## MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management Discussion and Analysis ("MD&A") for Questor Technology Inc. ("Questor" or the Company") has been prepared by management as of May 30, 2016 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).*

*The focus of this MD&A is a comparison of the financial performance for the three months ended March 31, 2016 and 2015. It should be read in conjunction with the interim consolidated financial statements for the three months ended March 31, 2016 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2015.*

*Additional information relating to Questor can be found on the Company's website at www.questortech.com. The continuous disclosure materials of Questor, including its annual MD&A and audited consolidated financial statements, Management Information Circular and Proxy Statement, material change reports and news releases are also available through the Company's website or directly through the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.*

## QUESTORS'S BUSINESS

Questor is a public, international environmental cleantech Company founded in late 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 incinerator systems. The Company also provides combustion and burner-related services; as well as, power generation systems and water treatment solutions. Our 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.

With a focus on solid engineering design, its products enable Questor's clients to operate cost effectively in an environmentally responsible and sustainable manner.

Questor trades on the TSX Venture Exchange under the symbol 'QST'.

## FINANCIAL OVERVIEW – THREE MONTHS ENDED MARCH 31, 2016 VERSUS 2015

## CONSOLIDATED HIGHLIGHTS

| Three Months Ended March 31, | **2016** | 2015 | Change |
|---|---|---|---|
| *(stated in CDN$)* | *($)* | *($)* | *(%)* |
| *(unaudited)* | | | |
| Revenue | **2,223,799** | 2,369,086 | (6) |
| Gross Profit(1) | **913,878** | 1,199,540 | (24) |
| Adjusted EBITDA(1) | **193,785** | 924,158 | (79) |
| Profit for the period | **4,159** | 513,733 | (99) |
| Per share — basic | **0.00** | 0.02 | (100) |
| Per share — diluted | **0.00** | 0.02 | (100) |
| Working capital, end of period | **8,821,892** | 9,466,200 | (7) |
| Total assets, end of period | **15,773,278** | 16,643,741 | (5) |
| Total equity, end of period | **14,930,622** | 15,174,944 | (2) |

*(1) Refer to "Non-GAAP Measures" on pages 8 and 9 for further information.*

## FIRST QUARTER 2016 OVERVIEW

In the first quarter of 2016:

- revenue was $2.2 million versus $2.4 million in 2015:
  - the Company continues to experience some decline in revenue as result of lower activity and constraints on capital spending in the North American Oil and Gas sector due to depressed oil and gas prices.
- gross profit decreased by 24 percent as result of:
  - 6 percent lower revenue;
  - the Company incurring incremental expenses in the ClearPower division, adding the required operational resources at the Company's Florida fabrication facility to advance the commercialization of the waste heat to power technology;
  - higher maintenance costs on the incinerator rental units in preparation for upcoming U.S. projects.
- the Company reported adjusted EBITDA of $0.2 million compared to $0.9 million in 2015, a decrease of 79 percent, mainly as a result of:
  - foreign unrealized exchange losses of $0.2 million vs. an unrealized foreign exchange gains of $0.3 million in 2015;
  - lower gross profit due as described above;
  - increased sales & marketing efforts to grow incineration revenue and advance the commercialization of the waste heat to power technology.
- the Company incurred capital expenditures of $0.2 million, Questor constructed a custom trailer which is designed to efficiently move rental incinerators, the trailer will be deployed to support the rental fleet in the United States during Q2 2016.

## CONSOLIDATED

| Three Months Ended March 31, | **2016** | 2015 | Change |
|---|---|---|---|
| *(stated in CDN$)* *(unaudited)* | *($)* | *($)* | *(%)* |
| Revenue | **2,223,799** | 2,369,086 | (6) |
| Cost of Sales | **1,309,921** | 1,169,546 | 12 |
| Gross Profit(1) | **913,878** | 1,199,540 | (24) |
| Gross Profit (%) | **41** | 51 | (20) |

*(1) Refer to "Non-GAAP Measures" on pages 8 and 9 for further information.*

## REVENUE

Revenue for the three months ended March 31, 2016 was $2.22 million versus $2.37 million in 2015, for a decrease of $0.17 million. Incinerator sales were $1.42 million versus $1.46 million in the same period of 2015. Incinerator rentals were $0.65 million versus $0.74 million in the same period of 2015. Incinerator service revenue was $0.15 million versus $0.17 million in the same period of 2015.

