



## Independent auditor's report

To the Shareholders of Questor Technology Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Questor Technology Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### Independence

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

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### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## Key audit matter

## How our audit addressed the key audit matter

### Impairment assessment of non-financial assets

*Refer to note 3 – Summary of significant accounting policies, note 7 – Property and equipment, note 8 – Right-of-use assets and note 9 – Intangible assets to the consolidated financial statements.*

As at December 31, 2022, the carrying amounts of property and equipment (P&E), intangible assets and right-of-use assets were \$11.8 million, \$2.4 million and \$0.5 million, respectively. At the end of each reporting period, management reviews the carrying amounts of its non-financial assets, other than inventories and deferred taxes, to determine whether there is any indication of an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, management estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future net cash flows are discounted to their present value using a pre-tax discount rate. In determining fair value less costs of disposal, recent market transactions are taken into account if available. In the absence of such transaction, an appropriate valuation model is used such as a discounted cash flow model with a post-tax discount rate. The assumptions applied by management in estimating the recoverable amount included the forecast revenue and gross margin, the post-tax discount rate and a terminal value growth rate.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management determined the recoverable amount of the Company's CGU using a discounted cash flow model, which included the following:
  - Evaluated the appropriateness of the method used by management and tested the mathematical accuracy of the discounted cash flow model.
  - Evaluated the reasonableness of forecast revenue and gross margin by considering underlying contracts and revenue and gross margin levels historically achieved by the Company, as applicable.
  - Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the reasonableness of the terminal value growth rate and the post-tax discount rate used in the discounted cash flow model based on available data of comparable companies.



### Key audit matter

### How our audit addressed the key audit matter

The carrying amount of the Company's net asset value was greater than its market capitalization at December 31, 2022, and as a result, management performed an impairment test of the Company's one CGU. No impairment was recognized as the estimated recoverable amount of the Company's CGU exceeded its carrying value.

We considered this a key audit matter due to (i) the judgment made by management in determining the recoverable amount of the Company's CGU, including the development of assumptions; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the assumptions, which included the forecast revenue and gross margin, the post-tax discount rate and the terminal value growth rate; and (iii) the audit effort, which involved the use of professionals with specialized skills and knowledge in the field of valuation.

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### Other information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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## **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

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

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

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## **Auditor's responsibilities for the audit of the consolidated financial statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Calgary, Alberta  
April 12, 2023

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

Stated in Canadian dollars

	Notes	December 31, 2022	December 31, 2021
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$8,943,710	\$14,660,080
Investments	4	6,254,176	-
Trade, contract assets and other receivables	21	1,833,139	3,154,929
Inventory	5	1,622,815	1,183,890
Prepaid expenses and deposits	6	132,351	412,443
Current tax assets	13	79,436	153,339
<b>Total current assets</b>		<b>18,865,627</b>	<b>19,564,681</b>
<b>Non-current assets</b>			
Property and equipment	7	11,841,225	13,789,935
Right-of-use assets	8	499,462	587,541
Intangible assets	9	2,374,432	958,198
Deferred tax assets	13	291,807	147,500
<b>Total non-current assets</b>		<b>15,006,926</b>	<b>15,483,174</b>
<b>Total assets</b>		<b>\$33,872,553</b>	<b>\$35,047,855</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade payables, accrued liabilities and provisions	22	\$970,503	\$893,887
Onerous contract liabilities	17	113,037	78,834
Deferred revenue	10	1,340,941	1,989,289
Current portion of lease obligations	11	279,490	223,051
Current portion of repayable government grant	12	321,600	-
Current portion of deferred grant benefits	12	834,374	104,905
<b>Total current liabilities</b>		<b>3,859,945</b>	<b>3,289,966</b>
<b>Non-current liabilities</b>			
Lease obligations	11	257,398	400,544
Repayable government grant	12	486,253	716,928
Deferred grant benefits	12	74,169	158,336
<b>Total non-current liabilities</b>		<b>817,820</b>	<b>1,275,808</b>
<b>Total liabilities</b>		<b>4,677,765</b>	<b>4,565,774</b>
<b>Shareholders' equity</b>			
Issued capital	14	9,390,136	9,093,149
Contributed surplus		1,560,422	1,472,506
Retained earnings		18,263,305	19,989,517
Accumulated other comprehensive income loss		(19,075)	(73,091)
<b>Total shareholders' equity</b>		<b>29,194,788</b>	<b>30,482,081</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$33,872,553</b>	<b>\$35,047,855</b>

Commitments and contingencies 22

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

Approved by the Board of Directors:

*(signed)* Stewart Hanlon  
Stewart Hanlon, Director

*(signed)* Audrey Mascarenhas  
Audrey Mascarenhas, Director

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

Stated in Canadian dollars except per share data

For the years ended December 31,	Notes	2022	2021
Revenue	18	<b>\$8,380,827</b>	\$5,503,595
Cost of sales	17	<b>6,347,053</b>	6,502,804
Gross profit (loss)		<b>2,033,774</b>	(999,209)
Administration expenses	17	<b>3,085,292</b>	2,733,306
Research and development expenses	9	<b>469,687</b>	315,899
Share based payments	15	<b>384,903</b>	340,590
Depreciation expense	7,8	<b>129,891</b>	134,810
Amortization of intangible assets	9	<b>140,125</b>	269,442
Net foreign exchange gains		<b>(346,036)</b>	(73,586)
Other expenses	17	<b>657,302</b>	516,778
<b>Loss before tax</b>		<b>(2,487,390)</b>	(5,236,448)
Income tax recovery	13	<b>(761,178)</b>	(1,248,063)
<b>Loss for the year</b>		<b>\$(1,726,212)</b>	\$(3,988,385)
<b>Other comprehensive (income) loss</b>			
Items that may be reclassified to profit and loss in subsequent periods:			
Exchange (losses) gains on translating foreign operations		<b>54,016</b>	(37,974)
<b>Total comprehensive loss</b>		<b>\$(1,672,196)</b>	\$(4,026,359)
<b>Loss per share</b>	16		
Basic		<b>\$(0.06)</b>	\$(0.15)
Diluted		<b>\$(0.06)</b>	\$(0.15)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Stated in Canadian dollars

	Notes	Issued capital	Contributed surplus	Retained earnings	Cumulative translation gain (loss)	Total shareholder's equity
<b>Balance at December 31, 2021</b>		<b>\$9,093,149</b>	<b>\$1,472,506</b>	<b>\$19,989,517</b>	<b>\$(73,091)</b>	<b>\$30,482,081</b>
Loss for the year		-	-	(1,726,212)	-	(1,726,212)
Share-based payments		-	384,903	-	-	384,903
Stock options exercised		-	-	-	-	-
Restricted share units settled	15	65,500	(65,500)	-	-	-
Performance share units settled	15	231,487	(231,487)	-	-	-
Translation of foreign operations		-	-	-	54,016	54,016
<b>Balance at December 31, 2022</b>		<b>\$9,390,136</b>	<b>\$1,560,422</b>	<b>\$18,263,305</b>	<b>\$(19,075)</b>	<b>\$29,194,788</b>
Balance at December 31, 2020		\$8,630,146	\$1,416,169	\$23,977,902	\$(35,117)	\$33,989,100
Loss for the year		-	-	(3,988,385)	-	(3,988,385)
Share-based payments	15	-	340,590	-	-	340,590
Stock options exercised	15	302,621	(123,871)	-	-	178,750
Restricted share units settled		160,382	(160,382)	-	-	-
Performance share units settled		-	-	-	-	-
Translation of foreign operations		-	-	-	(37,974)	(37,974)
Balance at December 31, 2021		\$9,093,149	\$1,472,506	\$19,989,517	\$(73,091)	\$30,482,081

