MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

(signed) "Audrey Mascarenhas"
Audrey Mascarenhas
President and Chief Executive Officer
April 9, 2010

(signed) "Diane Koenig"
Diane Koenig
Chief Financial Officer and Corporate Secretary
April 9, 2010

AUDITORS' REPORT

To the Shareholders of Questor Technology Inc.

We have audited the balance sheets of Questor Technology Inc. (the "Company") as at December 31, 2009 and 2008 and the statements of income (loss), comprehensive income (loss), retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"
Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
April 9, 2010

QUESTOR TECHNOLOGY INC.
BALANCE SHEETS

As at December 31		**2009**		2008
ASSETS				
Current assets				
Cash and cash equivalents *(note 3)*	**$**	**3,080,997**	$	3,259,037
Accounts receivable		**864,260**		1,761,597
Income and other taxes receivable		**306,850**		6,226
Inventory *(note 4)*		**433,145**		384,914
Prepaid expenses and deposits		**101,072**		80,340
Deferred expenses		**2,356**		29,160
Future income tax asset *(note 12)*		**50,113**		-
		4,838,793		5,521,274
Property and equipment *(note 5)*		**1,418,524**		1,176,529
Intangibles *(note 6)*		**15,682**		44,680
Deferred expenses		**-**		30,575
	$	**6,272,999**	$	6,773,058
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**348,150**	$	667,792
Current portion of long-term debt *(note 8)*		**15,232**		37,498
Income and other taxes payable		**19,034**		285,795
Deferred revenue and deposits *(note 2)*		**198,641**		146,707
Future income tax liability *(note 12)*		**2,281**		9,281
		583,338		1,147,073
Long-term debt *(note 8)*		**-**		15,232
Other long-term liabilities		**-**		30,575
Future income tax liability *(note 12)*		**74,057**		26,710
		657,395		1,219,590
Shareholders' equity				
Share capital *(note 9)*		**5,265,736**		5,265,736
Contributed surplus *(note 10)*		**447,651**		283,552
Retained earnings (deficit)		**(97,783)**		4,180
		5,615,604		5,553,468
	$	**6,272,999**	$	6,773,058

Commitments (*note 15*).

See accompanying notes to the annual financial statements.

Approved by the Board of Directors:

(signed) "Richard Miller"	(signed) "Audrey Mascarenhas"
Richard Miller	Audrey Mascarenhas
Director	Director

QUESTOR TECHNOLOGY INC.
STATEMENTS OF INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31	**2009**	2008
Revenue		
Incinerator sales and services	**$ 2,277,762**	$ 2,583,199
Incinerator rentals and services	**1,098,385**	954,396
Combustion services	**478,419**	678,660
	3,854,566	4,216,255
Less: Direct costs	**2,537,337**	2,818,502
	1,317,229	1,397,753
Other revenue *(notes 2, 5 and 11)*	**102,608**	254,896
Expenses		
General and administrative	**1,374,672**	1,328,469
Foreign exchange loss (gain)	**100,205**	(707,664)
Depreciation and amortization	**41,090**	40,459
	1,515,967	661,264
Income (loss) before interest expense and income tax expense	**(96,130)**	991,385
Interest expense		
Short-term debt	**1,456**	5,196
Long-term debt	**2,016**	2,016
Income (loss) before income tax expense	**(99,602)**	984,173
Income tax expense (recovery) *(note 12)*		
Current income tax	**12,127**	391,328
Future income tax	**(9,766)**	(35,211)
Net income (loss) and comprehensive income (loss)	**(101,963)**	628,056
Retained earnings (deficit), beginning of year	**4,180**	(623,876)
Retained earnings (deficit), end of year	**$ (97,783)**	$ 4,180
Net income (loss) per share *(note 9)*		
Basic and diluted	**$ (0.004)**	$ 0.026
Weighted average number of shares outstanding *(note 9)*		
Basic	**24,007,370**	23,830,287
Diluted	**24,007,370**	24,491,573

See accompanying notes to the annual financial statements.

