
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations presented herein is provided to enable readers to assess the results of operations, liquidity and capital resources of Questor Technology Inc. ("Questor" or the "Company") as at and for the year ended December 31, 2007 compared the year ended December 31, 2006. This MD&A dated April 25, 2008 should be read in conjunction with the accompanying audited annual financial statements and notes thereto of Questor for the year ended December 31, 2007.

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

Additional information relating to Questor can be found on its website at www.questortech.com. The continuous disclosure materials of Questor, including its annual MD&A and audited financial statements, Information Circular and Proxy Statement, material change reports and news releases issued by Questor, are also available through the Company's website or directly through the SEDAR system at www.sedar.com.

QUESTOR TECHNOLOGY INC.

Questor is an international environmental oil field service company founded in late 1994 and headquartered in Calgary, Alberta, Canada with a field office located in Grande Prairie, Alberta, Canada. The Company is focused on clean air technologies with activities in Canada, the United States, Europe and Asia. Questor designs and manufactures high efficiency waste gas incinerators for sale or for use on a rental basis and also provides field burner services. The Company's proprietary incinerator technology destroys noxious or toxic hydrocarbon gases which ensures regulatory compliance, environmental protection, public confidence and reduced operating costs for clients. Questor is recognized for its particular expertise in the combustion of sour gas (H₂S). While the Company's current client base is primarily in the oil and gas industry, this technology is applicable to other industries such as water and sewage treatment, landfills, tire recycling and agriculture.

OVERVIEW OF THE BUSINESS

Worldwide, more than 14 billion cubic feet of gas is burned inefficiently each day, jeopardizing air quality, the environment and human health. The global warming consequence of this flared gas far exceeds the impacts currently being address by the Kyoto Accord. Regulations are being enacted in many international jurisdictions to address air quality issues precipitated by flaring. These regulations bring economic consequences for those companies who are non-compliant relative to the environmental standards. Accordingly, companies must actively consider clean air technologies to reduce their environmental footprint.

Business Strategy and Opportunities

Given the strong and increasing environmental focus regarding air quality, global warming and greenhouse gas (GHG) emissions, the convergence of political, regulatory and social forces presents a business opportunity for which Questor has a technological solution. The Company's patented incineration process burns waste gas cleanly at 99.99% efficiency. The quality, reliability and effectiveness of the Company's products, coupled with engineering expertise and knowledge, enables the Company to understand and adapt solutions to the customer's business needs in the core areas of incineration and combustion services.

Questor's strategic priorities are to:

- Build corporate influence, brand awareness and marketing resources to increase incinerator sales and rentals;
- Expand internationally and to other industries where Questor's proprietary technology would prove effective in order to garner markets for existing product offerings;
- Develop and market new applications, particularly as it relates to waste heat recovery and SO₂ emission capture; and
- Form strategic alliances to leverage market exposure and resources, increase value chain opportunities and manage risk.

Highlights of 2007

2007 marked a pivotal point in the Company's history with the following significant events:

- The successful delivery of well testing incinerators to China Petrochemical International Company Ltd. ("SINOPEC") in July 2007 pursuant to the previously announced USD \$6.6 million contract;
- Completion of the Company's first incinerator rental contract in the United States;
- Growing status as a preferred provider of combustion services in the Grande Prairie, Alberta, Canada region;
- Growing recognition of Questor's expertise and environmental perspectives relating to air quality demonstrated by numerous invitations to present at conferences worldwide, among them:
 - "5th Annual Energy and Clean Technology Forum" hosted by Rice Alliance at Rice University in Houston, Texas, USA;
 - Canadian Institute "Western Canadian Sour Gas Operations" Conference in Calgary, Alberta, Canada;
 - Eco Expo Asia Conference in Hong Kong, China;
 - "Environmental Challenges and Innovations Conference" sponsored by the Texas Association of Environmental Professionals in Houston, Texas, USA;
 - China National Science and Technology Sulphur Forum in Dazhou, China; and
 - Canada Eurasia Russia Business Association Global Energy Matters Conference 2008 in conjunction with the Global Petroleum Show 2008 in Calgary, Alberta, Canada.
- Initiation of numerous strategic arrangements which were formalized in the early part of 2008:
 - an agreement with Terra Verde Emissions Credits Inc. to develop the protocol methodology and sale of the greenhouse gas credits/offsets in Alberta generated from the use of Questor's proprietary incinerator technology;
 - a strategic arrangement with Natco Group Inc. to market and fabricate our products for the United States market. Natco is headquartered in Houston, Texas with sales offices in the United States, Latin America, Southeast Asia, Japan, the United Kingdom, Scandinavia and Russia.
 - marketing arrangements with Ramsay Machine Works Ltd. and EMCS Industries Ltd., both headquartered in Sidney, British Columbia, for the purpose of targeting industries such as the oil

