
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 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 professional opinion. The auditors have full and unrestricted access 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 8, 2008

(signed) "Diane Koenig"

Diane Koenig
Chief Financial Officer and Corporate Secretary
April 8, 2008

AUDITORS' REPORT

To the Shareholders of Questor Technology Inc.

We have audited the balance sheet of Questor Technology Inc. (the "Company") as at December 31, 2007 and the statements of income, comprehensive income, deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative financial statements as at and for the year ended December 31, 2006 were audited by another firm of Chartered Accountants whose report dated April 27, 2007 expressed an opinion without reservation on those financial statements.

(signed) "Deloitte & Touche LLP"

Chartered Accountants

Calgary, Alberta

April 8, 2008

**QUESTOR TECHNOLOGY INC.
BALANCE SHEETS**

As at December 31	2007	2006
ASSETS		
Current assets		
Cash (note 3)	\$ 2,753,997	\$ 29,186
Accounts receivable	1,062,716	947,993
Inventory (note 4)	526,401	263,015
Prepaid expenses and deposits	98,609	90,074
Future income tax asset (note 12)	-	583,506
	4,441,723	1,913,774
Property and equipment (note 5)	1,299,677	1,266,758
Intangibles (note 6)	73,678	101,700
Future income tax asset (note 12)	31,480	232,977
	\$ 5,846,558	\$ 3,515,209
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 501,314	\$ 271,881
Short-term debt (note 7)	191,186	461,297
Current portion of long-term debt (note 8)	60,183	48,674
Income and other taxes payable (note 12)	115,707	7,011
Deferred revenue and deposits	70,129	-
Future income tax liability (note 12)	102,682	-
	1,041,201	788,863
Long-term debt (note 8)	53,206	57,119
	1,094,407	845,982
Shareholders' equity		
Share capital (note 9)	5,235,677	5,188,774
Contributed surplus (note 10)	140,350	81,712
Deficit	(623,876)	(2,601,259)
	4,752,151	2,669,227
	\$ 5,846,558	\$ 3,515,209

Commitments (note 14).

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, COMPREHENSIVE INCOME AND DEFICIT

For the years ended December 31	2007	2006
Revenue		
Sales	\$ 7,550,986	\$ 1,468,877
Rentals	1,151,883	1,219,932
Service	439,347	412,830
	9,142,216	3,101,639
Less: Direct costs	4,942,199	1,986,106
Gross margin	4,200,017	1,115,533
Other revenue	86,766	121,815
Expenses		
General and administrative (note 10)	1,038,910	722,147
Foreign exchange loss (gain)	211,709	(27,236)
Depreciation and amortization	35,839	37,731
	1,286,458	732,642
Income before interest expense and income taxes	3,000,325	504,706
Interest expense		
Short-term debt	19,796	21,191
Long-term debt	2,959	12,384
Income before income taxes	2,977,570	471,131
Income tax expense (note 12)		
Current income tax	131,502	-
Future income tax	868,685	(724,483)
Net income and comprehensive income	1,977,383	1,195,614
Deficit, beginning of year	(2,601,259)	(3,796,873)
Deficit, end of year	\$ (623,876)	\$ (2,601,259)
Net income per share (note 9)		
Basic	\$ 0.08	\$ 0.05
Diluted	\$ 0.08	\$ 0.05
Weighted average number of shares outstanding (note 9)		
Basic	23,739,767	23,544,452
Diluted	25,071,979	24,168,211

See accompanying notes to the annual financial statements.