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Stated in Canadian dollars

For the years ended December 31,	Notes	2022	2021
<b>Cash flows from (used in) operating activities</b>			
Loss for the year		<b>\$(1,726,212)</b>	\$(3,988,385)
Adjustments for:			
Income tax recovery	13	<b>(761,178)</b>	(1,248,063)
Depreciation	7,8	<b>2,282,707</b>	2,199,584
Amortization of intangible assets	9	<b>140,125</b>	269,442
Gains on sale of property and equipment	7	<b>(18,005)</b>	(2,708)
Lease interest	11	<b>27,469</b>	28,830
Share-based payments	15	<b>384,903</b>	340,590
Movements in non-cash working capital	20	<b>488,006</b>	1,101,867
Net income tax refund (paid)		<b>704,257</b>	169,005
<b>Net cash provided by (used in) operating activities</b>		<b>1,522,072</b>	(1,129,838)
<b>Cash flows from (used in) investing activities</b>			
Payments for property and equipment	7	<b>(110,629)</b>	(44,822)
Payments for intangible assets	9	<b>(1,556,359)</b>	(582,520)
Payments for investments	4	<b>(6,254,176)</b>	-
Proceeds of disposition of property and equipment		<b>20,683</b>	25,500
<b>Net cash used in investing activities</b>		<b>(7,900,481)</b>	(601,842)
<b>Cash flows from (used in) financing activities</b>			
Proceeds from exercise of stock options	15	-	178,750
Receipt of government grant	12,9	<b>901,209</b>	120,000
Lease obligations payments	11	<b>(263,393)</b>	(211,214)
<b>Net cash provided by financing activities</b>		<b>637,816</b>	87,536
<b>Net decrease in cash</b>		<b>(5,740,593)</b>	(1,644,144)
Cash at beginning of the year		<b>14,660,080</b>	16,307,029
Effects of exchange rate changes on the balance of cash held in foreign currencies		<b>24,223</b>	(2,805)
<b>Cash and cash equivalents at end of the year</b>		<b>\$8,943,710</b>	\$14,660,080

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

## **1. DESCRIPTION OF BUSINESS**

Questor Technology Inc., incorporated in Canada under the Business Companies Act (Alberta) is an environmental emissions reduction technology company founded in 1994, with global operations. The Company is focused on clean air technologies that safely and cost effectively improve air quality, support energy efficiency and greenhouse gas emission reductions. The Company designs, manufactures and services high efficiency clean combustion systems that destroy harmful pollutants, including Methane, Hydrogen Sulfide gas, Volatile Organic Hydrocarbons, Hazardous Air Pollutants and BTEX (Benzene, Toluene, Ethylbenzene and Xylene) gases within waste gas streams at 99.99 percent efficiency. This enables its clients to meet emission regulations, reduce greenhouse gas emissions, address community concerns and improve safety at industrial sites.

The Company also has proprietary heat to power generation technology and is currently targeting new markets including landfill biogas, syngas, waste engine exhaust, geothermal and solar, cement plant waste heat in addition to a wide variety of oil and gas projects. The Company is also doing research and development on data solutions to deliver an integrated system that amalgamates all of the emission detection data available and demonstrates how Questor's clean combustion and power generation technologies can be used to help clients achieve zero emission targets.

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

## **2. BASIS OF PREPARATION**

### **Statement of compliance**

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

These consolidated financial statements were authorized for issue by the Company's Board of Directors on April 12, 2023.

### **Basis of measurement**

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

### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries which are consolidated from the date of acquisition, being the date on which the Company obtained control, and continue to be consolidated until the date that such control ceases. Control exists when the Company has power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated upon consolidation. Details of the entities contained in the consolidated financial statements are as follows:

<b>Company name</b>	<b>Principal activity</b>	<b>Place of business and operations</b>	<b>Equity percentage</b>
Questor Technology Inc	Parent and operating company	Canada	
Questor Solutions & Technology Inc.	Operating company	United States	100%
ClearPower Systems Inc.	Research and development company	United States	100%

### **Functional and presentation currency**

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

### **Significant accounting estimates and judgments**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported assets, liabilities, revenues, expenses and the disclosure of contingencies. Actual results may differ significantly from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Significant estimates and judgements made in the preparation of the consolidated financial statements are outlined below:

#### Revenue recognition

Revenues are recorded when products have been delivered or services have been performed, the amount of revenue can be reliably measured and collectability is reasonably assured. Customer creditworthiness is assessed prior to agreement signing, as well as throughout the contract duration.

Equipment sales revenue for custom units is recognized based on performance over-time. Performance is measured primarily based on the milestones achieved throughout the contract which approximates the value to the customer relative to the total expected value. Where the outcome of performance obligations cannot be reliably measured, contract revenue is either deferred on the statements of financial position or recognized in the current year to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured. Significant judgement is required to assess whether there is an alternative use for the input materials before the commencement of the manufacturing process. Significant estimation assumptions are required to estimate total contract costs, which are recognized as expenses in the year in which they are incurred.

#### Onerous contract

When it is probable that total contract costs will exceed total contract revenue it is called an onerous contract and the expected loss is recognized as an accrued liability and an expense in cost of sales on the statement of comprehensive income (loss). Significant estimation assumptions are required to estimate remaining costs of the contract.

#### Componentization and useful lives of property and equipment and intangible assets

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

#### Determining cash generating units

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

#### Impairment of non-financial assets

The determination of whether indicators of impairment exist is based on management's judgment of whether there are internal and external factors that would indicate that a non-financial asset is impaired. The recoverable amounts used for impairment calculations may require estimates of future net cash flows related to the assets or CGU's, probability of successful contract proposals and estimates of discount rates applied to these cash flows, or consideration of the Company's market capitalization as compared to the CGU's carrying amount. The Company also assesses whether there are circumstances that indicate that previously impaired assets are now recoverable and need to be increased to their original carrying values.

#### Impairment of inventories

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

#### Share-based payments

The Company's share-based compensation expense is subject to measurement uncertainty as a result of estimates and assumptions related to the expected performance multiplier, forfeiture rates, expected life, and underlying volatility of the price of the Company's common shares.

#### Taxation

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

#### Allowance for doubtful accounts

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

#### Provisions and contingencies

The Company is required to exercise judgment in assessing whether the criteria for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, the probability of loss, and if a reliable estimate can be formulated. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events.

Right-of-use assets and lease liabilities

Lease liabilities and ROU assets require the use of judgment and estimates which are applied in determining the term of a lease, appropriate discount rates, whether an arrangement contains a lease, whether there are any indicators of impairment for ROU assets and whether any ROU assets should be grouped with other long-lived assets for impairment testing.