Incinerator sales decreased 6% versus the same period of 2015. Questor continues to experience decline in the sales of the Company's incinerators as result of lower activity and constraints on capital spending in the North American oil and gas sector due to depressed oil and gas prices.

Revenue from incinerators rentals during the three months ended March 31, 2016 decreased 12% versus the same period of 2015. The decrease was primarily due to two longer term projects in the U.S. region completing early in the quarter. The U.S. clients are preparing for new projects which are expected to commence during Q3 2016. Depressed oil and gas prices continue to effect capital constraints, as result Questor is experiencing significant interest in incinerator rentals as an alternative to incinerator sales. Despite lower rental activity in Q1 2016 due to transition between projects, the Company expects demand for incinerator rentals will remain strong, increasing through 2016.

Incinerators service revenue was consistent during the first quarter of 2016 versus the same period of 2015.

## GROSS PROFIT

Gross Profit for the three months ended March 31, 2016 was $0.9 million versus $1.2 million in 2015, for a decrease of $0.3 million. The $0.3 million decrease in gross profit was the result of three factors; lower revenue, incremental operational costs at the waste heat to power fabrication division and incremental repairs and maintenance costs on the incinerator rental units.

The lower revenue for the three months ended March 31, 2016, as discussed above, impacted gross profit by $0.1 million versus the same period in 2015.

The Company’s waste heat to power division commenced operations at its Florida fabrication facility during Q4, 2015. Questor incurred incremental expenses in the ClearPower division, adding the required operational resources at the Florida fabrication facility to advance the commercialization of the Waste Heat to Power technology. Questor incurred $0.1 million of incremental operational costs for the three months ended March 31, 2016 versus the same period in 2015.

Repair and maintenance cost for the three months ended March 31, 2016 were $0.1 million higher than the same period in 2015. The Company schedules maintenance on the incinerator rental units when the units are not it in service. Certain incinerator rental units in the U.S. region were serviced in preparation of the upcoming projects in the U.S. region.

## CORPORATE

| Three Months Ended March 31, | 2016 | 2015 | Change |
|---|---|---|---|
| *(stated in CDN$)* | *($)* | *($)* | *(%)* |
| *(unaudited)* | | | |
| Gross Profit[1] | **913,878** | 1,199,540 | (24) |
| *less corporate costs :* | | | |
| Administration expenses | **757,031** | 808,276 | (6) |
| Depreciation of property and equipment | **10,504** | 11,457 | (8) |
| Amortization of intangible assets | **905** | 904 | 0 |
| Net foreign exchange (gains) | **160,856** | (300,752) | (153) |
| Other expense (income) | **(16,708)** | (30,766) | (46) |
| Profit before tax | **1,290** | 710,421 | (100) |
| Income Tax | **(2,869)** | 218,439 | (101) |
| Profit for the period | **4,159** | 491,982 | (99) |

*[1] Refer to "Non-GAAP Measures" on pages 8 and 9 for further information.*

## ADMINISTRATIVE EXPENSES

In the first quarter of 2016, stock based compensation expenses were lower versus the comparable period in 2015. Stock based compensation expenses decreased as result of fewer stock options being granted in recent periods.

For the three months ended March 31, 2016, Questor incurred $0.1 million of marketing expenses in the ClearPower division in order to commercialize the waste heat to power technology versus $0 in the corresponding quarter of 2015. The Company is investing in marketing capacity positioning the Company to take advantage of a growing demand for Questor's technology solutions.

The incremental costs incurred in the ClearPower division were offset by a reduction in research expenditures. For the first quarter of 2016, there were limited research projects. During the same period in 2015, the Company incurred $0.1 million of expenditures related to "Quad O" compliance testing. The EPA has approved Questor's incinerators as a compliant technology in the US.

## DEPRECIATION

Administrative depreciation expense decreased by 8 percent in the first quarter of 2016 compared to the same period of 2015. There was limited capital spending relating to administrative assets and therefore depreciation declined from the prior year.