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

For the years ended December 31	2007	2006
Operating activities		
Net income	\$ 1,977,383	\$ 1,195,614
Items not involving cash:		
Depreciation and amortization	152,325	133,681
Future income taxes (note 12)	868,685	(724,483)
Unrealized foreign exchange loss (gain)	62,625	(47,570)
Share-based compensation (note 9)	81,291	33,348
Write-off of assets	-	2,656
Gain on sale of rental incinerator	-	(123,537)
Funds generated from operations	3,142,309	469,709
Net change in non-cash working capital (note 16)	29,388	(598,830)
Net cash provided by / (used in) operating activities	3,171,697	(129,121)
Investing activities		
Additions to property and equipment	(88,857)	(62,808)
Dispositions of property and equipment	-	179,700
Net cash provided by / (used in) investing activities	(88,857)	116,892
Financing activities		
Decrease in notes payable	-	(300,000)
Increase / (decrease) in short-term debt	(270,111)	86,299
Increase / (decrease) in long-term debt	(49,543)	26,319
Net proceeds from issuance of common shares (note 9)	24,250	4,000
Net cash used in financing activities	(295,404)	(183,382)
Change in cash	2,787,436	(195,611)
Cash, beginning of year	29,186	177,227
Effective exchange rates on cash	(62,625)	47,570
Cash, end of year	\$ 2,753,997	\$ 29,186

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") is an international environmental oil field service company focused on clean air technologies with activities in Canada, the United States, Europe and Asia. Questor designs and manufactures high efficiency waste gas incinerators for sale or for use on a rental basis and provides field burner 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 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; fair value of financial instruments; 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.

The following accounting policies are considered to be significant:

Inventory

Inventory consists of materials and supplies used in the fabrication of incinerators and in operations, work in progress and finished goods and is valued at the lower of cost on a first in first out basis 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
Vehicles and trailers	30%	Declining balance
Tools and equipment	20%	Declining balance
Office furniture and equipment	20%	Declining balance
Computers	30%	Declining balance

In 2006, the life expectancy of the rental incinerators was reviewed and determined to be significantly longer than originally estimated. Consequently the depreciation rate was increased to 20 years from 10 years.

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, the 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.

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 Expenditures are reflected in the accounts as deductions from development costs. Such credits are recognized when there is reasonable assurance they will be realized.

Government assistance related to ongoing research is reflected in the accounts as a reduction from research expense.

Government assistance related to a new hiring program is reflected in the accounts as a deduction from salaries and benefits which is included in general and administrative expense.

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. Gain on sales of rental incinerators is recognized when title to the product transfers. In general, contract terms do not include provisions for significant or unique post-delivery obligations.

Included in other revenue is interest income of \$77,906 (2006 - \$242), recovery of bad debt of \$8,860 (2006 - \$nil), gain on sales of rental incinerators in 2006 of \$120,881 and \$692 of other miscellaneous amounts in 2006.

Included in deferred revenue and deposits are amounts received from clients for use of an incinerator on a trial basis of \$43,696 (2006 - \$nil) and sales deposits of \$26,433 (2006 - \$nil).

Foreign Currency Translation

The Company's foreign currency denominated assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates, and revenues and expenses are translated at average rates of exchange during the period. 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. A valuation allowance is recorded against any future income tax asset if it more likely than not the asset will not be realized.

Earnings Per Share

Basic and diluted earnings per share have been 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.

Changes in Accounting Policies

Effective January 1, 2007 the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook accounting requirements for Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 1530 "Comprehensive Income", Section 3251 "Equity" and Section 1506 "Accounting Changes". In accordance with the transitional provisions for these new standards, these policies were adopted retrospectively without restatement of prior periods.

Accounting Changes

This Section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this standard did not have a material impact on the financial statements of the Company.

Financial Instruments

All financial instruments, including derivatives, are included on the balance sheet initially at fair value. The financial assets are classified as held for trading, held to maturity, loans and receivables, or available for sale. Financial liabilities are classified as held for trading or other financial liabilities. Subsequent measurement is determined by classification.

Held for trading financial assets and liabilities are initially accounted for at their fair value and changes to fair value are recorded in income. The available for sale classification includes non-derivative financial assets that are designated as available for sale or are not included in the other three classifications. Available for sale instruments are initially accounted for at their fair value and changes to fair value are recorded through other comprehensive income. Income earned from these investments would be included in revenue. Held to maturity financial assets, loans and receivables and other financial liabilities not classified as held for trading are accounted for at their amortized cost using the effective interest method.

