MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These financial statements are the responsibility of the management of Questor Technology Inc. and have been approved by the Board of Directors of the Company. They have been prepared in accordance with International Financial Reporting Standards using management's best estimates and judgments, where appropriate. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. Management is also responsible for ensuring that it fulfills its responsibilities for financial reporting and internal control.

The Board of Directors is composed primarily of directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Committee"). The Committee is composed entirely of independent directors with financial expertise. The Committee meets periodically with management and the auditors to satisfy itself that management's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

Deloitte LLP, the independent auditor, has audited Questor Technology Inc.'s financial statements in accordance with Canadian generally accepted auditing standards and has provided an independent opinion. The auditor has full and unrestricted access to management and to the Committee to discuss their audit and related findings as to the integrity of the financial reporting process.

(signed) "Audrey Mascarenhas"
Audrey Mascarenhas
President and Chief Executive Officer
April 15, 2014

(signed) "Kim Hubick"
Kim Hubick
Chief Financial Officer and Corporate Secretary
April 15, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Questor Technology Inc.

We have audited the accompanying financial statements of Questor Technology Inc., which comprise the statements of financial position as at December 31, 2013 and December 31, 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Questor Technology Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants

April 15, 2014

Calgary, Alberta

QUESTOR TECHNOLOGY INC.
STATEMENTS OF FINANCIAL POSITION

Stated in Canadian dollars

As at	Notes	**December 31 2013**	December 31 2012
ASSETS			
Current assets			
Cash and cash equivalents	4	**$ 7,323,303**	$ 4,405,624
Trade and other receivables	5, 22	**2,863,257**	2,304,478
Inventories	6	**2,359,276**	670,959
Prepaid expenses and deposits		**124,163**	88,378
Current tax assets		**77,849**	25,158
Total current assets		**$ 12,747,848**	7,494,597
Non-current assets			
Property and equipment	7	**1,256,066**	2,295,529
Intangible assets	8	**25,915**	8,323
Total non-current assets		**1,281,981**	2,303,852
Total assets		**$ 14,029,829**	$ 9,798,449
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables, accrued liabilities and provisions	9	**$ 1,746,259**	$ 894,206
Deferred revenue and deposits		**252,356**	2,205
Current portion of lease inducement		**52,002**	26,770
Current tax liabilities		**638,527**	171,907
Total current liabilities		**$ 2,689,143**	$ 1,095,088
Non-current liabilities			
Deferred tax liabilities	16	**53,793**	97,319
Lease inducement	23	**121,337**	125,976
Total non-current liabilities		**175,130**	223,295
Total liabilities		**2,864,274**	1,318,383
Capital and reserves			
Issued capital	11	**5,636,119**	5,521,001
Reserves	12	**703,156**	676,834
Retained earnings		**4,826,280**	2,282,231
Total equity		**11,165,555**	8,480,066
Total liabilities and equity		**$ 14,029,829**	$ 9,798,449

Commitments and subsequent events 23,24

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

Approved by the Board of Directors:

__(signed) "James Inkster"_____
James Inkster, Director

__(signed) "Audrey Mascarenhas"_______
Audrey Mascarenhas, Director

QUESTOR TECHNOLOGY INC.
STATEMENTS OF COMPREHENSIVE INCOME
Stated in Canadian dollars except per share data

For the years ended December 31	Notes	**2013**	2012
Revenue	13	**$ 9,574,950**	$ 6,684,475
Cost of sales	6, 14	**(4,849,374)**	(3,606,295)
Gross profit		**4,725,576**	3,078,180
Administration expenses	14	**(1,645,923)**	(1,621,055)
Gain/(loss) on disposal of property and equipment	7	**14,457**	(27,865)
Depreciation of property and equipment	7,14	**(41,261)**	(41,316)
Amortization of intangible assets	8	**(1,218)**	(1,218)
Net foreign exchange gains		**91,363**	10,603
Other income	13	**9,689**	23,997
Profit before tax		**3,152,683**	1,421,326
Income tax expense	16	**(608,634)**	(380,970)
Profit and total comprehensive income		**$ 2,544,049**	$ 1,040,356
Earnings per share	17		
Basic		**$ 0.101**	$ 0.042
Diluted		**$ 0.098**	$ 0.041