Capitalization of research and development costs

Determining the commencement of capitalization of development costs requires significant judgement to determine when the criteria for capitalization in accordance with IFRS has been met.

Government grants

The recovery of government grants requires judgement to determine when reasonable assurance exists that the Company has met the conditions contained in the applicable agreements.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Changes in Accounting Standards and Disclosures**

There were no new standards that became effective on or after January 1, 2022 that had a material impact on the Company.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and short-term deposits with original maturities of three months or less and are recorded at cost, which approximates fair value.

#### **Investments**

Highly liquid investments held for a period longer than three months and not exceeding one year are classified as short-term investments. Short-term investments are recorded at amortized cost with interest earned while holding them reported as interest income in the statement of comprehensive loss.

#### **Foreign currency translation and transaction**

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

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

#### **Inventories**

Inventory is measured at the lower of cost and net realizable value. Inventory cost is recorded on a weighted-average basis and the balance includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, and slow moving or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed. Inventory write downs are recorded in cost of sales.

#### **Right-of-use assets**

Leases are recognized as a right-of-use ("ROU") asset with a corresponding liability at the date the leased asset is available for use by the Company. The ROU assets are subsequently measured at cost, net of accumulated depreciation and accumulated impairment losses. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Depreciation of the ROU asset is recognized in depreciation of property and equipment expense.

Lease liabilities are subsequently measured at amortized cost using the effective interest rate method. The interest expense associated with the lease obligation is charged to the consolidated statements of comprehensive income (loss) over the lease period with a corresponding increase to the lease obligation. The lease obligation is reduced as payments are made against the principal portion of the lease.

The Company does not recognize short-term leases with a term of 12 months or less, or leases of low-value assets.

### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, and subsequent expenditures to the extent that they can be measured, and future economic benefit is probable. The carrying values of replaced parts are derecognized when they are replaced. The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the property and equipment if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. Repairs and maintenance expenditures, which do not extend the useful life of the property and equipment, are expensed in the year in which they are incurred. Management bases the estimate of the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

Asset	Rate	Method
Rental equipment and trailers	5 – 20 years	Straight-line
Light vehicles, tools & equipment	20 - 30%	Declining balance
Office equipment & leasehold improvements	20 - 30%	Declining balance

Property and equipment is carried at cost, less any recognized impairment loss. The estimated useful lives and depreciation methods are reviewed at the end of each financial year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

### Warranties

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

### Intangible assets

#### Intangible assets acquired separately

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

#### Internally generated intangible assets - research and development expenditures

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

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

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

The amount initially recognized for internally generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. 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. Where no internally generated intangible asset can be recognized, development expenditures are recognized in profit or loss in the period incurred.

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

Intangible assets	Useful life	Method
Heat to power development	5 years	Straight-line
Software and data systems	3 years	Straight-line
Patents	Shorter of estimated useful life and patent life	Straight-line

#### 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.

#### **Impairment of non-financial assets**

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future net cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. In determining fair value less costs of disposal, recent market transactions are taken into account if available. In the absence of such transaction, an appropriate valuation model is used such as a discounted cash flow model with a post-tax discount rate.

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

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

#### **Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When it is virtually certain that some or all the economic benefits required to settle a provision are expected to be recovered from a third party, and the amount can be reliably measured, a receivable is recognized as an asset.

#### **Financial Instruments**

Financial assets and liabilities are recognized in the Consolidated Statements of Financial Position when the Company becomes a party to the contractual provisions of a financial instrument contract. All financial assets and financial liabilities are initially measured at fair value, net of transaction costs, except for financial instruments classified as fair value through profit and loss ("FVTPL"), where transaction costs are recognized immediately in profit or loss.

Financial assets that meet the following conditions are subsequently measured at amortized cost: (i) assets held for the collection of contractual cash flows; and (ii) contractual cash flows that consist solely of principal and interest payments on the principal amount outstanding. All other financial assets are subsequently measured at FVTPL. Financial liabilities are classified as FVTPL when held for trading. All other financial liabilities are subsequently measured at amortized cost.

The Company classifies its financial instruments according to IFRS 9 - Financial Instruments ("IFRS 9") into the following:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Investments	Amortized cost
Trade, contract assets and other receivables	Amortized cost
Deposits	Amortized cost
Trade payables, accrued liabilities and provisions	Amortized cost
Onerous contract	Amortized cost
Deferred grant benefits	Amortized cost
Repayable government assistance	Amortized cost

#### Impairment of Financial Assets

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

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

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

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

#### Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company transfers its rights to receive cash flows from the asset and the associated risks and rewards to a third party. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

#### Offsetting of financial instruments

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

### **Revenue recognition**

Revenue is recognized at the point in time that the Company transfers control of goods or services to a customer in the amount to which the Company expects to be entitled. The Company has three revenue streams accounted for as follows:

- Equipment sales – Revenue on equipment sales is recognized when control passes to the customer based on the stated contract value. If the equipment is a standard unit, control passes generally when equipment is delivered to the customer. When the equipment is a custom unit which does not have an alternate buyer and there is an enforceable right to collection, the revenue is recognized on a percentage of completion basis in accordance with the performance obligations in the contract.
- Where the outcome of performance obligations cannot be reliably measured, contract revenue is either deferred on the statement of financial position or recognized in the current year to the extent that costs have been incurred until such time that the outcome of the performance obligations can be reasonably measured, depending on whether there is an alternative use for the input materials before the commencement of the manufacturing process.
- Equipment rental revenue is recognized in accordance with usage of the equipment.
- Equipment services and repairs revenue is recognized upon completion of the equipment installation or for time and material contracts, based on the contractual hourly rates and direct expenses as incurred.

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

A contract asset is recognized when a performance obligation is satisfied (and the revenue is recognized), but the payment is conditional not only on the passage of time but on other contractual obligations and milestones.

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

Deposits received upon signing of contracts for equipment purchases where revenue recognition criteria have not been met, are recorded as deferred revenue.

### **Interest income**

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

### **Government grants and investment tax credits**

Government grants, Scientific Research and Experimental Development (SR&ED) and investment tax credits are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that the grants and/or investment tax credits will be received. Government grants are recognized as a reduction in the carrying value of the related asset or expense to which they relate. Investment tax credits are included in the tax pool calculations.

For repayable government grants that have a below market rate of interest, the Company recognizes the benefit as the difference between the initial carrying value of the loan and the proceeds received. The deferred grant benefit is recognized on a systematic basis over the period in which the Company expects to recognize the expenses for which the grants are intended to compensate.

### **Cost of sales**

Cost of sales includes direct materials, direct labour, warranties, indirect overhead related to field offices, and depreciation relating to rental incinerators, detachable trailers for rental incinerators, light vehicles and tools and equipment. Timing of the recognition of the cost of sales is consistent with the timing of the revenue recognition.

When the contract with the fabricator for customized units requires payment for materials in advance of fabrication and there is an alternative use for these input materials before the commencement of the manufacturing process, the Company recognises a deposit on the statement of financial position up until the commencement of the fabrication process.

