

News Release

QuestAir Technologies announces 2006 Results and 2007 Milestones

For Immediate Release

5 December, 2006

BURNABY, B.C. - QuestAir Technologies Inc. ("QuestAir" or "the Company"; AIM: QAR; TSX: QAR) reports its financial and operational results for the fiscal year ended September 30, 2006 ("fiscal 2006"). All amounts are in Canadian dollars unless otherwise noted.

2006 Highlights

- Revenue growth of 20% to \$7.6 million (2005: \$6.3 million), in line with the Company's revenue guidance of \$7.5 million for the fiscal year. QuestAir's sales order backlog at year end was \$5.0 million, increased by 67% from \$3.0 million at September 30, 2005.
- Cash used in operations and capital expenditures of \$9.4 million (2005: \$8.7 million), in line with the Company's cash burn guidance of under \$8.5-9.5 million for the fiscal year.
- Net loss of \$10.3 million (\$0.24 per share), compared to \$9.5 million (\$0.31 per share) for fiscal 2005.
- Two key milestones achieved in the program with ExxonMobil Research and Engineering Company ("EMRE") to develop the H-6200 hydrogen purifier for refinery and petrochemical applications.
 - The program successfully passed a critical ExxonMobil review, authorizing final funding for the construction of a prototype H-6200 to be demonstrated at an ExxonMobil refinery in 2007.
 - QuestAir also signed a marketing agreement with EMRE which outlines each party's responsibilities for the joint marketing of the H-6200 to third party customers in the oil refining market.
- First sale of a M-3100 methane purification system in the biogas market, to GSF Energy LLC to recover pipeline-grade methane from landfill gas at the Rumpke Sanitary Landfill in Cincinnati, Ohio.
- Expansion of the distribution channels for QuestAir's commercial gas purification products, including the signing of a licensing agreement with Hydro-Chem, a leading hydrogen plant vendor; as well as a supply agreement signed with Nuvera Fuel Cells.
- Successful completion of an equity offering, raising net proceeds of approximately \$18.4 million.

Jonathan Wilkinson, President and CEO of QuestAir, said:

"We are very pleased with the progress made during fiscal 2006 towards achievement of our operational milestones and financial guidance. We grew both our revenue and our

backlog of signed customer contracts, and made significant progress towards the commercialization of our H-6200 hydrogen purifier with ExxonMobil. We are planning to demonstrate a commercial-scale H-6200 system at an ExxonMobil refinery in Europe in 2007, and we have begun to aggressively market the product to oil refinery customers under a marketing agreement signed with ExxonMobil earlier this year.”

“In the commercial area, we successfully expanded the markets for our first generation gas purification products, most notably with our first sale of a M-3100 methane recovery system in the growing biogas market. We also expanded the distribution channels for our commercial products through the licensing and supply agreements signed with Hydro-Chem and Nuvera Fuel Cells respectively.”

Operating Review & 2006 Milestone Update

A number of key achievements were made in the program being undertaken with EMRE to develop the H-6200 hydrogen purifier for refinery and petrochemical applications. In April 2006 the program passed a critical internal ExxonMobil review, authorizing final funding to complete the construction and testing of a prototype H-6200 hydrogen purifier at an ExxonMobil refinery located in Europe. During fiscal 2006, QuestAir received purchase orders from ExxonMobil totaling \$4.3 million related to the prototype construction. A key purchase order was received in the fourth quarter of fiscal 2006, which extended the construction of the prototype plant into the fourth quarter of calendar 2006 (see ‘Subsequent Events’).

QuestAir also signed a marketing agreement with EMRE which covers the marketing of the H-6200 hydrogen purifier to third party customers in the oil refining industry. The agreement outlines the roles that each party will play in the marketing process, and how the commercial gains from the sales of the product will be shared between QuestAir and EMRE. Following the signing of this agreement, QuestAir and EMRE began jointly marketing and promoting the H-6200, and currently the parties are responding to a number of commercial enquiries from both ExxonMobil and third party refineries.

During the year, QuestAir also completed an initial research contract with EMRE to assess the use of the H-6200 platform technology for the processing of contaminated or “sour” natural gas. This contract was significant in demonstrating the potential application of the product platform to other high-value markets outside of oil refining. Options for the next phase of this development work are currently being assessed.

