

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*This Management Discussion and Analysis ("MD&A") for Questor Technology Inc. ("Questor" or the Company) has been prepared by management as of November 13, 2019 and is a review of the Company's financial condition and results of operations based on International Financial Reporting Standards (IFRS).*

*The focus of this MD&A is a comparison of the financial performance for the three months ended September 30, 2019 and 2018. It should be read in conjunction with the interim consolidated financial statements for the three and nine months ended September 30, 2019 as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2018.*

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

## **QUESTOR'S BUSINESS**

Headquartered in Calgary, Alberta, Questor has a trained workforce who provide specialized high efficiency waste gas incineration and power generation products and services that can be utilized for the exploration, development and production and processing of oil and gas reserves.

There are a number of methods for handling waste gases at oil and gas facilities, the most common being combustion. Flaring and incineration are two methods of combustion accepted by the majority of provincial and state regulators. Historically, the most common type of combustion has been flaring. Flaring is the igniting of natural gas at the end of a flare stack—a long metal tube up which the gas is sent. This causes the characteristic flame associated with flaring.

Incineration is the mixing and combusting of waste gas streams, air, and fuel in an enclosed chamber. Air and gas are mixed at a controlled rate and ignited, no flame is visible from an incinerator that is operating properly. Properly designed incinerators can result in higher combustion efficiency than flares. A correctly operated incinerator can yield higher efficiencies through proper mixing, gas composition, retention time, and combustion temperature. Combustion efficiency, generally expressed as a percentage, is essentially the amount of methane converted to CO<sub>2</sub>, or H<sub>2</sub>S converted to SO<sub>2</sub>. The more converted, the better the efficiency.

Questor designs, manufactures and services proprietary high efficiency waste gas incineration systems. The Company's incineration product line is based on clean combustion technology that was developed by the Company and patented in both Canada and the United States in 1999. Questor has continued to evolve the technology over the years making a number of improvements from the original patent. The Company currently has five new patent filings that are currently pending, the original clean combustion patent expires in November 2019.

Questor's highly specialized technical team works with the client to understand the waste gas volume and composition. The Company's technical team determines the correct incineration product specification to achieve 99.99 percent combustion efficiency. The incinerators vary in size to accommodate small to large amounts of gas handling, the range is 50 mcf/d to 5,000 mcf/d. The incinerators also range in automation and instrumentation depending on the client's requirements. Questor's incinerators are used in multiple segments of the Oil and Gas industry including: drilling, completions, production, midstream and downstream.

The Company has three primary revenue streams; incinerator sales, incinerator rentals and incinerator services. Incinerator services include incinerator hauling, commissioning, repairs, maintenance and decommissioning. The Company offers incinerator products for purchase or for rent. Questor's current key incineration markets are Colorado, North Dakota, Mexico, Pennsylvania, Texas, Alberta and North East BC. The United States Environmental Protection Agency (EPA) issued regulations to reduce harmful air pollution arising out of crude oil and natural gas industry activities with a particular focus on the efficient destruction of volatile organic compounds (VOC's) and hazardous air pollutants (HAP's) and has recently introduced methane emission reduction legislation. In conjunction with U.S. Environmental Protection Agency (EPA) regulations, Colorado's Regulation 7 mandates the use of enclosed combustion (incinerators) and now targets methane, resulting in a statewide focus on the responsible management of potentially fugitive hydrocarbons. North Dakota also has additional requirements that reflect some of the unique and specific needs that extend beyond the EPA's requirements. At September 30, 2019, over 90% of the Company's incinerator rental fleet is located in Colorado and North Dakota where regulation supports demand for its proprietary high efficiency waste gas incineration systems.

The Company services its key markets with field offices in Brighton and Fort Lupton, Colorado; Watford City, North Dakota and Grande Prairie, Alberta. The infrastructure at the field offices consist of field technicians, maintenance technicians, technical sales and administration. The facilities generally include, office space, maintenance shop and a yard to store incinerators. Questor personnel based out of the Company's head office in Calgary, Alberta include Officers of the Corporation, management, engineering, technical sales, accounting and administration.

## FINANCIAL OVERVIEW –SEPTEMBER 30, 2019 VERSUS 2018

### CONSOLIDATED HIGHLIGHTS

For the	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>(stated in CDN\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>				
Revenue	<b>8,293,734</b>	5,761,465	<b>23,377,705</b>	17,491,620
Gross Profit	<b>4,034,759</b>	3,880,343	<b>13,019,726</b>	11,005,699
Earnings for the period				
Per share — basic	<b>0.07</b>	0.07	<b>0.23</b>	0.21
Per share — diluted	<b>0.07</b>	0.07	<b>0.23</b>	0.21
As at		<b>September 30, 2019</b>		December 31, 2018
Working capital, end of period		<b>15,847,765</b>		13,104,925
Total assets, end of period		<b>39,472,381</b>		30,942,245
Total equity, end of period		<b>34,102,235</b>		26,379,455

### THIRD QUARTER 2019 OVERVIEW

Three months ended September 30, 2019

- Revenue increased \$2.5 million (44%) during the three months ended September 30, 2019 versus the same period of 2018:
  - Equipment sales increased \$2.8 million from \$0.8 million to \$ 3.6 million. The Company achieved certain contract milestones and recognized \$2.5 million of sales revenue related to the two previously announced Mexico contracts. The Company also sold clean combustion incineration technology to a client in Texas for a midstream project in the Eagleford and provided clean combustion incineration technology to a client in North East BC for a gas processing facility in the Montney;
  - Revenue from incinerators rentals decreased \$0.3 million (9%) from \$4.3 million to \$ 4.0 million. The Company recorded a 28% increase in the number of days rented for the three months ended September 30, 2019 versus the same period in 2018. The increase in the number of rental days was offset by pricing incentives. The higher mix of contracts with pricing incentives has reduced the equivalent day rates realized during the three months ended September 30, 2019 versus the same period in 2018. The Company expects that the strategy to enter into longer term rental contracts will result in more consistent revenue streams and higher customer retention.
- Gross margin performance for the period is below management’s expectations. The Company incurred higher than expected costs relating to the power generation projects in Mexico. The Mexico projects are the Company’s initial effort combining combustion incineration technology with power generation equipment. The cost overruns relate to additional equipment required for installations where no local existing electricity grid exists. The Company has identified solutions to optimize future installations with similar requirements to improve margins on future projects.
- Earnings increased \$0.2 million (12.7%) during the three months ended September 30, 2019 versus the same period of 2018.
- The Company continues to expand its incinerator rental fleet, incurring capital expenditures of \$0.5 million for the three months ended September 30, 2019. Questor will continue to commit capital to grow a presence in regions where producers are looking for high performing, cost-effective technologies to manage their waste gas and fugitive emissions. The Company has substantially completed the 2019 - \$7 million Capital Expenditure program. The balance of the capital investment in 2019 will be focused towards the development of the Emissions Excellence Control Center.