sands, offshore oil and gas platforms, solid waste treatment, waste water treatment and landfills, all of whom would benefit from our technology; and

- a collaborative effort with CrystaTech, Inc., to explore opportunities to provide a cost effective solution to recover sulphur and address sour gas emissions from the oil sands.

Outlook

The Company expects to benefit from the heightened environmental focus on global warming and climate change and the health concerns arising from the impacts of poor air quality. The public is demanding action from their governments and rigorous regulatory standards are being implemented to address these issues. Flares are unable to meet the new, more demanding air quality regulations introduced in many international and United States jurisdictions. Questor's incinerator provides technology to our clients to ensure compliance, environmental protection and foster public confidence while reducing costs. The new regulations for the oil and gas industry, particularly in Alberta and British Columbia, have created opportunities for Questor to demonstrate energy effectiveness.

Recently the federal and many of the provincial governments have introduced legislation to regulate industrial Green House Gas ("GHG") emissions by establishing mandatory emissions reduction targets. The regulations cover all GHGs in the Kyoto Protocol, which are carbon dioxide (CO₂), nitrous oxide (N₂O), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and methane (CH₄). This legislation has created a significant and growing market opportunity for Questor, domestically and internationally, to assist our clients in meeting the more stringent emissions regulations and potentially create GHG credits with the improved combustion efficiency and energy effectiveness of incinerator technology.

In recent years, Questor has built strategic relationships with various domestic and international organizations to support the Company's growth objectives. It is an opportune time for Questor to pursue international markets, expand the application of incineration to other industries, develop client solutions such as heat recovery and power generation to increase the value of our products and services to customers and form strategic alliances in order to broaden exposure of the Company's product offerings while managing resources.

Questor's opportunities for significant future growth resides in SO₂ emission capture and heat recovery from incineration of waste gases. To this end, Questor is collaborating with CrystaTech, Inc., to co-develop technology offering a cost effective solution to recover sulphur and capture or reduce SO₂ emissions to the atmosphere. While the impetus for this work is to address sour gas emissions from the oil sands, this technology would be applicable to many facilities in both Western Canada and internationally. With respect to the heat recovery opportunity, the Company is in discussion with companies operating in developing countries where significant flaring occurs and there is a shortage of power. Because Questor's technology involves combustion in a closed chamber, it is possible to capture the heat and convert it to useful energy. The Company hopes to identify a pilot application in 2008 to evaluate the potential for waste heat recovery.

In 2008, Questor will focus on contributing to the positive environmental, economic and social performance of our customers with particular emphasis on North American markets and added focus on the Middle East, Europe, China and Africa. The Company will capitalize on relationships that are already well established and continue to develop new strategic alliances to maximize value. The Company's Grande Prairie field office will continue to provide exceptional combustion services and seek preferred vendor status in its niche.

FINANCIAL RESULTS

Questor's financial information and the related discussion of financial results in the MD&A are for the years ended December 31, 2007 and 2006.