Derivatives embedded in other financial instruments or contracts (the host instrument) are recorded as separate derivatives and are measured at fair value if the economic characteristics of the embedded derivative are not closely related to the host instrument, the terms of the embedded derivative are the same as those of a stand alone derivative and the total contract is not held for trading or accounted for at fair value. Changes in fair value are included in income.

All derivatives, other than those that meet the expected purchase, sale or usage requirements exception, are carried on the balance sheet at fair value. The Company has not identified any embedded derivatives requiring bifurcation.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. 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 adopted the following three classifications:

- Cash and cash equivalents are classified as held for trading. Measurement made subsequent to the adoption date of this new standard is at fair value;
- Accounts receivable are classified as loans and receivables. Measurements made subsequent to the adoption date of this new standard are recorded at amortized cost 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 under other financial liabilities. Measurements made subsequent to the adoption date of this new standard are recorded at amortized cost using the effective interest rate method. For the Company, this measurement generally corresponds to cost.

There was no material impact to Questor's financial statements at January 1, 2007 resulting from the above mentioned changes in accounting policies.

Hedges

The new standard specifies the circumstances under which hedge accounting is permissible, how hedge accounting may be performed and where the impacts should be recorded. The standard introduces three specific types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item, or when the Company chooses to de-designate. The Company has not entered into any derivative contracts to date.

Comprehensive Income and Equity

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. Accumulated other comprehensive income, if applicable, is included in the shareholders' equity section of the balance sheet. The components of the new category will include unrealized gains and losses on financial instruments classified as available for sale and the effective portion of cash flow hedges. The Company had no "other comprehensive income/loss" transactions during the year ended December 31, 2007 and, as such, has not presented a statement of accumulated other comprehensive income.

Future Accounting Changes

Section 1535 Capital Disclosures

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital. This new Section is effective for the Company beginning January 1, 2008 and is expected primarily to impact the note disclosure included in the Company's financial statements.

Section 3031 Inventories

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008, the new CICA Handbook Section 3031 "Inventories" replaces Section 3030 and harmonizes the Canadian standard related to inventories with International Financial Reporting Standards. This Section provides more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing and expands the disclosure requirements to increase transparency. This new Section is effective for the Company beginning January 1, 2008 and is not expected to have a material

impact on the Company's financial statements.

**Section 3862 Financial Instruments – Disclosures and
Section 3863 – Financial Instruments – Presentation**

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Sections 3862 and 3863 will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new Sections are effective for the Company beginning January 1, 2008 and will provide for increased disclosure on Questor's financial statements.

International Financial Reporting Standards (IFRS)

In May 2007, the CICA Accounting Standards Board ("AcSB") published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP". The AcSB plan outlines the convergence of Canadian GAAP with IFRS over a transition period that will end effective January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that the changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Questor has not yet determined the financial statement impact of the transition to IFRS.

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The Section harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, these new Sections are effective for the Company beginning January 1, 2009. Questor has not yet determined the financial impact of the adoption of this new Section.

3. CASH

Cash is held in foreign currencies of which the Canadian equivalent as at December 31 is as follows:

	2007	2006
United States dollars	\$ 2,737,718	\$ 62
European euros	16,279	29,124
	\$ 2,753,997	\$ 29,186

4. INVENTORY

	2007	2006
Materials and supplies	\$ 149,996	\$ 133,383
Work in progress	53,809	52,181
Finished goods	322,596	77,451
	\$ 526,401	\$ 263,015

5. PROPERTY AND EQUIPMENT

2007	Cost	Accumulated Depreciation	Net Book Value
Rental incinerators	\$ 1,464,282	\$ 340,751	\$ 1,123,531
Vehicles and trailers	205,980	75,492	130,488
Tools and equipment	18,838	6,311	12,527
Office furniture and equipment	52,081	31,432	20,649
Computers	34,753	22,271	12,482
	\$ 1,775,934	\$ 476,257	\$ 1,299,677

2006	Cost	Accumulated Depreciation	Net Book Value
Rental incinerators	\$ 1,384,657	\$ 257,931	\$ 1,126,726
Vehicles and trailers	150,255	43,477	106,778
Tools and equipment	11,518	4,660	6,858
Office furniture and equipment	39,710	28,792	10,918
Computers	32,572	17,094	15,478
	\$ 1,618,712	\$ 351,954	\$ 1,266,758

During 2006, the Company sold three rental incinerators with a total net book value of \$56,163 for gross proceeds of \$316,000 resulting in a gain on sale of \$123,537 after deducting customization costs of \$136,300. Questor did not dispose of any rental incinerators during 2007.