Nine months ended September 30, 2019

- Revenue increased \$5.9 million (34%) during the nine months ended September 30, 2019 versus the same period of 2018:
  - Equipment sales during the nine months ended September 30, 2019 increased \$4.7 million versus the same period of 2018. The Company previously announced that it was awarded two contracts to supply clean combustion incineration technology with power generation equipment at three oil and gas processing facilities and to supply clean combustion incineration technology at ten production sites in Mexico comprising a total project award amount of \$8.2 million. During the nine months ended September 30, 2019, the Company achieved certain contract milestones and has recognized \$5.9 million of sales revenue related to the two contracts.

The Company also sold clean combustion incineration technology to clients in Alberta, North East BC, and Texas during the nine months ended September 30, 2019.
  - Revenue from incinerators rentals increased \$1.2 million (10%) from \$12 million to \$ 13.2 million. The increased customer base in North Dakota is the primary driver of the rental revenue increase.
- Gross profit increased \$2.0 million on a revenue increase of \$5.9 million. Gross margin performance remains strong even after consideration of pricing incentives offered to clients in North Dakota and additional costs incurred on the Mexico project.
- General and administrative expenses were 14.5 percent of revenue for the nine months ended September 30, 2019 versus 15.8 percent for the same period of 2018. The Company expects that general and administrative expenses as a percentage of revenue will remain relatively consistent as the Company will be adding resources to meet its growth objectives.
- The Company incurred \$0.5MM of legal expenses for the nine months ended September 30, 2019 related to intellectual property litigation. The Company is the plaintiff and is taking action to protect and enforce certain intellectual property rights. The Company expects the litigation will result in the Company holding rights to patent pending technology developed by the Company.
- Earnings increased \$0.2 million (12.7%) during the nine months ended September 30, 2019 versus the same period of 2018.
- The Company continues to expand its incinerator rental fleet, incurring capital expenditures of \$6.2 million for the nine months ended September 30, 2019. Questor will continue to commit capital to grow a presence in regions where producers are looking for high performing, cost-effective technologies to manage their waste gas and fugitive emissions.
- Cash balances increased to \$10.2 million at September 30, 2018 as compared to \$4.9 million at September 30, 2018.
- The Company has in place an Operating and Capital Loan Facility. No amounts have been drawn on the debt facilities.

**CONSOLIDATED**

Three months ended September 30, <i>(stated in CDN\$)</i> <i>(unaudited)</i>	2019 <i>(\$)</i>	2018 <i>(\$)</i>	Change <i>(%)</i>
Revenue	<b>8,293,734</b>	5,761,465	44
Cost of Sales	<b>4,258,975</b>	1,881,122	>100
Gross Profit	<b>4,034,759</b>	3,880,343	4
Gross Profit (%)	<b>49</b>	67	(27)

**REVENUE**

Revenue for the three months ended September 30, 2019 was \$8.3 million versus \$5.8 million in 2018, an increase of \$2.5 million. The following is a breakdown of revenue by the major service lines comprised of rentals, sales and services. Incinerator rentals is \$4.0 million versus \$4.3 million in the same period of 2018. Equipment sales is \$3.6 million versus \$0.8 million in the same period of 2018. Incinerator service revenue was \$0.7 million versus \$0.7 million in the same period of 2018.

*Rentals*

Revenue from incinerators rentals during the three months ended September 30, 2019 decreased 9% versus the same period of 2018. The Company assesses performance of the rental revenue streams by the following; 1) number of rental days, 2) revenue capacity, 3) utilization and 4) pricing.

New regulations in Colorado (Senate Bill 19-181 ) have tempered investment in the state’s oil and gas fields as producers grapple with how local officials will respond to a law giving them more power at the county level. Questor’s Colorado clients have reduced their capital budgets, which has resulted in lower demand for our emissions control equipment during the three months ended September 30, 2019 versus the same period of 2018. Colorado still leads the way when it comes to tackling the issues of oil and gas production and environmental stewardship. Large operators are changing their approach in Colorado, recognizing the importance community involvement plays when activity is so close to the community. Responding to this social reality includes community engagement, altering drilling plans by adding cleaner, quieter, more efficient technology that affects things like air quality and noise levels.

Questor and our clients are finding new ways to balance the needs of the community, increasing production and thriving under Senate Bill 19-181 and the tough new regulations it brings. The Company expects demand for its emissions control equipment will increase as clients respond to the new regulations.

In North Dakota, the Industry has invested billions on gas processing infrastructure but is years away from seeing processing capacity outweigh gas supply. North Dakota regulators are projecting that the states increasing gas productions will outstrip that new capacity. Demand for the Company’s emissions control equipment in North Dakota was strong during the three months ended September 30, 2019. The increased activity in North Dakota displaced the constraints in Colorado and resulted in a 28% increase in the number of days rented for the three months ended September 30, 2019 versus the same period in 2018. The increase in the number of rental days was offset by pricing incentives as discussed below.

