

## News Release

### QuestAir Reports Second Quarter 2006 Results

#### For Immediate Release

2 May, 2006

BURNABY, B.C. - QuestAir Technologies Inc. (“QuestAir” or “the Company”; AIM: QAR; TSX: QAR) reported today its unaudited financial and operational results for the second quarter of fiscal 2006, ended March 31, 2006. All amounts are in Canadian dollars unless otherwise noted.

#### Second Quarter Highlights

- A US\$2 million order for a M-3100 pressure swing adsorption (“PSA”) system to recover pipeline grade methane from landfill gas at the Rumpke Landfill in Cincinnati, Ohio.
- The signing of a licensing and supply agreement for QuestAir’s H-3100 hydrogen purifiers with Hydro-Chem, a world leading supplier of hydrogen plants.
- The successful start-up of two H-3100 hydrogen PSAs at the HydroEdge liquid hydrogen plant in Japan. These units are the largest capacity commercial PSAs that QuestAir has operated to date.
- Revenues of \$2.8 million for the quarter, and \$3.7 million for the half year ended March 31, 2006 (H1 fiscal 2005: \$2.5 million), in line with the Company’s revenue guidance of \$7.5 million for the fiscal year.
- QuestAir’s sales order backlog at quarter end was \$5.8 million, increased slightly from \$5.7 million at December 31, 2005.
- Cash used in operations and capital requirements of \$1.7 million for the quarter and \$4.0 million for the half year ended March 31, 2006 (H1 fiscal 2005: \$4.7 million), in line with the Company’s cash burn guidance of \$8.5-9.5 million for the fiscal year.
- Net loss of \$3.3 million for the quarter and \$5.4 million for the half year ended March 31, 2006 (H1 fiscal 2005: \$4.4 million), increased due to a change in the mix of revenues recognized during the second quarter.
- Subsequent to the end of the quarter, QuestAir’s refinery development program with ExxonMobil Research and Engineering (“EMRE”) successfully passed a critical ExxonMobil program review.

Jonathan Wilkinson, President and CEO of QuestAir, said:

“We made a number of critical breakthroughs in our commercial business over the quarter, including our first sale of a large methane recovery system in the landfill gas market. We are excited by our growth opportunities in the landfill gas and biogas markets as renewable sources of energy play an increasingly important role in the global energy supply. In addition, the licensing agreement that we signed with Hydro-Chem is a strong endorsement of the competitiveness of our commercial PSA products, and greatly expands our access to the global hydrogen plant market.”

“We are also very pleased with our top line and cash burn performance for the quarter and half year. We achieved record revenues for the quarter, and our sales order backlog was at a record level at quarter end. Our cash burn also reduced by 15% compared to the first half of 2005.”

“The successful ExxonMobil program review that we announced after quarter end was a very significant milestone for the Company. The product development phase of our refinery program is now largely complete, and our focus has shifted to the construction of the prototype PSA that we will be demonstrating at an ExxonMobil refinery beginning later this year.”

### **Operating Review**

During the quarter, QuestAir made significant progress in the sale of its commercial first generation PSA products. High energy prices and a tight supply of natural gas in North America and Europe have increased attention on the upgrading of renewable sources of methane such as landfill gas (“LFG”) to high value fuel. In response to this growth opportunity, QuestAir has adapted its commercial PSA product line to serve this market, and during the quarter QuestAir received a US\$2 million order for a M-3100 system to recover pipeline grade methane from LFG at the Rumpke Sanitary Landfill in Cincinnati, Ohio. In addition to this commercial sale, QuestAir also successfully started a demonstration M-3100 system at the Vancouver Landfill site which will assist the Company’s marketing efforts in the LFG market. The landfill gas and biogas market represents a significant potential growth opportunity for QuestAir – between 20 to 30 new LFG energy projects are developed in the US each year, and the US Environmental Protection Agency estimates that there are approximately 600 candidate landfills suitable for project development in the US.

