

## News Release

### QuestAir Reports Third Quarter 2006 Results

#### For Immediate Release

1 August, 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 third quarter of fiscal 2006, ended June 30, 2006. All amounts are in Canadian dollars unless otherwise noted.

#### Third Quarter Highlights

- Significant progress in the refinery development program with ExxonMobil Research and Engineering (“EMRE”), including the successful passing of a critical internal Exxon program review. Subsequent to the end of the quarter, QuestAir received the final \$2.2 million purchase order for a prototype H-6200 hydrogen purifier (“prototype plant”) to be demonstrated at an ExxonMobil refinery in Europe.
- The signing of an agreement with EMRE to jointly market the H-6200 hydrogen purifier in the oil refining market worldwide.
- Revenues of \$1.2 million for the quarter, and \$4.9 million for the nine months ended June 30, 2006, 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 \$5.0 million, compared to \$5.8 million at March 31, 2006, and \$3.5 million at June 30, 2005. Backlog as of June 30, 2006 did not include the \$2.2 million purchase order from Exxon which was received after quarter end.
- Cash used in operations and capital requirements of \$1.9 million for the quarter and \$5.9 million for the nine months ended June 30, 2006, in line with the Company’s cash burn guidance of \$8.5-9.5 million for the fiscal year.
- Net loss of \$2.1 million for the quarter and \$7.5 million for the nine months ended June 30, 2006 (nine months ended June 30, 2005: \$6.9 million), increased due to a change in the mix of revenues recognized during the second quarter.
- Successful closing of an equity financing, raising net proceeds of \$18.4 million. The Company had cash and short term investments of \$21.9 million at June 30, 2006.

Jonathan Wilkinson, President and CEO of QuestAir, said:

“We are very pleased with the progress that we have made in our refinery development program with ExxonMobil. The successful program review was a very significant milestone for the Company, authorizing the final \$2.2 million purchase order for the prototype plant that we received after quarter end.”

“On the commercial front, the marketing agreement that we signed with EMRE maps out how we will jointly market the H-6200 hydrogen purifier in the oil refining industry, and we have begun to actively promote this product to oil refineries around the world.”

“We also successfully completed a \$20 million equity financing during the quarter. We were particularly pleased by the strong support from a number of our existing institutional and strategic investors in the financing, as well as the addition of a number of new, high-quality European and North American institutional investors to our shareholder base.”

“This equity financing provides us with the expansion capital required to commercialize the H-6200 hydrogen purifier, and also to explore options for extending this product platform into related high-value markets such as natural gas processing or petrochemical separations.”

### **Operating Review**

A number of key milestones were achieved in the program with EMRE to develop the H-6200 hydrogen purifier for use in oil refineries and petrochemical plants. Early in the quarter, the program passed a critical internal ExxonMobil review, which authorized final funding for the construction of the prototype plant to be demonstrated at an ExxonMobil refinery in Europe. Subsequent to the end of the quarter, the Company received a final \$2.2 million purchase order from Exxon to complete construction of the prototype plant. This order follows an initial \$1.8 million order received from EMRE in December 2005 as well as small purchase orders for long lead items, bringing the total value of the prototype plant to \$4.8 million. During the quarter, the Company 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 gain from sales of this product will be shared between QuestAir and EMRE.

During the quarter, QuestAir strengthened its position as the leading supplier of hydrogen purification systems in the emerging hydrogen infrastructure market. The Company signed an agreement, valued at up to US\$700,000 over 2 years, to supply its H-3300 hydrogen purifiers to Nuvera Fuel Cells (“Nuvera”). The H-3300 will be incorporated into Nuvera’s PowerTap™ branded hydrogen generators, which will be marketed as a distributed source of hydrogen fuel for fuel cell powered industrial vehicles such as fork lifts and airport ground support vehicles. Fuel cells have the potential to offer a compelling value proposition as a replacement for lead acid batteries in industrial transportation markets, and leading end-users of industrial vehicles such as Deere & Company, FedEx Canada, General Motors of Canada and Wal-Mart® are undertaking or have recently completed successful field trials of prototype fuel cell-powered vehicles.