Questor evaluates pricing performance based on the equivalent day rates realized. The majority of contracts are priced on a day rate or monthly rate basis. The Company converts monthly rates to a day rate and measures performance on that basis. Questor offers pricing incentives when clients enter larger unit volume and longer-term rental contracts. North Dakota clients are facing gas processing constraints into the foreseeable future and are more inclined to enter longer-term contracts with pricing incentives. The higher mix of contracts with pricing incentives has reduced the equivalent day rates realized during the three months ended September 30, 2019 versus the same period in 2018. The Company expects that the strategy to enter into longer term rental contracts will result in more consistent revenue streams and higher customer retention.

Rental utilization is an efficiency measure of the rental fleet asset deployment. The Company uses utilization target rates to achieve a number of objectives including; return on capital, sales targets, equipment availability, operational performance and maintenance. The utilization performance for the three months ended September 30, 2019 is approximately 15% lower than Company’s utilization targets. The Company expects utilization to increase as clients respond to the new regulations in Colorado and the Company penetrates other US markets.

*Sales*

Equipment sales during the three months ended September 30, 2019 increased \$2.8 million versus the same period of 2018. On January 7, 2019, the Company announced that it was awarded a contract to supply clean combustion incineration technology with power generation equipment at three oil and gas production facilities in Mexico comprising a total project award amount of \$5.8 million. On August 26, 2019, the Company announced that it was awarded a second \$2.4 million contract to supply clean combustion incineration technology to ten production sites. During the three months ended September 30, 2019, the Company achieved certain contract milestones and has recognized \$2.5 million of sales revenue related to the two contracts. At September 30, 2019, the Company has recognized revenue representing approximately 71% of the two contracts.

The balance of the contracts (approximately \$2.4 million) will be completed during Q4-2019 and Q1-2020.

*Service*

Incinerator service revenue during the three months ended September 30, 2019 is relatively consistent with the same period of 2018. The Company assesses performance of the services revenue streams by job volume and pricing. Job volumes are primarily linked to sales and rental activity. Other factors for the service revenue are; higher mix of part sales related to service work and equipment transportation.

**GROSS PROFIT**

Gross Profit for the three months ended September 30, 2019 is \$4.0 million versus \$3.9 million in 2018, an increase of \$0.1 million. The Company uses gross profit margin targets as a percentage of revenue to evaluate performance. Gross profit margin as a percentage of revenue decreased from 67% from 49%. The decrease in gross margin is primarily the result of a higher overall mix of equipment sales as a percentage of total revenue and higher than expected costs for the Mexico projects.

The Company also measures incremental gross margin contribution relative to sales increases. For the three months ended September 30, 2019, gross profit increased \$0.1 million on a revenue increase of \$2.5 million. Gross margin performance is not consistent to management's expectations. The Company incurred unexpected costs relating to the power generation projects in Mexico. The Mexico projects are the Company's initial effort in a new and rapidly emerging market, combining combustion incineration technology with power generation equipment. The cost overruns relate to additional equipment required for installations where no local existing electricity grid exists. The Company has identified solutions for any future installations to ensure that gross margins are consistent with initial expectations.

**CORPORATE**

Three months ended September 30, <i>(stated in CDN\$)</i> <i>(unaudited)</i>	<b>2019</b> <i>(\$)</i>	2018 <i>(\$)</i>	Change <i>(%)</i>
Gross Profit	<b>4,034,759</b>	3,880,343	4
<i>less corporate costs :</i>			
Administration expenses	<b>1,116,656</b>	954,906	17
Depreciation of properties equipment and right-of-use assets	<b>26,308</b>	25,743	2
Amortization of intangible assets	<b>57,516</b>	89,552	(36)
Net foreign exchange losses	<b>(146,764)</b>	147,887	>(100)
Other expenses	<b>228,250</b>	64,613	>100
Profit before tax	<b>2,752,793</b>	2,597,642	6
Income tax expense	<b>784,508</b>	851,399	(8)
Profit for the period	<b>1,968,285</b>	1,746,243	13

**ADMINISTRATIVE EXPENSES**

The Company assesses general administration expense performance as a function of revenue. The Company expects that general and administrative expenses as a percentage of revenue will remain consistent as the Company will be adding resources to meet its growth objectives. General and administrative expenses were 13.5 percent of revenue for the three months ended September 30, 2019 versus 16.5 percent for the same period of 2018.

Administrative expenses during three months ended September 30, 2019 increased \$0.2 million versus the same period of 2019. The increase to administrative expenses during the period is primarily the result of patent filings and increased insurance costs.

The Company also assesses general administration performance by monitoring headcount additions and facility infrastructure costs. Both headcount and administrative facility infrastructure cost are consistent with management's growth expectations.

**AMORTIZATION OF INTANGIBLE ASSETS**

The Company completed development of the waste heat to power technology in early 2017. The Company assesses that a market exists for the waste heat to power generation equipment and expects the product will provide future economic benefits. The Company has been awarded a \$5.8 million Clean Combustion to Power contract to supply waste heat to power equipment in 2019 as announced January 7, 2019. The Company commenced amortization in 2018 and estimates the technology should be amortized on a straight-line basis over five years.

## FOREIGN EXCHANGE

The Company recorded a \$0.1 million foreign exchange gain for the three months ended September 30, 2019 versus a loss of \$0.1 million in 2018. Foreign exchange gains and losses arise from the translation of net monetary assets or liabilities that are held in U.S. dollars. The foreign exchange gain incurred during the period is attributable to the translation of U.S. dollar-denominated monetary assets which appreciated against the Canadian dollar during the period. The Company currently has limited commitments in US dollars and as result has not entered into currency hedges. Questor will continue to monitor currency requirements and may implement currency strategies to satisfy obligations or commitments when they arise.

## OTHER EXPENSE

The Company incurred \$0.2MM of legal expenses for the three months ended September 30, 2019 related to intellectual property litigation. The Company is the plaintiff and is taking action to protect and enforce certain intellectual property rights. The Company expects the litigation will result in the Company holding rights to patent pending technology developed by the Company. The Company expects the litigation will result in the Company holding rights to patent pending technology developed by the Company. The Company develops its litigation views in consultation with outside counsel.

