
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

(signed) "Audrey Mascarenhas"

Audrey Mascarenhas
President and Chief Executive Officer
April 9, 2009

(signed) "Diane Koenig"

Diane Koenig
Chief Financial Officer and Corporate Secretary
April 9, 2009

AUDITORS' REPORT

To the Shareholders of Questor Technology Inc.

We have audited the balance sheets of Questor Technology Inc. (the "Company") as at December 31, 2008 and 2007 and the statements of income, comprehensive income, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche LLP"

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta
April 9, 2009

**QUESTOR TECHNOLOGY INC.
BALANCE SHEETS**

As at December 31	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents <i>(note 3)</i>	\$ 3,259,037	\$ 2,753,997
Accounts receivable	1,767,823	1,062,716
Inventory <i>(note 4)</i>	384,914	526,401
Prepaid expenses and deposits	80,340	98,609
Deferred expenses <i>(note 15)</i>	29,160	-
	5,521,274	4,441,723
Property and equipment <i>(note 5)</i>	1,176,529	1,299,677
Intangibles <i>(note 6)</i>	44,680	73,678
Deferred expenses <i>(note 15)</i>	30,575	-
Future income tax asset <i>(note 12)</i>	-	31,480
	\$ 6,773,058	\$ 5,846,558
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 667,792	\$ 501,314
Short-term debt <i>(note 7)</i>	-	191,186
Current portion of long-term debt <i>(note 8)</i>	37,498	60,183
Income and other taxes payable <i>(note 12)</i>	285,795	115,707
Deferred revenue and deposits <i>(note 2)</i>	146,707	70,129
Future income tax liability <i>(note 12)</i>	9,281	102,682
	1,147,073	1,041,201
Long-term debt <i>(note 8)</i>	15,232	53,206
Other long-term liabilities <i>(note 15)</i>	30,575	-
Future income tax liability <i>(note 12)</i>	26,710	-
	1,219,590	1,094,407
Shareholders' equity		
Share capital <i>(note 9)</i>	5,265,736	5,235,677
Contributed surplus <i>(note 10)</i>	283,552	140,350
Retained earnings (deficit)	4,180	(623,876)
	5,553,468	4,752,151
	\$ 6,773,058	\$ 5,846,558

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, COMPREHENSIVE INCOME AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31	2008	2007
Revenue		
Incinerator sales and services	\$ 2,583,199	\$ 7,568,257
Incinerator rentals and services	954,396	1,158,576
Combustion services	678,660	415,382
	4,216,255	9,142,215
Less: Direct costs	2,818,502	4,996,524
	1,397,753	4,145,691
Other revenue (notes 2, 5 and 11)	254,896	90,062
Expenses		
General and administrative	1,328,469	987,880
Foreign exchange loss (gain)	(707,664)	211,709
Depreciation and amortization	40,459	35,839
	661,264	1,235,428
Income before interest expense and income tax expense	991,385	3,000,325
Interest expense		
Short-term debt	5,196	19,796
Long-term debt	2,016	2,959
Income before income tax expense	984,173	2,977,570
Income tax expense (note 12)		
Current income tax	391,328	131,502
Future income tax	(35,211)	868,685
Net income and comprehensive income	628,056	1,977,383
Deficit, beginning of year	(623,876)	(2,601,259)
Retained earnings (deficit), end of year	\$ 4,180	\$ (623,876)
Net income per share (note 9)		
Basic	\$ 0.026	\$ 0.083
Diluted	\$ 0.026	\$ 0.079
Weighted average number of shares outstanding (note 9)		
Basic	23,830,287	23,739,767
Diluted	24,491,573	24,905,399

See accompanying notes to the annual financial statements.

