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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations presented herein is provided to enable readers to assess the results of operations, liquidity and capital resources of Questor Technology Inc. ("Questor" or the "Company") as at and for the three and six months ended June 30, 2009 compared to the three and six months ended June 30, 2008. This MD&A dated August 27, 2009 should be read in conjunction with the accompanying unaudited interim financial statements and notes thereto of Questor as at and for the three months and six months ended June 30, 2009 and with the audited financial statements and MD&A contained in the Company's annual report for the year ended December 31, 2008.*

*The following MD&A contains forward-looking statements. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Company's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties, including without limitation, changes in market competition, governmental or regulatory developments, changes in tax legislation, general economic conditions and other factors set out in the Company's public disclosure documents. Many factors could cause the Company's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in, or incorporated by reference in this MD&A, should not be unduly relied upon. These statements speak only as of the date of this MD&A. The Company does not intend, and does not assume any obligation, to update these forward-looking statements except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*

*Additional information relating to Questor can be found on its website at [www.questortech.com](http://www.questortech.com). The continuous disclosure materials of Questor, including its annual MD&A and audited financial statements, Management Information Circular and Proxy Statement, material change reports and news releases issued by Questor, 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 TECHNOLOGY INC.**

Questor is an international environmental oil field service company founded in late 1994 and headquartered in Calgary, Alberta, Canada with a field office located in Grande Prairie, Alberta, Canada. The Company is focused on clean air technologies with activities in Canada, the United States, Europe and Asia. Questor designs and manufactures high efficiency waste gas incinerators for sale or for use on a rental basis and also provides combustion-related field services. The Company's proprietary incinerator technology destroys noxious or toxic hydrocarbon gases which ensures regulatory compliance, environmental protection, public confidence and reduced operating costs for clients. Questor is recognized for its particular expertise in the combustion of sour gas (H<sub>2</sub>S). While the Company's current client base is primarily in the oil and gas industry, this technology is applicable to other industries such as landfills, water and sewage treatment, tire recycling and agriculture.

## FINANCIAL RESULTS

Questor's financial information and the related discussion of financial results in the MD&A are for the three-month and six-month periods ended June 30, 2009 and June 30, 2008.

### Financial Results Summary

(\$ unless otherwise noted)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Total revenue	<b>1,228,584</b>	387,164	<b>2,391,780</b>	1,013,257
Gross margin <sup>(1)</sup>	<b>369,863</b>	(27,278)	<b>813,838</b>	75,876
EBITDA <sup>(1)</sup>	<b>94,532</b>	(161,590)	<b>249,691</b>	(185,739)
Income (loss) before interest expense and income tax expense <sup>(1)</sup>	<b>53,931</b>	(199,967)	<b>170,689</b>	(262,700)
Net income (loss)	<b>21,031</b>	(169,877)	<b>103,720</b>	(234,925)
Funds generated from operations <sup>(1)</sup>	<b>101,807</b>	(265,718)	<b>265,761</b>	(253,706)
Cash used in operating activities	<b>(5,386)</b>	(747,594)	<b>(472)</b>	(585,849)
Total assets	<b>6,434,159</b>	5,703,009	<b>6,434,159</b>	5,703,009
Long-term liabilities	<b>44,596</b>	31,934	<b>44,596</b>	31,934
Shares outstanding (thousands) <sup>(2)</sup>				
Basic	<b>24,007</b>	23,795	<b>24,007</b>	23,795
Diluted	<b>24,710</b>	23,795	<b>24,710</b>	23,795
Net income (loss) per share – Basic	\$ <b>0.001</b>	\$ (0.007)	\$ <b>0.004</b>	\$ (0.010)
Net income (loss) per share – Diluted	\$ <b>0.001</b>	\$ (0.007)	\$ <b>0.004</b>	\$ (0.010)

(1) Non-GAAP financial measure. Please see discussion in the Non-GAAP Financial Measures section of this MD&A.

(2) Weighted average.