## AMORTIZATION OF INTANGIBLE ASSETS

The Company has incurred $2.8M of development expenses relating to the waste heat to power technology. The development expenses have been recorded to intangible assets. The Company has not amortized any of the waste heat to power development expenses as the technology has not reach the commercialization stage. The Company received $0.6M of funding from Sustainable Development Technology Canada (SDTC) for the development of the waste heat to power technology relating the development expenditures already incurred. The funding was recorded to intangible assets, effectively reducing the development expenses relating to the waste heat to power technology.

## FOREIGN EXCHANGE LOSSES

The Company recorded foreign exchange losses of $0.2 million during the first quarter 2016 versus a gain of $0.3 million compared to the same period of 2015. Foreign exchange gains and losses arise from the translation of net monetary assets or liabilities that were held in U.S. dollars. The foreign exchange losses incurred during the quarter was attributable to the translation of U.S. dollar-denominated monetary assets which depreciated against the Canadian dollar at the close of the quarter.

## OTHER INCOME

The Company participates in Alberta Innovates Industry Associates Program which provides funding to increase research expertise in Alberta-based companies. During the first quarter of 2016, the funding from decreased compared to the same period in 2015 due to conclusion of one of the projects. Interest income on cash deposits was also lower during the first quarter 2016 versus the same period of 2015.

## INCOME TAX

The decreased tax expense is primarily result of reduced earnings as discussed above. The effective tax rate is higher than expected primarily due to transfer pricing between Canada and the US operations. Intercompany transactions are eliminated on consolidation, however the foreign tax is not eliminated.

## LIQUIDITY AND CAPITAL RESOURCES

| | Three Months Ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| *(stated in CDN$)* *(unaudited)* | ($) | ($) |
| Cash (used in) provided by : | | |
| Operating activities | **1,309,063** | 863,788 |
| Financing activities | **-** | - |
| Investing activities | **(163,193)** | (672,623) |
| Increase in cash and cash equivalents | **1,125,369** | 191,165 |

## OPERATING ACTIVITIES

The Company's cash provided by operating activities for the three months ended March 31, 2016 was $1.3 million versus $0.9 million for the same period in 2015. The increase was primarily due to movements in working capital during the period and offset by lower gross profits.

## FINANCING ACTIVITIES

The Company has financed its operating and capital requirements primarily through working capital and net cash generated from operating activities.

The Company has available a revolving demand operating loan to a maximum of $560,000. The Company made no draws on its revolving demand operating loan during the three months ended March 31, 2016. 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 March 31, 2016, the Company had no outstanding letters of guarantee on this facility.

The availability of this facility is also subject to the Company meeting certain financial covenants. As shown in the table below, at March 31, 2016, the Company was in compliance with the financial covenants associated with its credit facilities.

| | Covenant | **Actual** |
|---|---|---|
| As at March 31, | 2016 | **2016** |
| Working capital ratio not to fall below | 1.25x | **18x** |
| Debt service ratio must be greater than 1.25 | 4.50x | ***no debt*** |
| Debt to tangible net worth not to fall below | 2.5x | ***no debt*** |

## INVESTING ACTIVITIES

Questor's net cash used for investing activities was $0.2 million for the three months ended March 31, 2016 versus $0.7 million for the same period in 2015. The Company did not make any capital investments in waste heat to power technology for the three months ended March 31, 2015, compared to $0.7 million for the same period in 2015.

In light of the current environment the Company restricted its 2016 capital budget to approximately $1 million. Questor will increase capital spending throughout 2016 if additional rental equipment is required.

## EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

The Company's March 31, 2016 foreign exchange loss was attributable to the translation of U.S. dollar cash held as the Canadian dollar appreciated against the U.S. dollar at the end of the quarter.

## CAPITAL RESOURCES

The Company believes that its cash deposits and net cash generated from operating activities will provide sufficient capital resources and liquidity to fund existing operations and anticipated capital requirements in 2016.

At March 31, 2016, the Company had cash of $6.1 million as compared to $5.1 million at December 31, 2015. The foreign currency composition of the cash balances is described in note 3 of the unaudited interim consolidated financial statements as at March 31, 2016.

## OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. Employees have been granted options to purchase common shares under the Company's shareholder-approved stock option plan. Each option entitles the option holder to purchase one share. The number of options reserved for issuance under the stock option plan is to a maximum of 4,708,474 common shares. As at May 30, 2016, there were 25,989,870 common shares issued and outstanding and 1,055,500 options issued and outstanding to purchase common shares.



## SUMMARY OF QUARTERLY RESULTS

| Three Months Ended | **Mar. 31, 2016** | Dec. 31, 2015 | Sep. 30, 2015 | Jun. 30, 2015 | Mar. 31, 2015 | Dec. 31, 2014 | Sep. 30, 2014 | Jun. 30, 2014 |
|---|---|---|---|---|---|---|---|---|
| *(stated in '000's CDN$ except per share amounts)* *(unaudited)* | **($)** | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Financial** | | | | | | | | |
| Revenue | **2,224** | 2,328 | 1,683 | 1,734 | 2,369 | 1,570 | 3,127 | 4,503 |
| Gross Profit(1) | **914** | 999 | 505 | 649 | 1200 | 720 | 1,619 | 2,545 |
| Adjusted EBITDA(1) | **194** | (483) | 109 | 341 | 910 | 263 | 1,321 | 1,967 |
| (Loss) profit for the period | **4** | (506) | (90) | 86 | 492 | (149) | 867 | 1,394 |
| Per share – basic | **0.00** | (0.02) | (0.00) | 0.00 | 0.02 | 0.00 | 0.03 | 0.06 |
| Per share – diluted | **0.00** | (0.02) | (0.00) | 0.00 | 0.02 | 0.00 | 0.03 | 0.05 |

*(1) Refer to "Non-GAAP Measures" on pages 8 and 9 for further information.*

## OUTLOOK

Low commodity prices continue to cause a curtailment in activity throughout much of the oil and gas sector. Producers are seeking opportunities to reduce costs, defer capital spending and focus on more profitable areas. The uncertainty and concern over low oil prices in the market has translated into significant reductions in planned capital expenditures and a reduction in wells drilled and completed. This trend is expected to continue through 2016. There has been a recent higher oil price trend but it is too early to determine the impact in 2016.

We continue to experience significant interest in incinerator rentals as an alternative to incinerator sales. This confirms to Management that it is vital to continue to market the rental fleet as it is emerging as a more capital efficient option than purchasing. Despite lower rental activity in Q1 2016 due to transition between projects, the Company expects demand for incinerator rentals will remain strong, increasing through 2016. Strengthened regulations in the U.S. have caused an increased demand for Questor's technology. The United States Environmental Protection Agency (EPA) issued regulations to reduce harmful air pollution arising out of crude oil and natural gas industry activities with a particular focus on the efficient destruction of volatile organic compounds (VOC's) and hazardous air pollutants (HAP's). A key marketing strategy will be to highlight the value of Questor's unique ability to address air quality issues associated with tank and gas dehydration emissions and meet the new standards. The superior performance of Questor's products and demonstrated operational success has led certain customers to specify the Company's equipment as a best practice. Questor's units have been approved as "Quad O" tested devices by the EPA making the equipment a compliant technology in the US. Recent regulations in the U.S. have also focused on methane emission reductions especially as they have a significant negative impact on climate change. The Global Warming Potential (GWP) of methane is 25 times that of $CO_2$ and therefore venting or inefficient combustion increases the greenhouse gases emitted. Questor will continue to closely monitor where regulations are enforced or becoming enforceable and ensure that our sales efforts are matched appropriately.

While continuing to meet demand in Canada, the Company expects to continue to expand its presence in the United States. Questor has added sales and marketing resources as well as service technicians for select areas where they will focus on increasing incinerator sales, rentals, and servicing in the United States. Questor is still focusing on growing its revenue in Colorado and certain other states where producers are looking for different technologies to manage their waste gases. Energy efficiency is important in North Dakota and Questor's heat to power option, in addition to its incineration, will be marketed aggressively.