## INCOME TAX

The effective tax rate for three months ended September 30, 2019 is 28.5 percent versus 32.8 percent for the same period of 2018. For the three months ended September 30, 2019, the effective tax rate is higher than the enacted Canadian tax rates due to operations in the United States and permanent differences related to stock compensation, unrealized foreign exchange impact and non-deductible meals, travel and entertainment.

For the three months ended September 30, 2019, the current tax expense is \$0.2 million higher due to a tax expense adjustment relating to the 2018 tax return to provision adjustments.

## CONSOLIDATED

Nine months ended September 30	2019	2018	Change
<i>(stated in CDN\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(%)</i>
<i>(unaudited)</i>			
Revenue	<b>23,377,705</b>	17,491,620	34
Cost of Sales	<b>10,357,979</b>	6,485,921	60
Gross Profit	<b>13,019,726</b>	11,005,699	18
Gross Profit (%)	<b>56</b>	63	(11)

## REVENUE

Revenue for the nine months ended September 30, 2019 was \$23.4 million versus \$17.5 million in 2018, for an increase of \$5.9 million. The following is a breakdown of revenue by the major service lines comprised of rentals, sales and services. Incinerator rentals is \$13.2 million versus \$12.0 million in the same period of 2018. Incinerator sales is \$8.1 million versus \$3.4 million in the same period of 2018. Incinerator service revenue was \$2.1 million versus \$2.0 million in the same period of 2018.

### Rentals

Revenue from incinerators rentals during the nine months ended September 30, 2019 increased 10% versus the same period of 2018. The Company assesses performance of the rental revenue streams by the following; 1) number of rental days, 2) revenue capacity, 3) utilization and 4) pricing.

The increased customer base in North Dakota is the primary driver for the rental revenue increase for the nine months ended September 30, 2019 versus the same period in 2018. The Company invested \$6.2MM expanding its rental fleet during the nine months ended September 30, 2019. The Company's rental equipment investment and expanded customer base lead to a 42% increase in the number of days rented for the nine months ended September 30, 2019 versus the same period in 2018. The increase in the number of rental days was partially offset by pricing incentives introduced in 2019 as discussed above.

Rental utilization is an efficiency measure of the rental fleet asset deployment. The Company uses utilization target rates to achieve a number of objectives including; return on capital, sales targets, equipment availability, operational performance and maintenance. The utilization performance for the nine months ended September 30, 2019 is approximately 7% lower than Company's utilization targets. The Company expects utilization to increase as clients respond to the new regulations in Colorado and the Company penetrates other US markets.

*Sales*

Equipment sales during the nine months ended September 30, 2019 increased \$4.7 million versus the same period of 2018. On January 7, 2019, the Company announced that it was awarded a contract to supply clean combustion incineration technology with power generation equipment at three oil and gas production facilities in Mexico comprising a total project award amount of \$5.8 million. On August 26, 2019, the Company announced that it was awarded a second \$2.4 million contract to supply clean combustion incineration technology. During the nine months ended September 30, 2019, the Company achieved certain contract milestones and has recognized \$5.9 million of sales revenue related to the two contracts. At September 30, 2019, the Company has recognized revenue representing approximately 71% of the two contracts. The balance of the contracts (approximately \$2.4 million) will be completed during Q4-2019 and Q1-2020.

*Service*

Incinerator service revenue during the nine months of 2019 is consistent versus the same period of 2018

## GROSS PROFIT

Gross Profit for the nine months ended September 30, 2019 is \$13.0 million versus \$11 million in 2018, an increase of \$2 million. The Company uses gross profit margin targets as a percentage of revenue to evaluate performance.

The Company measures performance by comparing incremental gross margin contribution relative to sales increases. For the nine months ended September 30, 2019, gross profit increased \$2.0 million on a revenue increase of \$5.9 million. Gross margin performance remains strong even after consideration of pricing incentives offered to clients in North Dakota and additional costs incurred on the Mexico project.

## CORPORATE

Nine months ended September 30 <i>(stated in CDN\$)</i> <i>(unaudited)</i>	2019 (\$)	2018 (\$)	Change (%)
Gross Profit	<b>13,019,726</b>	11,005,699	18
<i>less corporate costs:</i>			
Administration expenses	<b>3,382,788</b>	2,759,658	23
Depreciation of properties equipment and right-of-use assets	<b>80,688</b>	39,641	>100
Amortization of intangible assets	<b>172,548</b>	268,656	(36)
Net foreign exchange losses (gains)	<b>127,392</b>	(218,996)	>(100)
Other expenses	<b>423,494</b>	63,911	>100
Profit before tax	<b>8,832,816</b>	8,092,829	9
Income tax expense	<b>2,466,610</b>	2,468,646	(0)
Profit for the period	<b>6,366,206</b>	5,624,183	13

## ADMINISTRATIVE EXPENSES

The Company assesses general administration expense performance as a function of revenue. The Company expects that general and administrative expenses as a percentage of revenue will remain relatively consistent as the Company will be adding resources to meet its growth objectives. General and administrative expenses were 14.5 percent of revenue for the nine months ended September 30, 2019 versus 15.8 percent for the same period of 2018.

Administrative expenses during nine months ended September 30, 2019 increased \$0.6 million versus the same period of 2019. The increase to administrative expenses during the period is primarily the result of additional sales and marketing resources, patent filings and increased insurance costs.

The Company also assesses general administration performance by monitoring headcount additions and facility infrastructure costs. Both headcount and administrative facility infrastructure cost are consistent management's growth expectations.

## AMORTIZATION OF INTANGIBLE ASSETS

The Company completed development of the waste heat to power technology in early 2017. The Company assesses that a market exists for the waste heat to power generation equipment and expects the product will provide future economic benefits. The Company has been awarded a \$5.8 million Clean Combustion to Power contract to supply waste heat to power equipment in 2019 as announced January 7, 2019. The Company commenced amortization in 2018 and estimates the technology should be amortized on a straight-line basis over five years.