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

QUESTOR TECHNOLOGY INC.
STATEMENTS OF CHANGES IN EQUITY

Stated in Canadian dollars

	Issued capital	Reserves	Retained earnings	Total equity
Balance at January 1, 2012	$ 5,458,215	$ 622,226	$ 1,241,875	$ 7,322,316
Profit and total comprehensive income	-	-	1,040,356	1,040,356
Recognition of share-based payments	-	79,520	-	79,520
Issue of ordinary shares under employee share option plan	62,786	(24,912)	-	37,874
Balance at January 1, 2013	$ 5,521,001	$ 676,834	$ 2,282,231	$ 8,480,066
Profit and total comprehensive income			2,544,049	2,544,049
Recognition of share-based payments		72,814		72,814
Issue of ordinary shares under employee share option plan	115,118	(46,492)		68,626
Balance at December 31, 2013	**$ 5,636,119**	**$ 703,156**	**$ 4,826,280**	**$ 11,165,555**

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

QUESTOR TECHNOLOGY INC.
STATEMENTS OF CASH FLOWS
Stated in Canadian dollars

For the years ended December 31	Notes	2013	2012
Cash flows from (used in) operating activities			
Profit and total comprehensive income for the year		**$ 2,544,049**	$ 1,040,356
Adjustments for:			
Income tax expense	16	**608,634**	380,970
Loss/(gain) on disposal of property and equipment	7	**(14,457)**	27,865
Depreciation of property and equipment	7,14	**300,473**	300,819
Amortization of intangible assets	8	**1,218**	1,218
Net unrealized foreign exchange gains		**31,162**	(5,775)
Expense recognized in respect of equity-settled share-based payments	11, 15	**72,814**	79,520
Write-downs of inventories to net realizable value	6	**-**	1,470
Funds flow from operations		**3,543,893**	1,826,443
Movements in non-cash working capital	20	**(391,512)**	1,609,381
Cash generated from operations		**3,152,381**	3,435,824
Income taxes paid		**(100,111)**	(461,059)
Net cash generated from operating activities		**3,052,270**	2,974,765
Cash flows (used in) from investing activities			
Payments for property and equipment	7	**(206,491)**	(770,781)
Proceeds from disposal of property and equipment	7	**28,550**	-
Additions to intangibles	8	**(18,810)**	-
Net cash used in investing activities		**(196,751)**	(770,781)
Cash flows from financing activities			
Proceeds from issue of ordinary shares under employee share option plan	15	**68,625**	37,874
Net cash from financing activities		**68,625**	37,874
Net increase in cash and cash equivalents		**2,924,144**	2,241,858
Cash and cash equivalents at beginning of the year		**4,405,624**	2,166,301
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(6,465)**	(2,535)
Cash and cash equivalents at end of the year		**7,323,303**	$ 4,405,624

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

1. DESCRIPTION OF BUSINESS

Questor Technology Inc. ("Questor" or the "Company") is incorporated in Canada under the Business Corporations Act (*Alberta*) and its 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. The Company also has a field office in Grande Prairie, Alberta.

Questor is an international environmental oilfield services provider focused on clean air technologies with activities in Canada, the United States, Europe and Asia. The principal business activities are designing and manufacturing high efficiency waste gas incinerators for sale or for use on a rental basis and providing combustion-related oilfield services.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective or available for adoption on December 31, 2013.

These financial statements were authorized for issue by the Board of Directors on April 15, 2014.

Basis of measurement

These financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These financial statements are presented in Canadian dollars which is the Company's functional currency.

Accounting estimates and judgments

In the application of the Company's accounting policies, which are described in note 3, 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 financial statements, and the reported amounts of revenues and expenses for the periods 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 period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Componentization and useful lives of property and equipment and intangible assets

Amounts recorded for depreciation and amortization expense are based on the Company's componentization of its property and equipment assets and management's estimates of the useful life, pattern of consumption of future economic benefits and residual values of the Company's property and equipment and intangible assets. These estimates affect the carrying amount of property and equipment and intangible assets and are disclosed in notes 7 and 8, respectively.

Impairment of non-financial assets

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.

As at December 31, 2013 and December 31, 2012 the Company determined that there were no indicators of impairment present.

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Determining the fair value of such share-based awards requires judgment as to the appropriate valuation model and the inputs for the model require assumptions including the rate of forfeiture of options granted, the expected life of the option, the expected volatility of the Company's share price, the risk-free interest rate and expected dividends. The assumptions and models used by management to determine the fair value of share options are disclosed in note 15.

Taxation

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.

Other

Other areas where the Company has made subjective estimates and judgments as a result of matters that are inherently uncertain, but which are not anticipated to have a significant risk of causing a material adjustment, are the fair value of financial instruments, revenue recognition by reference to the stage of completion of the contract, allowances for uncollectible trade receivables, likelihood of loss from litigation and estimates for warranty costs.