Depreciation expense for the year ended December 31, 2007 was \$124,303 (2006 - \$101,320). Of this, depreciation expense of \$116,486 (2006 - \$95,950) relating to rental incinerators, vehicles and trailers, and tools and equipment has been included in direct costs.

6. INTANGIBLES

2007	Cost	Accumulated Amortization	Net Book Value
Development costs	\$ 277,796	\$ 218,531	\$ 59,265
Patents	15,225	812	14,413
	\$ 293,021	\$ 219,343	\$ 73,678

2006	Cost	Accumulated Amortization	Net Book Value
Development costs	\$ 277,796	\$ 190,751	\$ 87,045
Patents	15,225	570	14,655
	\$ 293,021	\$ 191,321	\$ 101,700

Amortization expense for the year ended December 31, 2007 was \$28,022 (2006 - \$32,361).

7. SHORT-TERM DEBT

During 2006 and 2007, the Company had available a maximum \$400,000 non-revolving demand loan with a chartered bank, repayable in monthly payments of \$8,334 plus interest at bank prime plus 1.25 percent (2006 – prime plus 1.50 percent) per annum. On August 2, 2007, the Company repaid the principal and accrued interest outstanding of \$208,404 and no amounts were outstanding at December 31, 2007 (2006 - \$274,990). Effective January 29, 2008, the Company withdrew its access to this credit facility.

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 (2006 – 1.25 percent) per annum. The Company has provided a general security agreement and an assignment of insurance proceeds as security. The Company also has available up to \$100,000 of this loan to secure the issue of letters of credit and/or letters of guarantee for suppliers. At December 31, 2007, the Company had drawn \$191,186 (2006 - \$186,307) and had letters of credit of \$nil (December 31, 2006 - \$77,500) outstanding under this facility.

The Company has a revolving foreign letter of credit / letter of guarantee facility established to a maximum of \$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, 2007, no amount was outstanding under this facility.

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which must be met at each quarter-end. At December 31, 2007 Questor was in compliance with these covenants. In January 2008, more favourable financial covenants were negotiated with the lender.

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

8. LONG-TERM DEBT

The long-term debt consists of vehicle financing.

	2007	2006
GMAC financing at 0% (imputed interest at 6.00%) for 48 months, secured by a lien on the vehicle with a net book value of \$12,876. Interest and monthly payments of \$868 to February 2008.	\$ 2,116	\$ 12,151
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 \$27,538. Interest and monthly payments of \$1,626 to November 2008.	19,009	37,397
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 \$36,644. Interest and monthly payments of \$1,562 to November 2009.	36,412	56,245
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 \$52,784. Interest and monthly payments of \$1,860 to September 2010.	55,852	-
	113,389	105,793
Less: Current portion	(60,183)	(48,674)
	\$ 53,206	\$ 57,119

Payments required are as follows:

2008	\$	60,183
2009		37,974
2010		15,232
	\$	113,389

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, 2005	23,542,370	\$ 5,183,260
Shares issued on exercise of options	40,000	5,514
Shares issued and outstanding, December 31, 2006	23,582,370	5,188,774
Shares issued on exercise of options	212,500	46,903
Shares issued and outstanding, December 31, 2007	23,794,870	\$ 5,235,677

At December 31, 2007, pursuant to the requirements of the TSX Venture Exchange, the Company had 212,348 common shares (2006 – 424,697) held in escrow. Under the terms of the escrow agreement, 70,783 shares are to be released on each of June 20, 2008, December 20, 2008 and June 20, 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. To December 31, 2007, options granted under the plan had a term of five years to expiry and vested no longer than over a four-year period.

