or loss in the period in which it is 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, 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 a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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 the incinerator. 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.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable, net of sales tax, trade discounts, rebates and similar allowances.

The revenue recognition criteria set out below is applied to the separately identifiable component of a single transaction in order to reflect the substance of the transaction. The consideration received from the transaction is allocated to the separately identifiable components based on the relative fair value of each component.

Revenue is recognized when the criteria specific to each separately identifiable component is met and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of goods

- Revenue from the sale of incinerators and parts is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Significant risks and rewards is transferred to the buyer when the goods are delivered and legal title has passed.
- The sale of rental assets is normal course of business, therefore recognized as revenue, and not treated as an asset disposal.

In general, the Company has no further performance obligations other than those under its standard warranty.

Rendering of services

Revenue from incinerator rentals and the provision of incinerator and combustion services is recognized by reference to the stage of completion of the contract.

Incinerator rental income
Revenue from incinerator rentals is recognized on a straight-line basis over the term of the rental agreement.

Amounts received from customers for use of an incinerator on a trial basis are reflected in the accounts as deferred revenue and deposits until the trial period ends and the nature of the revenue is determined.

Incinerator and combustion services
The stage of completion of the contract is determined as follows:

- Installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period; and,
- Revenue from time and material contracts is recognized at the contractual rates as labor hours and direct expenses are incurred.

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 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 not recognized until 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 period in which they become receivable.

Investment tax credits on Scientific Research and Experimental Development expenditures are reflected in the 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, vehicles and utility trailers and tools and equipment as well as the cost of share-based payment arrangements for employees in the field.

Employee benefits

Post-employment benefits

The Company does not provide post-employment 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 equity, 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.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

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 loss 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 loss or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive loss or directly in equity respectively.

Earnings (loss) 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 (loss) per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all share options with exercise prices below the average market price for the year.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company’s financial assets and financial liabilities are classified into the following categories:

Financial asset/liability	Classification	Measurement
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade payables, accrued liabilities and provisions	Other financial liabilities	Amortized cost

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss' (“FVTPL”), ‘held-to-maturity' investments, ‘available-for-sale' (“AFS”) financial assets and ‘loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Company has designated its cash and trade and other receivables as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The Company has no fair value through profit or loss, held-to-maturity or available-for-sale financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive loss and accumulated in equity is recognized in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

The Company has designated its trade payables, accrued liabilities and provisions as other financial liabilities. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company has no financial liabilities at fair value through profit or loss.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments and hedge accounting

To date, Questor has not utilized hedges or other derivative financial instruments in its operations.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Impairment

Financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of the an allowance or provision for impairment account. Such a provision is established when there is reasonable expectation that the Company will not be able to collect all amounts due. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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 operating segment, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The fair value of each operating segment 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 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.

New accounting policies

There were no new IFRS or IFRIC interpretations that became effective on or after January 1, 2016 that had a material impact on the Company.

Recently issued accounting standards not yet applied

In January 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize all leases on the statement of Financial Position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier application permitted for companies that also applies IFRS 15 Revenue from Contracts with Customers. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will come into effect for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially reformed approach to hedge accounting. IFRS 9 will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

Stated in Canadian dollars

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently issued accounting standards not yet applied (continued)

In April 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows for annual periods beginning on or after January 1, 2017, with earlier application permitted. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

4. INVENTORIES

As at	**December 31, 2016**	December 31, 2015
Materials and supplies	**$161,864**	$162,569
Work in progress	**527,219**	1,742,860
	$689,083	$1,905,429

Inventory costs included in cost of sales:

For the year ended December 31	**2016**	2015
Expensed inventories	**$1,811,532**	$1,978,463

5. PREPAID EXPENSES AND DEPOSITS

As at	**December 31, 2016**	December 31, 2015
Deposits on equipment purchase	**$353,068**	$-
Insurance deposits	**122,778**	61,843
Building and utility deposits	**55,738**	52,041
Other prepaid expenses	**9,946**	5,260
	$541,530	$119,144