Financial Results Summary

(\$ unless otherwise noted)

	2007	2006
Total revenue	9,228,982	3,223,454
Gross margin	4,200,017	1,115,533
EBITDA ⁽¹⁾	3,152,650	638,387
Income before interest expense and income taxes ⁽¹⁾	3,000,325	504,706
Net income	1,977,383	1,195,614
Cash provided by / (used in) operating activities	3,171,697	(129,121)
Funds generated from operations ⁽¹⁾	3,142,309	469,709
Total assets	5,846,558	3,515,209
Long-term liabilities	53,206	57,119
Shares outstanding (thousands) ⁽²⁾		
Basic	23,740	23,544
Diluted	25,072	24,168
Net income per share – Basic	\$ 0.08	\$ 0.05
Net income per share – Diluted	\$ 0.08	\$ 0.05

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

(2) Weighted average.

Discussion of Financial Results for the Year Ended December 31, 2007

Net income for the year ended December 31, 2007 was \$1,977,383 (\$0.08 per basic share) compared to net income of \$1,195,614 (\$0.05 per basic share) for the year ended December 31, 2006. This net income increase of 65.4 percent was primarily attributable to the successful delivery of well testing incinerators pursuant to a previously announced USD \$6.6 million contract, partially offset by differences to the incinerator sales and rentals mix in 2007 compared to 2006, higher general and administrative expenses, a foreign exchange loss, and income tax expenses.

Total revenue for 2007 was \$9,228,982 compared to \$3,223,454 for 2006. Revenue was substantially increased due to the SINOPEC sales contract and, to a lesser extent, higher field burner service revenues and interest income on a year-to-date basis, all of which was partially offset by lower incinerator rental revenues and the impact of a different incinerator sales mix in 2007 compared to 2006.

For the year ended December 31, 2007, the Company reported a gross margin of \$4,200,017 compared to a gross margin of \$1,115,533 for 2006. Direct costs of \$4,942,199 in 2007 were up by \$2,956,093 compared to 2006. This difference is primarily due to the direct costs associated with the SINOPEC sales contract and the impact of differences in the incinerator sales and rentals mix in 2007 compared to 2006.

General and administrative expense was \$1,038,910 for 2007 compared to \$722,147 for 2006. The \$316,763 increase was attributable to higher employee costs including share-based compensation expense, higher 2006-related audit fees, accounting, legal and engineering consulting fees, higher insurance premiums, additional costs associated with the office relocation and higher minimum lease payments for office space.

Foreign exchange losses of \$211,709 were recorded in the year ended December 31, 2007 compared to a foreign exchange gain of \$27,236 in 2006. The foreign exchange losses arise from cash and cash equivalents and transactions denominated in foreign currencies, principally in United States dollars, which weakened during the year relative to the Canadian dollar.

Depreciation and amortization expense for the year ended December 31, 2007 was \$152,325 compared to \$133,681 in 2006. Depreciation expense of \$116,486 and \$95,950 for the years ended December 31, 2007 and 2006, respectively, relating to rental incinerators, service vehicles and equipment has been included in direct costs. Depreciation expense increased year-over-year due to a one-time adjustment to the rental incinerator depreciation expense and as a result of additions to property and equipment during the year.

Interest expense for the year ended December 31, 2007 was \$22,755 compared to \$33,575 for 2006. In 2006, \$300,000 of interest-bearing notes was outstanding for the first quarter and \$200,000 of interest-bearing notes were outstanding for substantially all of the second quarter and bore interest in excess of current levels, thereby elevating interest expense in the prior year.

Income taxes for 2007 is comprised of a current tax expense of \$131,502 and a non-cash future income tax expense of \$868,685 compared to a non-cash future income tax recovery of \$724,483 in 2006. Historically the Company had not been in a taxable position and had not recognized the income tax benefit of its temporary differences and tax pools given the lack of certainty such benefit would be applied. However, when the Company executed the contract with SINOPEC, it was determined the Company would become taxable in 2007 and, consequently, recorded a future income tax asset in its 2006 results. The Company is now recognizing a non-cash future income tax expense in relation to its taxable income as at December 31, 2007, consequently drawing down the future income tax asset.