QuestAir also made a number of key achievements in the industrial hydrogen market during the quarter. The Company successfully started up two H-3100 hydrogen purifiers at the HydroEdge liquid hydrogen plant in Osaka, Japan. These are the largest capacity hydrogen PSAs that QuestAir has operated to date, and demonstrate the expansion of QuestAir’s commercial product line into the intermediate capacity range of the hydrogen plant market. In addition, the Company received an order for a H-3100 PSA from Degussa AG, for use in a hydrogen peroxide plant in Indonesia. During the quarter, QuestAir also signed a manufacturing license agreement with Hydro-Chem, a division of Linde BOC Process Plant LLC. Under the terms of the agreement, Hydro-Chem will manufacture QuestAir’s H-3100 PSA systems for incorporation into Hydro-Chem’s industrial hydrogen plants. Hydro-Chem is the leading global supplier of hydrogen plants in the intermediate capacity range up to 5,000 normal cubic meters per hour (“NMCH”), and this licensing agreement expands QuestAir’s access to this segment of the hydrogen plant market.

In the emerging hydrogen infrastructure market, QuestAir received an order for a H-3200 hydrogen purifier from Korean Gas (“KOGAS”), for use in a demonstration hydrogen fueling station to be constructed in Seoul, Korea. This is the second H-3200 to be ordered by KOGAS for hydrogen fueling in Korea, and the twelfth PSA that QuestAir has sold into the hydrogen infrastructure market worldwide.

### **Subsequent Events**

Following the end of the quarter, QuestAir announced that it had successfully achieved a key milestone in the program being undertaken with EMRE to develop a large capacity hydrogen purifier for use in oil refineries and petrochemical plants. The program successfully passed a critical ExxonMobil program review, which authorized final funding for the construction and testing of a prototype system at an ExxonMobil refinery beginning later in calendar 2006.

### **Outlook**

“We are pleased with our performance over the first half of fiscal 2006, and based on our expected activities over the remainder of the year, we remain on track to achieve our revenue guidance of \$7.5 million and our cash burn guidance of between \$8.5 and \$9.5 million for fiscal 2006.”

“Our primary focus for the remainder of the fiscal year will be on the construction of the prototype hydrogen purifier to be demonstrated at an ExxonMobil refinery beginning later in calendar 2006. We also expect to begin jointly marketing this product with EMRE very shortly, with the objective of securing initial orders from so-called “pioneer” refineries for potential delivery beginning in late calendar 2007,” said Jonathan Wilkinson.

### **Q2 2006 Financial Results**

Revenues increased by 87% to \$2.8 million for the quarter ended March 31, 2006 compared to the same period in 2005. However, gross profit declined to (\$0.2) million for the quarter (Q1 FY05: gross profit of \$1.2 million) due to a reduction in the percentage of revenue recognized from high margin engineering service contracts, and small losses incurred on revenues from gas purification systems recognized during the quarter. A decline in net research and development expenditures was offset by modest increases in sales and marketing and general and administrative expenditures. The net loss for the quarter ended March 31, 2006 was \$3.3 million (\$0.09 per share), up from \$1.8 million (\$0.05 per share) for the same period in 2005.

### **Operating Results**

The following table provides a breakdown of the Company’s revenues from the sale of gas purification systems and engineering service contracts for the reported periods:

(Unaudited, \$ '000)	Three months ended March 31,		Six months ended March 31,	
	2006	2005	2006	2005
Gas purification systems	2,483	480	2,704	1,479
Engineering service contracts	313	1,011	964	1,011
Total revenue	2,796	1,491	3,668	2,490

The increase in revenue from gas purification systems for the quarter and half year ended March 31, 2006 resulted mainly from revenue recognized from the H-3100 PSA system commissioned at the HydroEdge liquid hydrogen plant in Japan, as well as revenue recognized towards the construction of the prototype H-6200 PSA plant to be demonstrated at an ExxonMobil refinery beginning later in calendar 2006. For accounting purposes, the sale of the H-6200 prototype plant is treated as a long term production-type contract. Consequently, in accordance with GAAP, revenue from the prototype is recognized on a percentage-of-completion basis.