Stated in Canadian dollars

6. PROPERTY AND EQUIPMENT

Cost	**Rental incinerators and trailers**	**Light vehicles, tools & equipment**	**Waste heat to power generator**	**Office equipment & leasehold improvements**	**Total**
Balance at December 31, 2014	$4,012,895	$385,780	$159,268	$318,380	$4,876,323
Additions	-	212,158	-	10,631	222,789
Transfer from work in progress	665,063	-	-	-	665,063
Balance at December 31, 2015	$4,677,958	$597,938	$159,268	$329,011	$5,764,175
Additions	-	**164,524**	**-**	**11,475**	**175,999**
Transfer from work in progress	**1,278,197**	**-**	**-**	**-**	**1,278,197**
Disposals	**(104,310)**	**-**	**-**	**-**	**(104,310)**
Balance at December 31, 2016	**$5,851,845**	**$762,462**	**$159,268**	**$340,486**	**$7,114,061**
Accumulated depreciation					
Balance at December 31, 2014	$1,096,052	$188,286	$-	$183,735	$1,468,073
Depreciation charges included in:					
Cost of sales	389,631	63,686	-	1,210	454,527
Depreciation expense	-	-	-	44,314	44,314
Transfer	(43,490)	-	-	-	(43,490)
Balance at December 31, 2015	$1,442,193	$251,972	$-	$229,259	$1,923,424
Depreciation charges included in:					
Cost of sales	**472,827**	**89,926**	**-**	**1,807**	**564,560**
Depreciation expense	**-**	**-**	**-**	**42,338**	**42,338**
Disposal	**(10,124)**	**-**	**-**	**-**	**(10,124)**
Balance at December 31, 2016	**$1,904,896**	**$341,898**	**$-**	**$273,404**	**$2,520,198**
Carrying amounts					
At December 31, 2015	$3,235,765	$345,966	$159,268	$99,752	$3,840,751
At December 31, 2016	**$3,946,949**	**$420,564**	**$159,268**	**$67,082**	**$4,593,863**

In 2016, the Company sold one incinerator from its rental fleet with a net book value of $94,186 for proceeds of $246,267. This disposition was reflected in cost of sales.

Stated in Canadian dollars

7. INTANGIBLE ASSETS

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.

Management commissioned the development of a set of drawings for the fabrication of trailers for certain sized incinerators such that movement from site to site can be easily achieved in incinerator rental situations.

Cost	**Development Costs & drawings**	**Patents**	**Total**
Balance at December 31, 2014	$1,540,558	$15,225	$1,555,783
Additions	1,152,126	-	1,152,126
Research Funding	(617,893)	-	(617,893)
Balance at December 31, 2015 and 2016	$2,074,791	$15,225	$2,090,016
Accumulated Amortization			
Balance at December 31, 2014	$280,025	$9,338	$289,363
Amortization expense	2,404	1,218	3,622
Balance at December 31, 2015	282,429	10,556	292,985
Amortization expense	**2,403**	**1,218**	**3,621**
Balance at December 31, 2016	**$284,832**	**$11,774**	**$296,606**
Carrying Amounts			
At December 31, 2015	1,792,362	4,669	1,797,031
At December 31, 2016	**$1,789,959**	**$3,451**	**$1,793,410**

8. GOODWILL

As at December 31	**2016**	2015
Goodwill	**$687,398**	$687,398

For impairment testing purposes, goodwill acquired through business combinations and intangible assets with indefinite lives have been allocated to the ClearPower Systems CGU.

Management performed the annual impairment tests of goodwill and indefinite life intangible assets at December 31, 2016. The recoverable amounts of the ClearPower Systems segment have been determined based on a value in use calculation using post-tax cash flow projections from financial budgets approved by senior management for 2016, forecasts over a seven year period based on management's best estimates, and uses a post-tax discount rate of 18% (2015 - 30%).

The most significant assumptions used in the impairment calculation are the discount rate and the estimates used in determining future expected cash flows. The Corporation performed a sensitivity analysis by changing the post-tax discount rates by +/- 0.5% and noted no material impact in the ClearPower Systems segment's recoverable amount.

Stated in Canadian dollars

9. SHORT-TERM BORROWINGS

The Company has available a revolving demand operating loan to a maximum of $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. The Company has provided a general security agreement and an assignment of insurance proceeds as security. Up to $100,000 of this loan is available to secure the issue of letters of credit and/or letters of guarantee for suppliers. At December 31, 2016 and 2015, the Company had no outstanding amount of letters of guarantee on this facility.

The Company has a demand revolving foreign exchange facility established to a maximum of USD 250,000 (2015- USD $630,000) to purchase foreign forward exchange contracts in order to hedge against currency fluctuations. This facility is secured by a general security agreement and an assignment of insurance proceeds. The availability of this facility is also subject to the Company meeting certain financial covenants. No amounts have been drawn on this facility to date.

None of the borrowing facilities are subject to standby fees and there is no specified facility expiration or renewal date.

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 all debt covenants at December 31, 2016 and 2015.

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, 2014	25,839,870	$5,934,704
Stock options exercised	125,000	96,437
Shares issued and outstanding, December 31, 2015	25,964,870	6,031,141
Stock options exercised	**480,000**	**225,849**
Shares issued and outstanding, December 31, 2016	**26,444,870**	**$6,256,990**

Share options granted under the Company's share option plan

The Company has a share option plan under which directors, officers, key employees and consultants of Questor are eligible to receive grants at market prices.