Discussion of Financial Results for the Three Months Ended December 31, 2007

The net income for the three months ended December 31, 2007 was \$106,391 (\$0.004 per basic share) compared to net income of \$700,200 (\$0.03 per basic share) for the three months ended December 31, 2006. This net income decrease was primarily attributable to a non-cash future income tax recovery of \$724,483 recorded in fourth quarter 2006, partially offset by higher incinerator sales revenue recorded in fourth quarter 2007.

Total revenue for the three months ended December 31, 2007 was \$1,017,015 compared to \$663,893 for the same period in 2006. Revenue differences were primarily the result of differences in the products and services mix for each of the periods as well as revenue recognition in fourth quarter 2007 of the \$348,074 revenue holdback associated with the SINOPEC contract resulting from an internal reassessment of warranty risk.

For the three months ended December 31, 2007, the Company reported a gross margin of \$458,006 compared to a gross margin of \$138,804 for fourth quarter 2006. Direct costs of \$520,812 in 2007 were higher by \$17,234 compared to the same period in 2006. This increase is due to the impact of differences in the incinerator sales and rentals mix and a one-time adjustment to the rental incinerator depreciation expense, partially offset by lower royalty expense recorded in fourth quarter 2007 compared to 2006.

General and administrative expense was \$308,063 for the last three months of 2007 compared to \$189,124 for the same period in 2006. The \$118,939 increase was attributable to higher employee costs including share-based compensation expense, increased accounting, legal and engineering consulting fees, and higher minimum lease payments for office space, partially offset by lower travel costs and audit fees recorded in the fourth quarter 2007 and a bad debt expense recorded in fourth quarter 2006.

Foreign exchange losses of \$31,175 were recorded in the three months ended December 31, 2007 compared to a foreign exchange gain of \$18,798 in fourth quarter 2006. The foreign exchange losses arise from cash and cash equivalents and transactions denominated in foreign currencies, principally in United States dollars, which weakened during the quarter relative to the Canadian dollar.

Depreciation and amortization expense for the last three months of 2007 was \$45,031 compared to \$26,445 in the same period of 2006. Depreciation expense of \$36,499 and \$15,594 for the three months ended December 31, 2007 and 2006, respectively, relating to rental incinerators, service vehicles and equipment has been included in direct costs. Depreciation expense increased quarter-over-quarter due to a one-time adjustment to the rental incinerator depreciation expense and as a result of additions to property and

equipment during 2007.

Interest expense for fourth quarter 2007 was relatively flat at \$3,082 compared to \$3,422 for the last three months of 2006.

Income taxes for the three months ended December 31, 2007 is comprised of a tax expense of \$38,961 compared to a non-cash future income tax recovery of \$724,483 in fourth quarter 2006. Historically the Company had not been in a taxable position and had not recognized the income tax benefit of its temporary differences and tax pools given the lack of certainty such benefit would be applied. However, when the Company executed the contract with SINOPEC, it was determined the Company would become taxable in 2007 and, consequently, recorded a future income tax asset in its fourth quarter 2006 results. The Company is now recognizing a non-cash future income tax expense in relation to its taxable income as at December 31, 2007, consequently drawing down the future income tax asset.

SUMMARY OF EIGHT MOST RECENTLY COMPLETED QUARTERS

<i>(in \$ thousands except per share amounts)</i>	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Total revenue	1,017	6,925	327	960	664	824	952	783
Gross margin	458	3,312	5	425	139	184	437	356
Income (loss) before interest expense and income taxes	148	2,844	(190)	198	(21)	114	247	164
Net income (loss)	106	1,884	(141)	128	700	107	238	151
Net income (loss) per share								
Basic	0.00	0.08	(0.01)	0.01	0.03	0.00	0.01	0.01
Diluted	0.00	0.08	(0.01)	0.01	0.03	0.00	0.01	0.01

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

FINANCIAL POSITION

The following table outlines the significant changes in the balance sheets of Questor from December 31, 2006 to December 31, 2007.