The Alberta government has released the new Climate Change Policy. The policy opens opportunities for Questor to provide high efficiency combustion and heat to power technologies solutions. The opportunities range from methane emissions reductions to replacing coal powered electricity with electrical power generated from waste heat. Questor's solutions are ideal for this policy's targets, as they enable customers to reduce costs, comply with regulations and improve the profitability of their operations. Further policy changes require small emitters under 100,000 tonnes per year of $CO_2e$ to aggregate their facilities. The aggregation may result in the same level of compliance required by large emitter (>100,000 tonnes per year of $CO_2$). Questor has developed solutions that have meaningful impact on emissions reductions for smaller facilities. The target to reduce methane emissions by 45% by 2025 will create opportunities for Questors by reducing methane emissions through clean combustion.

Questor has acquired and further developed technology that transforms waste heat from any source into power. Questor has been aggressively marketing this technology and based on the early interest, the first sale is anticipated to occur within 2016. The Company views Alberta as an even more probable region for installing our waste heat to power solutions, given the recent Climate Policy that will create appropriate incentives. There are a good number of additional opportunities Questor is pursuing in the US and it is also seeking key collaborations to ensure that the power output offering is appropriately expanded to include practical packaging solutions for larger waste heat opportunities. The Company has undertaken cost rationalization measures so that the solutions are competitive and profitable. We have had considerable success in the overall fabrication as well as balance of plant expenses. This is due in large part to the wealth of experience that we have within the technology, the Company's commitment to delivering excellence and the funding allowance made available for this work under SDTC.

The Company remains committed to technology diversification and water vaporization falls within this area. Questor looks forward to announcing a firm date for pilot demonstration in the very near future. This technology will be aggressively marketed to those regions where water handling is prohibitive for higher water cut wells. Western Canada is known to contain thousands of wells that may be the first candidate locations for this technology. Certain areas in the U.S. also experience high water handling costs and Questor will be marketing this technology in those areas.

Since Questor's inception, the Company has experienced several business cycles and management understands how to adapt its focus through a downturn. During this cycle the weakened Canadian dollar makes it a clear choice to focus on generating revenue in the US. We are poised to provide our technology in Colorado for 2016 and beyond by establishing a presence in a strategic area within the know region of activity. We will also be providing technician support from within Colorado to better service our clients and to ensure that we continue to be an excellent technical and business choice. Questor will also be generating marketing and sales from within the state of Colorado with a local representative. Questor is also planning to replicate this strategy in Texas and possibly other states and regions where this approach is deemed advantageous. Recently, at the request and invitation of the Environment Agency in the United Kingdom Questor presented its suite of technologies to industry and government. Questor continues to explore areas where industry and government are seeking changes to traditional practices as a means to grow its reputation and business profile.

## SUMMARY

Although Questor's long-term strategy has not changed, in the short-to-medium term the Company remains focused on one thing: managing through the industry downturn. Key focal points include managing the Company's cost structure, employing further process efficiencies, retaining key personnel, maintaining strong relationships with its existing customers as well as expanding its customer base, all while ensuring the Company has sufficient liquidity to navigate the cyclical downturn. The Company's United States operations continue to generate strong cash contributions and provide an avenue for growth. Questor believes that the clean technology industry will remain an integral component of resource development over the long term and that the Company will be well-positioned given its focus on top-tier service, quality, logistics management and technology. These qualities are particularly important during downturns.

## NON-GAAP MEASURES

Certain supplementary measures presented in this MD&A do not have any standardized meaning under IFRS and, because IFRS have been incorporated as Canadian generally accepted accounting principles (GAAP), these supplementary measures are also non-GAAP measures. These measures have been described and presented in order to provide shareholders and potential investors with additional information regarding the Company's financial results, liquidity and ability to generate funds to finance its operations. These measures may not be comparable to similar measures presented by other entities, and are explained below.