### **Employee benefits**

#### Short-term benefits

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

#### Share-based payment arrangements

The Company has the following equity settled share-based payment arrangements:

- Stock options

The Company has a stock option plan and accounts for stock options by expensing the fair value of stock options measured using a Black Scholes option pricing model. The fair value of the stock options is determined on their grant date and is recognized as share-based compensation expense in the consolidated statement of comprehensive income (loss) over the vesting period.

- Performance, restricted and deferred share units

The Company has performance share unit (PSU), restricted share unit (RSU) and deferred share unit (DSU) plans. As the Company intends to settle the units in shares, the plan is accounted for as "equity-settled". Under the terms of the Plans, the awards of PSUs and RSUs will vest in three equal portions annually based upon the grant date. Each RSU will be settled in common shares based upon a one-to-one conversion of RSU to Company share. Each PSU will be settled in common shares based on a multiplier, which is dependent on the achievement of specific performance measures, between zero and 2.75 shares per PSU. The settlement of RSU's and PSU's must be done within 60 days of the vesting date. DSU's will vest one year following of the grant date but the DSU's are not eligible for settlement until such time that the that the participant ceases to be a director of the Company.

The fair value of the RSU's and DSU's is determined on their grant date based on the closing market price of the shares and is recognized as share-based compensation expense in the consolidated statement of comprehensive income (loss) over the vesting period. The fair value of the PSU's is



measured using a Monte Carlo simulation model on their grant date and is recognized as share-based compensation expense in the consolidated statement of comprehensive income (loss) over the vesting period.

### **Taxation**

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

#### Current tax

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

#### Deferred tax

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

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

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

#### Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income (loss) or directly in equity.

### **Earnings (loss) per share**

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

### **Operating segments**

The Company generates revenue primarily from equipment sales, equipment rentals, and equipment service and repairs. Management has determined that the Company has one reportable operating segment as the Company does not have any segment managers who are directly accountable to and maintain regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts or plans broken down by the different types of products/services. The Company reports revenue for two geographic locations being Canada the United States. Any International sales revenue is included in the Canadian geographic segment as the revenue is driven by and recorded in the Canadian legal entity.

### **Future accounting pronouncements**

These new standards, amendments and interpretations that are issued, but not yet effective and are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IAS 1 - Classification of liabilities as current or non-current depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively.
- Amendments to IAS 12 and IFRS 1 – Requires companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

- Amendments to IAS 8 –Clarifies the distinction between changes in accounting estimates and changes in accounting policies and corrections of errors. It also clarifies how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively.

#### **4. INVESTMENTS AND BORROWING FACILITIES**

In 2022 the Company amended its bank facilities agreement and cancelled its \$1 million operating loan and \$5 million capital loan facilities. The bank released its general security agreement over the Company's assets. The Company retained the \$100,000 letter of credit guarantee facility for use with suppliers as well as its corporate credit card program. None of the remaining facilities are subject to standby fees and there is no specified facility expiration or renewal date. The Company put \$200,000 and USD\$40,000 of cash into one-year redeemable term deposits as general security for its corporate credit card program. These term deposits mature on June 30, 2023 and bear fixed rates of interest of 3.09% and 2.55% respectively.

As at December 31, 2022, the Company has also invested \$6,000,000 in one-year redeemable GIC's with varying maturity dates in 2023 and a weighted average interest rate of 4.76%.

#### **5. INVENTORIES**

For the years ended December 31,	<b>2022</b>	2021
Materials and supplies	<b>\$894,939</b>	\$939,323
Work in progress	<b>727,876</b>	244,567
Total inventories	<b>\$1,622,815</b>	\$1,183,890

Material and supplies expensed in cost of sales during the year was \$118,211 (2021 - \$108,894).

The Company reviews the carrying value of inventory to net realizable value and any impairment is recorded in cost of sales. There was \$nil impairment in 2022 (2021 - \$101,159).

#### **6. PREPAID EXPENSES AND DEPOSITS**

For the years ended December 31,	<b>2022</b>	2021
Building and utility deposits	<b>\$50,193</b>	\$51,727
Vendor deposits and other prepaid expenses	<b>82,158</b>	360,716
	<b>\$132,351</b>	\$412,443

7. PROPERTY AND EQUIPMENT

Cost	Rental equipment and trailers	Light vehicles, tools & equipment	Office equipment & leasehold improvements	Total
Balance at January 1, 2021	\$22,670,114	\$1,333,942	\$304,293	\$24,308,349
Additions	-	13,823	30,999	44,822
Transfers	(586,825)	-	-	(586,825)
Disposals	(221,091)	(71,783)	-	(292,874)
Foreign currency translation	-	(3,395)	(121)	(3,516)
Balance at December 31, 2021	\$21,862,198	\$1,272,587	\$335,171	\$23,469,956
<b>Additions</b>	<b>86,826</b>	<b>21,309</b>	<b>2,494</b>	<b>110,629</b>
<b>Transfers</b>	<b>(44,100)</b>	<b>-</b>	<b>-</b>	<b>(44,100)</b>
<b>Disposals</b>	<b>-</b>	<b>(26,743)</b>	<b>-</b>	<b>(26,743)</b>
<b>Foreign currency translation</b>	<b>-</b>	<b>56,620</b>	<b>1,765</b>	<b>58,385</b>
<b>Balance at December 31, 2022</b>	<b>\$21,904,924</b>	<b>\$1,323,773</b>	<b>\$339,430</b>	<b>\$23,568,127</b>
<b>Accumulated depreciation</b>				
Balance at January 1, 2021	\$7,406,090	\$746,635	\$177,443	\$8,330,168
Depreciation charges included in:				
Cost of sales	1,877,179	96,668	4,175	1,978,022
Depreciation expense	-	-	30,930	30,930
Transfers	(389,493)	-	-	(389,493)
Disposal	(206,119)	(63,963)	-	(270,082)
Foreign currency translation	-	611	(135)	476
Balance at December 31, 2021	\$8,687,657	\$779,951	\$212,413	\$9,680,021
<b>Depreciation charges included in:</b>				
<b>Cost of sales</b>	<b>1,846,144</b>	<b>167,102</b>	<b>8,650</b>	<b>2,021,896</b>
<b>Depreciation expense</b>	<b>-</b>	<b>-</b>	<b>26,011</b>	<b>26,011</b>
<b>Transfers</b>	<b>(16,537)</b>	<b>-</b>	<b>-</b>	<b>(16,537)</b>
<b>Disposals</b>	<b>-</b>	<b>(24,065)</b>	<b>-</b>	<b>(24,065)</b>
<b>Foreign currency translation</b>	<b>-</b>	<b>38,303</b>	<b>1,273</b>	<b>39,576</b>
<b>Balance at December 31, 2022</b>	<b>\$10,517,264</b>	<b>\$961,291</b>	<b>\$248,347</b>	<b>\$11,726,902</b>
<b>Carrying amounts</b>				
Balance at December 31, 2021	\$13,174,541	\$492,636	\$122,758	\$13,789,935
<b>Balance at December 31, 2022</b>	<b>\$11,387,660</b>	<b>\$362,482</b>	<b>\$91,083</b>	<b>\$11,841,225</b>

**IFRS Impairment Assessment of Non-Financial Assets**

At December 31, 2022, the Company performed its assessment of potential impairment indicators for its non-financial assets which include property and equipment, intangible and right of use assets. At December 31, 2022, the Company's net asset value was greater than its market capitalization and therefore the Company performed an impairment test for its one cash generating unit. No impairment was recognized in 2022 or 2021 as the estimated recoverable amount exceeded the carrying value of the non-financial assets.