Balance sheet item	\$ Increase (decrease)	Explanation
Cash and cash equivalents	2,724,811	Cash and cash equivalents increased primarily as a result of the SINOPEC sales contract, payment for which was received on July 31, 2007.
Accounts receivable	114,723	Accounts receivable increased primarily due to the composition and timing of business reflected at the end of each year.
Inventory	263,386	Inventory increases principally reflect incineration units in finished goods inventory to be delivered in first and second quarter 2008.

Balance sheet item	\$ Increase (decrease)	Explanation
Future income tax asset – current and non-current	(785,003)	Current and non-current future income tax asset accounts decreased as the Company is now recognizing a non-cash future income tax expense in relation to its taxable income as at December 31, 2007.
Accounts payable and accrued liabilities	229,433	Accounts payable increased primarily due to the composition and timing of business reflected at the end of each year.
Short-term debt	(270,111)	Short-term debt decreased principally as a result of scheduled principal payments and repayment in full of the outstanding balance on the non-revolving demand loan.
Income and other taxes payable	108,697	Income and other taxes payable increased as the Company is now recognizing a current income tax expense in relation to its taxable income as at December 31, 2007 coupled with VAT payable in respect of its foreign incinerator rental income.
Future income tax liability	102,682	A future income tax liability arises as a result of revenue recognition in fourth quarter 2007 of the \$348,074 holdback associated with the SINOPEC contract.

INVESTED CAPITAL

During 2007 Questor acquired \$88,857 of plant and equipment, up from \$62,808 in 2006. The increase was due primarily to additions to the rental incinerator fleet. The Company also acquired a service vehicle for \$57,140, all of which was financed with long-term debt. There were no disposals of capital assets in 2007 whereas sales of incinerators from the rental fleet reduced plant and equipment by \$179,700 in 2006.

LIQUIDITY AND CAPITAL RESOURCES

Questor historically has used debt and equity financing to the extent that funds generated from operations and deposits received from customers in respect of a sale were insufficient to fund capital expenditures and working capital changes. Should larger transactions require financing beyond existing sources, management believes equity and debt capital markets could be accessed to provide additional financing.

At this time, Questor does not reasonably expect any presently known trend or uncertainty to affect the Company's ability to access its anticipated sources of cash. The Company further expects that 2007 funds generated from operations will be sufficient to meet budgeted operating requirements and supply capital to finance the development of new clean air technologies or acquisitions.

Cash Flows

	2007	2006
Operating activities	3,171,697	(129,121)
Investing activities	(88,857)	116,892
Financing activities	(295,404)	(183,382)
Change in cash	2,787,436	(195,611)

Operating Activities

Cash provided by operating activities was \$3,171,697 in 2007, increased from cash used in operating activities of \$129,121 in 2006. The increase was primarily attributable to higher operating results and a working capital surplus of \$29,388 during 2007 compared to a working capital deficit of \$598,830 during 2006.

Working Capital

	December 31 2007	December 31 2006
Current assets	4,441,723	1,913,774
Current liabilities ⁽¹⁾	789,832	278,892
Working capital	3,651,891	1,634,882
Current ratio	5.6	6.9

⁽¹⁾ Excludes short-term debt and current portion of long-term debt.

Investing Activities

Cash used for investing activities in 2007 was \$88,857 compared to cash provided by investing activities of \$116,892 in 2006. The investing activities comprised expenditures for and dispositions of plant and equipment as described in the Invested Capital section of this MD&A.

Financing Activities

Cash used for financing activities in 2007 was \$295,404 compared to \$183,382 in 2006. In each year, the Company reduced the credit facilities outstanding at that time. The reduction to debt was slightly higher in 2007 as the \$24,250 of proceeds from share option exercises were applied accordingly.