Gross profit is defined as net income (loss) before administrative expenses, administrative depreciation, amortization, foreign exchange gains or losses, other (income) expenses and income taxes. Management believes that gross profit is a useful supplemental measure as it provides an indication of the financial results generated by Questor's operating segment. Gross profit for the period was calculated as follows:

Three Months Ended March 31,

| | **2016** | 2015 |
|---|---|---|
| *(stated in CDN$)* | *($)* | *($)* |
| *(unaudited)* | | |
| Profit for the period | **4,159** | 491,982 |
| Add back (deduct): | | |
| Income taxes (recovery) | **(2,869)** | 218,439 |
| Other expense (income) | **(16,708)** | (30,766) |
| Net foreign exchange (gains) losses | **160,856** | (300,752) |
| Amortization of intangible assets | **905** | 904 |
| Depreciation of property and equipment | **10,504** | 11,457 |
| Administrative Expenses | **757,031** | 808,276 |
| Gross Profit | **913,878** | 1,199,540 |

Adjusted EBITDA is defined in the Company's credit facilities for covenant purposes as net income or loss for the period less interest, taxes, depreciation and amortization, and non-cash stock-based compensation. Adjusted EBITDA for the period was calculated as follows:

Three Months Ended March 31,

| | **2016** | 2015 |
|---|---|---|
| *(stated in CDN$)* | *($)* | *($)* |
| *(unaudited)* | | |
| Profit for the period | **4,159** | 491,982 |
| Add back (deduct): | | |
| Income taxes (recovery) | **(2,869)** | 218,439 |
| Interest expense (income) | **554** | - |
| Depreciation of property and equipment | **135,194** | 115,310 |
| Amortization of intangible assets | **905** | 904 |
| Stock Based Compensation | **55,842** | 97,523 |
| Adjusted EBITDA | **193,785** | 924,158 |

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Questor has various contractual lease commitments related to three facilities located in Alberta and Florida as disclosed in the Company's 2015 annual consolidated financial statements.

## 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. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's consolidated financial statements for the three months ended March 31, 2016 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Questor's significant accounting policies are described in note 2 to the annual consolidated financial statements.

The preparation of the consolidated financial statements requires that certain estimates and judgments be made concerning the reported amount of revenue and expenses and the carrying values of assets and liabilities. These estimates are based on historical experience and management's judgment. The estimation of anticipated future events involves uncertainty and, consequently, the estimates used by Management in the preparation of the consolidated financial statements may change as future events unfold, additional experience is gained or the environment in which the Company operates changes. The accounting policies and practices requiring estimates that have a significant impact on the Company's financial results include the allowance for depreciation, the fair value of financial instruments, the carrying value of goodwill, impairment of property, plant and equipment, income taxes, stock-based compensation expenses, functional currency and cash-generating units. Judgment is also used in the determination of the functional currency of each subsidiary and in the determination of cash-generating units.

## DEPRECIATION

Depreciation of the Company's property, plant and equipment incorporates estimates of useful lives and residual values. These estimates may change as more experience is obtained or as general market conditions change, thereby affecting the value of the Company's property, plant and equipment.

## FINANCIAL INSTRUMENTS

Financial instruments included in the Company's consolidated balance sheets are cash, accounts receivable, deposits, current tax assets, accounts payable, accrued liabilities, customer deposits and current tax liabilities.

## FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial instruments included in the consolidated balance sheets, approximate their carrying amounts due to the short nature of those instruments.

## GOODWILL

Goodwill represents an excess of the purchase price over the fair value of net assets acquired and is not amortized. 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.

## IMPAIRMENT

Assessment of impairment is based on management's judgment of whether there are internal and external factors that would indicate that an asset or CGU is impaired. The Company reviews the carrying amounts of its impairment of property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. The Company completes an annual assessment for impairment of property, plant and equipment impairment and determines if the recoverable amounts of its operating segments are greater than their carrying amounts to conclude if goodwill impairment is required.

## INCOME TAXES

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement amounts of existing assets and liabilities and their respective tax bases. Estimates of the Company's future taxable income are considered in assessing the utilization of available tax losses. The Company's business is complex and the calculation of income taxes involves many factors as well as the Company's interpretation of relevant tax legislation and regulations.

## STOCK-BASED COMPENSATION

The fair value of stock options is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions, related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

## FUNCTIONAL CURRENCY

Management applies judgment in determining the functional currency of its foreign subsidiaries. Judgment is made with regard to the currency that influences and determines sales prices, labor, material and other costs as well as financing and receipts from operating income.

## CASH-GENERATING UNITS

The determination of CGUs is based on Management's judgment regarding shared equipment, mobility of equipment, geographical proximity and materiality.