QUESTOR TECHNOLOGY INC.
STATEMENTS OF CASH FLOWS

For the years ended December 31	**2009**	2008
Operating activities		
Net income (loss)	**$ (101,963)**	$ 628,056
Items not involving cash:		
Depreciation *(note 5)*	**133,174**	122,122
Amortization *(note 6)*	**28,998**	28,998
Unrealized foreign exchange loss (gain)	**178,974**	(295,204)
Future income tax *(note 12)*	**(9,766)**	(35,211)
Share-based compensation *(note 9)*	**164,099**	152,011
Gain on disposition of assets *(note 5)*	**-**	(98,269)
Write-down of inventory *(note 4)*	**12,660**	38,912
	406,176	541,415
Net change in non-cash working capital *(note 18)*	**(21,022)**	(190,352)
	385,154	351,063
Investing activities		
Additions of property and equipment	**(372,373)**	(51,663)
Dispositions of property and equipment *(note 5)*	**-**	139,733
	(372,373)	88,070
Financing activities		
Repayment of short-term debt	**-**	(191,186)
Repayment of long-term debt	**(37,498)**	(60,659)
Net proceeds from issuance of common shares	**-**	21,250
	(37,498)	(230,595)
Effect of exchange rates on cash	**(153,323)**	296,502
Increase (decrease) in cash and cash equivalents	**(178,040)**	505,040
Cash and cash equivalents, beginning of year	**3,259,037**	2,753,997
Cash and cash equivalents, end of year	**$ 3,080,997**	$ 3,259,037

See accompanying notes to the annual financial statements.

QUESTOR TECHNOLOGY INC.
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Questor Technology Inc. ("Questor" or the "Company") was incorporated under the *Business Corporations Act (Alberta)* as 635936 Alberta Ltd. on December 15, 1994 and filed letters of amendment to change its name first to Interglobe Gas Technology Inc. on February 8, 1995 and finally to Questor Technology Inc. on September 15, 1995. The Company has its headquarters in Calgary, Alberta, Canada and a field office in Grande Prairie, Alberta, Canada.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared by management in Canadian dollars in accordance with Canadian generally accepted accounting principles ("GAAP").

The following accounting policies are considered to be significant:

Cash and Cash Equivalents

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

Inventory

Inventory consists of materials and supplies used in operations and in the fabrication of incinerators, work in progress and finished goods. Inventory is valued at the lower of cost on a first-in, first-out basis (FIFO) and net realizable value.

Property and Equipment and Depreciation

Property and equipment are recorded at cost and are depreciated, once in active service, over the estimated useful life of the assets as follows:

	Rate	Method
Rental incinerators	20 years	Straight-line
Detachable trailers for rental incinerators	10 years	Straight-line
Vehicles and utility trailers	30%	Declining balance
Tools and equipment	20%	Declining balance
Office furniture and equipment	20%	Declining balance
Computer hardware and systems software	30%	Declining balance

Repairs and maintenance costs that do not improve or extend productive life are expensed in the period incurred.

Intangibles

The Company expenses development costs as incurred unless such development costs meet certain criteria related to technical, market and financial feasibility for capitalization. Development costs are amortized based on the expected period and pattern of benefit, beginning at the commencement of commercial operations. At present, development costs relating to the incinerator system are being amortized on a straight-line basis over an estimated useful life of 10 years.

Patent costs are recorded at cost and amortized on a straight-line basis over the remaining term of the patent once the patent application is accepted. Questor filed its Canadian patent on November 3, 1999 and received approval on May 1, 2007, at which time amortization commenced. This patent will remain in effect until November 2, 2019. Were the patent application denied, these costs would have been written off upon notification.

Asset Impairment

Property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets. Any excess of the carrying value of such assets over its implied fair value is recorded as an impairment charge to income.

Other Comprehensive Income, Financial Instruments and Hedging

A financial instrument is a contract that gives rise to a financial asset or financial liability. Financial assets and financial liabilities are initially recognized at fair value, except for related-party financial liabilities which are recognized at the exchange amount. For financial instruments classified as other than held for trading, transaction costs attributable to the acquisition or issue of the financial asset or liability are added to the initial carrying amount of the financial instrument and recognized in earnings using the effective interest method.