Capital Resources

The Company believes that its access to debt and equity markets, unused bank credit facilities and its funds generated from operations will provide sufficient capital resources and liquidity to fund existing operations and certain acquisition and expansion opportunities in 2008.

At December 31, 2007, the Company had total debt outstanding of \$304,575, down from \$567,090 at December 31, 2006. The long-term debt at December 31, 2007 was comprised of vehicle financing and principal and accrued interest outstanding on its non-revolving demand loan facility.

All of the borrowing facilities from the chartered bank 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. As of the date of this MD&A, no amounts have been drawn against this facility.

Contractual Obligations and Commitments

As at December 31, 2007, the Company has the following commitments:

Long-term Debt

The long-term debt consists of vehicle financing with the following payments remaining:

2008	\$	60,183
2009		37,974
2010		15,232
		<hr/>
	\$	113,389

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
		<hr/>
	\$	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.

FINANCIAL INSTRUMENTS

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

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.

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.

BUSINESS RISK MANAGEMENT

The Company is exposed to a number of business risks with the potential to affect financial performance.

Energy Industry Dynamics

The Company is subject to the risks and variables inherent in providing environmental services to the oil and gas industry. Demand for the Company's incinerator technology and other potential environmental technologies are primarily dependent upon the exploration, development and production activities of the energy industry. These activities are directly affected by factors such as oil and gas commodity prices, changes in legislation, exchange rates, the state of domestic and international economies, alternative energy sources, and other factors many of which are beyond the control of the Company, its customers and of industry. Certain aspects of the Company's activities, particularly incinerator rentals, are at risk should sustained levels of cash flow in the energy industry not be achieved. The Company's field burner service operations are not dependent on client capital expenditures to the same extent as incinerator rental activities, thereby providing a buffer to declining industry expenditures. Also partially offsetting the preceding potential impacts is increasing environmental regulation requiring companies to seek environmental solutions or otherwise be penalized. This factor is driving demand for the Company's technology and serves as a mitigant to the economic variables previously discussed.

Competitive Technologies

The Company is also at risk because of the potential for other environmental technologies to make the Company's incinerator technology obsolete or for competing incinerator providers to impact on the Company's market share related to its incinerator technology. To counter the business risks and diversify the revenue base of the Company, Questor continues to focus on the establishment of international client relationships in the petroleum production and processing industry and on the development of new applications for industries where Questor's proprietary technology would also prove effective.

Sales Sustainability

In 2007, revenue from one sales contract represented 75.4 percent of the Company's total revenue. Sales of incinerators are inherently unpredictable and it is not certain the Company will replicate the number or quantum of incinerator sales in the following year. The Company has directed incremental resources to the sales and marketing effort as well as entered into strategic relationships (see discussion in Overview of the Business – Highlights of 2007) to address sales sustainability risks.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of business, the Company transacts with related parties. These transactions are recorded at their exchange amounts which approximate fair value. During 2007 the Company purchased a service vehicle for \$57,140 (2006 - \$nil) from a corporation owned by a director of the Company.

OFF-BALANCE-SHEET ARRANGEMENTS

The Company is not party to any off-balance-sheet arrangements as at December 31, 2007.

SHARE CAPITAL

At December 31, 2007, the Company had 23,794,870 common shares outstanding and a market capitalization of \$14,038,973 based on a closing trading price on December 31, 2007 of \$0.59 per common share. At December 31, 2007 there were 2,137,500 options outstanding with a weighted average exercise price of \$0.30 per share and 812,500 options exercisable at a weighted average exercise price of \$0.11 per share under the terms of the share option plan.

CHANGES IN ACCOUNTING POLICIES

2007 Changes

Accounting Changes

Effective January 1, 2007 the Company adopted the revised Canadian Institute of Chartered Accountants ("CICA") Handbook accounting requirements for Section 1506 "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 an impact on the financial statements.

Financial Instruments

Effective January 1, 2007 the Company adopted retrospectively without restatement 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" and Section 3251 "Equity". The impacts of adopting the new standards are reflected in the Company's annual results, and prior year comparative financial statements have not been restated. There were no material impacts on the Company's financial statements as a consequence of adopting these new rules.