### Discussion of Financial Results for the Three and Six Months Ended June 30, 2009

#### Net income

(\$ unless otherwise noted)

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
<b>Net income (loss)</b>	<b>21,031</b>	(169,877)	190,908	<b>103,720</b>	(234,925)	338,645
Per basic and diluted share	<b>0.001</b>	(0.007)	0.008	<b>0.004</b>	(0.010)	0.014

Net income for the three months ended June 30, 2009 was \$21,031 (\$0.001 per basic share) compared to a net loss of \$169,877 (\$0.007 per basic share) for the three months ended June 30, 2008. On a comparative basis, the net income increase of \$190,908 was primarily attributable to higher revenues from incinerator sales and services, partially offset by corresponding higher variable direct costs and income tax expense.

Net income for the six months ended June 30, 2009 was \$103,720 (\$0.004 per basic share) compared to a net loss of \$234,925 (\$0.010 per basic share) for the six months ended June 30, 2008. The net income increase of \$338,645 was attributable to higher revenues from incinerator sales and services, rental incinerator sales and services and combustion services, partially offset by higher variable direct costs, general and administrative expense, income tax expense and by lower foreign exchange gains.

**Total revenue**

*(\$ unless otherwise noted)*

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Incinerator sales and services	<b>932,382</b>	16,727	915,655	<b>1,504,974</b>	294,364	1,210,610
Incinerator rentals and services	<b>132,024</b>	108,970	23,054	<b>571,294</b>	353,384	217,910
Combustion services	<b>115,169</b>	71,658	43,511	<b>261,175</b>	158,110	103,065
Other revenue	<b>49,009</b>	189,809	(140,800)	<b>54,337</b>	207,399	(153,062)
<b>Total revenue</b>	<b>1,228,584</b>	387,164	841,420	<b>2,391,780</b>	1,013,257	1,378,523

Total revenue increased in both of the three and six month periods ended June 30, 2009 compared to the same periods in 2008 principally as a result of a larger volume of incinerator sales, combined with higher overall utilization of the incinerator rental fleet and higher combustion services and parts sales. The incinerator sales in the first half of the year include \$0.9 million of orders received during the latter part of 2008 for which revenue was not recognized until delivery occurred in the first half of 2009.

In second quarter 2008, the Company sold an incinerator from its rental fleet with a net book value of \$37,980 for gross proceeds of \$139,733, resulting in a net gain on sale of \$99,268 after deducting customization costs of \$2,485. The net gain on sale is included in other revenue.

In the second quarter of each year, the Company received government assistance in the form of a Scientific Research and Experimental Development ("SR&ED") investment tax credit: \$44,078 in 2009 and \$77,508 in 2008. These amounts are reflected in other revenue.

**Direct costs**

*(\$ unless otherwise noted)*

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Cost of sales	<b>621,285</b>	64,172	557,113	<b>1,161,176</b>	389,634	771,542
Field office costs	<b>111,707</b>	107,664	4,043	<b>229,270</b>	222,557	6,713
Vehicles and trailers	<b>16,374</b>	18,244	(1,870)	<b>40,641</b>	39,823	818
Maintenance expensed capital	<b>30,114</b>	6,413	23,701	<b>34,142</b>	20,940	13,202
Depreciation	<b>30,232</b>	28,140	2,092	<b>58,376</b>	57,028	1,348
<b>Direct costs</b>	<b>809,712</b>	224,633	585,079	<b>1,523,605</b>	729,982	793,623

Direct costs increased both in second quarter and on a year-to-date basis in 2009 compared to the same periods of 2008. This variance is primarily due to the direct costs associated with differences in the incinerator sales volume and mix and the variable direct costs associated with incinerator rental and combustion services. To a lesser extent, expenditures for planned maintenance of the rental incinerator fleet in second quarter 2009 also contributed to the increase in direct costs.