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 periods presented in these financial statements.

Foreign currencies

Transactions in currencies other than the entity'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 retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of three months or less.

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.

Cost includes expenditures that are directly attributable to the construction or acquisition of the asset.

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.

Depreciation is recorded so as to recognize the cost or valuation of assets (other than capital projects in progress) less their residual values 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

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, residual values and depreciation method 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.

Intangible assets

<u>Intangible assets acquired separately</u>

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each 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.

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 unit rental situations. These drawings are expected to be utilized over a ten year period and the cost will be amortized over that time.

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.

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.

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 on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives 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.

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 are generally considered to be transferred to the buyer when the goods are delivered and legal title has passed.

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 labour 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 in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate.

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 ("SR&ED") expenditures are reflected in the accounts as deductions from development costs when the expenditures giving rise to the investment tax credits have been capitalized. Otherwise, investment tax credits on SR&ED expenditures are recorded as other income.

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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 15.

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized as they accrue, in profit or loss using the effective interest method.

Taxation

Income 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 statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the 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 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 income or directly in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

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 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 and cash equivalents	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 cash equivalents 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.

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 derecognition 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 income 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.

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.

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.

Recent accounting pronouncements

The International Accounting Standards Board ("IASB") and IFRIC have issued a number of new and revised International Accounting Standards ("IAS"), amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2013, or later.

The following standards and interpretations were effective beginning January 1, 2013 but did not have a material impact on the Company as at and for the year ended December 31, 2013:

- IAS 19 (Amended) *Employee Benefits;*
- IAS 27 (Amended) *Separate Financial Statements;*
- IAS 28 (Revised) *Investments in Associates and Joint Ventures;*
- IFRS 10 *Consolidated Financial Statements*;
- IFRS 11 *Joint Arrangements*; and
- IFRS 12 *Disclosure of Interests in Other Entities*.
- IFRS 13 Financial Instruments: Presentation

The following are IFRS changes that have been issued by the International Accounting Standards Board, which may affect the Company, but are not yet effective:

IFRS 9, Financial Instruments, was issued in November 2009 and is the first step to replace current IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is m easured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The IASB has removed the effective date of this IFRS as they continue to make amendments to the proposed standard. Questor will continue to monitor the changes to this standard as they arise and will be determining the impact accordingly.

IAS 32, Financial Instruments Presentation – in December 2011, the IASB issued amendments to address inconsistencies when applying the offsetting criteria outlined in this standard. These amendments clarify certain required criteria be met in order to permit the offsetting of financial assets and financial liabilities. The standard is required to be adopted retrospectively for periods beginning on or after January 1, 2014. The retrospective adoption of this standard is not expected to have any impact on Questor's financial statements.

IFRIC Interpretation 21 Levies ("IFRIC 21") clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. IFRIC 21 may have an impact on the Company's accounting for production and similar taxes.

Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets, will expand and clarify the requirements to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. The amendments apply retrospectively for annual periods beginning on or after January 1, 2014. The extent of the adoption of the Amendments to IAS 36 has not yet been determined

4. CASH AND CASH EQUIVALENTS

Certain cash balances are held in foreign currencies of which the Canadian dollar equivalent is as follows:

As at December 31	**2013**	2012
United States dollars	**$ 464,614**	$ 514,438
Euros	**11,485**	122,477
Other non-Canadian currencies	**65**	60
	476,164	636,975
Canadian dollars	**6,847,139**	2,767,707
90-day term deposit plus accreted interest at 0.80 percent	**-**	1,000,942
	$ 7,323,303	$ 4,405,624

The Company's exposure to interest rate and foreign currency risks and sensitivity analysis for financial assets is discussed in note 22.

5. TRADE AND OTHER RECEIVABLES

As at December 31	**2013**	2012

Trade receivables	**$ 2,484,152**	$ 2,509,212
Other receivables	**379,105**	-
	2,863,257	2,509,212
Allowance for doubtful accounts	**-**	(204,734)
	$ 2,863,257	$ 2,304,478

The Company's exposure to credit and foreign currency risks is discussed in note 22.