For the purposes of testing impairment, the Company included discounted cash flows using forecast revenue and gross margin assumptions based on the expected future results for a period of five years, applying a post tax discount rate of seventeen percent. Cash flow projections beyond the five-year period covered by the Company's forecast, were extrapolated based on a terminal value growth rate of two percent. This approach is considered a level three hierarchy in determination of the recoverable value of the non-financial assets.

## 8. RIGHT OF-USE ASSETS

### Cost

Balance, January 1, 2021	\$1,008,898
Additions	351,958
Foreign currency translation	6,858
Balance at December 31, 2021	\$1,367,714
<b>Additions</b>	<b>132,879</b>
<b>Foreign currency translation</b>	<b>43,960</b>
<b>Balance at December 31, 2022</b>	<b>\$1,544,553</b>

### Accumulated Depreciation

Balance, January 1, 2021	\$590,766
<b>Depreciation charged in:</b>	
Cost of sales	86,752
Depreciation	103,880
Foreign currency translation	(1,225)
Balance at December 31, 2021	\$780,173
<b>Depreciation charged in:</b>	
<b>Cost of sales</b>	<b>130,920</b>
<b>Depreciation expense</b>	<b>103,880</b>
<b>Foreign currency translation</b>	<b>30,118</b>
<b>Balance at December 31, 2022</b>	<b>\$1,045,091</b>

### Carrying Amounts

Balance at December 31, 2021	\$587,541
<b>Balance at December 31, 2022</b>	<b>\$499,462</b>

In October 2022, the Company renewed its lease agreement for the existing Grande Prairie facility for a two-year term with options to renew for another two years.

See note 7 for a discussion regarding the Company's required impairment assessment of non-financial assets in accordance with IFRS. No impairment was recognized in 2022 or 2021 as the estimated recoverable amount exceeded the carrying value of the non-financial assets.

## 9. INTANGIBLE ASSETS

Cost	Heat to power development	Software and data systems	Patents	Total
Balance at January 1, 2021	\$1,963,884	\$117,009	\$357,177	\$2,438,070
Additions	580,663	-	1,857	582,520
Transfers	-	121,001	-	121,001
Balance at December 31, 2021	\$2,544,547	\$238,010	\$359,034	\$3,141,591
<b>Additions</b>	<b>1,554,869</b>	<b>-</b>	<b>1,490</b>	<b>1,556,359</b>
<b>Balance at December 31, 2022</b>	<b>\$4,099,416</b>	<b>\$238,010</b>	<b>\$360,524</b>	<b>\$4,697,950</b>

### Accumulated Amortization

Balance at January 1, 2021	\$1,564,167	-	\$349,784	\$1,913,951
Amortization	246,999	19,834	2,609	269,442
Balance at December 31, 2021	\$1,811,166	\$19,834	\$352,393	\$2,183,393
<b>Amortization</b>	<b>57,752</b>	<b>79,341</b>	<b>3,032</b>	<b>140,125</b>
<b>Balance at December 31, 2022</b>	<b>\$1,868,918</b>	<b>\$99,175</b>	<b>\$355,425</b>	<b>\$2,323,518</b>

### Carrying Amounts

Balance at December 31, 2021	\$733,381	\$218,176	\$6,641	\$958,198
<b>Balance at December 31, 2022</b>	<b>\$2,230,498</b>	<b>\$138,835</b>	<b>\$5,099</b>	<b>\$2,374,432</b>

In 2022 the Company has capitalized costs of \$1,554,869 (\$580,663 in 2021) associated with its waste heat to power project that is being partially funded by Sustainable Development Technology Canada ("SDTC") (see note 12).

The Company has also expensed certain administrative costs relating to this waste heat to power project and other research and development project costs that do not yet meet the criteria for capitalization in the amount of \$469,687 in 2022 and \$315,899 in 2021. During the year the Company also received \$100,000 of funding through its partnership with SAIT related to the integrated data emissions data measurement and

reporting platform project which was recorded as an offset to the associated costs in research and development expenses. See note 7 for a discussion regarding the Company's required impairment assessment of non-financial assets in accordance with IFRS. No impairment was recognized in 2022 or 2021 as the estimated recoverable amount exceeded the carrying value of the non-financial assets.

## 10. DEFERRED REVENUE

For the years ended December 31,	2022	2021
Balance, beginning of year	\$1,989,289	\$587,273
Additions from new contracts	3,893,050	3,115,108
Deferred revenue recognized as revenue	(4,541,398)	(1,713,092)
Balance, end of year	\$1,340,941	\$1,989,289

## 11. LEASE OBLIGATIONS

The Company's leasing activities comprise buildings and yard leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. The following table sets out the movement in the right-of-use assets by class of underlying asset:

<b>Lease Obligations</b>	
Balance, January 1, 2021	\$446,372
Additions	351,958
Interest	28,830
Lease payments	(211,214)
Foreign currency translation	7,649
Balance at December 31, 2021	\$623,595
<b>Additions</b>	<b>132,879</b>
<b>Interest</b>	<b>27,469</b>
<b>Lease payments</b>	<b>(263,393)</b>
<b>Foreign currency translation</b>	<b>16,338</b>
<b>Balance at December 31, 2022</b>	<b>\$536,888</b>
Lease obligations due within one year	\$279,490
Lease obligations due beyond one year	257,398
	<b>\$536,888</b>

Operating costs and property tax paid by the Company that are not included in the lease obligation above are \$142,360 (2021- \$123,934) and are expensed as incurred.

The Company has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) and records the payments made of \$280,666 (2021 - \$376,218) directly to the consolidated statement of comprehensive loss.

## 12. REPAYABLE GOVERNMENT GRANTS AND DEFERRED GRANT BENEFITS

### (a) Repayable government grant

During 2020, the Company received an interest free loan of \$966,186 from Western Diversification to help fund its operating costs. The total amount of the repayable government assistance was recognized at fair value using an interest rate of 12%, which was considered a market rate of interest for similar unsecured loans at the date of inception. The Company is required to repay the contribution in 35 consecutive monthly installments of \$26,800, commencing January 1, 2023 and one final installment of \$28,187 due December 31, 2025.

Under the agreement, unless the Company has disclosed pre-existing commitments to make payments or disbursements to shareholders/partners, including management bonuses, and has received written approval from the Minister to make such payments, the Company shall not pay management bonuses, repay shareholder loans/partnership loans or approve any distribution of the retained earnings to the shareholders/partners until the contribution has been paid in full. The Company has complied with all requirements.