A number of breakthroughs were also made during the year in the sale of QuestAir’s commercial first generation gas purification products. During the year, QuestAir sold its first M-3100 methane recovery system, valued at approximately US\$2 million, into the landfill gas processing market. The M-3100 system will recover pipeline-grade methane from landfill gas generated at the Rumpke Sanitary Landfill near Cincinnati, Ohio. This

initial sale into the landfill gas market follows a successful demonstration of a M-3100 system at the Vancouver Landfill site which was undertaken during the year.

In the industrial hydrogen market, the Company successfully started up two H-3100 hydrogen purifiers installed at the HydroEdge liquid hydrogen plant in Osaka, Japan. These are the largest capacity commercial hydrogen purifiers that QuestAir has operated to date, demonstrating the expansion of QuestAir's commercial product line into the intermediate capacity range of the hydrogen plant market.

QuestAir also made significant progress in expanding its distribution channels for its first generation products. The Company signed a manufacturing licensing agreement with Hydro-Chem LLC (a division of The Linde Group), a leading manufacturer of hydrogen plants in the intermediate capacity range. Under the terms of the agreement, QuestAir's H-3100 hydrogen purifier will be included in Hydro-Chem's industrial hydrogen plants, expanding QuestAir's access to the intermediate capacity segment of the hydrogen plant market.

During the year, QuestAir maintained its position as the leading supplier of hydrogen purification systems in the emerging hydrogen infrastructure market. The Company received orders for five H-3200 hydrogen purifiers for hydrogen fueling stations located in Canada, the United States and Korea. At year-end, the Company had sold 14 hydrogen purifiers into the hydrogen infrastructure market. The Company also signed an agreement, valued at up to US\$700,000 over 2 years, to supply its small capacity H-3300 hydrogen purifiers to Nuvera Fuel Cells. The H-3300 will be incorporated into Nuvera's PowerTap™ hydrogen generators, which will be marketed as a distributed source of hydrogen fuel to support fuel cell powered vehicles such as fork lifts and airport ground support vehicles.

The Company also received a \$1.4 million engineering services contract from EMRE to complete the second phase of a program to develop a compact on-board hydrogen generator for use in a range of transportation applications. Target markets for this product include potential early term fuel cell markets such as utility vehicles and auxiliary power units for heavy duty trucks and military vehicles.

In summary, progress made towards the achievement of QuestAir's 2006 milestones was as follows:

Milestone	Progress
1. Pass final ExxonMobil program review and receive purchase orders for prototype large capacity hydrogen PSA.	The ExxonMobil program review was successfully passed in April 2006, authorizing final funding for the prototype construction and testing. QuestAir received purchase orders totaling \$4.3 million during fiscal 2006 towards the prototype plant construction.

Milestone	Progress
2. Complete fabrication and shipment of the large capacity hydrogen PSA to ExxonMobil refinery.	The final purchase order for the prototype H-6200 was received in the fourth quarter of fiscal 2006, extending the completion of the prototype fabrication to around the end of calendar 2006, with shipment to follow shortly thereafter.
3. Sign agreement with EMRE for marketing of large capacity hydrogen PSA in the oil refining industry.	In May 2006 we signed an agreement with EMRE to jointly market the H-6200 hydrogen purifier to third party customers in the oil refining market.
4. Sign agreement to extend large capacity PSA product platform into new market.	During fiscal 2006 we completed an initial contract with EMRE to assess the use of the H-6200 technology platform of the processing of sub-quality or "sour" natural gas. Options for further funded work in this area, or in other petrochemical markets are currently being assessed, with a formal agreement expected to follow in fiscal 2007.
5. Sign an additional distribution agreement for QuestAir's first generation gas purification products with a leading hydrogen plant vendor.	In March 2006 we signed a licensing agreement with Hydro-Chem, a leading global supplier of industrial hydrogen plants. QuestAir's H-3100 hydrogen purifier will be included as a standard offer in Hydro-Chem's product line.

Subsequent Events

Subsequent to the end of fiscal 2006, there were a number of developments in the refinery program with EMRE. In October 2006, the Company renewed its Joint Development Agreement ("JDA") with EMRE, extending the exclusivity period of the research collaboration in the refinery and petrochemical market with EMRE for a further 3 years. The extension of the JDA is intended to allow QuestAir to complete additional product development work with EMRE to extend the H-6200 product platform into additional markets in the oil refining and petrochemical markets.

During the first quarter of fiscal 2007, the Company experienced further delays in the fabrication of the prototype H-6200 hydrogen purifier to be demonstrated at the ExxonMobil refinery in Europe. These delays were principally related to the heavy construction activity in the oil and gas sector in North America, which created capacity constraints at one of QuestAir's key suppliers that is assembling the prototype plant skid. Consequently, Management now expects to complete the fabrication of the prototype plant around the end of calendar 2006, and to ship the prototype to Exxon's refinery early in the first quarter of calendar 2007. The prototype plant will be installed and started up at the refinery site during the first half of calendar 2007.