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

	Options Outstanding			
	2007		2006	
	Number of options	Exercise price ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
Share options outstanding, beginning of year	1,875,000	\$ 0.12	1,857,000	\$ 0.12
Granted	700,000	0.67	550,000	0.17
Exercised	(212,500)	(0.11)	(40,000)	(0.10)
Expired	-		(442,000)	
Forfeited	(225,000)	(0.14)	(50,000)	(0.18)
Share options outstanding, end of year	2,137,500	\$ 0.30	1,875,000	\$ 0.12
Share options exercisable, end of year	812,500	\$ 0.11	806,250	\$ 0.11

⁽¹⁾ Weighted average.

At December 31, 2007:

Options Outstanding			Options Exercisable		
Number Outstanding	Exercise price ⁽¹⁾	Remaining contractual life ⁽²⁾	Number Exercisable	Exercise price ⁽¹⁾	
1,137,500	\$ 0.10	2.20	737,500	\$ 0.10	
300,000	0.18	3.75	75,000	0.18	
700,000	0.67	4.66	-	-	
2,137,500	\$ 0.30	3.22	812,500	\$ 0.11	

⁽¹⁾ Weighted average.

⁽²⁾ Weighted average number of years.

At December 31, 2006:

Options Outstanding			Options Exercisable		
Number Outstanding	Exercise price ⁽¹⁾	Remaining contractual life ⁽²⁾	Number Exercisable	Exercise price ⁽¹⁾	
1,425,000	\$ 0.10	3.30	693,750	\$ 0.10	
450,000	0.18	4.80	112,500	0.18	
1,857,000	\$ 0.11	3.70	806,250	\$ 0.11	

⁽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:

	2007	2006
Risk-free interest rate (%)	4.64	4.25
Expected life (years)	5.00	5.00
Expected volatility (%)	211.23	244.55
Annual dividends per share	\$ 0.00	\$ 0.00
Weighted average fair value of options granted at date of grant	\$ 0.66	\$ 0.17

Weighted Average Number of Shares Outstanding

	2007	2006
Number of shares – Basic	23,739,767	23,544,452
Dilutive share options	1,332,212	623,759
Number of shares – Diluted	25,071,979	24,168,211

The options outstanding for the three months ended June 30, 2007 and 700,000 options outstanding for the three months ended December 31, 2007 were not included in the computation of diluted common shares outstanding as the effect would have been anti-dilutive. The Company realized a net loss during second quarter 2007 and the average market price of Questor's shares during fourth quarter 2007 was lower than the exercise price for certain options.

10. CONTRIBUTED SURPLUS

	2007	2006
Contributed surplus, beginning of year	\$ 81,712	\$ 49,878
Share-based compensation expense	81,291	33,348
Transferred to share capital from exercise of share options	(22,653)	(1,514)
Contributed surplus, end of year	\$ 140,350	\$ 81,712

11. GOVERNMENT ASSISTANCE

The Company did not receive any government assistance in 2007 (2006 - \$5,100).

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:

	2007	2006
Income before income taxes	\$ 2,977,570	\$ 471,131
Statutory income tax rate (%)	32.12	32.49
Expected taxes at statutory rate	956,395	153,070
Increase (decrease) in taxes resulting from:		
Compensation expense not deductible for tax purposes	26,111	10,835
Unrealized foreign exchange loss (gain) not deductible for tax purposes	20,115	(15,456)
Rate reductions applied to future income tax assets	7,659	44,445
Other	(10,093)	19,174
Decrease in valuation allowance	-	(936,551)
Income tax provision (recovery)		
Current	131,502	-
Future	868,685	(724,483)
	\$ 1,000,187	\$ (724,483)
Effective income tax rate (%)	33.59	(153.78)

Questor's income taxes are calculated according to government tax laws and regulations with 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 were composed of the following:

	2007	2006
Development costs and other	\$ 29,009	\$ 247,225
Property and equipment	1,827	128,074
Deferred compensation	-	7,262
Share issue costs	644	1,061
Non-capital loss carryforwards	-	432,661
Future income tax assets		
Current	-	583,506
Non-current	31,480	232,977
	\$ 31,480	\$ 816,483

As at December 31, future income tax liabilities were comprised as follows:

	2007	2006
Revenue holdback	\$ 102,682	\$ -
Future income tax liabilities		
Current	102,682	-
	\$ 102,682	\$ -

13. 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 (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.