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

For the years ended December 31	2008	2007
Operating activities		
Net income	\$ 628,056	\$ 1,977,383
Items not involving cash:		
Depreciation and amortization (notes 5 and 6)	151,120	152,325
Future income taxes (note 12)	(35,211)	868,685
Share-based compensation (note 10)	152,011	81,291
Gain on disposition of assets (note 5)	(98,269)	-
Write-down of inventory (note 4)	38,912	4,722
	836,619	3,084,406
Net change in non-cash working capital (note 17)	(189,054)	24,666
Foreign exchange loss (gain) on cash	(317,106)	242,519
	330,459	3,351,591
Investing activities		
Additions to property and equipment	(51,663)	(88,857)
Dispositions of property and equipment (note 5)	139,733	-
	88,070	(88,857)
Financing activities		
Repayment of short-term debt	(191,186)	(270,111)
Repayment of long-term debt	(60,659)	(49,543)
Net proceeds from issuance of common shares (note 9)	21,250	24,250
	(230,595)	(295,404)
Effect of exchange rates on cash	317,106	(242,519)
Increase in cash and cash equivalents	505,040	2,724,811
Cash and cash equivalents, beginning of year	2,753,997	29,186
Cash and cash equivalents, end of year	\$ 3,259,037	\$ 2,753,997

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") 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 combustion 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. As at December 31, 2008, cash equivalents consisted of a 33-day banker's acceptance plus accreted interest at 1.45 percent of \$1,198,809 (2007 - \$nil).

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
Multi-unit trailer for rental incinerator	10 years	Straight-line
Vehicles and utility trailers	30%	Declining balance
Tools and equipment	20%	Declining balance
Office furniture and equipment	20%	Declining balance
Computers	30%	Declining balance

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

Intangibles

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

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

Other Comprehensive Income, Financial Instruments and Hedging

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

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

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

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

Product Warranties and Commissioning Costs

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

Government Assistance

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

Share-Based Compensation

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

Revenue Recognition

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

Included in other revenue is gain on sales of rental incinerators of \$98,269 (2007 – \$nil), SR&ED investment tax credits of \$37,518 (2007 - \$nil), sales cancellation fees of \$67,623 (2007 - \$nil), interest income of \$46,783 (2007 - \$77,906), recovery of bad debt of \$629 (2007 - \$8,860), Workers' Compensation Board special dividend of \$3,359 (2007 - \$3,296) and \$714 of other miscellaneous amounts (2007 - \$nil).

Included in deferred revenue and deposits are sales deposits of \$146,707 (2007 - \$26,433) and amounts received from clients for use of an incinerator on a trial basis of \$43,696 in 2007.

Direct Costs

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

Foreign Currency Translation

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

Income Taxes

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

Earnings Per Share

Basic and diluted earnings per share 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.

Use of Estimates and Measurement Uncertainty

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

Key areas where management has made complex or subjective judgments, as a result of matters that are inherently uncertain, include, among others, the fair value of certain assets including long-lived assets and intangible assets; fair value of financial instruments; allowance for doubtful accounts; likelihood of loss from litigation; assumptions used to determine the fair value of share-based compensation; estimates for warranty

and commissioning costs; and timing and recognition of future taxes. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

Changes in Accounting Policies

Effective January 1, 2008 the Company adopted the new Canadian Institute of Chartered Accountants (“CICA”) Handbook accounting requirements for Section 1400 “General Standards of Financial Statement Presentation”, Section 1535 “Capital Disclosures”, Section 3031 “Inventories”, Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation”. In accordance with the transitional provisions for these new standards, these policies were adopted prospectively and without restatement of prior periods.

General Standards of Financial Statement Presentation

CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”, includes requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new Section had no material impact on the financial statements.

Capital Disclosures

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 disclosure is provided in Note 13.

Inventories

CICA Handbook Section 3031 “Inventories” 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 change had no effect on the financial position of the Company.

Financial Instruments – Disclosures and Presentation

CICA Handbook Sections 3862 and 3863 prescribe the requirements for disclosure and presentation 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. The relevant disclosures are provided in Note 14.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008 the Accounting Standards Board (“AcSB”) of the Canadian Institute of Chartered Accountants (“CICA”) confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (“IFRS”) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will require restatement of comparative figures. The Company expects that the adoption of IFRS will impact accounting policies, financial reporting, information systems and business processes. Questor is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position, results of operations and disclosures is not reasonably determinable or estimable.

Goodwill and Intangible Assets

In February 2008, the AcSB 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 and are not expected to have a material impact to the Company’s results of operations and financial position.

Business Combinations

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

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. These Sections are not expected to have any effect on the Company's results of operations or financial position.