Refer to Note 2 to the annual financial statements for the year ended December 31, 2007 for information pertaining to these accounting changes and the impact of their adoption on the Company's financial statements.

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.

CRITICAL ACCOUNTING ESTIMATES

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Company's financial statements requires the use of estimates and assumptions which have been made using careful judgment. Questor's significant accounting policies are contained in the notes to the Company's audited financial statements for the year ended December 31, 2007. Certain of these policies involve critical accounting estimates as a result of the requirement to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions. The most critical of these policies with respect to estimates are those related to share-based compensation expense, depreciation and amortization expense, and asset impairment assessment.

The following section describes the critical accounting estimates and assumptions that Questor has made and how they affect the amounts reported in the financial statements.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with the fair value recognition provisions of Canadian GAAP. As such, share-based compensation expense for equity-settled plans is measured at the grant date based on the fair value of the award and is recognized as an expense over the vesting period. Determining the fair value of such share-based awards at the grant date requires judgment, including estimating the expected term of share options, the expected volatility of Questor's shares and expected dividends.

Share-based compensation is a critical accounting estimate because there are a number of uncertainties inherent in these estimates and changes to these assumptions could result in material adjustment to the amount of share-based compensation expense the Company charges to income.

Depreciation and Amortization

Questor performs assessments of depreciation for long-lived assets and amortization for intangible assets. When it is determined that assigned asset lives do not reflect the estimated remaining period of benefit, prospective changes are made to the depreciable lives of those assets.

Depreciation and amortization is a critical accounting estimate because there are a number of uncertainties inherent in estimating the remaining useful life of certain assets and changes in these assumptions could result in material adjustment to the amount of depreciation and amortization that the Company recognizes from period to period.

Asset Impairment

Questor reviews long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability is determined based on an estimate of undiscounted future cash flows, and measurement of an impairment loss is based on the fair value of the assets.

The Company believes that the accounting estimate related to asset impairment is a critical accounting estimate because it is highly susceptible to change from period to period as it requires management to make assumptions about future sales, margins and market conditions over the long-term life of the assets. The impact that recognizing an impairment would have to the Company's financial position and results of operations may be material. As at December 31, 2007, the Company determined that there were no triggering events requiring impairment analysis.

NON-GAAP FINANCIAL MEASURES

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

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

	2007	2006
EBITDA	3,152,650	638,387
Add (deduct): Depreciation and amortization expense	(152,325)	(133,681)
Interest expense	(22,755)	(33,575)
Income tax expense (recovery)	(1,000,187)	724,483
Net income (GAAP financial measure)	1,977,383	1,195,614

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

Income Before Interest Expense and Income Taxes

	2007	2006
Income before interest expense and income taxes	3,000,325	504,706
Add (deduct): Interest expense	(22,755)	(33,575)
Income tax expense	(1,000,187)	724,483
Net income (GAAP financial measure)	1,977,383	1,195,614

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

Funds Generated From Operations

	2007	2006
Funds generated from operations	3,142,309	469,709
Add (deduct): Net change in non-cash working capital	29,388	(598,830)
Cash provided by / (used in) operating activities (GAAP financial measure)	3,171,697	(129,121)

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

On November 23, 2007, the Alberta Securities Commission and the securities commissions in the other jurisdictions in which Questor is registered, exempted Venture Issuers from certifying disclosure controls and procedures as well as internal controls over financial reporting as of December 31, 2007, and thereafter. Since Questor is a Venture Issuer it is now required to file "basic certificates", which it has done for the year ended December 31, 2007.

The CEO and Acting CFO evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of the Company's internal control over financial reporting as of December 31, 2006, pursuant to the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators. For further information with regards to the conclusions drawn by the CEO and Acting CFO, the Reader is directed to the Company's Annual MD&A for the fiscal year ended December 31, 2006.

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