6. INVENTORIES

As at December 31	**2013**	2012
Materials and supplies	**$ 88,393**	$ 61,097
Work in progress	**2,199,634**	538,613
Finished goods	**71,249**	71,249
	$ 2,359,276	$ 670,959

Inventory costs included in cost of sales:

For the years ended December 31	**2013**	2012
Expensed through cost of sales	**$ 3,416,418**	$ 1,794,414
Write-downs of inventories to net realizable value	**-**	1,470
	$ 3,416,418	$ 1,795,884

7. PROPERTY AND EQUIPMENT

	Rental incinerators	Detachable trailers for rental incinerators	Vehicles and trailers	Tools and equipment	Leasehold improve-ments	Office furniture and equipment	Computer hardware and software	Capital projects in progress	Total
Cost									
Balance at January 1, 2012	$ 1,996,706	$ 260,073	$ 212,758	$ 47,954	$ 176,867	$ 38,901	$ 46,451	$ 200,540	$ 2,980,250
Additions	233,991	26,936	5,659	2,650	-	9,341	1,662	490,542	770,781
Transfers	220,247	-,	-	-	-	-	-	(420,787)	(200,540)
Disposals:									
To third parties	-	-	-	-	-	-	-	-	-
De-recognition	(91,304)	-	-	-	-	-	-	-	(91,304)
Balance at December 31, 2012	$ 2,359,640	$ 287,009	$ 218,417	$ 50,604	$ 176,867	$ 48,242	$ 48,113	$ 270,295	$ 3,459,187
Additions	20,189	4,000	86,104	4,690	-	-	9,084	82,424	206,491
Transfers	-	-	-	-	-	-	-	(352,719)	(352,719)
Disposals:									
To third parties[1]	(819,499)	-	(111,814)	-	-	-	-	-	(931,313)
De-recognition	-	-	-	-	-	-	-	-	-
Balance at December 31, 2013	**$ 1,560,330**	**$ 291,009**	**$ 192,707**	**$ 55,294**	**$ 176,867**	**$ 48,242**	**$ 57,197**	**$ -**	**$ 2,381,646**
Accumulated depreciation									
Balance at January 1, 2012	$ 514,282	$ 173,534	$ 157,293	$ 24,859	$ 19,648	$ 12,210	$ 24,452	-	$ 926,278
Transfers			-	-	-	-	-	-	-
Depreciation charges included in:									
Cost of sales	203,482	35,931	15,828	4,262	-	-	-	-	259,503
Depreciation expense	-	-	-	-	29,472	6,080	5,764	-	41,316
Disposals:									
To third parties	-	-	-	-	-	-	-	-	-
De-recognition	(63,439)	-	-	-	-	-	-	-	(63,439)
Balance at December 31, 2012	$ 654,325	$ 209,465	$ 173,121	$ 29,121	$ 49,120	$ 18,290	$ 30,216	-	$ 1,163,658
Depreciation charges included in:									
Cost of sales	206,789	21,510	26,538	4,374	-	-	-	-	259,211
Depreciation expense	-	-	-	-	29,472	5,470	6,320	-	41,262
Disposals:									
To third parties[1]	(240,831)	-	(97,720)	-	-	-	-	-	(338,551)
De-recognition	-	-	-	-	-	-	-	-	-
Balance at December 31, 2013	**$ 620,283**	**$ 230,975**	**$ 101,939**	**$ 33,495**	**$ 78,592**	**$ 23,760**	**$ 36,536**	**$ -**	**$1,125,580**
Carrying amounts									
At December 31, 2012	$ 1,705,315	$ 77,544	$ 45,296	$ 21,483	$ 127,747	$ 29,952	$ 17,897	$ 270,295	$ 2,295,529
At December 31, 2013	**$ 940,047**	**$ 60,034**	**$ 90,768**	**$ 21,799**	**$ 98,275**	**$ 24,482**	**$ 20,661**	**$ -**	**$ 1,256,066**

[(1)] 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.

8. INTANGIBLE ASSETS

	Development Costs	Patents	Drawings	Total
Balance at January 1, 2012	$ 277,796	$ 15,225	-	$ 293,021
Additions	-	-	-	-
Balance at December 31, 2012	277,796	15,225	-	293,021
Additions	**-**	**-**	**18,810**	**18,810**
Balance at December 31, 2013	**$ 277,796**	**$ 15,225**	**$ 18,810**	**$ 311,831**
Accumulated Amortization				
Balance at January 1, 2012	**$ 277,796**	**$ 5,684**	**$ -**	**$ 283,480**
Amortization expense	**-**	**1,218**	**-**	**1,218**
Balance at December 31, 2012	**277,796**	**6,902**	**-**	**284,698**
Amortization expense	**-**	**1,218**	**-**	**1,218**
Balance at December 31, 2013	**$ 277,796**	**$ 8,120**	**$ -**	**$ 285,916**
Carrying Amounts				
At December 31, 2012	**$ -**	**$ 8,323**	**-**	**$ 8,323**
At December 31, 2013	**$ -**	**$ 7,105**	**$ 18,810**	**$ 25,915**