During the year ended December 31, 2016, the shareholders approved an amendment to the Company's stock option plan to fix the maximum number of common shares reserved for issuance at 10% of the number of common shares of the Company issued and outstanding as of the effective date of September 15, 2016. At December 31, 2015, the number of common shares reserved for issuance under Company's stock option plan was fixed at a maximum of 4,708,474 shares.

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.

At December 31, 2016, directors, officers, key employees and consultants held options of 1,145,500 common shares of the Company (2015 – 850,500).

Share-based payment costs for the year ended December 31, 2016 were $148,454 (2015 - $272,349). Of this amount, $nil (2015 - $5,158) was included in cost of sales and the balance in administration expenses.

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

Stated in Canadian dollars

11. REVENUE AND OTHER INCOME (EXPENSE)

The following is an analysis of the Company's revenue:

For the years ended December 31	**2016**	2015
Equipment sales	**$3,282,981**	$3,950,895
Equipment rentals	**3,214,091**	3,067,334
Services & repair	**581,261**	1,094,684
	$7,078,333	$8,112,913

The following is an analysis of the Company's other income (expense):

For the years ended December 31,	**2016**	2015
Bad debt (expense) recovery	**$168,940**	$(706,929)
Net interest income	**28,155**	37,589
Other	**198**	17,066
	$197,293	$(652,274)

During 2015, the Company wrote-off $706,929 of receivables as result of two customers filing chapter 11 bankruptcies. Of that amount, $168,940 was recovered in 2016.

12. NATURE OF EXPENSES

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

For the year ended December 31, 2016	**Cost of sales**	**Administration expenses**
Employee costs excluding share-based payments	**$681,262**	**$1,695,380**
Share-based payments	**-**	**148,454**
Depreciation	**564,560**	**-**
Direct materials, warranties and indirect overhead related to the field office	**3,151,736**	**-**
Office and corporate related	**-**	**1,213,956**
	$4,397,558	**$3,057,790**

For the year ended December 31, 2015	Cost of sales	Administration expenses
Employee costs excluding share-based payments	$470,073	$1,307,797
Share-based payments	5,158	267,191
Depreciation	454,527	-
Direct materials, warranties and indirect overhead related to the field office	3,830,711	
Office and corporate related	-	1,260,167
	$4,760,469	$2,835,155

Stated in Canadian dollars

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, 2016.

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.

The Board of Directors grants share options from time to time based on its assessment of the appropriateness of doing so in light of the long-term strategic objectives of the Company, its current stage of development, the need to retain or attract particular key personnel, the number of share options already outstanding and overall market conditions.

The following share-based payment arrangements were in existence at December 31, 2016 and 2015:

At December 31, 2016

Number outstanding	Grant date	Expiry date	Remaining contractual life		Exercise price		Fair value at grant date	Number exercisable
12,500	25-Apr-12	25-Apr-17	0.32		0.28		0.20	12,500
273,000	15-Apr-14	15-Apr-19	2.29		2.48		1.76	136,500
20,000	09-Jun-14	09-Jun-19	2.44		3.99		2.78	10,000
200,000	20-Jan-16	20-Jan-21	4.06		0.77		0.56	-
640,000	7-Dec-16	7-Dec-21	4.94		0.65		0.44	-
1,145,500			**4.06**	(1)	**$ 1.16**	(2)		**159,000**

At December 31, 2015

Number outstanding	Grant date	Expiry date	Remaining contractual life(1)		Exercise price		Fair value at grant date	Number exercisable
25,000	26-Apr-11	26-Apr-16	0.32		0.23		0.16	25,000
467,500	25-Apr-12	25-Apr-17	1.32		0.28		0.20	292,500
348,000	15-Apr-14	15-Apr-19	3.29		2.48		1.76	87,000
40,000	09-Jun-14	09-Jun-19	3.44		3.99		2.78	10,000
880,500			2.20	(1)	$ 1.35	(2)		414,500

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

Stated in Canadian dollars

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	December 7, 2016	January 20, 2016
Grant date share price(1)	0.65	0.80
Exercise price ($)	0.65	0.77
Expected volatility (%)	90	90
Expected life (years)	5	5
Expected dividend yield (%)	-	-
Risk-free interest rate (%)	0.99	0.63
Forfeiture rate (%)(2)	10	10
Fair value per option ($)		

(1) *Closing market price of the common shares on the TSX Venture Exchange on the dates of grant or the first trading day immediately following the dates of grant if no common shares traded on the grant dates.*