2007 Outlook and Milestones

Commenting of the outlook for fiscal 2007, Jonathan Wilkinson said:

“2007 will be a landmark year for QuestAir with the commercialization of our H-6200 hydrogen purifier in the oil refining market. This product provides oil refineries with a solution to the growing demand for hydrogen in oil refining, as well as offering a unique tool to increase refinery productivity and profitability. As such, we expect the H-6200 to be the key catalyst to drive QuestAir to profitability and beyond.”

“Our major objectives for the coming year include the installation and start up of the prototype H-6200 hydrogen purifier at an ExxonMobil refinery, and the subsequent first sale of a fully commercial H-6200 system in the oil refining market. We also expect to see continued growth in the sale of our first generation gas purifiers in the industrial hydrogen and biogas markets.”

QuestAir’s operational milestones for the remainder of fiscal 2007 are:

1. Complete the installation and startup of the prototype H-6200 hydrogen purifier at an ExxonMobil refinery.

Management expects that the prototype H-6200 hydrogen purifier will be installed and started up at the ExxonMobil refinery during the first half of calendar 2007.

2. Receive the first purchase order for a commercial H-6200 hydrogen purifier.

EMRE and QuestAir are actively marketing the H-6200 to both ExxonMobil and third party refineries, with the objective of securing a purchase order for the first commercial sale during fiscal 2007.

3. Sign an agreement to extend the H-6200 platform technology into a new market.

QuestAir has entered into a number of preliminary engineering contracts to assess the application of the H-6200 platform technology into additional markets such as natural gas processing and other separations in the petrochemical industry. Based on the outcome of these preliminary studies, we aim to sign an agreement to undertake the next phase of this product development.

4. Secure first purchase order for a methane purification system in the European biogas market

There is significant interest in Europe in the use of renewable sources of methane to supplement imported natural gas, and as a carbon neutral source of transportation fuel

for busses and cars. During the year, we expect to sell our first system in the European market to recover high purity methane from biogas.

5. Increase recognized revenue to between \$9 and \$10 million.

Total recognized revenue is expected to be between \$9 and \$10 million in fiscal 2007, representing an increase of approximately 19% to 32% from \$7.6 million in fiscal 2006. We expect revenue growth from both our first generation commercial products and anticipated engineering service contracts. Any commercial H-6200 orders received during fiscal 2007 are not expected to be recognized as revenue during fiscal 2007 given the expected manufacturing and installation time of these large units.

6. Manage cash used in operations and capital expenditures to between \$7 and \$8 million.

Cash used in operations and capital expenditures is expected to be in the range of \$7 to \$8 million, reduced from \$9.4 million in fiscal 2006. Expenditures on both the commercialization of the H-6200 product, as well R&D activities related to the extension of the H-6200 platform technology into new markets are expected to continue through fiscal 2007.

It should be noted that we have made certain assumptions regarding the receipt of new engineering service contracts and gas purification system sales in determining our revenue and operational cash burn milestones for fiscal 2007. Failure to secure certain of these contracts may have a material impact on our recognized revenue and cash burn for fiscal 2007, and we will update our financial guidance accordingly if our financial outlook is impacted in this way.

Fiscal 2006 Financial Results

Operating Results

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

(\$ '000)	For the years ended September 30,	
	2006	2005
Gas purification systems	5,808	4,158
Engineering service contracts	1,750	2,134
Total revenue	7,558	6,292

The total recognized revenue of \$7,558,093 for fiscal 2006 was in line with revenue guidance of at least \$7,500,000 provided by management on December 8, 2005. The increase in revenue from gas purification systems for fiscal 2006 resulted from increased sales of commercial pressure swing adsorption ("PSA") systems including the H-3100 hydrogen purifier commissioned at the HydroEdge liquid hydrogen plant in Japan, as

well as revenue recognized towards the construction of the prototype H-6200 hydrogen purifier to be demonstrated at an ExxonMobil refinery. 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 H-6200 prototype plant is recognized on a percentage-of-completion basis.

The decrease in revenue from engineering service contracts for fiscal 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 QuestAir currently serves. In addition, the timing of receipt of new engineering service contracts can vary from year to year. Consequently, management believes that both recognized revenue and changes in the Company's sales order backlog should be monitored together to determine the strength of QuestAir's commercial operations.