The decrease in revenue from engineering service contracts for the quarter ended March 31, 2006 resulted from reduced levels of work completed on the engineering service contracts with EMRE, as the focus of the refinery program shifted from product development to the construction of the prototype plant.

Fluctuations in recognized revenue and the receipt of new sales orders are to be expected in the industrial markets that the Company currently serves. In addition, the timing of receipt of new engineering service contracts can vary from period to period. Consequently we believe that both recognized revenue and changes in the Company's sales order backlog should be monitored together to determine the strength of our commercial operations.

QuestAir's sales order backlog is defined as future revenue from signed contracts that have not yet been recognized by the Company. The following table provides an analysis of the changes in the Company's sales order backlog for the quarter and half year ended March 31, 2006:

(Unaudited, \$ '000)	For the three months ended March 31, 2006			For the six months ended March 31, 2006		
	Gas purification systems	Eng. service contracts	Total	Gas purification systems	Eng. service contracts	Total
Opening balance	4,359	1,343	5,702	2,240	768	3,008
Bookings	2,981	-	2,981	5,333	1,226	6,559
Revenue recognized	(2,483)	(313)	(2,796)	(2,704)	(964)	(3,668)
Adjustments†	(42)	(5)	(47)	(54)	(5)	(59)
Ending balance	4,815	1,025	5,840	4,815	1,025	5,840

† Includes adjustments for fluctuations in foreign currency exchange rates as well as cancelled orders.

The total sales order backlog increased by \$0.1 million, or 2%, during the quarter ended March 31, 2006. The strong level of new orders for gas purification systems booked over the quarter was offset by revenues recognized over the quarter, leaving the total backlog largely unchanged. A small negative adjustment was made to the Company's sales order backlog as a result of a foreign exchange fluctuation during the quarter.

The Company expects that the backlog as of March 31, 2006 will be substantially recognized as revenue by the end of the fourth quarter of calendar 2006 (first quarter of fiscal 2007).

The following table provides a calculation of the Company's gross profit for the reported periods:

(Unaudited, \$ '000)	For the three months ended		For the six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Sales	2,796	1,491	3,668	2,490
Cost of goods sold	2,992	326	3,110	979
Gross Profit	(196)	1,165	558	1,510
Gross Margin (%)	(7.0%)	78.1%	15.2%	60.6%

The reduction in gross margin for the quarter and half year ended March 31, 2006 compared to the same periods in 2005 resulted from a reduction in the proportion of revenue recognized from engineering service contracts, which typically contribute high gross margins. In addition, the company incurred losses on the H-3100 PSA system installed at the HydroEdge liquid hydrogen plant, and on the H-6200 prototype plant to be demonstrated at an ExxonMobil refinery.

Low margins were expected on the HydroEdge PSA plant since this was the first sale of the new larger capacity H-3100 design for use in the intermediate capacity segment of the hydrogen plant market, and certain non-recurring engineering costs were incurred to increase the capacity of the H-3100 PSA. Ultimately, a loss was recognized on the sale due to unfavorable exchange rate fluctuations which reduced recognized revenue, and higher than expected start-up costs.

EMRE and QuestAir had agreed that the prototype would be sold to an ExxonMobil refinery at cost, reflecting the fact that the H-6200 plant is a prototype and intended, in part, for testing and demonstration purposes. Additional functionality and test instrumentation were subsequently included in the plant design to allow for additional testing under a wider range of conditions than is required for the European refinery itself. EMRE and QuestAir agreed to share these specific additional costs to reflect the shared future benefit that will be derived from the additional test data. The additional costs associated with enhanced functionality and test instrumentation resulted in an expected net loss on the overall prototype plant. In accordance with GAAP, the Company has recorded the total expected loss on the H-6200 prototype as a cost of goods sold for the quarter ended March 31, 2006.