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**General and administrative expense***(\$ unless otherwise noted)*

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Employee costs	<b>138,268</b>	121,254	17,014	<b>292,597</b>	238,507	54,090
Share-based compensation	<b>34,115</b>	30,804	3,311	<b>65,898</b>	61,063	4,835
Consultants and contractors	<b>47,152</b>	45,285	1,867	<b>107,238</b>	97,600	9,638
Marketing/business development	<b>7,188</b>	6,505	683	<b>31,380</b>	18,108	13,272
Office costs	<b>38,845</b>	37,883	962	<b>77,207</b>	77,343	(136)
Corporate/regulatory compliance	<b>56,202</b>	60,019	(3,817)	<b>100,728</b>	110,993	(10,265)
Research and development	<b>10,011</b>	14,616	(4,605)	<b>18,345</b>	14,616	3,729
Other	<b>1,811</b>	4,276	(2,465)	<b>4,826</b>	8,706	(3,880)
<b>General and administrative expense</b>	<b>333,592</b>	320,642	12,950	<b>698,219</b>	626,936	71,283

General and administrative expense increased modestly in second quarter 2009 compared to second quarter 2008 and is principally attributable to higher employee costs due to staffing and compensation increases.

The higher general and administrative expense in the first half of 2009 compared to the first half of 2008 similarly reflects the aforementioned employee costs as well as higher business development costs and consulting costs, partially offset by lower corporate insurance premiums.

**Foreign exchange gains and losses***(\$ unless otherwise noted)*

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
<b>Foreign exchange loss (gain)</b>	<b>20,980</b>	31,619	(10,639)	<b>(21,359)</b>	(100,894)	79,535

Foreign exchange losses were lower for the three months ended June 30, 2009 compared to the same period in 2008. In each quarter the Canadian dollar strengthened which impacted the cash and transactions denominated in foreign currencies, principally in United States dollars. The cash balances held in United States dollars were significantly higher in second quarter 2008 but the corresponding exchange rates were considerably lower than those experienced in second quarter 2009.

For the six months ended June 30, 2009, the foreign exchange gains were lower than those of the same period in 2008. The foreign exchange gains arose primarily in the first quarter of each year, a period when the Canadian dollar experienced weakness relative to the United States dollar. The cash balances held in United States dollars were significantly higher in first quarter 2008 and consequently resulted in a greater foreign exchange gain in first quarter 2008 compared to first quarter 2009.

**Depreciation and amortization**

(\$ unless otherwise noted)

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Depreciation classified to direct costs	<b>30,232</b>	28,140	2,092	<b>58,376</b>	57,028	1,348
Depreciation	<b>3,119</b>	2,987	132	<b>6,127</b>	5,434	693
Amortization of intangibles	<b>7,250</b>	7,250	-	<b>14,499</b>	14,499	-
<b>Depreciation and amortization</b>	<b>40,601</b>	38,377	2,224	<b>79,002</b>	76,961	2,041

Depreciation and amortization for the three and six months ended June 30, 2009 is slightly higher than the corresponding periods in 2008 due to the depreciation of capital additions since second quarter 2008.

**Interest expense**

(\$ unless otherwise noted)

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Short-term debt	-	4,176	(4,176)	<b>322</b>	4,497	(4,175)
Long-term debt	504	504	-	<b>1,008</b>	1,008	-
<b>Interest expense</b>	<b>504</b>	4,680	(4,176)	<b>1,330</b>	5,505	(4,175)

Interest expense in second quarter 2009 and for the first half of the year is lower than the same periods of 2008 because the Company has made virtually no draws on its revolving demand operating loan which would otherwise give rise to interest on short-term debt. The interest on short-term debt arises when Questor draws on its revolving demand operating loan. The interest on long-term debt relates to vehicle financing.

**Income tax expense**

(\$ unless otherwise noted)

For the	Three months ended June 30			Six months ended June 30		
	2009	2008	\$ Change	2009	2008	\$ Change
Current income tax	<b>33,532</b>	37,711	(4,179)	<b>62,111</b>	37,711	24,400
Future income tax (recovery)	(1,136)	(72,481)	71,345	<b>3,528</b>	(70,991)	74,519
<b>Income tax expense (recovery)</b>	<b>32,396</b>	(34,770)	67,166	<b>65,639</b>	(33,280)	98,919

Income tax expense is higher for the three and six months ended June 30, 2009 due to higher taxable income in those periods as compared to second quarter 2008. The current income tax expense recognized in second quarter 2008 arose from a revision to the estimated income taxes payable for 2007.