(2) *A forfeiture rate is estimated for the number of options expected to vest. Consequently, the Company has adjusted its share-based payments to reflect a forfeiture rate estimate.*

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

	Options Outstanding			
	2016		2015	
	Number	**Exercise price(1)**	Number	Exercise price(1)
Balance at beginning of the year	**880,500**	**$1.35**	1,180,500	$1.11
Granted	**840,000**	**0.68**	-	-
Forfeited	**(95,000)**	**-**	(175,000)	-
Exercised	**(480,000)**	**0.28**	(125,000)	0.46
Balance at end of the year	**1,145,500**	**$1.16**	880,500	$1.35
Exercisable at end of the year	**159,000**	**$2.40**	414,500	$0.83

(1) *Weighted average.*

During the year ended December 31, 2016, 480,000 (2015 – 125,000) options were exercised for cash consideration of $133,026 (2015 - $56,874). The fair value of these options, of $92,823 (2015 - $39,563) was transferred from reserves to issued capital.

Stated in Canadian dollars

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 income before tax as follows:

For the years ended December 31	**2016**	2015
Profit (loss) before tax	**$(326,845)**	$140,672
Statutory income tax rate (%)	**26.75**	26.00
Expected taxes (recovery) at statutory rate	**(87,431)**	36,575
Increase (decrease) in taxes resulting from:		
Non-deductible expenses/non-taxable income	**69,134**	(15,811)
Change to income tax rate	**-**	17,331
Foreign tax rate and other foreign differences	**(79,200)**	-
Provision to return	**215,418**	120,725
Income tax expense	**$117,921**	$158,820

The Alberta Corporate tax rate increased on July 1, 2015, resulting in an increase in the Corporation's combined statutory tax rate.

The provision for income taxes is comprised of the following:

	2016	2015
Current	**$522,805**	$26,783
Deferred	**(404,884)**	132,037
Income tax expense	**$117,921**	$158,820

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

	2016	2015
Development costs	**$(58,364)**	$(32,307)
Property and equipment	**(85,743)**	(279,937)
Lease inducement	**11,338**	18,721
Deferred revenue	**(28,571)**	-
Deferred tax asset (liabilities)	**$(161,340)**	$(293,523)

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

	2016	2015
Development costs	**$(59,342)**	$-
Property and equipment	**(61,300)**	-
Unpaid rents	**179,299**	-
Non-capital losses	**213,273**	-
Other	**(14,354)**	-
Deferred tax asset (liabilities)	**$257,576**	$-

Deferred tax assets are recorded only to the extent that future taxable income will be available against which the deferred 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

15. LOSS PER SHARE

Basic loss per share

For the years ended December 31,	**2016**	2015
Loss for the year attributable to ordinary equity holders	**$(444,766)**	$(18,148)
Weighted average number of ordinary shares for the purposes of basic loss per share	**26,138,665**	25,922,747
Basic loss per share	**$(0.02)**	$(0.00)

Diluted loss per share

For the years ended December 31, 2016 and December 31, 2015, shares deemed to be issued are not included in the computation of diluted earnings per share, because to do so would have been anti-dilutive. The number of shares not included for the year ended December 31, 2016 are 201,921 (December 31, 2015 - 81,323).

16. SEGMENTED INFORMATION

The Company reports its financial results as one reportable segment.

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

Revenue

For the years ended December 31,	**2016**	2015
Canada	**$3,624,494**	$4,310,144
United States	**3,274,456**	3,800,890
International	**179,383**	1,879
	$7,078,333	$8,112,913

The following table provides information regarding the location of the Company's property and equipment on a geographic basis as determined by the location of the customer or third party.

Property and equipment

As at December 31,	**2016**	2015
Canada	**$1,405,363**	$2,148,379
United States	**3,188,500**	1,692,372
	$4,593,863	$3,840,751

Stated in Canadian dollars

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, 2016, Questor complies 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 2017 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 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,	**2016**	2015
Trade and other receivables	**$822,888**	$896,828
Inventories	**(61,849)**	(359,950)
Prepaid expenses and deposits	**(422,386)**	522
Trade payables, accrued liabilities and provisions	**391,863**	(325,457)
Deferred revenue and deposits	**455,858**	78,176
Lease inducement	**(52,000)**	(52,002)
	$1,134,374	$238,117

19. FINANCIAL INSTRUMENTS

The Company's financial instruments consist, from time to time, of cash, trade receivables, trade payables, accrued liabilities and provisions. The carrying amounts of the current financial assets and current financial liabilities recognized in the Company's consolidated financial statements at the end of each reporting period approximate their fair value due to their short period to maturity.