3. CASH AND CASH EQUIVALENTS

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

As at December 31	2008	2007
United States dollars	\$ 767,473	\$ 2,737,718
Euros	5,921	16,279
Chinese renminbis (yuan)	547	-
	773,941	\$ 2,753,997
Canadian dollars	2,485,096	-
	\$ 3,259,037	\$ 2,753,997

4. INVENTORY

As at December 31	2008	2007
Materials and supplies	\$ 121,585	\$ 149,996
Work in progress	126,413	53,809
Finished goods	136,916	322,596
	\$ 384,914	\$ 526,401

The carrying amount of inventory charged to direct costs in the year was \$1,413,987 (2007 - \$3,729,805). Included in the cost of inventory recognized as an expense in the current year were materials and supplies written down by \$38,912 (2007 - \$4,722) to reflect obsolescence, damage and loss. There were no reversals of any write-downs during the year.

5. PROPERTY AND EQUIPMENT

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

2007	Cost	Accumulated Depreciation	Net Book Value
Rental incinerators	\$ 1,334,782	\$ 288,951	\$ 1,045,831
Multi-unit trailer for rental incinerator	129,500	51,800	77,700
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

In 2008, the Company sold an incinerator from its rental fleet with a net book value of \$37,980 for gross proceeds of \$139,733, resulting in a net gain on sale of \$98,269 after deducting customization costs of \$3,484. The net gain on sale is included in other revenue.

The Company did not dispose of any incinerators from its rental fleet during 2007.

Depreciation for the year ended December 31, 2008 was \$122,122 (2007 - \$124,303). Of this amount, depreciation of \$110,661 (2007 - \$116,486) relating to rental incinerators, vehicles and trailers, and tools and equipment has been included in direct costs.

6. INTANGIBLES

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

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

Amortization for the year ended December 31, 2008 was \$28,998 (2007 - \$28,022).

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, 2008, no amounts were drawn on this facility (2007 - \$191,186) and the Company had no letters of credit (2007 - \$nil) 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, 2008, USD \$329,428 (2007 - \$nil), the Canadian dollar equivalent of which is \$403,418, was outstanding under this facility.

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.

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

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities. At the end of each fiscal quarter the Company's debt-to-tangible-net-worth must be less than 2.5 and the Company's working capital ratio must be greater than 1.25. At the end of each fiscal year, Questor's debt service coverage ratio must be in excess of 1.25. In 2008 Questor was in compliance with these covenants at the end of each fiscal quarter and at December 31.

During 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 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. Effective January 29, 2008, the Company withdrew its access to this credit facility.

8. LONG-TERM DEBT

The long-term debt consists of vehicle financing.

	2008	2007
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
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
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.	17,188	36,412
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.	35,542	55,852
	52,730	113,389
Less: Current portion	(37,498)	(60,183)
	\$ 15,232	\$ 53,206

Payments required are as follows:

2009	37,498
2010	15,232
	\$ 52,730

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, 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
Shares issued on exercise of options	212,500	30,059
Shares issued and outstanding, December 31, 2008	24,007,370	\$ 5,265,736

At December 31, 2008, pursuant to the requirements of the TSX Venture Exchange, the Company had 70,782 common shares (2007 – 212,348) held in escrow. Under the terms of the escrow agreement, the remaining 70,782 shares are to be released on 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 shares. To December 31, 2008, 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			
	2008		2007	
	Number of options	Exercise price ⁽¹⁾	Number of options	Exercise price ⁽¹⁾
Share options outstanding, beginning of year	2,137,500	\$ 0.30	1,875,000	\$ 0.12
Granted	75,000	0.43	700,000	0.67
Exercised	(212,500)	(0.10)	(212,500)	(0.11)
Expired	(200,000)	(0.10)	-	
Forfeited	(25,000)	(0.10)	(225,000)	(0.14)
Share options outstanding, end of year	1,775,000	\$ 0.35	2,137,500	\$ 0.30
Share options exercisable, end of year	843,750	\$ 0.23	812,500	\$ 0.11

⁽¹⁾ *Weighted average.*

At December 31, 2008:

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

⁽¹⁾ *Weighted average.*

⁽²⁾ *Weighted average number of years.*

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.