**OUTLOOK**

Questor remains focused on navigating the business through the current market uncertainties. The low natural gas price environment presents challenging conditions for all participants in the oil field service sector. As Questor's activities are positively correlated to the oil and gas industry's prospects, a prolonged period of lower commodity prices and capital spending may impact Questor's results in the short term. At this time, the Company has nearly \$32 million of bids outstanding for projects of varying scope and jurisdictions pending completion of the tender process and notification of the clients' purchase decision. While the number of the

bids for which Questor will ultimately be successful is unknown and their quantum and timing not reasonably determinable, the continued stream of requests for proposal clearly demonstrates that market opportunities exist worldwide. In the last few months, however, Questor has observed a trend toward deferral of capital expenditure commitments by clients, thereby extending what was already a long purchase decision cycle.

The current order backlog for permanent applications of Questor's products is \$0.4 million, the revenue for which will be recognized in the second half of 2009. Combined with continued sales focus, long-term rental commitments for approximately a quarter of the rental incinerator fleet, short-term utilization plans for the balance of the fleet, deployment of the combustion services division to long-term services contracts during fall 2009 and cost management activities, the Company is dedicated to maintaining profitability and creating long-term growth.

Despite the immediate economic challenges, the state of the natural environment remains a concern as governments respond with regulation to changing global attitudes towards the effects of climate change and the growing desire to reduce greenhouse gases. Meeting these clean air standards, both domestically and internationally, will require innovation and technological developments and is expected to generate demand opportunities for Questor's technology and services. The Company's products are increasingly viewed as best in class because of their quality, reliability and effectiveness. This, coupled with Questor's expertise in sour gas (H<sub>2</sub>S) combustion and engineering knowledge, enables the Company to understand and adapt solutions to the customer's business needs.

Apart from leveraging the market opportunities for existing technology, the Company is also committed to developing new air quality solutions compatible with existing technology and alternate markets for application of the technology. One of Questor's strengths is its ability to design products for specific operational needs of its clients. Due to changing and more stringent legislation in the United States, Questor recognizes that there is a growing market for the efficient combustion of waste gases characterized by low flow and lower heat content. For these situations in the United States and elsewhere, Questor has recently developed a scaled-down version of its successful, larger incinerators and has developed a new incinerator that will, through design and fabrication efficiencies, perform to meet and exceed new regulatory standards while remaining cost competitive. Another of Questor's strategic initiatives, development of a process to convert waste gas to heat/power, is also progressing. Questor continues to pursue its research of the recovery of excess heat to be made available to facility processes. It is anticipated the Company will be at the testing stage later this year and the first commercially available unit would be introduced following completion of this phase. Questor is also in discussion with numerous clients regarding opportunities to generate carbon credits.

Overall, Questor remains optimistic about the Company's future given the changing global attitude towards the effect of climate change and the desire to reduce greenhouse gas emissions and the growing corporate focus on sustainable development. Questor is well-positioned to capitalize on market opportunities given its robust technology solution, capable team and financial flexibility.

## SUMMARY OF EIGHT MOST RECENTLY COMPLETED QUARTERS

	<b>Q2</b>	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(in \$ thousands except per share amounts)</i>	<b>2009</b>	2009	2008	2008	2008	2008	2007	2007
Total revenue	<b>1,229</b>	1,163	2,085	1,373	387	626	1,017	6,925
Gross margin	<b>370</b>	444	792	530	(27)	103	449	3,278
Income (loss) before interest expense and income tax expense	<b>54</b>	117	874	380	(200)	(63)	148	2,844
Net income (loss)	<b>21</b>	83	577	286	(170)	(65)	106	1,884
Net income (loss) per share								
Basic	<b>0.00</b>	0.00	0.03	0.01	(0.01)	(0.00)	0.00	0.08
Diluted	<b>0.00</b>	0.00	0.03	0.01	(0.01)	(0.00)	0.00	0.08

A number of factors contribute to variations in the Company's quarterly results: customer capital spending as it is affected by oil and gas commodity prices; changes in legislation; seasonality; the Company's mix of product and service offerings; and the relative size of sales, the currency in which the sales are transacted and the timing of revenue recognition.