In accordance with the standards, the Company's financial instruments are classified as follows:

- Cash and cash equivalents are classified as held for trading. Measurement made subsequent to initial recognition is at fair value;
- Accounts receivable are classified as loans and receivables. Measurements made subsequent to initial recognition are recorded at amortized cost using the effective interest rate method which generally corresponds to cost less any allowances for doubtful accounts; and
- Short-term debt, accounts payable, accrued liabilities and long-term debt are classified as other financial liabilities. Measurements made subsequent to initial recognition are recorded at amortized cost using the effective interest rate method. For the Company, this measurement generally corresponds to cost.

To date, Questor has not utilized hedges or other derivative financial instruments in its operations.

Product Warranties and Commissioning Costs

A provision for warranty and commissioning costs is recorded in direct costs when revenue for the underlying product is recognized. The cost is estimated based on a number of factors including historical warranty claims and cost experience, the type and duration of warranty coverage and the nature of products sold and in service. The Company reviews its recorded product warranty provisions quarterly and any adjustment is recorded in direct costs.

Government Assistance

Investment tax credits on Scientific Research and Experimental Development ("SR&ED") expenditures are reflected in the accounts as deductions from development costs when the expenditures giving rise to the investment tax credits have been capitalized. Otherwise, investment tax credits on SR&ED expenditures are recorded as other revenue. Such credits are recognized when there is reasonable assurance they will be realized.

Share-Based Compensation

The Company follows the fair value method of accounting for share options granted during the year. Share options are valued at the date of the grant and recognized as compensation expense over the vesting period of the options. The effect of actual forfeitures is recognized as they occur. Consideration received by Questor on exercise of the option rights is credited to share capital.

Revenue Recognition

The Company recognizes revenue from incinerator sales and services when the product has been delivered or services have been performed. Revenue from incinerator rentals is recognized in the period during which the incinerators are rented and in accordance with the specific terms of the rental agreement. Amounts received from clients for use of an incinerator on a trial basis are reflected in the accounts as deferred revenue and deposits until the trial period ends and the nature of the revenue is determined. In general, contract terms do not include provisions for significant or unique post-delivery obligations.

Included in other revenue is SR&ED investment tax credits of $59,755 (2008 - $37,518), recovery of bad debt of $30,464 (2008 - $629), interest income of $7,283 (2008 - $46,783) and $5,106 of other miscellaneous amounts (2008 - $4,074). In 2008, other revenue also included gain on sales of rental incinerators of $98,269 and sales cancellation fees of $67,623.

Included in deferred revenue and deposits are sales and rentals deposits of $198,641 (2008 - $146,707).

Direct Costs

Direct costs include direct materials, direct labour, rental incinerators depreciation, vehicles and trailers depreciation, tools and equipment depreciation and indirect overhead related to the field office.

Foreign Currency Translation

The Company’s foreign currency denominated monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates, and revenues and expenses are translated at rates of exchange prevailing at the date of delivery or receipt. Resulting foreign exchange gains and losses are recognized in earnings.

Income Taxes

The liability method of tax accounting is used. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are anticipated to be in effect in the periods in which the differences are expected to be settled or realized.

Earnings Per Share

Basic and diluted earnings per share are determined by dividing the net income for the period by the basic and diluted weighted average number of shares outstanding during the period, respectively.

The diluted weighted average number of shares outstanding is calculated using the treasury stock method which deems that proceeds from the exercise of such dilutive options are to be used to repurchase common shares at the average market price for the period.

Use of Estimates and Measurement Uncertainty

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses for the periods presented.

Key areas where management has made complex or subjective judgments, as a result of matters that are inherently uncertain, include, among others, the fair value of certain assets including long-lived assets and intangible assets; fair value of financial instruments; allowance for doubtful accounts; likelihood of loss from litigation; assumptions used to determine the fair value of share-based compensation; estimates for warranty and commissioning costs; and timing and recognition of future taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

Changes in Accounting Policies

2009 Changes

Asset Recognition

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", and amended Section 1000, "Financial Statement Concepts". The purpose of these Sections is to provide more specific guidance on the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. In accordance with the transitional provisions for this new standard, this policy was adopted prospectively and did not have a material impact to the Company's operations and financial position.

Financial Instruments

As of January 1, 2009, the Company adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentations". The only significant effect on the Company's financial statements is the incremental disclosures in Note 14 regarding the significance of financial instruments to the Company's financial position and performance, and the nature, extent and management of risks arising from financial instruments to which the Company is exposed.