QuestAir's sales order backlog is defined as future revenue from signed contracts that have not yet been recognized as revenue. The following table provides an analysis of the changes in the Company's sales order backlog for the years ended September 30, 2006 and 2005.

(Unaudited, \$ '000)	For the year ended September 30, 2006			For the year ended September 30, 2005		
	Gas Purification Systems	Eng. Service Contracts	Total	Gas Purification Systems	Eng. Service Contracts	Total
Opening Balance	2,240	768	3,008	2,812	1,106	3,918
Bookings	8,642	1,226	9,868	3,897	1,951	5,848
Revenue Recognized	(5,808)	(1,750)	(7,558)	(4,158)	(2,134)	(6,292)
Adjustments ¹	(166)	(108)	(274)	(311)	(155)	(466)
Ending Balance	4,908	136	5,044	2,240	768	3,008

The total sales order backlog increased by \$2,036,344, or 68%, during fiscal 2006. The increase in backlog over the fiscal year was driven by orders valued at \$4,312,553 related to the prototype H-6200 hydrogen purifier and associated equipment. In addition, QuestAir also received an order valued at approximately \$2,200,000 for a M-3100 methane recovery system for use in the landfill gas processing market. A negative adjustment was made to sales order backlog as a result of foreign exchange fluctuations during the year.

Management currently expects that the backlog as of September 30, 2006 will be substantially recognized as revenue by March 31, 2007.

¹ Includes adjustments for fluctuations in foreign currency exchange rates as well as cancelled orders.

The following table provides a calculation of QuestAir's gross profit for the reported years:

(\$ '000)	For the years ended September 30,	
	2006	2005
Sales	7,558	6,292
Cost of goods sold	6,433	3,537
Gross Profit	1,125	2,755
Gross Margin (%)	14.9%	43.8%

The decrease in gross margin for fiscal 2006 compared to the prior year resulted from a decrease in the proportion of revenue recognized from engineering service contracts, which typically contribute high gross margins. In addition, losses were incurred on the H-3100 hydrogen purifier installed at the HydroEdge liquid hydrogen plant, and on the prototype H-6200 hydrogen purifier. Low margins were expected on the HydroEdge 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 product design. 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 H-6200 would be sold to an ExxonMobil refinery at cost, reflecting the fact that the prototype H-6200 is 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. QuestAir and EMRE 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 recorded the total expected loss on the H-6200 prototype as a cost of goods sold in fiscal 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 year to year depending on the mix of revenues recognized from engineering service contracts and gas purification systems.

Sales and marketing expenses were \$1,938,537 for fiscal 2006, an increase of 9% compared to \$1,779,703 for the prior year. The increase in sales and marketing expenses for fiscal 2006 was attributed to an increased level of sales activities compared to the prior year.

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:

(\$ '000)	For the years ended September 30,	
	2006	2005
Gross R&D Expenditure	6,907	7,667
Government & Partner Funding	1,815	1,933
Net R&D Expenditure	5,092	5,734

The 10% reduction in gross R&D expenditures for fiscal 2006 compared to the prior year 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 prototype H-6200 hydrogen purifier. Government funding decreased for the year in proportion to the reduction in R&D undertaken on the refinery development program with EMRE, which is eligible for funding from TPC.

General and Administrative (“G&A”) expenses were \$3,311,188 for fiscal 2006, a decrease of 3% from \$3,427,315 for the prior year. The decrease in G&A expenses for the year related to a reduction in stock-based compensation expenses in the year, partially offset by increases in accounting and regulatory expenses.

Stock-based compensation expense was \$492,302 for fiscal 2006, a decrease of 35% from \$754,759 for the prior year. Stock-based compensation expenses were higher for the prior year due to a stock compensation charge related to the repricing of certain options at the time of the Company’s IPO in fiscal 2005.

Amortization expenses were \$1,223,788 for fiscal 2006 compared to \$1,531,112 for the prior year. The decrease in amortization expenses was a result of certain capital assets becoming fully amortized during the year.

Net loss for fiscal 2006 was \$10,262,918 (\$0.24 per share) compared to \$9,516,858 (\$0.31 per share) for the prior year. The increase in the net loss for the year was primarily a result of reduced gross profits compared to the prior year, partially offset by lower R&D and amortization expenses.

Loss per share is calculated based on the weighted average number of common shares outstanding through the year. The reduction in the loss per share for the year was a result of an increase in the weighted average number of common shares outstanding compared to the prior year.