Balance at January 1, 2021	\$636,236
Accretion – at effective interest rate (12%)	80,692
Repayments	-
Balance at December 31, 2021	\$716,928
<b>Accretion – at effective interest rate (12%)</b>	<b>90,925</b>
<b>Repayments</b>	<b>-</b>
<b>Balance at December 31, 2022</b>	<b>\$807,853</b>

## Questor Technology Inc.

Current portion	\$321,600
Long-term portion	486,253
	<b>\$807,853</b>

### (b) Deferred grant benefits

	Alberta Innovates <sup>(1)</sup>	Sustainable Development Technology Canada <sup>(2)</sup>	Western Economic Diversification <sup>(3)</sup>	Total
Balance at January 1, 2021	\$ -	\$ -	\$329,951	\$329,951
Additions	120,000	-	-	120,000
Recognized	(106,018)	-	(80,692)	(186,710)
Balance at December 31, 2021	13,982	\$-	\$249,259	\$263,241
<b>Additions</b>	<b>-</b>	<b>750,209</b>	<b>-</b>	<b>750,209</b>
<b>Recognized</b>	<b>(13,982)</b>	<b>-</b>	<b>(90,925)</b>	<b>(104,907)</b>
<b>Balance at December 31, 2022</b>	<b>\$ -</b>	<b>\$750,209</b>	<b>\$158,334</b>	<b>\$908,543</b>
Current portion	\$ -	\$750,209	\$84,165	\$834,374
Long-term portion	-	-	74,169	74,169
	<b>\$ -</b>	<b>\$750,209</b>	<b>\$158,334</b>	<b>\$908,543</b>

<sup>(1)</sup>In 2021, the Company entered into an agreement with Alberta Innovates to fund up to \$200,000, to develop a comprehensive systems-based approach to the detection, quantification and removal of onsite methane emissions from oil and gas operations. The Company received \$51,000 in 2022 (120,000 in 2021) as final payment under the Alberta Innovates Grant agreement. A portion of this was recognized in comprehensive loss in 2021.

<sup>(2)</sup>The Company has an agreement with Sustainable Development Technology Canada (SDTC) to receive up to \$4.5 million of funding to develop the Company's CPS 50-1500 kW modular, reliable, high efficiency Waste Heat to Power generation systems ("ORCs"). In 2022 the Company received a pre-milestone payment of \$750,209 and it is recorded it as deferred government grant. When the specific conditions set out in the agreement will be achieved by the Company, the funds received will be recognized as a reduction in the associated project costs and assets.

<sup>(3)</sup>The Company recognizes the benefit of the interest free loan from Western Economic Diversification as the difference between the initial fair value of the repayable government assistance and the proceeds received as a deferred grant benefit over the term of the loan.

### 13. TAXES

For the years ended December 31,	2022	2021
Loss before tax	<b>\$(2,487,390)</b>	\$(5,236,448)
Statutory income tax rate (%)	23	23
Expected tax recovery at statutory rate	<b>\$(572,100)</b>	\$(1,204,383)
Increase (decrease) in taxes resulting from:		
Non-deductible expenses/non-taxable income	<b>3,949</b>	4,817
Share-based payments	<b>88,525</b>	78,336
Tax rate differences	<b>(136,181)</b>	(35,844)
Tax return to provision adjustments	<b>(145,371)</b>	(90,989)
Income tax recovery	<b>\$(761,178)</b>	\$(1,248,063)

The provision for income taxes is comprised of the following:

For the years ended December 31,	2022	2021
Current	<b>\$(630,354)</b>	\$(170,305)
Deferred	<b>(130,824)</b>	(1,077,758)
Income tax recovery	<b>\$(761,178)</b>	\$(1,248,063)

Canadian deferred tax assets are composed of the following:

As at December 31,	2022	2021
Intangible assets	<b>\$101,391</b>	\$171,237
Property and equipment and right-of-use assets	<b>(197,376)</b>	(799,654)
Deferred Revenue	-	(446,167)
Allowance for doubtful account	<b>206,336</b>	-
Non-capital losses carry back/ forward	-	1,034,928
Other	<b>17,853</b>	65,203
Deferred tax asset	<b>\$128,204</b>	\$25,547

United States deferred tax assets are composed of the following:

As at December 31,	2022	2021
Intangible assets	\$87,706	\$100,676
Property and equipment and right-of-use assets	(59,120)	(70,516)
Non-capital losses carry back/ forward	19,258	-
Unpaid equipment rent	83,061	46,149
Other	32,698	45,644
Deferred tax asset	\$163,603	\$121,953

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

#### 14. ISSUED CAPITAL

The Company is authorized to issue an unlimited number of common shares.

Shares issued and outstanding	Number of shares	Share capital
Shares issued and outstanding, December 31, 2020	27,410,120	\$8,630,146
Shares issued on the settlement of RSU's	76,738	160,382
Stock options exercised	275,000	302,621
Shares issued and outstanding, December 31, 2021	27,761,858	\$9,093,149
<b>Shares issued on the settlement of RSU's and PSU's</b>	<b>161,441</b>	<b>296,987</b>
<b>Shares issued and outstanding, December 31, 2022</b>	<b>27,923,299</b>	<b>\$9,390,136</b>

#### 15. SHARE-BASED PAYMENTS

The Company has a stock option plan for the directors, officers, consultants and key employees and affiliates of the Company. The maximum number of equity-based compensation units including stock options, PSU's, RSU's and DSU's that may be reserved for issuances shall not exceed 10 percent of the outstanding common shares of the Company. At December 31, 2022, there were 746,369 (2021 – 853,813) share based payments issued and outstanding out of 2,792,330 (2021 – 2,776,186) available for issuance. Share-based payment expenses for the year ended December 31, 2022 were \$384,903 (2021 - \$340,590).

##### (a) Stock options

###### At December 31, 2022

Number outstanding	Grant date	Expiry date	Remaining contractual life	Exercise price	Fair value at grant date	Number exercisable
109,000	27-May-19	27-May-24	1.41	5.09	2.90	81,750
25,000	31-Aug-21	31-Aug-26	3.67	1.36	0.82	6,250
<b>134,000</b>			<b>1.83<sup>(1)</sup></b>	<b>4.39<sup>(2)</sup></b>		<b>88,000</b>

###### At December 31, 2021

Number outstanding	Grant date	Expiry date	Remaining contractual life	Exercise price	Fair value at grant date	Number exercisable
175,625	1-Dec-17	1-Dec-22	0.92	2.35	1.44	175,625
117,000	27-May-19	27-May-24	2.41	5.09	2.90	59,750
25,000	31-Aug-21	31-Aug-26	4.67	1.36	0.82	-
317,625			1.76 <sup>(1)</sup>	3.28 <sup>(2)</sup>		235,375

<sup>(1)</sup> Weighted average number of years.

<sup>(2)</sup> Weighted average.

The stock options outstanding and exercisable:	Number	Exercise price <sup>(1)</sup>	Number	Exercise price <sup>(1)</sup>
Balance at beginning of the year	317,625	3.28	794,875	2.23
Granted	-	-	25,000	1.36
Forfeited	(18,750)	3.52	(187,250)	2.97
Exercised	-	-	(275,000)	0.65
Expired	(164,875)	2.35	(40,000)	0.65
Balance at end of the year	134,000	4.39	317,625	3.28
Exercisable at end of the year	88,000	4.83	235,375	3.05

<sup>(1)</sup> Weighted average.

