
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 26, 2011

(signed) "Diane Koenig"
Diane Koenig
Chief Financial Officer and Corporate Secretary
April 26, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Questor Technology Inc.

We have audited the accompanying financial statements of Questor Technology Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of income (loss), operations, comprehensive income (loss) and retained earnings (deficit), and cash flows for the years then ended, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Questor Technology Inc. as at December 31, 2010 and 2009, 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 26, 2011

**QUESTOR TECHNOLOGY INC.
BALANCE SHEETS**

As at December 31	2010	2009
ASSETS		
Current assets		
Cash (note 3)	\$ 3,995,669	\$ 3,080,997
Accounts receivable (note 14)	1,872,509	864,260
Income and other taxes receivable	362	306,850
Inventory (note 4)	313,567	433,145
Prepaid expenses and deposits	107,467	101,072
Deferred expenses	-	2,356
Future income tax asset (note 12)	-	50,113
	6,289,574	4,838,793
Property and equipment (note 5)	1,316,858	1,418,524
Intangible assets (note 6)	10,759	15,682
	\$ 7,617,191	\$ 6,272,999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 852,821	\$ 348,150
Current portion of long-term debt (note 8)	-	15,232
Income and other taxes payable	230,431	19,034
Deferred revenue and deposits (note 2)	146,485	198,641
Future income tax liability (note 12)	18,706	2,281
	1,248,443	583,338
Future income tax liability (note 12)	110,222	74,057
	1,358,665	657,395
Shareholders' equity		
Share capital (note 9)	5,404,966	5,265,736
Contributed surplus (note 10)	525,446	447,651
Retained earnings (deficit)	328,114	(97,783)
	6,258,526	5,615,604
	\$ 7,617,191	\$ 6,272,999

Commitments (note 15).

See accompanying notes to the annual financial statements.

Approved by the Board of Directors:

(signed) "Richard Miller"
Richard Miller
Director

(signed) "Audrey Mascarenhas"
Audrey Mascarenhas
Director

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

For the years ended December 31	2010	2009
Revenue		
Incinerator sales and services	\$ 4,127,358	\$ 2,277,762
Incinerator rentals and services	1,245,060	1,098,385
Combustion services	413,984	478,419
	5,786,402	3,854,566
Direct costs	3,739,824	2,537,337
	2,046,578	1,317,229
Other revenue (notes 2 and 11)	55,036	102,608
Expenses		
General and administrative	1,376,256	1,374,672
Foreign exchange loss	50,551	100,205
Depreciation and amortization	16,564	41,090
	1,443,371	1,515,967
Income (loss) before interest expense and income tax expense	658,243	(96,130)
Interest expense	1,012	3,472
Income (loss) before income tax expense	657,231	(99,602)
Income tax expense (note 12)	231,334	2,361
Net income (loss) and comprehensive income (loss)	425,897	(101,963)
Retained earnings (deficit), beginning of year	(97,783)	4,180
Retained earnings (deficit), end of year	\$ 328,114	\$ (97,783)
Net income (loss) per share (note 9)		
Basic	\$ 0.018	\$ (0.004)
Diluted	\$ 0.017	\$ (0.004)
Weighted average number of shares outstanding (note 9)		
Basic	24,275,589	24,007,370
Diluted	24,387,275	24,007,370

See accompanying notes to the annual financial statements.

**QUESTOR TECHNOLOGY INC.
STATEMENTS OF CASH FLOWS**

For the years ended December 31	2010	2009
Operating activities		
Net income (loss)	\$ 425,897	\$ (101,963)
Items not involving cash:		
Depreciation (note 5)	138,105	133,174
Amortization (note 6)	4,923	28,998
Unrealized foreign exchange loss (gain)	(61,316)	178,974
Future income tax (note 12)	102,703	(9,766)
Share-based compensation (note 9)	147,025	164,099
Write-down of inventory (note 4)	16,006	12,660
	773,343	406,176
Net change in non-cash working capital (note 17)	53,921	(21,022)
	827,264	385,154
Investing activities		
Additions of property and equipment	(38,520)	(372,373)
	(38,520)	(372,373)
Financing activities		
Repayment of long-term debt	(15,232)	(37,498)
Exercise of share options	70,000	-
	54,768	(37,498)
Effect of foreign exchange rate changes on cash	71,160	(153,323)
Increase (decrease) in cash	914,672	(178,040)
Cash, beginning of year	3,080,997	3,259,037
Cash, end of year	\$ 3,995,669	\$ 3,080,997

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 service 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.