Concentration of Credit Risk and Economic Dependence

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 and by requiring letters of credit in respect of international sales.

Revenue from one customer represented 75.4 percent of the Company's total revenue in 2007 (2006 – Two customers comprised 25.1 percent and 10.9 percent respectively).

One customer represented 30.6 percent of the Company's accounts receivable as at December 31, 2007 (2006 – Two customers represented 23.7 percent and 10.8 percent respectively).

Interest Rate Risk

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 (note 7).

Foreign Exchange Risk

The Company maintains cash and cash equivalent balances and enters into transactions denominated in foreign currencies, principally in United States dollars and European Euros, which exposes Questor to fluctuating balances and cash flows due to variations in foreign exchange rates.

As at December 31, 2007, 47.2 percent of the Company's accounts receivable were denominated in United States dollars (2006 – 29.4 percent) and 10.0 percent (2006 - nil) were denominated in European Euros.

As at December 31, 2007, 9.3 percent of the Company's accounts payable and accrued liabilities were denominated in foreign currencies (2006 – 13.4 percent).

To date, Questor has not entered into financial derivative contracts to manage exposure to fluctuations in foreign exchange rates and interest rates.

14. COMMITMENTS

Lease Agreement

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

2008	\$	53,280
2009		53,280
2010		53,280
2011		13,320
	\$	173,160

Royalty Agreement

The Company has a royalty obligation of 1.5 percent of incinerator sales payable annually to an individual at arm's length. The royalty agreement does not specify an expiry date. Royalty expense in 2007 was \$51,109 (2006 - \$17,735) and is included in direct costs with a corresponding increase to accounts payable and accrued liabilities.

15. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company transacts with related parties. These transactions are recorded at their exchange amounts which approximate fair value and are as follows:

	2007	2006
Acquisition of a service vehicle by Questor from a corporation owned by a director of the Company	\$ 57,140	\$ -
Interest expense and repayment of unsecured notes payable to a relative of an officer who is also a director of the Company	-	312,384
	\$ 57,140	\$ 312,384

The 2007 amount due to a related party is non-interest bearing. The unsecured notes repaid during 2006 bore interest at 10 percent per annum.

There were no amounts included in accounts payable and accrued liabilities at December 31, 2007 or December 31, 2006.

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2007	2006
Accounts receivable	\$ (154,844)	\$ (300,722)
Inventory	(263,387)	(165,257)
Prepaid expenses and deposits	(8,536)	(40,461)
Accounts payable and accrued liabilities	229,433	(67,606)
Income and other taxes payable	108,697	(5,984)
Deferred revenue and deposits	70,129	(18,800)
	(18,508)	(598,830)
Capital costs included in accounts payable and accrued liabilities	(11,225)	-
Investment tax credit related to development assets in income and other taxes payable	59,121	-
	\$ 29,388	\$ (598,830)

The following cash payment has been included in the determination of net income:

	2007	2006
Interest paid	\$ 22,741	\$ 45,435

No cash taxes were paid in either 2007 or 2006.

17. SEGMENTED INFORMATION

The Company reports its financial results of operations as one reportable segment.

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

Total Revenue

	2007	2006
Canada	\$ 1,899,858	\$ 2,033,597
International		
China	6,961,473	
Thailand	-	809,163
Other	367,651	380,694
	\$ 9,228,982	\$ 3,223,454

Total Plant and Equipment

	2007	2006
Canada	\$ 996,053	\$ 945,273
International – Italy	303,624	321,485
	\$ 1,299,677	\$ 1,266,758

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

18. COMPARATIVE FIGURES

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