9. TRADE PAYABLES, ACCRUED LIABILITIES AND PROVISIONS

As at December 31	**2013**	2012
Trade payables	**$ 1,252,012**	$ 676,806
Accrued liabilities	**488,787**	211,940
Provisions	**5,460**	5,460
	$ 1,746,259	$ 894,206

The Company's exposure to liquidity and foreign currency risks related to trade payables, accrued liabilities and provisions is discussed in note 22.

10. 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, 2013 and 2012, no amounts were drawn on this facility and the Company had no letters of credit and/or letters of guarantee outstanding.

The Company has a revolving foreign letter of credit / letter of guarantee facility established to a maximum of USD 2 million and at a fee equal to 1.50 percent per annum calculated in relation to the face amount and term of the letter of credit / letter of guarantee. At December 31, 2013 and 2012 no amounts were drawn on this facility.

The Company has a demand revolving foreign exchange facility established to a maximum of 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. Questor was in compliance with these covenants at December 31, 2013 and 2012.

11. 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 January 1, 2012	24,857,370	$ 5,458,215
Issue of ordinary shares under employee share option plan	150,000	62,786
Shares issued and outstanding, December 31, 2012	25,007,370	$ 5,521,001
Issue of ordinary shares under employee share option plan	**225,000**	**115,118**
Shares issued and outstanding, December 31, 2013	**25,232,370**	**$ 5,636,119**

Share options granted under the Company's employee 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. Options may be granted to purchase authorized but unissued common shares of the Company to 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, 2013, directors, officers, key employees and consultants held options of 1,400,000 ordinary shares of the Company. (2012 - 1,275,000).

Share-based payment costs for the year ended December 31, 2013 were $72,814 (2012 - $79,520). Of this amount, $9,265 (2012 - $8,442) was included in cost of sales and the balance in administration expenses.

Further details of the employee share option plan are provided in notes 12 and 15.

12. RESERVES

For the years ended December 31	**2013**	2012
Reserves at beginning of the year	**$ 676,834**	$ 622,226
Recognition of share-based payments	**72,814**	79,520
Issue of ordinary shares under employee share option plan	**(46,492)**	(24,912)
Reserves at end of the year	$ **703,156**	$ 676,834

13. REVENUE AND OTHER INCOME

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

For the years ended December 31	**2013**	2012
Sale of goods	**$ 8,122,255**	$ 3,732,855
Rendering of services		
Incinerator rental income	**1,050,679**	1,735,500
Incinerator and combustion services	**402,016**	1,216,120
	$ 9,574,950	$ 6,684,475

The following is an analysis of the Company's Other income:

For the years ended December 31	**2013**	2012
Government assistance	**$ -**	$ 10,880
Net interest income	**4,114**	9,388
Other	**5,575**	3,729
	$ 9,689	$ 23,997

14. NATURE OF EXPENSES

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

For the year ended December 31, 2013	**Cost of sales**	**Administration expenses**	**Total**
Employee costs excluding share-based payments	**631,914**	**872,972**	**1,504,886**
Share-based payments	**9,265**	**63,549**	**72,814**
Depreciation	**259,212**	**41,261**	**300,473**
Direct materials, warranties and indirect overhead related to the field office	**3,948,983**	**-**	**3,948,983**
Other	**-**	**709,402**	**709,402**
	4,849,374	**1,687,184**	**6,536,558**

For the year ended December 31, 2012	Cost of sales	Administration expenses	Total
Employee costs excluding share-based payments	$ 732,812	$ 743,370	$ 1,476,182
Share-based payments	8,442	71,078	79,520
Depreciation	259,503	41,316	300,819
Direct materials, warranties and overhead related to the field office	2,605,538	-	2,605,538
Other	-	806,607	806,607
	$ 3,606,295	$ 1,662,371	$ 5,268,666

15. 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 June 3, 2005.