It should be noted that both the HydroEdge and H-6200 prototype systems were the first of their kind manufactured by QuestAir, and the Company made a strategic investment in these units for market development purposes. As such, the losses on these two sales do not reflect the expected future margins for the H-3100 or H-6200 product lines.

Margins are expected to fluctuate from quarter to quarter depending on the mix of revenues recognized from engineering service contracts and gas purification systems. Margins are expected to remain somewhat reduced over the next several quarters until revenue from the H-6200 prototype plant has been fully recognized.

Sales and marketing expenses were \$0.6 million for the quarter ended March 31, 2006, an increase of 17% compared to \$0.5 million for the same period in 2005. For the half year ended March 31, 2006, sales and marketing expenses were \$1.0 million, an increase of 6% compared to \$0.9 million for the same period in 2005. The increases in sales and marketing expenses for both the quarter and the half year ended March 31, 2006 were attributed to increased sales activities during the second quarter of fiscal 2006.

The gross research and development (“R&D”) expenditures, offsetting government funding and the resulting net R&D expenditures for the relevant periods, were as follows:

(Unaudited, \$ '000)	Three months ended March 31,		Six months ended March 31,	
	2006	2005	2006	2005
Gross R&D Expenditure	1,747	2,116	3,493	3,798
Government & Partner Funding	494	583	966	991
Net R&D Expenditure	1,253	1,533	2,526	2,807

The reduction in gross R&D expenditures for the quarter and half year ended March 31, 2006 compared to the same periods in 2005 was due to a reduction in amount of R&D undertaken as resources were redirected towards supporting the Company’s commercial sales efforts and the construction of the H-6200 prototype plant. Government funding decreased for the quarter and half year ended March 31, 2006 in proportion to the reduction in R&D undertaken on the refinery development program with EMRE, which is eligible for funding from Technology Partnerships Canada.

General and administrative (“G&A”) expenses were \$0.9 million for the quarter ended March 31, 2006, increased by 17% from \$0.8 million for the same period in 2005. For the half year ended March 31, 2006, G&A expenses were \$1.7 million, increased by 8% from \$1.6 million for the same period in 2005. The increases in G&A expenses for the quarter and the half year related to increased regulatory and other fees, as well as increased legal and investor relations expenses.

Employee stock-based compensation expense was \$0.1 million for the quarter ended March 31, 2006, unchanged from the same period in 2005. Stock-based compensation expense was \$0.2 million for the half year ended March 31, 2006 compared to \$0.4

million for the same period in 2005. Stock-based compensation expenses were higher for the half year ended March 31, 2005 due to a stock compensation charge related to the repricing of certain options at the time of QuestAir's Initial Public Offering ("IPO") in the first quarter of fiscal 2005.

Net loss for the quarter ended March 31, 2006 was \$3.3 million (\$0.09 per share) compared to \$1.8 million (\$0.05 per share) for the same period in fiscal 2005. For the half year ended March 31, 2006, the net loss was \$5.4 million (\$0.14 per share) compared to \$4.4 million (\$0.19 per share) for the same period in 2005. The increases in the net losses for both the quarter and the half year ended March 31, 2006 were primarily a result of reduced gross profits compared to the same periods in 2005.

Loss per share is calculated based on the weighted average number of common shares outstanding through the quarter and half year. The reduction in the loss per share for the half year ended March 31, 2006 was a result of an increase in the weighted average number of common shares outstanding compared to the same period in 2005.

Capital expenditures ("CAPEX"), net of Government funding, for the quarter ended March 31, 2006 were \$0.1 million, compared to \$0.3 million for the same period in 2005. The reduction in CAPEX for the quarter was a result of reduced capital expenditures on the refinery development program being undertaken with EMRE.