Intangible Assets

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. If a patent application were to be denied, these costs would be 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 when there is evidence of an arrangement, the product has been delivered or services have been performed, the price is fixed or determinable and collection is reasonably assured.

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 \$22,749 (2009 - \$59,755), sales cancellation fees of \$28,444 (2009 - \$nil), interest income of \$1,275 (2009 - \$7,283) and miscellaneous amounts of \$2,568 (2009 - \$5,106). In 2009, other revenue also included recovery of amounts previously impaired of \$30,464.

Included in deferred revenue and deposits are progress payments and/or deposits in respect of incinerator sales and rentals of \$146,485 (2009 - \$198,641).

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 income (loss).

Income Taxes

The Company uses the liability method of accounting for the tax effect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to an increase or decrease in Questor's income taxes payable for the year or a later period.

Future income taxes assets and liabilities are measured at the substantively enacted income tax rates that, at the balance sheet date, are expected to apply when the future tax liability is settled or the future tax asset is realized. Future income tax assets are recognized only to the extent that, in the opinion of Questor's management, it is more likely than not that the future income tax asset will be 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.

Future Accounting Changes

International Financial Reporting Standards

International Financial Reporting Standards (“IFRSs”) have been incorporated into the Canadian Institute of Chartered Accountants Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company’s first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period of 2010. Starting in the first quarter of 2011, the Company will provide unaudited interim consolidated financial information in accordance with IFRS, including comparative figures for 2010.

3. CASH

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

As at December 31	2010	2009
United States dollars	\$ 1,691,204	\$ 1,364,779
Euros	376	1,554
Other non-Canadian	197	137
	1,691,777	1,366,470
Canadian dollars	2,303,892	1,714,527
	\$ 3,995,669	\$ 3,080,997

4. INVENTORY

As at December 31	2010	2009
Materials and supplies	\$ 62,859	\$ 67,642
Work in progress	173,365	291,166
Finished goods	77,343	74,337
	\$ 313,567	\$ 433,145

The carrying amount of inventory charged to direct costs in the year is \$2,768,653 (2009 - \$1,311,816). 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 \$16,006 (2009 - \$12,660). Also included in the cost of inventory is an immaterial reversal of previous year write-downs of \$176 (2009 - \$nil).

5. PROPERTY AND EQUIPMENT

2010	Cost	Accumulated Depreciation	Net Book Value
Rental incinerators	\$ 1,563,032	\$ 476,879	\$ 1,086,153
Detachable trailers for rental incinerators	175,500	96,783	78,717
Vehicles and trailers	254,648	174,316	80,332
Tools and equipment	47,953	19,697	28,256
Office furniture and equipment	58,244	43,039	15,205
Computer hardware and systems software	74,053	45,858	28,195
	\$ 2,173,430	\$ 856,572	\$ 1,316,858

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

Depreciation for the year ended December 31, 2010 is \$138,105 (2009 - \$133,174). Of this amount, depreciation of \$126,464 (2009 - \$121,082) relating to rental incinerators, vehicles and trailers, and tools and equipment is included in direct costs.

6. INTANGIBLE ASSETS

2010	Cost	Accumulated Amortization	Net Book Value
Development costs	\$ 277,796	\$ 277,796	\$ -
Patents	15,225	4,466	10,759
	\$ 293,021	\$ 282,262	\$ 10,759

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

Amortization for the year ended December 31, 2010 is \$4,923 (2009 - \$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, 2010 and 2009, 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, 2010 and at December 31, 2009, USD \$47,000, the Canadian dollar equivalent of which is \$46,746 (2009 - \$49,190), 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. Questor was in compliance with these covenants at December 31, 2010 and 2009.