During the year ended December 31, 2022, nil (2021 - 275,000) options were exercised for cash consideration of \$nil (2021 - \$178,750). The fair value on the grant date of these options of \$nil (2021 - \$123,871), was transferred from contributed surplus to issued capital upon exercise.

**(b) Performance Share Unit (PSU), Restricted Share Unit (RSU) and Deferred Share Unit (DSU) Plans**

The following table provides a summary of the Company's PSU, RSU and DSU plans in units:

	PSU's	RSU's	DSU's
Balance at January 1, 2021	-	382,856	-
Granted	235,453	275,675	-
Forfeited	(62,000)	(219,058)	-
Settled	-	(76,738)	-
Balance at December 31, 2021	173,453	362,735	-
<b>Granted</b>	<b>127,500</b>	<b>157,500</b>	<b>16,876</b>
<b>Forfeited</b>	<b>-</b>	<b>(35,345)</b>	<b>-</b>
<b>Settled</b>	<b>(57,818)</b>	<b>(132,532)</b>	<b>-</b>
<b>Balance at December 31, 2022</b>	<b>243,135</b>	<b>352,358</b>	<b>16,876</b>

During the year ended December 31, 2022, 132,532 (2021 - 76,738) RSU's and 57,818 (2021 - nil) PSU's were settled. The fair value on the grant date of these RSU's and PSU's of \$296,987 (2021 - \$160,382), was transferred from contributed surplus to issued capital upon the settlement.

During the year ended December 31, 2022, the Company granted 157,500 RSU's (2021 - 275,675), 127,500 PSU's (2021 - 235,453) and 16,876 (2021- nil) DSU's to its officers and employees. The grant date fair value of the RSU's was \$1.09 (2021 - \$1.36), PSU's was \$0.95 (2021 - \$1.36) and DSU's was \$1.00 (2021 - \$nil) per unit.

Subsequent to December 31, 2022, the Company granted a further 61,856 PSU's to new directors in lieu of their annual cash retainer.

**16. LOSS PER SHARE**

For the years ended December 31,	2022	2021
Loss for the year attributable to ordinary equity holders	<b>\$(1,726,212)</b>	\$(3,988,385)
Weighted average number of common shares for the purpose of:		
Basic and diluted	<b>27,792,459</b>	27,470,254
Basic and diluted loss per share	<b>\$(0.06)</b>	\$(0.15)

The calculation of diluted loss per share for the year ended December 31, 2022 and December 31, 2021 excludes the effects of Stock Options PSU's, RSU's, and DSU's, as their impacts would be anti-dilutive.

**17. COST OF SALES, ADMINISTRATIVE EXPENSES AND OTHER EXPENSES (INCOME)**

During the year ended December 31, 2022, the Company received government subsidies relating to COVID-19 for wages and rent. These amounts were recorded as an offset to employee and rent costs in accordance with where the original cost was recorded. Accordingly, cost of sales benefitted by a reduction of \$13,112 (2021 - \$104,317) and administration expenses benefitted by a reduction of \$347,395 (2021 - \$727,735).

**Cost of Sales**

For the years ended December 31,	2022	2021
Employee costs	<b>\$357,419</b>	\$798,133
Depreciation (Note 7,8)	<b>2,152,816</b>	1,978,022
Direct costs	<b>3,836,818</b>	3,726,649
	<b>\$6,347,053</b>	\$6,502,804

**Onerous Contract**

The Company has a revenue contract where the total costs to complete the work is expected to exceed the revenue associated with the performance obligation and as a result an onerous contract provision of \$113,037 (2021 - \$78,834) has been established to reflect the expected costs remaining to complete the work and the associated costs have been recorded in cost of sales.

**Administration Expenses**

For the years ended December 31,	2022	2021
Employee costs	<b>\$1,818,025</b>	\$1,582,267
Corporate costs, professional fees, insurance and other office costs	<b>\$1,267,267</b>	1,151,039
	<b>\$3,085,292</b>	\$2,733,306



**Other expenses (income)**

For the years ended December 31,	2022	2021
Bad debt expense	\$839,369	\$230,385
Interest income	(195,187)	(67,869)
Legal expenses	178,677	362,176
Other income	(165,557)	(7,914)
	<b>\$657,302</b>	<b>\$516,778</b>

The legal expenses relate to the intellectual property litigation with respect to Emission Rx (note 22).

**18. REVENUE BY GEOGRAPHIC SEGMENT**

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

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

For the year ended December 31, 2022	Canada	United States	Consolidated
Equipment sales	\$4,829,888	\$11,753	\$4,841,641
Equipment rentals	-	2,740,892	2,740,892
Equipment service & repairs	222,206	576,088	798,294
	<b>\$5,052,094</b>	<b>\$3,328,733</b>	<b>\$8,380,827</b>

For the year ended December 31, 2021	Canada	United States	Consolidated
Equipment sales	\$2,073,317	\$482,893	\$2,556,210
Equipment rentals	-	2,231,404	2,231,404
Equipment service & repairs	214,109	501,872	715,981
	<b>\$2,287,426</b>	<b>\$3,216,169</b>	<b>\$5,503,595</b>

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

**Intangible assets**

For years ended December 31,	2022	2021
Canada	\$2,374,432	\$958,198
United States	-	-
	<b>\$2,374,432</b>	<b>\$958,198</b>

**Property and equipment**

For years ended December 31,	2022	2021
Canada	\$623,731	\$680,461
United States	11,217,494	13,109,474
	<b>\$11,841,225</b>	<b>\$13,789,935</b>

**Right-of-use assets**

For years ended December 31,	2022	2021
Canada	\$323,699	\$303,004
United States	175,763	284,537
	<b>\$499,462</b>	<b>\$587,541</b>

**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 repayable government grant from Western Economic Diversification that is described in Note 12. At December 31, 2022 and 2021, Questor complied with these covenants.

The Company's capital structure consists of equity, cash and equivalents and short-term highly liquid investments. In order to maintain or alter the capital structure, the Company may adjust capital spending, refinance existing credit facilities, raise new debt and issue common shares. The

Company expects that cash and short-term investments and funds generated from operations will provide sufficient capital resources and liquidity to fund current operations in 2023.

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 adjusted for cash balances. The only loan that the Company has is a repayable government grant from Western Economic Diversification that is described in Note 12. Equity is defined as issued capital and reserves attributable to equity holders. Total capitalization is defined as the sum of debt unadjusted for cash balances and the book value of equity.

For the years ended December 31,	2022	2021
Repayable government grant	807,852	966,187
Shareholder's equity	29,194,789	30,482,081
Total capitalization	30,002,641	31,448,268
Total debt to total capitalization	2.69%	3.07%

## 20. MOVEMENTS IN NON-CASH WORKING CAPITAL

The change in non-cash working capital for the year ended December 31, 2022 and 2021 pertain to operating activities.

For the years ended December 31,	2022	2021
Trade, contract assets and other receivables	\$1,170,790	\$(812,965)
Inventories	(411,365)	629,800
Prepaid expenses and deposits	280,092	(47,652)
Trade payables, accrued liabilities and provisions	76,616	(148,166)
Deferred revenue	(662,330)	1,402,016
Onerous contract liabilities	34,203	78,834
	\$488,006	\$1,101,867

## 21. FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, investments, trade, contract assets and other receivables, trade payables, accrued liabilities and provisions, and a repayable government grant. The Company did not hold any derivative financial instruments during the year.