## FOREIGN EXCHANGE

The Company recorded a \$0.1 million foreign exchange loss for the nine months ended September 30, 2019 versus a gain of \$0.2 million in 2018. Foreign exchange gains and losses arise from the translation of net monetary assets or liabilities that are held in U.S. dollars. The foreign exchange loss incurred during the period is attributable to the translation of U.S. dollar-denominated monetary assets which depreciated against the Canadian dollar during the period. The Company currently has limited commitments in US dollars and as result has not implemented currency hedges. Questor will continue to monitor currency requirements and may implement currency strategies to satisfy obligations or commitments when they arise.

## OTHER EXPENSE

The Company incurred \$0.6MM of legal expenses for the nine months ended September 30, 2019 related to intellectual property litigation. The Company is the plaintiff and is taking action to protect and enforce certain intellectual property rights. The Company expects the litigation will result in the Company holding rights to patent pending technology developed by the Company. The Company develops its litigation views in consultation with outside counsel.

## INCOME TAX

The effective tax rate for nine months ended September 30, 2019 is 28 percent versus 30.5 percent for the same period of 2018. The current enacted Canadian tax rate for the Company is 26.0 percent.

For the nine months Ended September 30, 2019, the Company recorded current tax expenses of \$2.4 million. The current tax expense is \$0.2 million higher than expected attributable to a tax expense adjustment relating to the 2018 federal assessment.

For the nine months Ended September 30, 2019, the Company recorded a deferred tax recovery of \$0.1 million attributable to the decrease in the Alberta provincial income tax rate for the periods from July 1, 2019 to January 1, 2022, which reduces the provincial rate to 11% effective July 1, 2019, and further reduces it by 1% on January 1st for the years 2020, 2021, and 2022, bringing the provincial rate to 8%.

## LIQUIDITY AND CAPITAL RESOURCES

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
<i>(stated in CDN\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>				
Cash provided by (used in):				
Operating activities	<b>1,232,340</b>	2,656,148	<b>7,610,801</b>	7,585,014
Investing activities	<b>(470,490)</b>	(55,319)	<b>(6,603,507)</b>	(4,042,570)
Financing activities	<b>(83,317)</b>	-	<b>457,684</b>	19,840
Increase in cash	<b>678,533</b>	2,600,829	<b>1,464,978</b>	3,562,284

## OPERATING ACTIVITIES

The Company's "cash provided by" operating activities for the three months ended September 30, 2019 was \$1.1 million versus \$2.7 million for the same period in 2018 and consistent for the nine months ended September 30, 2019 versus the same period in 2018.

The decrease for the three-month period ended September 30, 2019 versus 2018 is primarily due to movements in working capital during the period. Working capital was impacted by higher accounts receivable on increased sales combined with payments to suppliers on the larger contracts.

## **INVESTING ACTIVITIES**

The Company invested \$0.3 million in the Company's incinerator rental fleet for the three months ended September 30, 2019 versus \$0.1 million in the same period of 2018. The Company invested \$6.4 million in the Company's incinerator rental fleet for the nine months ended September 30, 2019 versus \$4.0 million in the same period of 2018. The new rental equipment was transported to United States and commissioned during the period. The Company continues to invest in the rental fleet to expand our capabilities, improve our competitive position, and increase our market share. Questor regularly reviews its capital equipment requirements and will continue to follow its policy of adjusting the capital budget on a quarterly basis to reflect changing operating conditions, cash flow and capital equipment needs.

## **FINANCING ACTIVITIES**

Effective January 1, 2019, the Company adopted IFRS 16 which requires the recognition of a ROU asset and associated lease obligation for most leasing arrangements entered into by the Company. The change in accounting policy is detailed in note 3 of the interim consolidated September 30, 2019 financial statements. Where lease payments made for certain operating items were previously included in operating expense and G&A, these payments are now classified as financing activities and reflected as lease payment obligations. For the three months ended September 30, 2019, the Company recorded lease payments of \$0.1 million. For the nine months ended September 30, 2019, the Company recorded lease payments of \$0.3 million.

For the nine months ended September 30, 2019, employees exercised 649,750 stock options at an average exercise price of \$1.60 per unit resulting in cash proceeds of \$0.7 million.

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

For the three months ended September 30, 2019, the effect of exchange rate changes on the balance of cash held in foreign currencies resulted in a decrease in cash. This is attributable to the translation of U.S. dollar cash balances held as the Canadian dollar appreciated against the U.S. dollar during the quarter.

## **CAPITAL RESOURCES**

The Company believes that its cash deposits, net cash generated from operating activities and undrawn debt facilities will provide sufficient capital resources and liquidity to fund existing operations and anticipated capital requirements in 2019.

At September 30, 2019, the Company held cash balances of \$9.5 million as compared to \$8.8 million at September 30, 2019.

## **OUTSTANDING SHARE DATA**

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

On September 15 2016, the shareholders approved an amendment to the Corporation's stock option plan to fix the maximum number of common shares reserved for issuance at 10% of the number of common shares of the Corporation issued and outstanding. At November 13, 2019, the number of common shares available for issuance under Corporation's stock option plan is 2,715,262 shares.

On May 14, 2019 the Board of Directors approved performance share unit and restricted share unit plan ("PSU&RSU Plan"). The PSU&RSU Plan was subsequently approved by the shareholders of the Company on July 10, 2019. The implementation of the PSU&RSU Plan has been adopted to provide a vehicle by which equity-based incentives may be awarded to directors and officers, as well as select employees and consultants to incentivize the long-term success of the Corporation. The Board, through the Corporation's Compensation Sub-committee, may in its sole discretion, grant PSUs and RSUs to select individuals. The maximum number of equity-based compensation units including Stock Options, PSUs and RSUs that may be reserved for issuances shall not exceed 10% of the outstanding Common Shares of the Corporation which is in accordance with the current Stock Option plan. At September 30, 2019, the Company has not granted any performance share units or restricted share units to any directors and officers, employees or consultants.