8. LONG-TERM DEBT

At December 31, 2010 the Company has no long-term debt outstanding. At December 31, 2009, long-term debt of \$15,232 consisted of vehicle financing with Chrysler at 0% (imputed interest at 6.25%), secured by a lien on the vehicle with a net book value of \$28,748. In accordance with the terms and conditions of the financing, this amount was fully extinguished in September 2010.

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, 2008 and December 31, 2009	24,007,370	\$ 5,265,736
Shares issued on exercise of options	700,000	139,230
Shares issued and outstanding, December 31, 2010	24,707,370	\$ 5,404,966

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, 2010, 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, 2010 is \$147,025 (2009 - \$164,099). Of this amount, \$17,008 (2009 - \$29,296) is included in direct costs and the balance in general and administrative expense.

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

	Options Outstanding			
	2010		2009	
	Number of options	Exercise price ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
Share options outstanding, beginning of year	2,175,000	\$ 0.33	1,775,000	\$ 0.35
Granted	400,000	0.26	400,000	0.25
Exercised	(700,000)	0.10	-	-
Expired	-	-	-	-
Forfeited	(450,000)	0.32	-	-
Share options outstanding, end of year	1,425,000	\$ 0.43	2,175,000	\$ 0.33
Share options exercisable, end of year	712,500	\$ 0.51	1,293,750	\$ 0.27

⁽¹⁾ Weighted average.

At December 31, 2010:

Options Outstanding			Options Exercisable	
Number Outstanding	Exercise price ⁽¹⁾	Remaining contractual life ⁽²⁾	Number Exercisable	Exercise price ⁽¹⁾
150,000	\$ 0.18	0.74	150,000	\$ 0.18
100,000	0.24	4.79	-	0.24
300,000	0.25	3.33	-	0.25
200,000	0.27	4.32	75,000	0.27
75,000	0.43	2.29	37,500	0.43
600,000	0.67	1.66	450,000	0.67
1,425,000	\$ 0.43	2.54	712,500	\$ 0.51

⁽¹⁾ Weighted average.

⁽²⁾ Weighted average number of years.

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.

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:

	2010	2009
Risk-free interest rate (%)	2.39	1.63
Expected life (years)	5.00	5.00
Expected volatility (%)	90.00	100.00
Expected dividend yield (%)	0.00	0.00
Weighted average fair value per option	\$ 0.18	\$ 0.19

Weighted Average Number of Shares Outstanding

	2010	2009
Number of shares – Basic	24,275,589	24,007,370
Dilutive share options	111,686	-
Number of shares – Diluted	24,387,275	24,007,370

675,000 share options were excluded in the computation of weighted average number of diluted shares outstanding for the year ended December 31, 2010 because the average market price of Questor's shares during the year was lower than the exercise price of these share options and so to include these share options would be anti-dilutive.

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 consequently the effect of including share options outstanding would be anti-dilutive.

10. CONTRIBUTED SURPLUS

For the year ended December 31	2010	2009
Contributed surplus, beginning of year	\$ 447,651	\$ 283,552
Share-based compensation expense	147,025	164,099
Transferred to share capital from exercise of share options	(69,230)	-
Contributed surplus, end of year	\$ 525,446	\$ 447,651

11. GOVERNMENT ASSISTANCE

In 2010 the Company received government assistance of \$1,991 (2009 - \$44,078) and accrued for additional government assistance of \$20,758 (2009 - \$15,677) as a consequence of Scientific Research and Experimental Development claims. These amounts are included in other revenue.