Capital expenditures net of Government funding and proceeds on sale (“Net CAPEX”), for fiscal 2006 were \$1,370,315 compared to \$915,424 for the prior year. The increased Net CAPEX for the year was driven by leasehold improvements made to new hydrogen testing facilities that were built during fiscal 2006, as well as expenditures on a demonstration landfill gas processing plant installed at the Vancouver Landfill. It is

expected that capital expenditures will fluctuate from year to year depending on the requirements of specific product development programs and administrative needs.

Liquidity and Capital Resources

At September 30, 2006 cash and short-term investments were \$18,418,800, compared to \$10,311,823 for the prior year. Not included in cash and short-term investments at September 30, 2006 was \$1,256,354 of restricted cash, which will primarily be used to fund equipment purchases for the prototype plant in future periods.

Cash used by operations and capital requirements for the year ended September 30, 2006 was \$9,430,679, compared to \$8,694,629 for the prior year. Cash burn for the year fell within the guidance range of \$8,500,000 to \$9,500,000 provided by management on December 8, 2005. The increase in cash used by operations and capital requirements for the year was driven by an increased loss for the year, as well as increases in inventory and Net CAPEX. This was partially offset by increases in accounts payable, accrued liabilities and deferred revenue, as well as decreases in amortization and stock based compensation.

On May 31, 2006, the Company completed an equity offering, raising gross proceeds of \$20,000,250 through the sale of 14,815,000 common shares at a price of \$1.35 per share. Net proceeds after share issuance costs were \$18,410,751.

During fiscal 2005, the Company signed a credit facilities agreement with Comerica Bank. This agreement was amended and restated as part of the renewal of these facilities in June 2006. The amended credit facilities include a US\$1 million accounts receivable line of credit and a US\$2 million term loan, in addition to \$673,212 outstanding under the original term loan agreement. Both facilities are subject to annual renewal. As at September 30, 2006, QuestAir had drawn \$884,250 against the term loans net of repayments. The Company is in compliance with all of its bank covenants.

On June 6, 2003, QuestAir was awarded a \$9,600,000 conditionally repayable loan from Technology Partnerships Canada ("TPC"), a funding program administered by Industry Canada. At September 30, 2006, the Company had claimed \$7,760,083 against this loan. Based on forecasted R&D expenditures, the Company expects to draw down on the remaining \$1,839,917 of TPC funding by the end of fiscal 2007.

QuestAir's authorized share capital consists of an unlimited number of common shares, of which 52,393,065 common shares were issued and outstanding as of September 30, 2006. In addition, the Company had 4,937,059 stock options outstanding of which 3,413,604 were exercisable. During the year, 430,000 warrants that were issued to certain agents upon closing of the IPO expired unexercised, leaving a total of 192,308 warrants outstanding as at September 30, 2006.

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Further information on QuestAir's financial results for the year ended September 30, 2006 can be found in the Company's 'Management Discussion and Analysis' ("MD&A") at www.sedar.com.

Consolidated Balance Sheets

Audited (expressed in Canadian dollars)	As at September 30, 2006	As at September 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,018,800	\$ 10,311,823
Restricted cash	1,256,354	102,396
Short-term investments	7,400,000	-
Accounts receivable	1,476,024	1,075,255
Grants and funding receivables	454,597	493,913
Inventories	3,510,508	1,945,876
Prepaid expenses	337,335	299,757
	<u>25,453,618</u>	<u>14,229,020</u>
Property, plant and equipment	2,103,626	1,984,014
Other long-term assets	125,000	-
	<u>\$ 27,682,244</u>	<u>\$ 16,213,034</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,413,717	\$ 2,210,686
Deferred revenue	1,946,781	1,602,103
Current portion of bank debt	351,398	216,839
Current portion of obligations under capital lease	-	110,357
	<u>6,711,896</u>	<u>4,139,985</u>
Long term liabilities:		
Bank debt	532,852	433,678
	<u>7,244,748</u>	<u>4,573,663</u>
Shareholders' equity:		
Share capital		
Authorized		
Unlimited common shares, voting, no par value		
Unlimited preferred shares, issuable in series, no par value		
Common shares	109,020,202	89,774,802
Contributed surplus	6,462,772	6,647,129
Deficit	(95,045,478)	(84,782,560)
	<u>20,437,496</u>	<u>11,639,371</u>
	<u>\$ 27,682,244</u>	<u>\$ 16,213,034</u>