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:

	2008	2007
Risk-free interest rate (%)	2.88	4.64
Expected life (years)	5.00	5.00
Expected volatility (%)	100.00	211.23
Expected annual dividends per share	\$ 0.00	\$ 0.00
Weighted average fair value of options granted at date of grant	\$ 0.32	\$ 0.66

Weighted Average Number of Shares Outstanding

	2008	2007
Number of shares – Basic	23,830,287	23,739,767
Dilutive share options	661,286	1,165,632
Number of shares – Diluted	24,491,573	24,905,399

In calculating the weighted average number of diluted common shares outstanding for the year ended December 31, 2008, 775,000 share options (2007 – 700,000 share options) were excluded because the average market price of Questor's shares during the year was lower than the exercise price of these share options and therefore they were anti-dilutive.

10. CONTRIBUTED SURPLUS

	2008	2007
Contributed surplus, beginning of year	\$ 140,350	\$ 81,712
Share-based compensation expense	152,011	81,291
Transferred to share capital from exercise of share options	(8,809)	(22,653)
Contributed surplus, end of year	\$ 283,552	\$ 140,350

11. GOVERNMENT ASSISTANCE

In 2008, the Company received government assistance of \$96,639 as a consequence of Scientific Research and Experimental Development claims. \$37,518 of this amount has been included in other revenue and \$59,121 reduced capitalized development costs. Based on the nature of the tax credit, \$19,000 of the amount applied to development costs will be payable in 2009 resulting in a net reduction to capitalized development costs of \$40,121.

The Company did not receive any government assistance in 2007.

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:

	2008	2007
Income before income taxes	\$ 984,173	\$ 2,977,570
Statutory income tax rate (%)	29.50	32.12
Expected taxes at statutory rate	290,331	956,395
Increase (decrease) in taxes resulting from:		
Revision to 2007 taxes payable assessed in 2008	37,711	-
Permanent differences between accounting and tax basis of assets and liabilities	37,335	48,349
Non-taxable portion of capital gains on disposition of assets	(14,494)	-
Rate reductions applied to future income tax assets	-	7,659
Other	5,234	(12,216)
Income tax provision (recovery)		
Current	391,328	131,502
Future	(35,211)	868,685
	\$ 356,117	\$ 1,000,187
Effective income tax rate (%)	36.18	33.59

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:

	2008	2007
Development costs and other	\$ 43,657	\$ 29,009
Property and equipment	(76,234)	1,827
Revenue holdback	(3,733)	(102,682)
Share issue costs	319	644
Future income tax asset (liability)	(35,991)	(71,202)
Current	(9,281)	(102,682)
Non-current	(26,710)	31,480
	\$ (35,991)	\$ (71,202)

13. CAPITAL

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 (note 7). At December 31, 2008 Questor was in compliance with these covenants.

The Company capital structure consists of shareholders' equity, short-term and long-term debt, cash and cash equivalents. In order to maintain or alter the capital structure, the Company may adjust capital spending, refinance existing debt, raise new debt and issue common shares. It is expected, however, that Questor's funds generated from operations and cash and cash equivalent amounts will provide sufficient capital resources and liquidity to fund existing operations in 2009 and anticipated capital expenditures.

A key measure the Company utilizes in evaluating its capital structure is the ratio of debt-to-total capitalization. Debt-to-total capitalization is calculated as debt divided by total capitalization. Debt is defined as total short- and long-term debt unadjusted for cash balances. Total capitalization is defined as the sum of debt unadjusted for cash balances and shareholders' equity. Questor's target debt-to-total capitalization is 35 percent.

The debt-to-total capitalization ratios at December 31, 2008 and 2007 were as follows:

	2008	2007
Short-term debt	\$ -	\$ 191,186
Long-term debt – Current and non-current	52,730	113,389
Debt	52,730	304,575
Shareholders' equity	5,553,468	4,752,151
Total capitalization	5,606,198	5,056,726
Debt-to-total capitalization ratio (%)	0.9	6.0

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 (note 7). The carrying value of long-term debt also approximates fair value as the fair value of long-term debt is estimated using discounted cash flows based on current rates of interest.

The Company assesses quarterly if there should be any impairment of the financial assets of the Corporation. At December 31, 2008 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. Accounts receivable credit exposure is minimized by entering into transactions with creditworthy counterparties, requiring 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 represented 81.7 percent of the Company's total revenue in 2008 (2007 – Top ten customers represented 90.9 percent). Revenue from one customer represented 38.1 percent of the Company's total revenue in 2008 (2007 – One customer represented 75.4 percent).