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:

	2010	2009
Income (loss) before income tax expense	\$ 657,231	\$ (99,602)
Statutory income tax rate (%)	28.00	29.00
Expected taxes at statutory rate	184,025	(28,884)
Increase (decrease) in taxes resulting from:		
Revision in estimate	10,379	(308)
Permanent differences between accounting and tax basis of assets and liabilities	43,764	51,356
Effect of change in tax rate	(6,834)	(19,803)
Income tax expense	\$ 231,334	\$ 2,361

The provision for income taxes is comprised of the following:

	2010	2009
Current	128,631	12,127
Future	102,703	(9,766)
Income tax expense	\$ 231,334	\$ 2,361

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:

	2010	2009
Property and equipment	\$ (159,917)	\$ (126,772)
Development costs and other	46,158	50,434
Unrealized foreign exchange loss	-	50,113
Revenue holdback	(15,169)	-
Future income tax asset (liability)	(128,928)	(26,225)
Current asset	-	50,113
Current liability	(18,706)	(2,281)
Non-current liability	(110,222)	(74,057)
	\$ (128,928)	\$ (26,225)

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, 2010 and 2009 Questor was in compliance with these covenants.

The Company's capital structure consists of shareholders' equity, short-term and long-term debt and cash. 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 amounts will provide sufficient capital resources and liquidity to fund existing operations in 2011 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 the book value of 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, 2010 and December 31, 2009 are as follows:

As at December 31	2010	2009
Short-term debt	\$ -	\$ -
Long-term debt – current and non-current	-	15,232
Debt	-	15,232
Shareholders' equity	6,258,526	5,615,604
Total capitalization	6,258,526	5,630,836
Debt-to-total capitalization ratio (%)	0.0	0.3

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 CICA Handbook Section 3862, *Financial Instruments - Disclosures*, establishes a three-level hierarchy that prioritizes the inputs relative to the valuation techniques used to measure fair value. Fair values of assets and liabilities included in Level 1 of the hierarchy 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. Accordingly, the Company has categorized 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, 2010 and 2009, Questor valued cash using Level 1 inputs. At December 31, 2010 and 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, 2010 there was no impairment required on any of the financial assets of the Company.

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. The amounts reported for accounts receivable in the balance sheet are net of allowances for doubtful accounts and bad debts and the net carrying value represents the Company's maximum exposure to credit risk.

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.

Revenue from the top ten customers represents 76 percent of the Company's total revenue in 2010 (2009 - 75 percent). Revenue from the largest customer represents 21 percent of the Company's total revenue in 2010 (2009 - 31 percent).

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

As at December 31	2010	2009
Current and past due for less than 30 days	\$ 1,640,135	\$ 616,105
Past due for 31 – 60 days	47,863	130
Past due for 61 – 90 days	398	-
Past due for greater than 90 days	5,503	224,779
Billed receivables, net	1,693,899	841,014
Allowance for doubtful accounts	-	(71,004)
Billed receivables, net	1,693,899	770,010
Unbilled receivables	178,610	94,250
Total accounts receivable, net	\$ 1,872,509	\$ 864,260

Three customers represent 69 percent of the Company's total net accounts receivable at December 31, 2010 (December 31, 2009 – Three customers represented 60 percent).

Two customers comprise the accounts receivable amounts past due for greater than 90 days at December 31, 2010 (December 31, 2009 - Two customers after application of the allowance for doubtful accounts).

None of the accounts receivable of the Company is considered by management to be doubtful at December 31, 2010 and consequently no impairment is recorded. The allowance for doubtful accounts of \$71,004 at December 31, 2009 reflected the credit risk associated with one counterparty. The Company has since determined this account to be uncollectible and has written off the balance.

The credit risk relating to cash balances is limited because the counterparty is a large commercial bank in Canada.

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. From time to time, the Company may invest excess cash in banker's acceptances, deposits and treasury bills issued by credit worthy banking institutions or draw on its revolving demand operating loan facility to fund its operations with floating rate debt as described in Note 7. These activities expose Questor to changes in interest receipts and payments due to fluctuations in interest rates.