### Fair values

The carrying amounts of the current financial assets and current financial liabilities recognized in the Company's consolidated financial statements at the end of each reporting period approximate their fair value due to their short period to maturity except for the repayable government grant. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts we could realize in current markets. The fair value of the government grant is determined based on market-based prices and is classified as Level 2 on the fair value hierarchy.

### Credit risk

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. A substantial amount of the Company's trade and contract receivables, which relate to the Company's revenues, are with customers in the oil and gas industry and are subject to normal industry credit risks. The Company mitigates this risk through its credit policies and practices including the use of credit limits and approvals, and by monitoring the financial condition of its customers. Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date.

The Company's aged trade, contract assets and other receivables net of allowance at December 31, 2022 and 2021 are as follows:

For the years ended December 31,	2022	2021
Current <sup>(1)</sup>	\$1,100,633	\$1,948,652
31 - 60 days	435,925	273,099
61 - 90 days	66,396	33,110
Greater than 90 days	230,185	900,068
Total trade, contract assets and other receivables, net of allowance	\$1,833,139	\$ 3,154,929

<sup>(1)</sup>Total contract assets are \$277,034 (2021 - \$87,170) and have been included in current above.

IFRS 9, Financial Instruments, requires an entity to estimate its expected credit loss for all trade accounts receivable and contract assets even when they are not past due based on the expectation that certain receivables and contract assets will be uncollectible. For accounts receivable numbers and contract assets, a loss allowance matrix is utilized to measure expected credit losses. The matrix contemplates historical credit losses by age of receivables, adjusted for any forward-looking information and management expectations. The total expected credit loss allowance as of December 31, 2022 to receivables not specifically provided for is \$33,441 (2021 - \$82,328).

In addition, the Company has provided for specific items where there is collection risk in the amount of \$1,131,338 (2021 - \$197,409). The increase in specific items provided for during the year largely relates to a receivable of \$1,044,752 (2021 - \$868,315) for equipment delivered in prior years and certain other costs incurred during the current year in accordance with the contract. The final payment of the amount owing is tied to completion of commissioning at three sites and was secured by letters of credit. The Company announced in December 2022, that the customer was not able to provide sufficient heat to run the power generation equipment for enough time to complete the testing and commissioning. The Company is working with this customer on a plan to resolve this issue and collect the funds remaining. However, because the plan is not finalized and the letters of credit are expired, the Company has set up an allowance against the amount owing to provide for any collection risk.

The Company is also exposed to the risk of dependence on a few customers for a significant amount of the Company's revenue. The Company notes that equipment sales revenue which comprises a significant portion of total revenue, generally relates to a small number of customers each year but these customers change each year. The Company bills and collects equipment revenue throughout the contract which reduces collection risk. There is a concentration of rental and related service repair revenue. For the year ended December 31, 2022, there were two customers who comprised 78 percent of total rental, service and repair revenue. In 2021 there was one customer who comprised 40 percent of total rental, service and repair revenue.

**Liquidity risk**

The Company's principal sources of liquidity are cash and cash equivalents, investments, operating cash flows, existing or new credit facilities and new share equity. The Company monitors its liquidity to ensure it has sufficient funds to complete planned capital and other expenditures. The Company mitigates liquidity risk by maintaining adequate banking and credit facilities and monitoring its forecast and actual cash flows. The Company may also adjust its capital spending to maintain liquidity. See Note 19 for further details on the Company's capital structure. The Company has positive net working capital as of December 31, 2022 of \$15,005,682 (2021 - \$16,274,715).

**Foreign currency risk**

The Company is exposed to foreign exchange risk associated with foreign operations where assets, liabilities, revenue and costs are denominated in USD. The impact of this exposure is recorded as a cumulative translation adjustment in other comprehensive income. The net exchange difference in 2022 is a gain of \$54,016 and in 2021 it was a loss of \$37,974. The Company is also exposed to the impact of foreign currency fluctuations in its Canadian operations on sales and purchases of products and services from vendors primarily in the United States which resulted in a foreign exchange gain of \$346,036 for the year ended December 31, 2022 (2021 – gain of \$73,586). The Company mitigates some of the foreign currency risk by keeping a US dollar bank account to receive US payments and fund US dollar purchases in the Canadian entity.

**22. COMMITMENTS AND CONTINGENCIES**

At December 31, 2022 the Company had the following contractual undiscounted cash outflows:

As at December 31, 2022	1 Year	2-3 Years	4-5 Years	Total
Trade payables, accrued liabilities	\$ 970,503	\$ -	\$ -	\$ 970,503
Purchase commitments <sup>(1)</sup>	1,160,797	-	-	1,160,797
Onerous contract	113,037	-	-	113,037
Lease obligations (principal and interest)	279,490	193,517	-	473,007
Lease obligations (operating costs and property tax) <sup>(2)</sup>	177,046	150,961	-	328,007
Repayable government assistance	321,600	644,587	-	966,187
	\$ 3,022,473	\$ 989,065	\$ -	4,011,538

<sup>(1)</sup>Purchase commitments for materials required to build the 1500kw prototype unit for its waste heat to power research and development project.

<sup>(2)</sup>The Company is required under its lease commitments to pay annual operating costs. The amounts can vary each year based on inflation.

The Company filed a claim against three former employees and their company, Emission Rx. The three former employees resigned from the Company over a period of two months, in 2018. After the former employees resigned, the Company learned that the former employees had incorporated Emission Rx on November 14, 2017, several months prior to their departures, and had developed a low-pressure burner technology which they then marketed and sold through Emission Rx. The Company sought injunctive relief to prevent Emission Rx competing in the market against the Company and infringing the Company's intellectual property.

The Company asserts ownership of Emission Rx's LP Burner Technology, through: (i) the terms of the employment agreements signed by the three former employees; or (ii) the application of the common law. The court declined to issue the injunction in 2019, however ordered the defendants to deliver all remaining confidential information belonging to the Company. The court's decision included the statement that the Company has demonstrated that it has a prima facie case with respect to its claim that the defendants breached their fiduciary duties and contractual duties of confidentiality. The Company applied to the court to order additional disclosure of evidence from the Defendants, which the court granted in September 2022. The Defendants have since provided further disclosure and have purported to correct evidence previously given in court. The Company is applying to the court for a finding of contempt against the Defendants.

Notwithstanding the uncertainty as to the outcome, based on the information currently available, the Company does not believe the outcome of this litigation will have a material adverse effect on its consolidated financial position.

### **23. RELATED PARTY TRANSACTIONS**

The Company defines key management personnel as being the Directors of the Board, Chief Executive Officer and Chief Financial Officer. In addition to their salaries and directors' fees, the Company also provides non-cash benefits including participation in the Company's stock option, RSU, PSU and DSU plans. Total expense for the year ending December 31, 2022 including salaries, director fees, benefits and share based compensation is \$1,127,076 (2021 - \$1,165,965).

The Company has an executive officer employment agreement that stipulate 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.