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 included 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, 2016 and 2015. The Company has cash subject to level 1 valuation. , Questor did not have any financial assets and liabilities measured at fair value on a recurring basis using Level 1, Level 2 or Level 3 inputs.

Stated in Canadian dollars

19. FINANCIAL INSTRUMENTS (continued)

Financial assets are assessed for indicators of impairment at the end of each reporting period. At December 31, 2016, and 2015, there was no impairment required on any of the financial assets of the Company.

20. FINANCIAL RISK MANAGEMENT

The Company is exposed to credit risk, liquidity risk, and market price risk (interest rate and foreign currency) as a result of holding financial instruments.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. The credit risk relating to cash balances is limited because the counterparty is a large commercial bank in Canada. Financial instruments that subject the Company to credit risk consist primarily of trade receivables. The amounts reported for trade receivables in the consolidated statement of financial position are net of allowances for doubtful accounts and bad debts and the net carrying value represents the Company's maximum exposure to credit risk.

Trade receivables credit exposure is minimized by entering into transactions with creditworthy counterparties, requiring deposits for incinerator sales, requiring progress payments or letters of credit in respect of international sales and monitoring the age and balances outstanding on an ongoing basis. Most of the Company's credit exposures are with counterparties in the energy industry and are subject to normal industry credit risk. Payment terms with customers are 30 days from invoice date however industry practice can extend these terms.

The following table sets forth details of the aging profile of trade and other receivables and the allowance for doubtful accounts:

As at December 31	**2016**	2015
Current (for less than 30 days)	**$643,192**	$1,527,470
31 – 60 days past due	**412,201**	218,160
61 – 90 days past due	**-**	263,132
Past due for greater than 90 days	**-**	139,409
Trade and other receivables	**$1,055,393**	$2,148,171

During the year ended December 31, 2016, 48% (2015 – 20%) of revenues were generated from two (2015 – one) customer(s), each with revenues greater than 10% of total revenues.

As at December 31, 2016, three (2015 - 5) customers accounted for 85% (2015 - 67 %) of the accounts receivable.

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company generally relies on funds generated from operations and credit facilities to provide sufficient liquidity to meet budgeted operating requirements and to supply capital to finance the development of new clean air technologies or acquisitions.

At December 31, 2016 and 2015, the Company had the following contractual maturities with respect to non-derivative financial liabilities:

As at December 31,	Maturity	**2016**	2015
Trade payables, accrued liabilities and provisions	Within 1 year	**$1,029,201**	$893,398
Current portion of lease inducement	Within 1 year	**17,336**	52,002
		$1,046,537	$945,400

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

Foreign currency risk

Foreign currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company maintains cash balances and enters into transactions denominated in foreign currencies, principally in United States dollars, which exposes Questor to fluctuating balances and cash flows due to variations in foreign exchange rates.

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

As at December 31,	**2016**	2015
Cash	**$3,723,060**	$1,622,438
Trade receivables and current tax assets	**975,288**	728,124
Monetary assets	**4,698,348**	2,350,562
Trade payables, accrued liabilities and provisions	**72,678**	165,436
Deferred revenue and deposits	**428,217**	2,679.00
Current tax liabilities	**-**	77,206
Monetary liabilities	**500,895**	245,321
Net monetary assets	**$4,197,453**	$2,105,241

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 before tax by approximately $207,778 (2015 - $105,262).

To date, Questor has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates. However, the Company has a facility available to purchase foreign forward exchange contracts if required, as described in Note 9.

Stated in Canadian dollars

21. COMMITMENTS

Leases

The Company has lease commitments for three premises requiring aggregate minimum payments over the five years as follows:

As at December 31	**2016**	2015
2016	**-**	$449,099
2017	**$279,803**	349,496
2018	**180,352**	227,802
2019	**77,080**	79,603
	$537,235	$1,106,000

During 2016, the Company renegotiated one lease agreement, resulting in a decrease of commitments in future years.

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,	**2016**	2015
Salaries, director's fees and other short-term employee benefits	**$653,240**	$928,033
Share-based payments	**110,773**	131,733
	$764,013	$1,059,766

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, 2016 and 2015 with respect to the preceding key management personnel compensation.

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 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.

24. SUBSEQUENT EVENT

Office Lease

On February 6, 2017, the Company entered into a commercial building lease agreement. The term of the lease is six years, commencing December 1, 2018 and expiring November 30, 2024. The lease agreement includes a fixturing period of June 1, 2017 to November 30, 2018. Total commitments over the lease period are $1,296,000, which is comprised of total base rent payable $576,000 and total operating costs of $720,000.