Employees have been granted options to purchase common shares under the Company's shareholder-approved stock option plan. Each option entitles the option holder to purchase one share. As at November 13, 2019, there were 27,190,120 common shares issued and outstanding and 1,130,125 options issued and outstanding to purchase common shares.

**SUMMARY OF QUARTERLY RESULTS**

Three Months Ended	Sep 30, 2019	June 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	June 30, 2018	Mar 31, 2018	Dec 31, 2017
<i>(stated in '000's CDN\$ except per share amounts)</i>	<i>(\$)</i>		<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>	<i>(\$)</i>
<i>(unaudited)</i>								
<b>Financial</b>								
Revenue	<b>8,294</b>	7,363	7,720	5,981	5,761	5,733	5,997	6,812
Gross Profit	<b>4,035</b>	4,566	4,419	2,776	3,880	3,285	3,840	4,190
Profit for the period	<b>1,968</b>	2,062	2,336	1,513	1,746	1,781	2,097	1,049
Per share – basic	<b>0.07</b>	0.08	0.09	0.06	0.07	0.07	0.07	0.04
Per share – diluted	<b>0.07</b>	0.07	0.09	0.06	0.07	0.07	0.07	0.04

**OUTLOOK**

**Key Markets**

Questor expects to continue to enlist new clients and growth it's for its rental fleet into 2020. By growing the fleet, we ensure our clients have access to our units when they need to deal with the produced associated gas cleanly to meet emission limits at their sites. Midstream capacity continues to lag production development resulting in the need for Questor's solutions to handle the gas at site to ensure that the oil production is not curtailed.

We have developed a new low-pressure burner technology that we are installing in existing rental units and installing in new units that we sell that are designed for low-pressure projects. This technology provides our clients with maximum flexibility in that we offer single incinerators that combust high- and low-pressure streams, typically a flowback operation, but applicable to many multi-stream, multi-pressure projects. The technology is applicable to emissions control during drilling and hydraulic fracturing, which will further enable Questor to market its versatility across all phases of wellsite and facility operations.

In addition, we offer a low-pressure only design; utilizing the new low-pressure burners; available in all of our models, that specifically addresses low-pressure applications. This novel design provides effective solutions for emissions control of low-pressure applications including, but not limited to, tank vapors, gas dehydration, cold heavy oil production (CHOP), acid gas and landfill gases.

In general, Questor anticipates that industry will continue to choose superior performance to address both emissions permit constraints as well as take-away capacity restrictions in order to grow production, driving demand for our products in 2019 and beyond.

North Dakota

North Dakota is enforcing US EPA regulations at the State level that rewards the use of high efficiency combustion of VOCs from oil production. In separate tests conducted in 2018 and 2019, Questor was independently tested under EPA testing procedures in North Dakota and, once again, confirmed its performance in excess of 99.99%. Our higher emissions control delivers value in the form of increased oil production for our clients while maintaining NOx and VOC emissions at low and compliant levels. The Company continues to secure contracts in North Dakota resulting in the ongoing deployment of newly fabricated rental units. The successful award of North Dakota contracts and deployment of rental assets to new markets supports the Company's strategy to diversify its markets and customer base. Questor has enhanced its presence in North Dakota with a new base of operations that provides full-service support.

The Company is experiencing market share growth in North Dakota during 2019 and expects activity to increase into 2020 and beyond. In North Dakota, the Industry has invested billions on gas processing infrastructure but is years away from seeing gas processing capacity outweigh gas production. North Dakota regulators are projecting that the states increasing gas productions will outstrip that new capacity. Capital investment for the North Dakota is described below in Capital Expenditures.

## **OUTLOOK (continued)**

### Colorado

Colorado's Regulation 7 mandates the use of enclosed combustion and now targets methane, resulting in a statewide focus on the responsible management of potentially fugitive hydrocarbons. While the State's regulations support the use of the Company's products, Senate Bill 181 (SB181) has tempered oil and gas activity level in 2019. The new Bill contemplates more input from local communities over oil and gas development and requires continuous emissions monitoring (CEM). The Colorado oil and gas industry requested several key amendments to make clear that Colorado welcomes and fosters responsible oil and gas development by setting specific standards upon which operators will be measured. The bill strengthens the regulators focus on environmental protection and was recently signed by the Governor.

In April, 2018, Questor's Q5000s were independently live tested in Colorado under normal flowing conditions at a client's site, confirming performance in excess of 99.99%. To that point all Combustors in Colorado were assumed to be 95% efficient. The significance of the recognition of Questor's higher performance at site, 99.99% (from 95%), translates into lower Volatile Organic Compound (VOC) emissions on site that results directly in an increase in permitted oil production or sufficient operating room within their new air permits. Each site has a limit of 100 tonnes of VOCs per year which is expected to be reduced to 50 tonnes in 2020.

Subsequent to the quarter, the Company has also been awarded a project for a permanent incinerator in Colorado. This holds significance as it is within a Municipality that is well known to require extremely high standards for any industry that operates within their jurisdiction. After a competitive bid process, we are privileged to be selected for this project as it signifies our competitiveness in the permanent market in Colorado. It also validates that our low-pressure burner technology translates to bottom-line value for our clients.

Questor and our clients are finding new ways to balance the needs of the community, increasing production and thriving under Senate Bill 19-181 and the tough new regulations it brings. The Company expects demand for its emissions control equipment will increase in 2020 as clients respond to the new regulations.

### Canada

The domestic oil and gas industry continues to face investment and growth constraints in 2019, based on continued volatility in commodity prices and constraints for natural gas and oil take-away options for WCSB originated production. Current regulations continue to permit flaring and do not mandate the use for efficient waste gas incineration systems. Questor will continue to market its valued technologies in this basin, including tall-stack design for sour and acid gas projects as well as focusing on smaller source emissions with low-pressure burner and the newly designed stacks for that technology. Despite these challenges the Company has increased its sales revenue and service revenues over the prior year. The Company is expecting that demand for its products and services in Canada will increase in 2020.