Each employee share option converts into one ordinary 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 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, 2013 and 2012:

At December 31, 2013:

Number outstanding	**Grant date**	**Expiry date**	**Remaining contractual life[(1)]**	**Exercise price[(2)]**	**Fair value at grant date**	**Number exercisable**
125,000	**01-May-09**	**01-May-14**	**.33**	**0.2500**	**0.1868**	**125,000**
100,000	**26-Apr-10**	**26-Apr-15**	**1.32**	**0.2700**	**0.1905**	**75,000**
25,000	**15-Oct-10**	**15-Oct-15**	**1.79**	**0.2350**	**0.1644**	**-**
100,000	**26-Apr-11**	**26-Apr-16**	**2.32**	**0.2250**	**0.1585**	**50,000**
700,000	**25-Apr-12**	**25-Apr-17**	**3.32**	**0.2800**	**0.1953**	**175,000**
350,000	**25-Apr-13**	**25-Apr-18**	**4.32**	**0.5300**	**0.3685**	**-**
1,400,000			**3.06**	**$ 0.3344**		**425,000**

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

At December 31, 2012:

Number outstanding	Grant date	Expiry date	Remaining contractual life[1]		Exercise price[2]	Fair value at grant date	Number exercisable
75,000	14-Apr-08	14-Apr-13	.29	$	0.4300	0.3246	75,000
200,000	01-May-09	01-May-14	1.33		0.2500	0.1868	150,000
100,000	26-Apr-10	26-Apr-15	2.32		0.2700	0.1905	50,000
100,000	15-Oct-10	15-Oct-15	2.79		0.2350	0.1644	50,000
100,000	26-Apr-11	26-Apr-16	3.32		0.2250	0.1585	25,000
700,000	25-Apr-12	25-Apr-17	4.32		0.2800	0.1953	-
1,275,000			3.26	$	0.2755		350,000

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 for options issued in 2013 and 2012	
Inputs to the model	**25-Apr-13**	26-Apr-12
Grant date share price[1]	**0.5300**	0.2800
Exercise price ($)	**0.5300**	0.2800
Expected volatility (%)	**90.00**	90.00
Expected life (years)	**5.00**	5.00
Expected dividend yield (%)	**0.00**	0.00
Risk-free interest rate (%)	**1.21**	1.47
Forfeiture rate (%)[2]	**9.40**	9.40

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

(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 are as follows:

	Options Outstanding			
	2013		2012	
	Number	**Exercise price[1]**	Number	Exercise price[1]
Balance at beginning of the year	**1,275,000**	**0.2755**	1,375,000	0.4107
Granted	**450,000**	**0.5300**	900,000	0.2800
Forfeited	**(100,000)**	**0.5300**	(350,000)	0.2646
Exercised	**(225,000)**	**0.3050**	(150,000)	0.2525
Expired	**-**	**-**	(500,000)	0.6700
Balance at end of the year	**1,400,000**	**0.3344**	1,275,000	0.2755
Exercisable at end of the year	**425,000**	**0.2629**	350,000	0.2855

(1) *Weighted average.*

16. INCOME TAXES

The tax provision recorded in the 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	2013	2012
Profit before tax	**3,152,683**	$ 1,421,326
Statutory income tax rate (%)	**25.00**	25.00
Expected taxes at statutory rate	**788,171**	355,331
Increase (decrease) in taxes resulting from:		
Effect of change in tax rate	**-**	7,302
Permanent differences between accounting and tax basis of assets and liabilities	**20,877**	25,326
Non-taxable portion of net capital gains on disposals of property and equipment	**(191,270)**	6,966
Other	**(9,144)**	(13,955)
Income tax expense	**608,634**	$ 380,970

The provision for income taxes is comprised of the following:

	2013	2012
Current	**652,160**	$ 378,585
Deferred	**(43,526)**	2,385
Income tax expense	**608,634**	$ 380,970

Questor's income taxes are calculated according to government tax laws and regulations which result in different values for certain assets and liabilities for income tax purposes than for financial statement purposes. The amounts shown on the statement of financial position as deferred tax assets and deferred tax liabilities represent the net difference between tax values and book carrying values at substantively enacted tax rates.

The Company offsets deferred assets and deferred liabilities for the statement of financial position presentation purposes because there is a legally enforceable right to set off income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets and deferred tax liabilities are composed of the following:

As at December 31	2013	2012
Development costs	**34,495**	$ 43,053
Property and equipment	**(131,623)**	(163,283)
Lease inducement	**43,335**	22,911
Deferred liabilities	**(53,793)**	$ (97,319)

17. EARNINGS PER SHARE

Basic earnings per share

For the years ended December 31	**2013**	2012
Profit for the period attributable to ordinary equity holders	**$ 2,544,049**	$ 1,040,356
Weighted average number of ordinary shares for the purposes of basic earnings per share	**25,102,265**	24,869,255
Basic earnings per share	**$ 0.101**	$ 0.042