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 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, 2010, the Canadian equivalent carrying amounts of the Company's foreign currency denominated monetary assets was \$2,263,433 (2009 – \$1,788,542) and there were no foreign currency denominated monetary liabilities (2009 – \$nil). Based on the net foreign currency assets as at December 31, 2010, 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 income (loss) before income tax expense by approximately \$113,172 (2009 - \$89,427).

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

	Maturity	2010	2009
Accounts payable and accrued liabilities	Within 1 year	\$ 852,821	\$ 348,150
Income and other taxes payable	Within 1 year	230,431	19,034
Long-term debt – Current and non-current	September 2010	-	15,232
		\$ 1,083,252	\$ 382,416

The Company has sufficient working capital to meet obligations as they come due.

15. COMMITMENTS

Lease Agreements

Future minimum lease payments under operating leases for office spaces expiring March 29, 2011, September 30, 2013 and April 30, 2017, exclusive of operating costs, are estimated as follows:

2011	60,580
2012	48,000
2013	71,875
2014	71,750
2015	71,750
2016	71,750
2017	23,917
	\$ 419,622

Leasehold Improvements

On December 14, 2010, Questor executed an offer to lease new corporate office space in Calgary, Alberta, Canada for a six-year term commencing May 1, 2011. The offer contemplates Questor expending a minimum of \$128,125 for leasehold improvements prior to commencement of the term for which the Company will receive gross rent abatement for 26 months. The future minimum lease payments, exclusive of operating costs, pursuant to this office space lease are included in the lease agreement commitments table above.

Performance Guarantee

On December 30, 2009, the Company issued a USD \$47,000 irrevocable letter of guarantee under its revolving foreign letter of credit/letter of guarantee facility as security to the beneficiary during the fabrication and warranty periods associated with an incinerator sale. This letter of guarantee expires on November 12, 2011.

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 would pay the royalty holder \$30,575 in each of 2009 and 2010. Both amounts were paid in full in each year respectively. Upon payment of the second amount, the agreement terminated and the royalty holder has no further rights and the Company has 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 each of 2009 and 2010 Questor transacted with a corporation owned by a director of the Company. In 2010, the Company purchased vehicle repairs and maintenance services at market value for \$2,391 (before HST) and, in 2009, acquired a service vehicle at market value for \$45,184 (before GST).

There were no amounts owing from or to related parties included in accounts receivable and accounts payable and accrued liabilities at December 31, 2010 or 2009.

17. 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	2010	2009
Accounts receivable	\$ (1,008,249)	\$ 897,337
Income and other taxes receivable	306,488	(300,624)
Inventory	119,578	(48,231)
Prepaid expenses and deposits	(6,395)	(20,731)
Deferred expenses	2,356	26,804
Accounts payable and accrued liabilities	504,671	(319,642)
Income and other taxes payable	211,397	(266,761)
Deferred revenue and deposits	(52,156)	51,934
	77,690	20,086
Capital costs included in accounts payable and accrued liabilities	2,081	(2,797)
Write-down included in inventory	(16,006)	(12,660)
Unrealized foreign exchange loss included in non-cash working capital	(9,844)	(25,651)
	\$ 53,921	\$ (21,022)

The non-cash working capital is comprised of the following activities:

For the years ended December 31	2010	2009
Operating	\$ 51,840	\$ (18,225)
Investing	2,081	(2,797)
	\$ 53,921	\$ (21,022)

The following cash payments have been made in relation to interest expense and income tax expense:

For the years ended December 31	2010	2009
Interest paid	\$ 1,012	\$ 3,472
Income taxes paid	-	567,874

18. SEGMENTED INFORMATION

The Company reports its financial results as one reportable segment.

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

The following table provides information regarding total revenue on a geographic basis.

For the years ended December 31	2010	2009
Canada	\$ 3,929,503	\$ 2,672,015
United States	698,000	1,242,482
Indonesia	988,715	-
Other	225,220	42,677
	\$ 5,841,438	\$ 3,957,174

19. COMPARATIVE FIGURES

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