## FINANCIAL POSITION

The following table outlines the significant changes in the balance sheets of Questor from June 30, 2009 to December 31, 2008.

Balance sheet item	\$ Increase (decrease)	Explanation
Cash and cash equivalents	(151,210)	The decrease was due primarily to the working capital and capital investment funding requirements during the first six months of 2009, and to a much lesser extent, a weakening of foreign currencies relative to the Canadian dollar. See also the discussion in the Liquidity and Capital Resources section of this MD&A.
Accounts receivable	(183,460)	The decrease was due primarily to the timing of revenue generating activities in the first half of 2009 compared to fourth quarter 2008 and the effect of transactions denominated in foreign currencies during a period when foreign currencies weakened relative to the Canadian dollar.
Accounts payable and accrued liabilities	(269,889)	The decrease relates to the composition and timing of business reflected at the end of each period.
Income and other taxes payable	(277,449)	The decrease was principally attributable to settlement of the 2008 income taxes payable.
Deferred revenue and deposits	72,021	The increase related to deposits received when sales orders were placed in first and second quarter 2009 for incinerator units to be delivered later in the year.
Contributed surplus	79,511	The increase was due to share-based compensation expense recorded in the period.

## INVESTED CAPITAL

During second quarter 2009 Questor acquired \$8,035 of plant and equipment, down from \$9,973 in second quarter 2008. The majority of invested capital in the three month period ended June 30, 2009 consisted of additions to the incinerator rental fleet and tools. In the same period of 2008, property and equipment increases related primarily to the acquisition of computer hardware and marketing equipment.

During second quarter 2008, the Company sold an incinerator from the rental fleet with a net book value of \$37,980. There were no dispositions of capital assets in the same period of 2009. In the three months ended June 30, 2008, the Company expensed the \$9,373 of research and development costs originally capitalized in first quarter 2008.

The majority of invested capital of \$102,313 in the first half of 2009 consisted of additions to the incinerator rental fleet and the acquisition of a service vehicle, supplemented by expenditures for tools and computer hardware and software. During the first six months of 2008, the increase to plant and equipment was \$23,094 for which the asset acquisitions were predominantly computer hardware related. The only disposition occurring in the first six months of either 2009 or 2008 was the aforementioned incinerator sale in second quarter 2008.

## LIQUIDITY AND CAPITAL RESOURCES

Questor historically has used debt and equity financing to the extent that funds generated from operations, cash balances and deposits received from customers in respect of a sale were insufficient to fund capital expenditures and working capital changes.

At this time, Questor does not reasonably expect any presently known trend or uncertainty to affect the Company's ability to access its anticipated sources of cash. The Company further expects that 2009 funds generated from operations and current cash amounts will be sufficient to meet budgeted operating requirements and meet its anticipated capital requirements.

### Cash Flows

(\$ unless otherwise noted)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Cash and cash equivalents, beginning of period	<b>3,201,093</b>	2,908,855	<b>3,259,037</b>	2,753,997
Cash provided by (used in):				
Operating activities	<b>(5,386)</b>	(747,594)	<b>(472)</b>	(585,849)
Investing activities	<b>(30,303)</b>	139,073	<b>(100,823)</b>	109,298
Financing activities	<b>(9,883)</b>	281,643	<b>(19,766)</b>	187,308
Effect of exchange rates on cash	<b>(47,694)</b>	(34,451)	<b>(30,149)</b>	82,772
Cash and cash equivalents, end of period	<b>3,107,827</b>	2,547,526	<b>3,107,827</b>	2,547,526

### Operating Activities

Cash used in operating activities was \$5,386 in the second quarter of 2009 compared to \$747,594 in the three months ended June 30, 2008. The decrease was primarily attributable to a lower non-cash working capital deficit of \$154,887 in second quarter 2009 compared to a non-cash working capital deficit of \$516,327 in second quarter 2008, better operating results and the effect of foreign exchange on cash.

Cash used in operating activities was \$472 in the first six months of 2009 compared to \$585,849 in the same period of 2008. The decrease was primarily attributable to better operating results and the effect of foreign exchange on cash, partially offset by a higher non-cash working capital deficit of \$296,382 in the six months ended June 30, 2009 compared to a non-cash working capital deficit of \$249,371 in the first six months of 2008.