Diluted earnings per share

For the years ended December 31	**2013**	2012
Profit for the period attributable to ordinary equity holders	**$ 2,544,049**	$ 1,040,356
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**25,939,888**	25,144,794
Diluted earnings per share	**$ 0.098**	$ 0.041

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

For the years ended December 31	**2013**	2012
Weighted average number of ordinary shares for the purposes of basic earnings per share	**25,102,265**	24,869,255
Shares deemed to be issued for no consideration in respect of employee options	**837,623**	275,539
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**25,939,888**	25,144,794

18. 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	**2013**	2012
Canada	**$ 3,816,138**	$ 3,221,960
United States	**4,653,016**	3,180,310
Russia	**621,999**	247,518
Europe	**483,797**	-
Other	**-**	34,687
	$ 9,574,950	$ 6,684,475

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	**2013**	2012
Canada	**$ 1,224,463**	$ 1,432,122
United States	**31,603**	738,116
Germany	**-**	125,291
	$ 1,256,066	$ 2,295,529

All other of the Company's non-current assets are located in Canada.

19. 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 10. At December 31, 2013 and 2012, Questor was in compliance 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 debt, raise new debt and issue common shares. It is expected, however, that Questor's funds generated from operations and cash amounts will provide sufficient capital resources and liquidity to fund existing operations in 2013 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- 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 debt-to-total capitalization ratio was as follows:

As at December 31	**2013**	2012
Short-term borrowings	**$ -**	$ -
Long-term borrowings	**-**	-
Debt	**-**	-
Equity	**11,165,555**	8,480,066
Total capitalization	**$ 11,165,555**	$ 8,480,066
Debt-to-total capitalization ratio (%)	**0.0**	0.0

20. MOVEMENTS IN NON-CASH WORKING CAPITAL

For the years ended December 31	2013	2012
Short-term investments	$ -	$ 1,007,896
Trade and other receivables	(583,475)	548,101
Inventories	(756,928)	295,610
Prepaid expenses and deposits	(35,784)	7,917
Trade payables, accrued liabilities and provisions	852,054	(176,784)
Net current tax excluding income tax	(138,122)	112,830
Deferred revenue and deposits	250,151	(277,836)
Lease inducement	20,592	91,647
	$ (391,512)	$ 1,609,381

21. FINANCIAL INSTRUMENTS

The Company's financial instruments consist, from time to time, of cash and cash equivalents, short-term investments, trade and other receivables, short-term and long-term borrowings and trade payables, accrued liabilities and provisions. The carrying amounts of the current financial assets and current financial liabilities recognized in the Company's financial statements at the end of each reporting period approximate their fair value due to their short period to maturity. At December 31, 2013 and 2012, there were no short-term or long-term borrowings outstanding. The Company did not hold or issue any derivative financial instruments during 2013 or 2012.

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. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are 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, 2013 and 2012, 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.

Financial assets are assessed for indicators of impairment at the end of each reporting period. At December 31, 2013 and 2012, there was no impairment required on any of the financial assets of the Company other than an allowance for doubtful accounts provision more fully described in note 22.

The Company is exposed to market risk and potential loss from changes in the value of financial instruments. These risks are described in note 22.

22. 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 and cash equivalent 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 balance sheet 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.

Revenue from the top ten customers represented 82 percent of the Company's revenue in 2013 (2012 - 79 percent). Revenue from the largest customer represented 24 percent of the Company's revenue in 2013 (2012 - 16 percent).

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

For the years ended December 31	**2013**	2012
Top ten customers		
Canada	**$ 2,334,615**	$ 2,790,954
United States	**4,381,484**	2,492,023
Russia	**621,999**	-
Europe	**483,796**	-
	$ 7,821,894	$ 5,282,977

For the years ended December 31	**2013**	2012

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	**2013**	2012
Current and past due for less than 30 days	**1,898,273**	$ 1,047,125
Past due for 31 – 60 days	**388,874**	308,064
Past due for 61 – 90 days	**-**	235,687
Past due for greater than 90 days	**334,885**	519,793
Billed receivables	**2,622,032**	2,110,669
Allowance for doubtful accounts	**-**	(204,734)
Billed receivables, net	**2,622,032**	1,905,935
Unbilled receivables	**241,225**	398,543
	2,863,257	$ 2,304,478

Three customers represented 71 percent of the Company's total net trade and other receivables at December 31, 2013 (2012 – Three customers represented 71 percent).