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract, EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not have a significant impact on the Company's financial statements.

In June 2009, the CICA amended Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The Company adopted this standard prospectively effective December 31, 2009. The adoption of this standard did not have a material impact on the financial statements of the Company.

In July 2009, the CICA amended section 3855, "Financial Instruments – Recognition and Measurement", in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The Company adopted this standard prospectively effective December 31, 2009. The adoption of the amendments of this standard did not have a material impact on the financial statements of the Company.

Future Accounting Changes

International Financial Reporting Standards

All publicly accountable enterprises are 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 are required to restate 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 yet fully determined.

Business Combinations

In January 2009, the CICA 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 disclosures. 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 impact on the Company's results of operations, financial position and disclosures.

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA 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 financial position and disclosures.

3. CASH AND CASH EQUIVALENTS

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

As at December 31	**2009**	2008
United States dollars	**$ 1,364,779**	$ 767,473
Euros	**1,554**	5,921
Other non-Canadian	**137**	547
	1,366,470	773,941
Canadian dollars	**1,714,527**	1,286,287
33-day banker's acceptance plus accreted interest at 1.45 percent	**-**	1,198,809
	$ 3,080,997	$ 3,259,037

4. INVENTORY

As at December 31	**2009**	2008
Materials and supplies	**$ 67,642**	$ 121,585
Work in progress	**291,166**	126,413
Finished goods	**74,337**	136,916
	$ 433,145	$ 384,914

The carrying amount of inventory charged to direct costs in the year is $1,311,816 (2008 - $1,413,987). Included in the cost of inventory recognized as an expense in the current year are materials and supplies written down from cost to net realizable value in the amount $12,660 (2008 - $38,912). There are no reversals of any write-downs during the year.

5. PROPERTY AND EQUIPMENT

2009	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Rental incinerators	**$ 1,542,465**	**$ 401,974**	**$ 1,140,491**
Detachable trailers for rental incinerators	**175,500**	**79,233**	**96,267**
Vehicles and trailers	**254,648**	**145,797**	**108,851**
Tools and equipment	**42,073**	**14,209**	**27,864**
Office furniture and equipment	**58,054**	**39,671**	**18,383**
Computer hardware and systems software	**64,253**	**37,585**	**26,668**
	$ 2,136,993	**$ 718,469**	**$ 1,418,524**

2008	Cost	Accumulated Depreciation	Net Book Value
Rental incinerators	$ 1,290,662	$ 336,713	$ 953,949
Detachable trailers for rental incinerators	129,500	64,750	64,750
Vehicles and trailers	205,980	109,680	96,300
Tools and equipment	25,874	8,986	16,888
Office furniture and equipment	57,220	35,716	21,504
Computer hardware and systems software	52,587	29,449	23,138
	$ 1,761,823	$ 585,294	$ 1,176,529

In 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 $98,269 after deducting customization costs of $3,484. The net gain on sale was included in other revenue.

The Company did not dispose of any incinerators from its rental fleet during 2009.

Depreciation for the year ended December 31, 2009 is $133,174 (2008 - $122,122). Of this amount, depreciation of $121,082 (2008 - $110,661) relating to rental incinerators, vehicles and trailers, and tools and equipment is included in direct costs.

6. INTANGIBLES

2009	**Cost**	**Accumulated Amortization**	**Net Book Value**
Development costs	**$ 277,796**	**$ 274,091**	**$ 3,705**
Patents	**15,225**	**3,248**	**11,977**
	$ 293,021	**$ 277,339**	**$ 15,682**

2008		Cost		Accumulated Amortization		Net Book Value
Development costs	$	277,796	$	246,311	$	31,485
Patents		15,225		2,030		13,195
	$	293,021	$	248,341	$	44,680

Amortization for the year ended December 31, 2009 is $28,998 (2008 - $28,998).

7. SHORT-TERM DEBT

The Company has available a revolving demand operating loan to a maximum of $560,000, the availability of which is subject to specified margin requirements. The revolving demand operating loan bears interest at bank prime plus 1 percent per annum. The Company has provided a general security agreement and an assignment of insurance proceeds as security. Up to $100,000 of this loan is available to secure the issue of letters of credit and/or letters of guarantee for suppliers. At December 31, 2009 and at December 31, 2008, no amounts were drawn on this facility and the Company had no letters of credit and/or letters of guarantee outstanding under this facility.