### Mexico

On January 7, 2019 the Company announced that it has been awarded a project to supply clean combustion incineration technology with our waste heat to power generation equipment at three oil and gas production facilities in Mexico. The total project award amount of \$5.8 million is expected to be recognized in 2019.

During the third quarter of 2019, the Company was awarded a second project to supply clean combustion incineration technology to ten sites in the Mexico market. The total project award amount of \$2.4 million is expected to be recognized over the third and fourth quarter of 2019.

Questor is pleased to showcase its technologies to eliminate gas venting and methane and to utilize the waste heat to generate power for a significant asset owner within the oil and gas sector in Mexico. Questor is ambitious with its 2020 expectations for Mexico, given Mexico's aggressive objectives to address emissions within its mature oil and gas industry.

### Texas and New Mexico

The demand for wellsite emissions control is extending to the Permian in Texas and New Mexico especially with the challenges of lack of gas pipeline infrastructure. We are experiencing sales and rental revenue in Texas and New Mexico as a direct result of our marketing efforts. In the Permian Basin we are forecasting to require investment capital for rental equipment in order to achieve market share growth in 2020.

## **OUTLOOK (continued)**

### Pennsylvania

Subsequent to the quarter, the Company received a purchase order for \$2.2 million for emissions control equipment in Pennsylvania for a large Midstream Company at six of their facilities. We expect to complete the Pennsylvania contract in the fourth quarter of 2019. Questor is proud and privileged to serve and support new and existing clients in fulfilling their commitment to utilize industry leading technology to control emissions. Underlying Pennsylvania, Ohio and West Virginia are the Utica and Marcellus shale plays, forecasted to supply 45% of the US's natural gas production by 2040. The Company is expecting that demand for its products and services in the Utica and Marcellus shale plays will increase in 2020.

### Capital Expenditures

Questor will continue to commit capital to grow a presence in regions where producers are looking for high performing, cost-effective technologies to manage their waste gas and fugitive emissions. The Company is forecasting 2019 Capital Expenditures of \$7 million focused on the continued expansion of the rental fleet. At the end of the third quarter, the Company has completed over 90% of the 2019 capital program which has been dedicated to additional proprietary rental emissions control equipment. The balance of the spending will be allocated to the Emissions Excellence Control Center, rental support equipment and maintenance capital.

### Key Objectives

#### *Market Share*

The Company's primary objective for 2019 and into 2020 is to gain gas combustion market share in the Colorado, North Dakota, Mexico, Pennsylvania, Texas and New Mexico markets through its incineration products and services. Questor believes that the clean technology industry will remain an integral component of resource development over the long term and that the Company will be well positioned given its focus on top-tier service, quality, logistics management and technology.

#### *Product Diversification*

The Company remains committed to its strategic plan of technology diversification. The combination of clean combustion incineration technology with our power generation equipment at three oil and gas production facilities in Mexico is expected to showcase our commitment to this strategic initiative. Questor's wholly owned subsidiary ClearPower Systems Inc. continues to aggressively market its waste heat to power technology.

#### *Innovation – Emissions Sensors*

The Company has commenced a project focused on the capture and transmission of the field sensor data installed on our waste gas incineration systems. The data will be transmitted to an Emissions Excellence Control Center that will be set-up in Calgary where a team will monitor all our equipment from one central site. The objective of the project is to collect real time information that allows our clients to demonstrate compliance with the increasing regulations to reduce harmful air pollution arising out of crude oil and natural gas industry activities. The project includes a specific focus on the efficient destruction of methane, volatile organic compounds (VOC's) and hazardous air pollutants (HAP's). The recognition by the regulator of our higher combustion performance (exceeding 99%) in North Dakota will be aided with this data. The data platform that Questor is developing will enable our clients in Colorado to meet regulations in the new proposed bill requiring continuous emissions monitoring. Confirmation and certification of emission reductions is becoming a key metric with regulators, the public, investors and shareholders. Most recently, many large global E&P companies have stated emission reduction goals and have tied their executive compensation to meeting these goals and targets.

As an update on the Data Management project, this project is progressing very effectively with installation of sensor and telemetry equipment on over 50% of the planned sites in North Dakota. Data has been successfully received by the new Data Centre and the Phase I portion of this is ahead of schedule. Phase II, the predictive emissions portion of the overall data management system, has commenced and is also ahead of schedule. Questor is excited about this technology and looks forward to deploying the remainder of the field equipment and providing this new value package to our clients. Questor will also ensure that this intellectual property is sufficiently protected.

## **EVENTS**

We participated in the following this year;

Jan 09 & 10	AltaCorp One-on-One Meetings; Toronto
Jan 16 to 19	Peters & Co Energy Conference   Attendee; Lake Louise
Jan 23	Bennett Jones Securities Forum   Attendee; Calgary
Jan 31	Finance Influencer's Series One-on-One Meetings   Baltimore, MD
Feb 06	TSX Venture 50 Video Interview   Calgary
Feb 27	WXN Speaker Series   Panel member; Calgary
Mar 06	Bennett Jones International Women's Day   Panel member; Calgary
Mar 07-09	Lazaridis Scale Up Program – Leadership   Participant; Toronto
Mar 12 & 13	GMP Securities Investor Meetings   Montreal & Toronto
Mar 14	Business Chicks Inspire   Speaker; Calgary
Mar 20 to 23	SCF Partners CEO Meetings  Attendee; Telluride, CO
Mar 28	U of C Energy Mixer   Panel member; Calgary
Apr 4 to 6	Lazaridis Scale Up - People   Participant, Silicon Valley, CA
Apr 9	AltaCorp Investor Roadshow   Presenter, Vancouver
Apr 16	Research Money Conference   Speaker & Panelist, Ottawa
Apr 23	Flaring Issues, Solutions & Technologies   Speaker, Denver, CO
April 25 to 27	Lazaridis Scale Up - Product   Participant, Vancouver
May 7	AltaCorp Investor Roadshow   Presenter, San Francisco, CA
May 9 to 11	Lazaridis Scale Up - Finance & Metrics   Participant, New York, NY
May 16 & 17	Acumen Investor Roadshow   Presenter, Toronto & Montreal
May 22	Anzmex Discovery Breakfast   Attendee, Mexico City, Mexico
May 27 to 28	Williston Basin Petroleum Conference   Panelist, Regina
Jun 4	AltaCorp Investor Roadshow   Presenter, Denver, CO
Jun 5 to 7	Lazaridis Scale Up - Global Growth   Participant, Silicon Valley, CA
Jun 18	Flaring Issues, Solutions & Technology   Speaker, Canonsburg, PA
Jun 20 to 22	Lazaridis Sales & Marketing   Participant, Waterloo, ON
Aug 6 to 8	Canaccord Genuity Capital Markets Conference   Speaker, Boston, MS
Sep 17	EDU – Future of North American Energy   Panel member, Calgary, AB
Sep 24	Women in Oil & Gas Association Presentation   Keynote speaker, Denver, CO
Sep 26 & 27	Canaccord Investor Roadshow   Presenter, Montreal & Toronto