Net CAPEX for the half year ended March 31, 2006 was \$0.4 million, compared to \$0.3 million for the same period in 2005. This increase was driven by expenditures on the demonstration landfill gas processing plant at the Vancouver Landfill incurred during the first quarter of fiscal 2006. It is expected that capital expenditures will fluctuate from quarter to quarter depending on the requirements of specific product development programs and administrative needs

### **Liquidity and Capital Resources**

At March 31, 2006 cash and short term investments were \$5.3 million, compared to \$8.1 million at December 31, 2005. Not included in cash and short term investments at March 31, 2006 was \$1.1 million of restricted cash, which will primarily be used to fund equipment purchases for the H-6200 prototype plant in future periods.

Cash used by operations and capital requirements for the quarter ended March 31, 2006 was \$1.7 million, compared to \$2.7 million for the same period in 2005. Cash used by operations and capital requirements for the half year ended March 31, 2006 was \$4.0 million, compared to \$4.7 million for the same period in 2005. The reductions in operational cash burn for the quarter and half year ended March 31, 2006 compared to the same periods in 2005 resulted from a positive change in cash flow from changes in working capital, which was offset somewhat by increased losses for the quarter and half year ended March 31, 2006.

During fiscal 2005, the Company secured a US\$3 million (\$3.5 million) credit facility from Comerica Bank. The credit facility is comprised of a US\$1 million accounts receivable credit line and a US\$2 million term loan. As at March 31, 2006, the Company had drawn \$0.6 million against the term loan net of repayments. The Company is in compliance with all of its bank covenants.

In June 2003, the Company was awarded a \$9.6 million conditionally repayable loan from Technology Partnerships Canada, a funding program administered by Industry Canada. At March 31, 2006 the Company had claimed \$6.9 million against this loan.

At March 31, 2006, QuestAir had 37,433,430 common shares issued and outstanding. In addition, the Company had 4,887,430 options to purchase common shares, and 622,308 warrants outstanding at that date.

Further information on the Company's financial results for the quarter can be found at [www.sedar.com](http://www.sedar.com).

## Consolidated Balance Sheets

Unaudited (expressed in Canadian dollars)	As at March 31, 2006	As at September 30, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,262,559	\$ 10,414,219
Restricted cash	1,112,731	-
Accounts receivable	1,066,410	1,075,255
Grants and funding receivables	1,015,504	493,913
Inventories	1,559,079	1,945,876
Prepaid expenses	336,456	299,757
	<u>10,352,739</u>	<u>14,229,020</u>
<b>Property, plant and equipment</b>	<u>1,625,748</u>	<u>1,984,014</u>
	<u>\$ 11,978,487</u>	<u>\$ 16,213,034</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 2,721,638	\$ 2,210,686
Deferred revenue	2,005,992	1,602,103
Current portion of bank debt	216,839	216,839
Current portion of obligations under capital lease	110,860	110,357
	<u>5,055,329</u>	<u>4,139,985</u>
<b>Long term liabilities:</b>		
Bank debt	<u>361,399</u>	<u>433,678</u>
	<u>5,416,728</u>	<u>4,573,663</u>
<b>Shareholders' equity:</b>		
<b>Share capital</b>		
Authorized		
Unlimited common shares, voting, no par value		
Unlimited preferred shares, issuable in series, no par value		
Common shares	89,934,008	89,774,802
<b>Contributed surplus</b>	6,813,835	6,647,129
<b>Deficit</b>	<u>(90,186,084)</u>	<u>(84,782,560)</u>
	<u>6,561,759</u>	<u>11,639,371</u>
	<u>\$ 11,978,487</u>	<u>\$ 16,213,034</u>