Thirteen customers comprise the trade and other receivables amounts past due for greater than 90 days at December 31, 2013 (2012 - Ten customers).

In 2012 the Company provided $204,734 in the allowance for doubtful accounts for credit risk with one counterparty. That counterparty rented three of the Company's available units in the period July, 2012 through

September 2012 but encountered financial difficulties. The counterparty was declared bankrupt and the amount was written off in 2013. The movement in the allowance for doubtful accounts is reconciled as follows:

As at December 31	2013	2012
Allowance for doubtful accounts at beginning of the year	**$ 204,734**	$ 4,988
Provision for impairment of trade receivables	**-**	204,734
Receivables written off (uncollectible)	**(204,734)**	(4,988)
Reversal of provision for impairment	**-**	-
Allowance for doubtful accounts at end of the year	**$ -**	$ 204,734

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, 2013 and 2012, the Company had the following contractual maturities with respect to non-derivative financial liabilities:

As at December 31	Maturity	2013	2012
Trade payables, accrued liabilities and provisions	Within 1 year	**$ 1,746,260**	$ 894,206
Current tax liabilities	Within 1 year	**638,527**	171,907
		2,384,787	$ 1,066,113

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	2013	2012
Cash	**$ 476,164**	$ 636,975
Trade and other receivables	**2,292,118**	1,437,817
Monetary assets	**2,768,282**	2,074,792
Trade payables, accrued liabilities and provisions	**63**	1,624
Deferred revenue and deposits	**252,356**	2,205
Current tax liabilities	**3,330**	37,451
Monetary liabilities	**255,749**	41,280

Net monetary assets	**$ 2,512,531**	$ 2,033,512

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 $125,627 (2012 - $101,676).

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 10.

23. COMMITMENTS

Leasehold improvements

On December 14, 2010, Questor executed an offer to lease new corporate office space in Calgary, Alberta, Canada for a six-year term commencing May 1, 2011. The offer contemplated Questor expending a minimum of $128,125 for leasehold improvements prior to commencement of the term for which the Company would receive gross rent abatement for 26 months. This lease inducement amounts to $173,339 as at December 31, 2013 (2012 - $152,746). The future minimum lease payments, inclusive of estimated operating costs, pursuant to this office space lease are included in the lease agreement commitments table below.

Lease agreements

Future minimum lease payments under operating leases for office spaces expiring April 30, 2017 and September 30, 2018, inclusive of estimated operating costs, are as follows:

As at December 31		**2013**	2012
	2013	**-**	$ 120,093
	2014	**$ 345,690**	148,266
	2015	**345,690**	148,266
	2016	**348,790**	148,266
	2017	**252,684**	49,422
	2018	**134,354**	-
		$ 1,427,208	$ 614,613

24. RELATED PARTY TRANSACTIONS

Key management personnel compensation

The Company defines key management personnel as being the directors, executive officers and other senior management personnel reporting directly to the President and Chief Executive Officer of the Company. In addition to their salaries and directors' fees, the Company also provides non-cash benefits including participation in the Company's share option plan, as described in notes 12 and 15.

The Company has entered into employment agreements 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.

For the years ended December 31	2013	2012
Salaries, director's fees and other short-term employee benefits	**$ 701,210**	$ 668,690
Consulting services fees [1]	**158,335**	145,845
Share-based payments	**72,814**	79,520
	$ 932,359	$ 894,055

[1] *Before GST.*

There were no amounts owing at December 31, 2013 and 2012 with respect to the preceding key management personnel compensation.

Other key management personnel transactions

In the normal course of business, the Company may transact with related parties. These transactions are recorded at their exchange amounts which approximate fair value.

For the years ended December 31	2013	2012
Service vehicles and parts purchased at market rates from a corporation owned by a director of the Company [1]	**$ 87,348**	$ -
Vehicle repairs and maintenance services purchased at market rates from a corporation owned by a director of the Company [1]	**-**	5,588
	$ 87,348	$ 5,588

[1] *Before GST.*

25. NON-ADJUSTING SUBSEQUENT EVENTS

On January 17, 2014 an employee exercised options to acquire 25,000 of the Company's shares at $0.25 per share. On January 31, 2014 an employee exercised options to acquire 25,000 shares at $0.25 per share and 12,500 shares at $0.28 per share.

On January 31, 2014, Questor completed the acquisition of all outstanding shares of ClearPower Systems, Inc.("ClearPower") for USD 900,000. ClearPower is a United States based corporation with technology that uses waste heat to generate power.