## RELATED-PARTY TRANSACTIONS

The Company defines key management personnel as being the directors, Chief Executive Officer, Chief financial Officer, and Chief Operating Officer and other key employees. 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 6 and 7.

The Company has entered into an employment agreement with an executive officer of the Company. In the event of termination without cause or resignation 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.

## CHANGES IN ACCOUNTING POLICIES

No new IFRS or interpretations from the International Financial Reporting Interpretations Committee came into effect for the year beginning on or after January 1, 2016 that had a material impact on the Company.

## RECENT ACCOUNTING PRONOUNCEMENTS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company does not expect these standards to have a significant effect on its consolidated financial statements:

In January 2016, the IASB issued IFRS 16 Leases, which requires lessees to recognize all leases on the balance sheet. 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 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 financial statements.

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 financial statements periods.

## EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in the Company's internal control over financial reporting that occurred during the interim period ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## BUSINESS RISKS

The business of Questor is subject to certain risks and uncertainties. Prior to making any investment decision regarding Questor, investors should carefully consider, among other things, the risk factors set forth in the Company's most recently filed Annual Information Form, which are specifically incorporated by reference herein.

## ADVISORIES

## FORWARD-LOOKING STATEMENTS

In order to provide Questor shareholders and potential investors with information regarding the Company and its subsidiaries, including management's assessment of Questor's plans and future operations, certain statements contained in this MD&A, including statements that contain words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "forecast" or similar words suggesting future outcomes, are forward-looking statements.

In particular, forward-looking statements in this MD&A include, but are not limited to, statements with respect to expected operating strategies and targets, capital expenditure programs, future financial resources, use of funds held in the Company's segregated bank account (as an equity cure or otherwise), anticipated equipment utilization levels, future oil and natural gas well activity in each of the Company's operating jurisdictions, results of acquisitions, the impact of environmental regulations and economic reforms and sanctions on the Company's business, future costs or potential liabilities, projections of market prices and costs, supply and demand for oilfield services, expectations regarding the Company's ability to maintain its competitive position, anticipated benefits of the Company's competitive position, expectations regarding the Company's ability to raise capital, treatment under government regulatory regimes, commodity prices, anticipated outcomes of specific events, trends in, and the growth prospects of, the global oil and natural gas industry, the Company's growth prospects including, without limitation, its international growth strategy and prospects, and the impact of changes in accounting policies and standards on the Company and its financial statements.

These statements are derived from certain assumptions and analyses made by the Company based on its experience and perception of historical trends, current conditions, expected future developments and other factors that it believes are appropriate in the circumstances, including, but not limited to, the economic and political environment in which the Company operates, the Company's expectations for its current and prospective customers' capital budgets and geographical areas of focus, the Company's existing contracts and the status of current negotiations with key customers and suppliers, the effect unconventional gas projects have had on supply and demand fundamentals for natural gas and the likelihood that the current tax and regulatory regime will remain substantially unchanged.

Forward-looking statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Company's expectations. Such risk factors include: general economic conditions in Canada, the United States, volatility in market prices for oil and natural gas and the effect of this volatility on the demand for oilfield services generally; competition; liabilities and risks, including environmental liabilities and risks, inherent in oil and natural gas operations; changes in legislation and the regulatory environment; sourcing, pricing and availability of raw materials, components, parts, equipment, suppliers, facilities and skilled personnel; the ability to integrate technological advances and match advances by competitors; the availability of capital on satisfactory terms; intellectual property risks; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; dependence on, and concentration of, major customers; the creditworthiness and performance by the Company's counterparties and customers; liabilities and risks associated with prior operations; the effect of accounting pronouncements issued periodically; failure to realize anticipated benefits of acquisitions and dispositions; and currency exchange rate risk. Further information about these and other risks and uncertainties may be found under "Business Risks" above.

Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Company will be realized, or that they will have the expected consequences or effects on the Company or its business or operations. These statements speak only as of the respective date of this MD&A or the document incorporated by reference herein. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

## ADDITIONAL INFORMATION

Further information regarding Questor Technology Inc. can be accessed on the Company's website at www.questortech.com or under the Company's public filings found at www.sedar.com.