## Consolidated Statements of Operations and Deficit

Unaudited (expressed in Canadian dollars)	For the three months ended		For the six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
<b>Revenues</b>	\$ 2,796,344	\$ 1,491,424	\$ 3,668,117	\$ 2,489,519
<b>Cost of goods sold</b>	2,992,057	326,827	3,109,858	979,394
<b>Gross Profit</b>	(195,713)	1,164,597	558,259	1,510,125
<b>Operating expenses</b>				
Research and development – net	1,253,645	1,533,102	2,526,224	2,806,864
General and administration	901,794	772,584	1,700,180	1,569,405
Sales and marketing	605,068	515,528	985,203	931,676
Amortization	389,226	394,501	763,858	755,922
	3,149,733	3,215,715	5,975,465	6,063,867
<b>Loss before undernoted</b>	(3,345,446)	(2,051,118)	(5,417,206)	(4,553,742)
<b>Other income</b>				
Interest income	38,822	84,642	89,463	108,822
Other income (expense)	(29,030)	123,314	(75,781)	78,539
	9,792	207,956	13,682	187,361
<b>Loss for the period</b>	(3,335,654)	(1,843,162)	(5,403,524)	(4,366,381)
<b>Deficit – Beginning of period</b>	(86,850,430)	(76,083,828)	(84,782,560)	(73,560,609)
<b>Preferred share conversion</b>	-	(1,705,093)	-	(1,705,093)
<b>Deficit – End of period</b>	\$(90,186,084)	\$(79,632,083)	\$(90,186,084)	\$(79,632,083)
<b>Basic and diluted loss per share</b>	\$ (0.09)	\$ (0.05)	\$ (0.14)	\$ (0.19)
<b>Weighted average number of common shares outstanding</b>	37,438,314	37,268,129	37,387,251	23,028,806

## Consolidated Statements of Cash Flows

Unaudited (expressed in Canadian dollars)	For the three months ended		For the six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
<b>Cash flows used in operating activities</b>				
Loss for the period	\$ (3,335,654)	\$ (1,843,162)	\$ (5,403,524)	\$ (4,366,381)
Items not involving cash				
Amortization	389,226	394,501	763,858	755,922
Gain on sale of property, plant and equipment	(8,074)	(6,523)	(8,074)	(6,523)
Non-cash compensation expense	124,919	115,529	246,490	374,158
Foreign currency loss (gain)	503	(10,158)	503	(10,158)
	<u>(2,829,080)</u>	<u>(1,349,813)</u>	<u>(4,400,747)</u>	<u>(3,252,982)</u>
Changes in non-cash operating working capital				
Accounts, grants and funding receivables	159,821	(17,669)	(512,746)	(517,341)
Inventories	948,055	(1,082,117)	386,795	(1,241,447)
Prepaid expenses	(110,340)	288,414	(36,699)	(38,117)
Accounts payable and accrued liabilities	836,332	511,827	510,954	606,259
Deferred revenue	(662,005)	(790,725)	403,889	39,895
	<u>1,171,863</u>	<u>(1,090,270)</u>	<u>752,193</u>	<u>(1,150,751)</u>
	<u>(1,657,217)</u>	<u>(2,440,083)</u>	<u>(3,648,554)</u>	<u>(4,403,733)</u>
<b>Cash flows used in investing activities</b>				
Purchase of property, plant and equipment	(93,894)	(347,484)	(457,669)	(388,098)
Government grants and funding related to property, plant and equipment	23,810	45,598	56,652	56,253
Proceeds on sale of property, plant and equipment	3,500	10,000	3,500	10,000
Restricted cash	(1,112,731)	-	(1,112,731)	-
	<u>(1,179,315)</u>	<u>(291,886)</u>	<u>(1,510,248)</u>	<u>(321,845)</u>
<b>Cash flows from financing activities</b>				
Issuance of common shares	-	-	-	15,050,000
Share issue costs	-	(579,532)	-	(2,751,199)
Issuance of common shares on exercise of stock options	57,706	20,458	79,422	20,458
Repayment of bank debt	(54,210)	-	(72,280)	-
	<u>3,496</u>	<u>(559,074)</u>	<u>7,142</u>	<u>12,319,259</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>(2,833,036)</b>	<b>(3,291,043)</b>	<b>(5,151,660)</b>	<b>7,593,681</b>
<b>Cash and equivalents—Beginning of period</b>	<b>8,095,595</b>	<b>17,576,647</b>	<b>10,414,219</b>	<b>6,691,923</b>
<b>Cash and equivalents – End of period</b>	<b>\$ 5,262,559</b>	<b>\$ 14,285,604</b>	<b>\$ 5,262,559</b>	<b>\$ 14,285,604</b>