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## Working Capital

(\$ unless otherwise noted)

As at	June 30 2009	December 31 2008
Current assets	5,189,639	5,521,274
Current liabilities <sup>(1)</sup>	624,978	1,109,575
Working capital	4,564,661	4,411,699
Current ratio	8.3	5.0

<sup>(1)</sup> Excludes short-term debt and current portion of long-term debt.

## Investing Activities

Cash used in investing activities in the three months and six months ended June 30, 2009 was \$30,303 and \$100,823, respectively, compared to cash provided by investing activities of \$139,073 and \$109,298, respectively, in the same periods of 2008. The investing activities comprised expenditures as described in the Invested Capital section of this MD&A and capital amounts in accounts payable from prior periods. In second quarter 2008, investing activities also reflected the disposition of an incinerator from the rental fleet and a reclassification of research and development costs.

## Financing Activities

Cash used in financing activities was \$9,883 in second quarter 2009 compared to cash provided by financing activities of \$281,643 in second quarter 2008. In each period, the Company reduced the long-term debt outstanding at that time, \$9,883 in the three months ended June 30, 2009 and \$15,067 in the three months ended June 30, 2008. In second quarter 2008, the Company increased the balances outstanding on its credit facilities by \$296,710 to fund working capital requirements and reduce long-term debt.

Cash used in financing activities was \$19,766 in the first six months of 2009 compared to cash provided by financing activities of \$187,308 in the same period of 2008. In each period, the Company reduced the long-term debt outstanding at that time, \$19,766 in the six months ended June 30, 2009 and \$32,251 in the six months ended June 30, 2008. In the first half of 2008, the Company increased the balances outstanding on its credit facilities by \$219,559 to fund working capital requirements and reduce long-term debt.

## Capital Resources

The Company believes that its cash deposits and funds generated from operations will provide sufficient capital resources and liquidity to fund existing operations and anticipated capital requirements in 2009.

As at June 30, 2009, the Company had cash on deposit of \$3,107,827 as compared to cash and cash equivalent balances of \$3,259,037 at December 31, 2008. The foreign currency composition of the cash balances is described in Note 3 to the interim financial statements as at and for the three months ended June 30, 2009. The use of cash during 2009 is described in the Financial Position and Liquidity and Capital Resources sections of this MD&A.

As at June 30, 2009, the Company had total debt outstanding of \$32,963, down from \$52,730 at December 31, 2008. The debt at June 30, 2009 was comprised solely of vehicle financing.

On November 14, 2008, the Company issued a USD \$329,428 irrevocable letter of guarantee under its revolving foreign letter of credit/letter of guarantee facility as security to the beneficiary during the warranty period associated with an incinerator sale. This letter of guarantee expired on March 26, 2009.

All of the borrowing facilities from the chartered bank have financial tests and other covenants customary for these types of facilities. At the end of each fiscal quarter the Company's debt-to-tangible-net-worth must be less than 2.5 and the Company's working capital ratio must be greater than 1.25. At the end of each fiscal

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year, Questor's debt service coverage ratio must be in excess of 1.25. Questor was in compliance with these covenants at the end of the June 30, 2009 fiscal quarter and at December 31, 2008.

In January 2008, the Company obtained a demand revolving foreign exchange facility established to a maximum of USD \$630,000 to purchase foreign forward exchange contracts in order to hedge against currency fluctuations. This facility is secured by a general security agreement and an assignment of insurance proceeds. The availability of this facility is also subject to the Company meeting certain financial covenants. As of the date of this MD&A, no amounts have been drawn against this facility.

### **Contractual Obligations and Commitments**

There have been no material changes to Questor's contractual obligations and commitments from those identified in the MD&A included in the Company's 2008 annual report.

## **FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT**

The Company is exposed to market risk and potential loss from changes in the value of financial instruments. To date, Questor has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates and interest rates. Refer to Note 10 to the interim financial statements as at and for the three and six months ended June 30, 2009 for information pertaining to financial instruments and risk management thereto.