The Company has a revolving foreign letter of credit / letter of guarantee facility established to a maximum of USD $2 million and at a fee equal to 1.50 percent per annum calculated in relation to the face amount and term of the letter of credit / letter of guarantee. At December 31, 2009, USD $47,000 (2008 - USD $329,428), the Canadian dollar equivalent of which is $49,190 (2008 - $403,418), is outstanding under this facility.

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

None of the borrowing facilities are subject to standby fees and there is no specified facility expiration or renewal date.

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities. At the end of each fiscal quarter the Company’s debt-to-tangible-net-worth must be less than 2.5 and the Company’s working capital ratio must be greater than 1.25. At the end of each fiscal year, Questor’s debt service coverage ratio must be in excess of 1.25. In 2009, Questor was in compliance with these covenants at December 31.

8. LONG-TERM DEBT

The long-term debt consists of vehicle financing.

		2009		2008
Chrysler financing at 0% (imputed interest at 6.25%) for 36 months, secured by a lien on the vehicle with a net book value of $28,748. Interest and monthly payments of $1,860 to September 2010.	**$**	**15,232**	$	35,542
Chrysler financing at 0% (imputed interest at 6.00%) for 36 months, secured by a lien on the vehicle with a net book value of $19,958. Interest and monthly payments of $1,562 to November 2009.		**-**		17,188
		15,232		52,730
Less: Current portion		**(15,232)**		(37,498)
	$	**-**	$	15,232

Payments required are as follows:

2010		**15,232**
	$	**15,232**

9. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Shares Issued and Outstanding

	Number		Amount
Shares issued and outstanding, December 31, 2007	23,794,870		5,235,677
Shares issued on exercise of options in 2008	212,500		30,059
Shares issued and outstanding, December 31, 2008 and December 31, 2009	**24,007,370**	**$**	**5,265,736**

At December 31, 2008, pursuant to the requirements of the TSX Venture Exchange, the Company had 70,782 common shares held in escrow. Under the terms of the escrow agreement, the remaining 70,782 shares were released on June 23, 2009.

Share Option Plan

The Company has a share option plan under which directors, officers, key employees and consultants of Questor are eligible to receive grants at market prices. Options may be granted to purchase authorized but unissued common shares of the Company to a maximum of 4,708,474 shares. To December 31, 2009, options granted under the plan had a term of five years to expiry and vested no longer than over a four-year period. Share-based compensation expense for the year ended December 31, 2009 is $164,099 (2008 - $152,011).

The following tables summarize the information about the Company's share option plan as at December 31:

	Options Outstanding					
	2009			2008		
	Number of options		**Exercise price[1]**	Number of options		Exercise price[1]
Share options outstanding, beginning of year	**1,775,000**	**$**	**0.35**	2,137,500	$	0.30
Granted	**400,000**		**0.25**	75,000		0.43
Exercised	**-**		**-**	(212,500)		0.10
Expired	**-**		**-**	(200,000)		0.10
Forfeited	**-**		**-**	(25,000)		0.10
Share options outstanding, end of year	**2,175,000**	**$**	**0.33**	1,775,000	$	0.35
Share options exercisable, end of year	**1,293,750**	**$**	**0.27**	843,750	$	0.23

[1] *Weighted average.*

At December 31, 2009:

Options Outstanding				Options Exercisable		
Number Outstanding		Exercise price[1]	Remaining contractual life[2]	Number Exercisable		Exercise price[1]
700,000	$	0.10	0.89	700,000	$	0.10
300,000		0.18	1.74	225,000		0.18
400,000		0.25	4.33	-		0.25
75,000		0.43	3.29	18,750		0.43
700,000		0.67	2.66	350,000		0.67
2,175,000	**$**	**0.33**	**2.29**	**1,293,750**	**$**	**0.27**

[1] *Weighted average.*
[2] *Weighted average number of years.*

At December 31, 2008:

Options Outstanding				Options Exercisable		
Number Outstanding		Exercise price[1]	Remaining contractual life[2]	Number Exercisable		Exercise price[1]
700,000	$	0.10	1.89	518,750	$	0.10
300,000		0.18	2.74	150,000		0.18
75,000		0.43	4.29	-		-
700,000		0.67	3.66	175,000		0.67
1,775,000	$	0.35	2.83	843,750	$	0.23

[1] *Weighted average.*
[2] *Weighted average number of years.*

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

		2009		2008
Risk-free interest rate (%)		**1.63**		2.88
Expected life (years)		**5.00**		5.00
Expected volatility (%)		**100.00**		100.00
Expected annual dividends per share	**$**	**0.00**	$	0.00
Weighted average fair value of options granted at date of grant	**$**	**0.19**	$	0.32

Weighted Average Number of Shares Outstanding

	2009	2008
Number of shares – Basic	**24,007,370**	23,830,287
Dilutive share options	**-**	661,286
Number of shares – Diluted	**24,007,370**	24,491,573

The share options outstanding for the year ended December 31, 2009 are not included in the computation of weighted average number of diluted common shares outstanding as the Company realized a net loss during the year and the effect would be anti-dilutive.

775,000 share options were excluded in the computation of weighted average number of diluted shares outstanding for the year ended December 31, 2008 because the average market price of Questor's shares during the year was lower than the exercise price of these share options and therefore they were anti-dilutive.

10. CONTRIBUTED SURPLUS

As at December 31		**2009**		2008
Contributed surplus, beginning of year	**$**	**283,552**	$	140,350
Share-based compensation expense		**164,099**		152,011
Transferred to share capital from exercise of share options		**-**		(8,809)
Contributed surplus, end of year	**$**	**447,651**	$	283,552

11. GOVERNMENT ASSISTANCE

In 2009 the Company received government assistance of $44,078 (2008 - $96,639) and accrued for additional government assistance of $15,677 (2008 – nil) as a consequence of Scientific Research and Experimental Development claims. These amounts are included in other revenue. In 2008, $37,518 was included in other revenue and $59,121 reduced capitalized development costs.

12. INCOME TAXES

The tax provision recorded in the financial statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to income before tax as follows:

		2009		2008
Income (loss) before income tax expense	**$**	**(99,602)**	$	984,173
Statutory income tax rate (%)		**29.00**		29.50
Expected taxes at statutory rate		**(28,884)**		290,331
Increase (decrease) in taxes resulting from:				
Revision to prior year taxes payable assessed in current year		**(308)**		37,711
Permanent differences between accounting and tax basis of assets and liabilities		**51,356**		48,099
Effect of change in tax rate		**(19,803)**		(5,530)
Non-taxable portion of capital gains on disposition of assets		**-**		(14,494)
Income tax expense	**$**	**2,361**	$	356,117

The provision for income taxes is comprised of the following:

		2009		2008
Current		**12,127**		391,328
Future		**(9,766)**		(35,211)
Income tax expense	**$**	**2,361**	$	356,117

Questor's income taxes are calculated according to government tax laws and regulations which result in different values for certain assets and liabilities for income tax purposes than for financial statement purposes.

The amounts shown on the balance sheets as future income tax assets/liabilities represents the net difference between tax values and book carrying values at substantively enacted tax rates.

As at December 31, future income tax assets (liabilities) were composed of the following:

		2009		2008
Property and equipment	**$**	**(126,772)**	$	(76,234)
Development costs and other		**50,434**		43,657
Unrealized foreign exchange loss		**50,113**		-
Revenue holdback		**-**		(3,733)
Share issue costs		**-**		319
Future income tax asset (liability)		**(26,225)**		(35,991)
Current asset		**50,113**		-
Current liability		**(2,281)**		(9,281)
Non-current liability		**(74,057)**		(26,710)
	$	**(26,225)**	$	(35,991)

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

- Deploy capital to provide an appropriate return on investment to its shareholders;
- Maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and
- Maintain a capital structure that provides financial flexibility to execute on strategic opportunities.

The Company's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements other than the financial tests and covenants associated with its credit facilities as described in Note 7. At December 31, 2009 Questor was in compliance with these covenants.

The Company's capital structure consists of shareholders' equity, short-term and long-term debt, cash and cash equivalents. In order to maintain or alter the capital structure, the Company may adjust capital spending, refinance existing debt, raise new debt and issue common shares. It is expected, however, that Questor's funds generated from operations and cash and cash equivalent amounts will provide sufficient capital resources and liquidity to fund existing operations in 2010 and anticipated capital expenditures.