## Notes to the financial statements

### 1. United States generally accepted accounting principles

The Company follows generally accepted accounting principles in Canada (“Canadian GAAP”), which are different in certain respects from those applicable in the United States (“U.S. GAAP”). The significant differences between Canadian GAAP and U.S. GAAP with respect to the Company’s consolidated financial statements are described below, however, disclosures that would otherwise be required under U.S. GAAP have not been provided.

#### Consolidated Balance Sheets

Unaudited (expressed in Canadian dollars)	March 31, 2006		September 30, 2005	
	Canadian GAAP \$	U.S. GAAP \$	Canadian GAAP \$	U.S. GAAP \$
Shareholders’ equity				
Common shares	89,934,008	81,479,242	89,774,802	81,320,036
Contributed surplus	6,813,835	5,492,707	6,647,129	5,326,001

#### Consolidated statements of operations and deficit

Unaudited (expressed in Canadian dollars)	Three months ended		Six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Loss for the period under Canadian GAAP	\$(3,335,654)	\$(1,843,162)	\$(5,403,524)	\$(4,366,381)
Preferred share conversion	-	1,790,253	-	1,790,253
Loss for the period under U.S. GAAP	(3,335,654)	(52,909)	(5,403,524)	(2,576,128)
Deficit - Beginning of period under Canadian GAAP	(86,850,430)	(76,083,828)	(84,782,560)	(73,560,609)
Accumulated accretion on preferred shares under Canadian GAAP	13,631,542	13,631,542	13,631,542	13,631,542
Accumulated accretion on preferred shares under U.S. GAAP	(5,437,441)	(5,388,661)	(5,437,441)	(5,388,661)
Accumulated stock-based compensation under U.S. GAAP	(208,460)	(208,460)	(208,460)	(208,460)
Gain on preferred share conversion under U.S. GAAP	1,790,253	-	1,790,253	-
Deficit - Beginning of period under U.S. GAAP	(77,074,536)	(68,049,407)	(75,006,666)	(65,526,188)
Preferred share conversion under Canadian and U.S. GAAP	-	(1,705,093)	-	(1,705,093)
Deficit - End of period under U.S. GAAP	\$(80,410,190)	\$(69,807,409)	\$(80,410,190)	\$(69,807,409)
Loss per share - U.S. GAAP	(\$0.09)	(\$0.05)	(\$0.14)	(\$0.19)

## Consolidated statements of cash flows

Unaudited (expressed in Canadian dollars)	Three months ended		Six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Loss for the period under U.S. GAAP	\$(3,335,654)	\$(52,909)	\$(5,403,524)	\$(2,576,128)
Items not involving cash				
Amortization	389,226	394,501	763,858	755,922
Gain on sale or property, plant and equipment	(8,074)	(6,523)	(8,074)	(6,523)
Non-cash compensation expense recorded in contributed surplus	124,919	115,529	246,490	374,158
Foreign currency loss (gain)	503	(10,158)	503	(10,158)
Changes in non-cash operating working capital	1,171,863	(1,090,270)	752,193	(1,150,751)
Cash flows used in operating activities under U.S. GAAP	(1,657,217)	(649,830)	(3,648,554)	(2,613,480)
Cash flows from financing activities under Canadian GAAP	3,496	(559,074)	7,142	12,319,259
Preferred share conversion under U.S. GAAP	-	(1,790,253)	-	(1,790,253)
Cash flows from financing activities under U.S. GAAP	3,496	(2,349,327)	7,142	10,529,006
Cash flows used in investing activities under U.S. and Canadian GAAP	(1,179,315)	(291,886)	(1,510,248)	(321,845)
Increase in cash and cash equivalents under U.S. and Canadian GAAP	\$(2,833,036)	\$(3,291,043)	\$(5,151,660)	\$7,593,681