## **LITIGATION**

From time to time, the Company is subject to costs and other effects of legal proceedings, settlements, investigations, claims and actions. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses potential liabilities by analyzing the claims using available information. The Company develops its views on estimated losses in consultation with outside counsel handling our defense in these matters. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Notwithstanding the uncertainty as to the final outcome, based on the information currently available to it, the Company does not currently believe these matters in aggregate will have a material adverse effect on its consolidated financial position. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors. Management is of the view that it is improbable there will be a material financial impact to the Company as a result of these claims. Consequently, no provision was recorded in the consolidated financial statements.

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

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

This MD&A is based on the Company's consolidated financial statements for the three months and nine ended September 30, 2019 which were prepared in accordance with IFRS. Management is required to make assumptions, judgments and estimates in the application of IFRS. Questor's significant accounting policies are described in Note 2 to the annual consolidated financial statements.

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

## **ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE**

The Company performs ongoing credit evaluations of its customers and grants credit based on a review of historical collection experience, current aging status, financial condition of the customer and anticipated industry conditions. In situations where the creditworthiness of a customer is uncertain, services are typically provided on receipt of cash in advance or services are declined. Customer payments are regularly monitored and a provision for doubtful accounts has been established based on the new impairment model under IFRS 9, which requires the recognition of impairment provisions based on expected incurred credit losses rather than only incurred credit losses. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument.

## **DEPRECIATION**

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

## **FINANCIAL INSTRUMENTS**

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

## **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

## **INCOME TAXES**

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

## **STOCK BASED COMPENSATION**

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

## **FUNCTIONAL CURRENCY**

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

## **CASH GENERATING UNITS**

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

## RELATED-PARTY TRANSACTIONS

The Company defines key management personnel as being the Directors, Chief Executive Officer, Chief financial Officer, Chief Operating Officer and other key employees. In addition to their salaries and directors' fees, the Company also provides non-cash benefits including participation in the Company's share option plan, as described in Notes 7 and 8.

In April 2019, the Company provided loans to an executive officer of the Company and one Director. The purpose of the loans is to allow the individuals to exercise stock options and for payment of related taxes upon option exercise. The loans are on a recourse basis and secured by a promissory note. The loans are non-interest bearing with maturities less than 120 days. The Company loaned the executive officer \$305,840 on April 15, 2019. The full principal amount is due and payable upon the maturity date of August 13, 2019. The full principal amount was due and payable upon the maturity date of August 13, 2019. The Board of Directors subsequently approved an extension of the loan maturity to December 31, 2019. The full loan amount is outstanding at September 30, 2019 and is classified as other receivables. The Company loaned the Director \$83,640 on April 30, 2019. The loan was repaid in full on May 27, 2019.

The Company has entered into an employment agreement with an executive officer of the Company. In the event of termination without cause or resignation or change of control, the executive officer is entitled to any unpaid annual base salary and all accrued but unpaid bonuses and vacation pay through to the date of termination, a severance payment equal to 18 months of their annual base salary and accelerated vesting of any share options not then exercisable but which would have become exercisable within nine months of the date of termination. In the event of a change of control, all share options that are not then exercisable shall vest immediately and become exercisable.

## CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2019, the Company adopted IFRS 16 which requires the recognition of an ROU asset and associated lease obligation for most leasing arrangements entered into by the Company. Prior to the adoption of this standard, identified leases were categorized as either operating or finance leases, and operating leases were not subject to balance sheet recognition.

The Company adopted IFRS 16 on a modified retrospective basis whereby an adjustment is made to the opening retained earnings at January 1, 2019 to reflect the cumulative earnings impact of the standard up to the date of adoption. No restatement of prior periods has been made. In conjunction with the adoption of IFRS 16, the Company has completed the implementation of necessary changes to accounting processes, information systems and business reporting that has been affected.

The table below details the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019:

	Impact on Balance Sheet Item	\$
ROU assets	Increase	775,940
Current portion of lease obligations	Increase	261,723
Long-term portion of lease obligations	Increase	514,217
Other deferred liabilities	Decrease	303,433
Deferred tax liability	Increase	19,152
Retained earnings	Increase	114,100

The Company's leases recognized on its balance sheet at January 1, 2019 include leases of buildings and land use rights. The Company does not currently lease equipment or vehicles. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements. For full information regarding the effects of the adoption of IFRS 16 on the Company's financial statements, see Note 3 "Changes in Accounting Policies" in the financial statements.

As IFRS 16 was adopted using a modified retrospective approach, prior period comparatives have not been restated and may not be comparable. Where lease payments made for certain operating items were previously included in operating expense and G&A, these payments are now reflected as payments of interest and lease obligations.

## BUSINESS RISKS

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

## **FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

## **ADDITIONAL INFORMATION**

Further information regarding Questor Technology Inc. can be accessed on the Company's website at [www.questortech.com](http://www.questortech.com) or under the Company's public filings found at [www.sedar.com](http://www.sedar.com).