A key measure the Company utilizes in evaluating its capital structure is the ratio of debt-to-total capitalization. Debt-to-total capitalization is calculated as debt divided by total capitalization. Debt is defined as total short- and long-term debt unadjusted for cash balances. Total capitalization is defined as the sum of debt unadjusted for cash balances and shareholders' equity. Questor's target is to have debt-to-total capitalization of no greater than 35 percent.

The debt-to-total capitalization ratios at December 31, 2009 and December 31, 2008 were as follows:

As at December 31	**2009**	2008
Short-term debt	**$ -**	$ -
Long-term debt – current and non-current	**15,232**	52,730
Debt	**15,232**	52,730
Shareholders' equity	**5,615,604**	5,553,468
Total capitalization	**5,630,836**	5,606,198
Debt-to-total capitalization ratio (%)	**0.3**	0.9

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to market risk and potential loss from changes in the value of financial instruments.

Fair Value

The carrying value of the current financial assets and liabilities of Questor approximate their fair value due to their short period to maturity. The carrying value of short-term debt approximates the fair value as it bears interest at a floating interest rate as described in Note 7. The carrying value of long-term debt also approximates fair value as the fair value of long-term debt is estimated using discounted cash flows based on current rates of interest.

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At December 31, 2009, Questor valued cash and cash equivalents using Level 1 inputs. At December 31, 2009, the Company did not have any assets and liabilities measured at fair value on a recurring basis using Level 2 or Level 3 inputs.

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. At December 31, 2009 there was no impairment required on any of the financial assets of the Company other than an allowance for doubtful accounts provision more fully described in the "Credit Risk and Economic Dependence" section below.

Credit Risk and Economic Dependence

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation. Financial instruments that subject the Company to credit risk consist primarily of accounts receivable. Accounts receivable credit exposure is minimized by entering into transactions with creditworthy counterparties, requiring deposits for incinerator sales, requiring progress payments or letters of credit in respect of international sales and monitoring the age and balances outstanding on an ongoing basis. Most of the Company's credit exposures are with counterparties in the energy industry and are subject to normal industry credit risk. Payment terms with customers are 30 days from invoice date however industry practice can extend these terms.

The credit risk on cash and cash equivalent balances is limited because the counterparty is a large commercial bank in Canada.

Revenue from the top ten customers represents 75 percent of the Company's total revenue in 2009 (2008 - 82 percent). Revenue from one customer represents 31 percent of the Company's total revenue in 2009 (2008 - 38 percent).

The following table sets forth details of the ageing profile of accounts receivable and the allowance for doubtful accounts:

As at December 31	**2009**	2008
Current	**$ 369,642**	$ 1,086,712
31 – 60 days	**246,463**	272,210
61 – 90 days	**130**	12,663
Greater than 90 days	**224,779**	126,760
Billed receivables	**841,014**	1,498,345
Allowance for doubtful accounts	**(71,004)**	(65,966)
Billed receivables, net	**770,010**	1,432,379
Unbilled receivables	**94,250**	329,218
Total accounts receivable, net	**$ 864,260**	$ 1,761,597

Three customers represents 60 percent of the Company's total net accounts receivable at December 31, 2009 (December 31, 2008 – One customer represented 43 percent).

Two customers comprise the accounts receivable amounts past due for greater than 90 days which remain after application of the allowance for doubtful accounts at December 31, 2009 (December 31, 2008 - Four customers).

The Company provided $35,502 for credit risk with one counterparty in the allowance for doubtful accounts. Combined with an equivalent provision made in respect of the same counterparty in 2008, the total allowance for doubtful accounts as at December 31, 2009 is $71,004. The Company will continue to pursue recovery of these amounts.

In December 2008, a customer filed for court protection under the Companies' Creditors Arrangement Act (CCAA) and Questor's exposure at the time was $30,464. This amount was included in allowance for doubtful accounts as at December 31, 2008. In 2009 the customer restructured its operations and paid its creditors in full. The Company recorded the amount received to other revenue and reduced the allowance for doubtful accounts accordingly.