## **RISKS AND UNCERTAINTIES**

The Company is exposed to a number of business risks with the potential to affect financial performance. There have been no material changes to Questor's financial and business risks identified in the MD&A included in the Company's 2008 annual report.

## **TRANSACTIONS WITH RELATED PARTIES**

In the normal course of business, the Company may transact with related parties. These transactions are recorded at their exchange amounts which approximate fair value. In February 2009, Questor acquired a service vehicle at market value for \$45,184 from a corporation owned by a director of the Company. There were no related party transactions in 2008.

There were no amounts owing from or to related parties included in accounts receivable and accounts payable and accrued liabilities at June 30, 2009 or December 31, 2008.

## **OFF-BALANCE-SHEET ARRANGEMENTS**

The Company is not party to any off-balance-sheet arrangements as at June 30, 2009.

## **SHARE CAPITAL**

As at	<b>August 27 2009</b>	<b>June 30 2009</b>	December 31 2008
Shares issued and outstanding	<b>24,007,370</b>	<b>24,007,370</b>	24,007,370
Share options outstanding	<b>2,175,000</b>	<b>2,175,000</b>	1,775,000
Share options exercisable	<b>862,500</b>	<b>862,500</b>	843,750

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## **SIGNIFICANT ACCOUNTING POLICIES**

Questor's significant accounting policies remain unchanged from December 31, 2008 except as disclosed in the notes to the interim financial statements as at and for the three and six months ended June 30, 2009. For further information regarding these policies refer to the notes to the interim financial statements as at and for the three and six months ended June 30, 2009 and to the audited financial statements in Questor's 2008 annual report.

## **CRITICAL ACCOUNTING ESTIMATES**

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Company's interim financial statements requires the use of estimates and assumptions which have been made using careful judgment. Questor's significant accounting policies are described in the notes to the 2008 audited financial statements included in the Company's 2008 annual report. Certain of these policies involve critical accounting estimates as a result of the requirement to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. Questor's critical accounting estimates are share-based compensation expense, depreciation and amortization expense, asset impairment assessment and future tax liability.

## **CHANGES IN ACCOUNTING POLICIES**

### **2009 Changes**

Effective January 1, 2009 the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook accounting requirements for Section 3064 "Goodwill and Intangible Assets". The purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. In accordance with the transitional provisions for this new standard, this policy was adopted prospectively and without restatement of prior periods and did not have any impact to the Company's results of operations and financial position.

### **Future Accounting Changes**

#### ***International Financial Reporting Standards (IFRS)***

All publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will require restatement of comparative figures. The Company expects that the adoption of IFRS will impact accounting policies, financial reporting, information systems and business processes. Questor is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position, results of operations and disclosures is not reasonably determinable or estimable.

#### ***Business Combinations***

In January 2009, the AcSB issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosure. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. This Section is not expected to have any effect on the Company's results of operations or financial position.

#### ***Consolidated Financial Statements and Non-Controlling Interests***

In January 2009, the AcSB issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or

after January 2011 with earlier application permitted. These Sections are not expected to have any effect on the Company's results of operations or financial position.

## NON-GAAP FINANCIAL MEASURES

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other entities. The purpose of these financial measures and their reconciliation to Canadian GAAP financial measures is discussed below.

### Gross Margin

(\$ unless otherwise noted)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Gross margin	<b>369,863</b>	(27,278)	<b>813,838</b>	75,876
Add: Other revenue	<b>49,009</b>	189,809	<b>54,337</b>	207,399
Deduct: General and administrative expense	<b>333,592</b>	320,642	<b>698,219</b>	626,936
Foreign exchange loss (gain)	<b>20,980</b>	31,619	<b>(21,359)</b>	(100,894)
Depreciation and amortization expense	<b>10,369</b>	10,237	<b>20,626</b>	19,933
Interest expense	<b>504</b>	4,680	<b>1,330</b>	5,505
Income tax expense (recovery)	<b>32,396</b>	(34,770)	<b>65,639</b>	(33,280)
Net income (loss) (GAAP financial measure)	<b>21,031</b>	(169,877)	<b>103,720</b>	(234,925)

Gross margin is a measure of the Company's operating profitability. Gross margin provides an indication of the results generated by the Company's principal business activities before corporate activities and costs and prior to accounting for how these activities are financed, assets are amortized or how the results are taxed. Gross margin is calculated from the Statements of Income, Comprehensive Income and Retained Earnings (Deficit) and is defined as revenue less direct costs.

### Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

(\$ unless otherwise noted)

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
EBITDA	<b>94,532</b>	(161,590)	<b>249,691</b>	(185,739)
Deduct: Depreciation and amortization expense (including portion in direct costs)	<b>40,601</b>	38,377	<b>79,002</b>	76,961
Interest expense	<b>504</b>	4,680	<b>1,330</b>	5,505
Income tax expense (recovery)	<b>32,396</b>	(34,770)	<b>65,639</b>	(33,280)
Net income (loss) (GAAP financial measure)	<b>21,031</b>	(169,877)	<b>103,720</b>	(234,925)

EBITDA is also a measure of the Company's operating profitability. EBITDA provides an indication of the results generated by the Company's principal business activities prior to accounting for how these activities are financed, assets are amortized or how the results are taxed. EBITDA is calculated from the Statements of Income, Comprehensive Income and Retained Earnings (Deficit) and is defined as gross margin plus other revenue less general and administrative expense and foreign exchange losses (gains).

### Income (Loss) Before Interest Expense and Income Tax Expense

*(\$ unless otherwise noted)*

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Income (loss) before interest expense and income tax expense	<b>53,931</b>	(199,967)	<b>170,689</b>	(262,700)
Deduct: Interest expense	<b>504</b>	4,680	<b>1,330</b>	5,505
Income tax expense (recovery)	<b>32,396</b>	(34,770)	<b>65,639</b>	(33,280)
Net income (loss) (GAAP financial measure)	<b>21,031</b>	(169,877)	<b>103,720</b>	(234,925)

Income (loss) before interest expense and income tax expense is a measure of the Company's operating profitability generated by the Company's principal business activities prior to how these activities are financed or results are taxed. Income (loss) before interest expense and income tax expense is calculated from the Statements of Income, Comprehensive Income and Retained Earnings (Deficit) and is defined as gross margin plus other revenue less general and administrative expense, foreign exchange losses (gains) and depreciation and amortization.

### Funds Generated From Operations

*(\$ unless otherwise noted)*

For the	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Funds generated from operations	<b>101,807</b>	(265,718)	<b>265,761</b>	(253,706)
Net change in non-cash working capital	<b>(154,887)</b>	(516,327)	<b>(296,382)</b>	(249,371)
Foreign exchange loss (gain) on cash	<b>47,694</b>	34,451	<b>30,149</b>	(82,772)
Cash used in operating activities (GAAP financial measure)	<b>(5,386)</b>	(747,594)	<b>(472)</b>	(585,849)

Funds generated from operations is used to assist management and investors in analyzing operating performance, after interest and taxes, without regard to the impact of foreign exchange gains or losses to cash and to changes in the Company's non-cash working capital in the period. Funds generated from operations as presented should not be viewed as an alternative to cash provided by (used in) operating activities, or other cash flow measures calculated in accordance with GAAP. Funds generated from operations is calculated from the Statements of Cash Flows and is defined as cash provided by (used in) operating activities before changes in non-cash working capital and foreign exchange loss (gain) on cash.

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## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Alberta Securities Commission and the securities commissions in the other jurisdictions in which Questor is registered, has exempted Venture Issuers from certifying disclosure controls and procedures as well as internal controls over financial reporting as of December 31, 2007, and thereafter. Since Questor is a Venture Issuer it is required to file “basic certificates”, which it has done for each fiscal quarter since the exemption came into effect and for the year ended December 31, 2008.

The Company is cognizant of the impact that good internal controls have with regards to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation. The Company will continue to maintain, wherever practical, disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under applicable securities legislation is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer and Corporate Secretary as appropriate, to allow timely decisions and actions regarding required disclosure. The Company will also endeavour to establish and maintain adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.