Consolidated Statements of Operations and Deficit

Audited (expressed in Canadian dollars)	For the year ended	
	September 30, 2006	September 30, 2005
Revenues	\$ 7,558,093	\$ 6,292,309
Cost of goods sold	6,432,954	3,537,068
Gross profit	1,125,139	2,755,241
Operating expenses		
Research and development – net	5,092,174	5,733,846
General and administration	3,311,188	3,427,315
Sales and marketing	1,938,537	1,779,703
Amortization	1,223,788	1,531,112
	11,565,687	12,471,976
Loss before undernoted	(10,440,548)	(9,716,735)
Other income (expense)		
Interest income	378,872	226,165
Other expense	(201,242)	(26,288)
	177,630	199,877
Loss for the period	(10,262,918)	(9,516,858)
Deficit – Beginning of period	(84,782,560)	(73,560,609)
Preferred share conversion	-	(1,705,093)
Deficit – End of period	\$(95,045,478)	\$ (84,782,560)
Basic and diluted loss per share	\$ (0.24)	\$ (0.31)
Weighted average number of common shares outstanding	42,426,280	30,017,856

Consolidated Statements of Cash Flows

Audited (expressed in Canadian dollars)	September 30, 2006	For the year ended September 30, 2005
Cash flows from operating activities		
Loss for the period	\$ (10,262,918)	\$ (9,516,858)
Items not involving cash		
Amortization	1,223,788	1,531,112
Gain on sale of property, plant and equipment	8,619	(7,418)
Stock based compensation expense	492,302	754,759
Foreign currency loss (gain)	503	(9,661)
	<u>(8,537,706)</u>	<u>(7,248,066)</u>
Changes in non-cash operating working capital		
Accounts, grants and funding receivables	(361,454)	(455,846)
Inventories	(1,546,335)	(269,864)
Prepaid expenses	(162,579)	(209,474)
Accounts payable and accrued liabilities	1,885,385	782,382
Deferred revenue	344,678	(378,337)
	<u>159,695</u>	<u>(531,139)</u>
	<u>(8,378,011)</u>	<u>(7,779,205)</u>
Cash flows from investing activities		
Increase in short-term investments	(7,400,000)	-
Purchase of property, plant and equipment	(1,155,334)	(1,261,919)
Government grants and funding related to property, plant and equipment	96,791	335,600
Proceeds on sale of property, plant and equipment	5,875	10,895
Increase in restricted cash	(1,153,958)	(102,396)
	<u>(9,606,626)</u>	<u>(1,017,820)</u>
Cash flows from financing activities		
Issuance of common shares	20,000,250	15,050,000
Share issue costs	(1,589,499)	(2,835,287)
Issuance of common shares on exercise of stock options	157,991	20,470
Repayment of obligations under capital lease	(110,860)	(115,568)
Repayment of bank debt	(197,749)	-
Term loan advance	431,481	650,518
Deferred charges	-	(353,208)
	<u>18,691,614</u>	<u>12,416,925</u>
Increase in cash and equivalents	<u>706,977</u>	<u>3,619,900</u>
Cash and equivalents – Beginning of year	<u>10,311,823</u>	<u>6,691,923</u>
Cash and equivalents – End of year	<u>\$ 11,018,800</u>	<u>\$ 10,311,823</u>

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

This press release contains forward-looking statements, including statements regarding the future success of our business, technology, and market opportunities. Forward-looking statements typically contain words such as “believes”, “expects”, “anticipates”, “continue”, “could”, “indicates”, “plans”, “will”, “intends”, “may”, “projects”, “schedule”, “would” or similar expressions suggesting future outcomes or events, although not all forward-looking statements contain these identifying words. Examples of such statements include, but are not limited to, statements concerning: (i) the expected shipment, installation and demonstration timeline of a commercial-scale prototype of the H-6200 hydrogen purifier; (ii) the expectation that fiscal 2007 will be a landmark year for QuestAir with the commercialization of its H-6200 hydrogen purifier in the oil refining market; (iii) the expected continued growth in the sale of QuestAir’s first generation gas purifiers in the industrial hydrogen and biogas markets; and (iv) QuestAir’s expected performance against the operational and financial milestones for fiscal 2007 as described herein. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to revenue growth, operating results, industry and products, technology, competition and other factors described herein.

Although the forward-looking statements contained herein are based upon what management believes to be current and reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein are made as of the date of this press release and are expressly qualified in their entirety by this cautionary statement. The Company undertakes no obligation to publicly update or revise any such statements to reflect any change in our expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

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