Interest Rate Risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market interest rates. The Company draws on its revolving demand operating loan facility to fund its operations with floating rate debt which exposes Questor to changes in interest payments due to fluctuations in interest rates as described in Note 7.

The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Foreign Exchange Risk

Currency risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company maintains cash and cash equivalent balances and enters into transactions denominated in foreign currencies, principally in United States dollars, which exposes Questor to fluctuating balances and cash flows due to variations in foreign exchange rates.

At December 31, 2009, the Canadian equivalent carrying amounts of the Company's foreign currency denominated monetary assets was $1,788,542 (2008 – $1,541,416) and there were no foreign currency denominated monetary liabilities (2008 – $40,342). Based on the net foreign currency assets as at December 31, 2009, and assuming that all other variables remain constant, a fluctuation of +/- 5.0 percent in the exchange rate between the Canadian dollar and the foreign currency dollar would impact net income or loss by approximately $89,427 (2008 - $75,054).

To date, Questor has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates. However, the Company has a facility available to purchase foreign forward exchange contracts if required, as described in Note 7.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company generally relies on cash deposits, funds generated from operations, deposits received from customers in respect of a sale and credit facilities to provide sufficient liquidity to meet budgeted operating requirements and to supply capital to finance the development of new clean air technologies or acquisitions.

At December 31, 2009, the Company has the following contractual maturities with respect to non-derivative financial liabilities:

	Maturity	**December 31 2009**
Accounts payable and accrued liabilities	Within 1 year	**$ 348,150**
Income and other taxes payable	Within 1 year	**19,034**
Long-term debt – current and non-current	September 2010	**15,232**
		$ 382,416

15. COMMITMENTS

Lease Agreement

Future minimum lease payments under operating leases for office space expiring March 29, 2011 and September 30, 2013, exclusive of operating costs, are estimated as follows:

2010	$	98,320
2011		60,580
2012		48,000
2013		36,000
	$	242,900

Royalty Agreement

On December 23, 2008, the royalty obligation of 1.5 percent of incinerator sales payable annually to an individual at arm's length ceased. The Company and the royalty holder agreed to terminate the arrangement and replace it with an agreement whereby the Company will pay the royalty holder $30,575 in each of 2009 and 2010. Upon payment of the second amount, the agreement will terminate and the royalty holder will have no further rights and the Company will have no further obligations in this regard.

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company may transact with related parties. These transactions are recorded at their exchange amounts which approximate fair value. In 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 December 31, 2009 or December 31, 2008.

17. SEGMENTED INFORMATION

The Company reports its financial results as one reportable segment.

The following tables provide information regarding total revenue and property and equipment on a geographic basis.

Total Revenue

For the years ended December 31		**2009**		2008
Canada	**$**	**2,672,015**	$	2,563,189
United States		**1,242,482**		1,905,621
Other international		**42,677**		2,341
	$	**3,957,174**	$	4,471,151

Property and Equipment

As at December 31		2009		2008
Canada	**$**	**1,418,524**	$	890,765
Italy[1]		**-**		285,764
	$	**1,418,524**	$	1,176,529

[1] *The equipment located in Italy was returned to Canada on October 27, 2009.*

The Company's intangible assets are all located in Canada.

18. SUPPLEMENTAL CASH FLOW INFORMATION

The net change in the following non-cash working capital items increased (decreased) cash flows related to operating activities as follows:

For the years ended December 31		2009		2008
Accounts receivable	**$**	**871,558**	$	(778,878)
Income and other taxes receivable		**(300,638)**		80,264
Inventory		**(60,891)**		102,575
Prepaid expenses and deposits		**(20,731)**		18,269
Deferred expenses		**26,804**		(29,160)
Accounts payable and accrued liabilities		**(319,642)**		158,687
Income and other taxes payable		**(266,761)**		170,088
Deferred revenue and deposits		**52,076**		76,578
		(18,225)		(201,577)
Capital costs included in accounts payable and accrued liabilities		**(2,797)**		11,225
	$	**(21,022)**	$	(190,352)

The following cash payments have been included in the determination of net income:

For the years ended December 31		2009		2008
Interest paid	**$**	**3,471**	$	7,195
Income taxes paid	**$**	**567,874**	$	165,540

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current financial statement presentation.