One customer represented 43.1 percent of the Company's accounts receivable at December 31, 2008 (2007 – One customer represented 30.6 percent). This counterparty is a leading provider of wellhead process equipment, systems and services used in the production of oil and gas with an investment grade rating. As at April 9, 2009, the date of the Management Report, the Company has collected 80 percent of the amounts owing from this customer.

In December 2008, a customer filed for court protection under the Companies' Creditors Arrangement Act (CCAA) and Questor's exposure at the time was \$30,464. This amount is included in allowance for doubtful accounts. The Company also provided an additional \$35,502 for credit risk with one other counterparty in the allowance for doubtful accounts. The total allowance for doubtful accounts as at December 31, 2008 is \$65,966. The Company will continue to pursue recovery of these amounts.

As at December 31, 2008, 7.6 percent of the Company's trade accounts receivable balances were greater than 90 days past due, with two customers representing 80.7 percent of this amount (2007 - 14.2 percent was greater than 90 days past due, with two counterparties representing 74.4 percent). As at April 9, 2009, the date of the Management Report, \$111,754 remains uncollected.

The credit risk on cash and cash equivalent 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 change in market interest rates. The Company draws on its revolving demand operating loan facility to fund its operations with floating rate debt which exposes Questor to changes in interest payments due to fluctuations in interest rates (note 7).

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

Foreign Exchange Risk

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

As at December 31, 2008, \$853,788 of the Company's accounts receivable was denominated in United States dollars (2007 – \$501,955) and none (2007 – \$106,486) were denominated in Euros.

As at December 31, 2008, 6 percent of the Company's accounts payable and accrued liabilities were denominated in foreign currencies (2007 – 9.3 percent).

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 it (note 7) to purchase foreign forward exchange contracts if required.

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, 2008, the Company has the following contractual maturities with respect to non-derivative financial liabilities:

	Maturity	December 31 2008
Accounts payable and accrued liabilities	Within 1 year	\$ 667,792
Income and other taxes payable	Within 1 year	285,795
Long-term debt – current and non-current	September 2010	52,730
		\$ 1,006,317

15. COMMITMENTS

Lease Agreement

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

2009	\$ 100,080
2010	100,080
2011	60,120
2012	46,800
2013	35,100
	\$ 342,180

Royalty Agreement

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

The effect of the preceding is such that the Company recorded a liability of \$61,150 (2007 - \$nil) and incurred \$1,415 of royalty expense which was charged to direct costs in 2008 (2007 - \$51,109).

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. There were no related party transactions in 2008. In 2007, Questor acquired a service vehicle for \$57,140 from a corporation owned by a director of the Company.

There were no amounts owing from or to related parties included in accounts receivable and accounts payable and accrued liabilities at December 31, 2008 or December 31, 2007.

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	2008	2007
Accounts receivable	\$ (705,107)	\$ (154,844)
Inventory	102,575	(268,109)
Prepaid expenses and deposits	18,269	(8,536)
Deferred expenses	(29,160)	-
Accounts payable and accrued liabilities	166,478	229,433
Income and other taxes payable	170,088	108,697
Deferred revenue and deposits	76,578	70,129
	(200,279)	(23,230)
Capital costs included in accounts payable and accrued liabilities	11,225	(11,225)
Investment tax credit included in income and other taxes payable	-	59,121
	\$ (189,054)	\$ 24,666

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

For the years ended December 31	2008	2007
Interest paid	\$ 7,195	\$ 22,741
Income taxes paid	\$ 165,540	\$ -

18. SEGMENTED INFORMATION

The Company reports its financial results as one reportable segment.

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

Total Revenue

For the years ended December 31	2008	2007
Canada	\$ 2,563,189	\$ 1,903,154
International		
China	-	6,961,474
United States	1,905,621	166,436
Other	2,341	201,213
	\$ 4,471,151	\$ 9,232,277

Property and Equipment

For the years ended December 31	2008	2007
Canada	\$ 890,765	\$ 996,053
International		
Italy	285,764	303,624
	\$ 1,176,529	\$ 1,299,677

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

19. COMPARATIVE FIGURES

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

20. SUBSEQUENT EVENTS

On May 1, 2009, subject to regulatory approval, the Company will issue a grant of share options to select officers, employees and contractors entitling the purchase of up to 400,000 common shares at \$0.25 per share, exercisable for a period of five years and vesting in accordance with the provisions of the Company's share option plan.