### a) Reconciliation of deficit under Canadian and U.S. GAAP

Prior to the Company's initial public offering, the Company had various classes of preferred shares outstanding which were treated differently under Canadian and U.S. GAAP due to the specific share provisions of each class. These differences resulted in permanent differences in the accumulated accretion expenses contained in the deficit under Canadian and U.S. GAAP. In addition, the Class C preferred shares were treated as debt under U.S. GAAP, but were treated as equity under Canadian GAAP. When the Class C preferred shares were converted to common shares coincident with the Company's initial public offering, the different accounting treatment of these shares resulted in a gain on settlement of debt being recorded for U.S. GAAP purposes, versus an increase in contributed surplus under Canadian GAAP. This gain of \$1,790,253 is a permanent difference between the deficit under Canadian and U.S. GAAP. The above Consolidated Statements of Deficit adjust for these differences resulting from the preferred shares.

### b) Reconciliation of shareholder's equity under Canadian and U.S. GAAP

When the preferred shares were converted to common shares coincident with the Company's initial public offering, the differences in the values of the preferred shares due to differences in accumulated accretion between Canadian and U.S. GAAP resulted

in different values being transferred into the common shares account under Canadian and U.S. GAAP. The values of the Class A and B preferred shares included a combined accumulated accretion of \$13,631,542 under Canadian GAAP versus \$5,176,776 under U.S. GAAP. The difference between these values is the difference between the common share accounts under Canadian and U.S. GAAP.

Similarly, the different accounting treatment for the Class C preferred shares resulted in a difference between the contributed surplus accounts under Canadian and U.S. GAAP. Under Canadian GAAP, the Class C preferred shares were treated as equity, and no accretion expense was required due to the share provisions of this class of shares. However, the conversion of the Class C preferred shares resulted in an increase to contributed surplus of \$1,790,253 under Canadian GAAP. Conversely, under U.S. GAAP, accretion charges of \$260,665 increased the fair value of the debt recorded in respect of the Class C preferred shares, which remained in the contributed surplus account once such shares were converted to common shares on the initial public offering. The remaining difference between contributed surplus under Canadian and U.S. GAAP relates to the accumulated stock based compensation expense of \$208,460 that was recorded under U.S. GAAP in April 2002, but was not required to be expensed under Canadian GAAP.

c) Reconciliation of statement of cash flows under Canadian and U.S. GAAP

The gain on conversion of the Class C preferred shares reduced the loss in fiscal 2005 under U.S. GAAP by \$1,790,253. Accordingly, this non-cash amount is reflected in the statement of cash flows under financing activities for fiscal 2005.

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**About QuestAir Technologies Inc.**

QuestAir Technologies, Inc. is a developer and supplier of proprietary gas purification systems for several large international markets, including existing markets such as oil refining, biogas production and natural gas processing, and emerging markets such as fuel cell power plants and fuel cell vehicle refueling stations. QuestAir is based in Burnaby, British Columbia and its shares trade on the AIM Market of the London Stock Exchange Plc. and on the Toronto Stock Exchange under the symbol "QAR".

**Forward-looking statements**

Certain statements in this press release may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements use such words as "anticipate", "believe", "plan", "estimate", "expect", "intend", "may", "will" and other similar terminology. These statements

reflect current expectations regarding future events and operating performance and speak only as of the date of this press release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements.

**Contact Information:**

QuestAir Technologies Inc.  
Andrew G. Hall  
Director, Corporate Development  
Phone: (001) 604-454-1134  
Email: [hall@questairinc.com](mailto:hall@questairinc.com)  
Web: [www.questairinc.com](http://www.questairinc.com)

UK media contact:  
Charles Ryland  
Ben Willey  
Eleanor Williamson  
Buchanan Communications  
Phone: 020 7466 5000

Canadian media contact:  
Terry Foster  
James Hoggan & Associates  
Phone: (001) 604-739-7500