Also in the hydrogen infrastructure field, QuestAir received an order for an H-3200 hydrogen purifier from SK Corporation for use in a demonstration hydrogen fueling station to be constructed in Seoul, Korea. This is the third H-3200 sold into the hydrogen fueling market in Korea over the past 6 months. Korea is emerging as a leading early adopter of automotive fuel cell technology and related hydrogen infrastructure.

## **Outlook**

“Our focus for the fourth quarter of fiscal 2006 will be on completing the construction of the prototype H-6200 hydrogen purifier to be demonstrated at an ExxonMobil refinery. In the product development area, we remain focused on securing additional engineering contracts to extend the H-6200 product platform into high value markets such as petrochemical separations or natural gas processing,” said Jonathan Wilkinson.

“Based on our financial performance over first nine months of fiscal 2006, and our expected activities for the remainder of the year, we remain on track to achieve our revenue guidance of \$7.5 million for the year. Our cash burn is expected to increase during the fourth quarter as we complete the construction of the prototype plant. Consequently, we expect our cash burn for fiscal 2006 to be towards the top end of the guidance range of \$8.5 to 9.5 million.”

“As the final \$2.2 million purchase order for the prototype plant has only recently been received, the timeline for construction of the prototype plant has been extended. Consequently, we expect to ship the prototype plant to the ExxonMobil refinery in Europe by the end of calendar 2006, and we expect that the prototype plant will be operational by the end of the first quarter of calendar 2007.”

“Our marketing activities for the H-6200 hydrogen purifier are proceeding as planned, and we are currently working through a number of commercial enquiries from both ExxonMobil and third party refineries. We do not expect that the revised timing of the shipment and start-up of the prototype plant will impact our commercialization plans for the H-6200.”

## **Q3 2006 Financial Results**

### **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 June 30,		Nine months ended June 30,	
	2006	2005	2006	2005
Gas purification systems	574	2,307	3,277	3,785
Engineering service contracts	619	337	1,584	1,348
Total revenue	1,193	2,644	4,861	5,133

Revenue from gas purification systems was higher for the prior periods as a result of revenue recognized during the quarter ended June 30, 2005 from two test systems delivered to EMRE in support of the refinery development program.

The increase in revenue from engineering service contracts for the quarter ended June 30, 2006 resulted from increased levels of work completed during the quarter on the engineering service contract with EMRE to develop a compact hydrogen generator for use in a range of transportation markets.

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, management believes 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 has 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 nine months ended June 30, 2006:

(Unaudited, \$ '000)	For the three months ended June 30, 2006			For the nine months ended June 30, 2006		
	Gas purification systems	Eng. service contracts	Total	Gas purification systems	Eng. service contracts	Total
Opening balance	4,815	1,025	5,840	2,240	768	3,008
Bookings	336	-	336	5,669	1,226	6,895
Revenue recognized	(574)	(619)	(1,193)	(3,278)	(1,583)	(4,861)
Adjustments†	(7)	-	(7)	(61)	(5)	(66)
Ending balance	4,570	406	4,976	4,570	406	4,976

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

The total sales order backlog decreased by \$863,720, or 15%, during the quarter ended June 30, 2006. New orders for gas purification systems booked over the quarter were offset by revenues recognized over the quarter, reducing total backlog over the quarter. A small negative adjustment was made to the Company's sales order backlog as a result of a foreign exchange fluctuation during the quarter. It should be noted that backlog as of June 30, 2006 does not include the \$2.2 million purchase order from Exxon for the prototype plant which was received after quarter end.

The Company expects that the backlog as of June 30, 2006 will be substantially recognized as revenue by December 31, 2006.

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 nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	1,193	2,644	4,861	5,133
Cost of goods sold	714	1,921	3,824	2,900
Gross Profit	479	723	1,037	2,233
Gross Margin (%)	40.2%	27.3%	21.3%	43.5%

The increase in gross margin for the quarter ended June 30, 2006 compared to the same period in 2005 resulted from an increase in the proportion of revenue recognized from engineering service contracts, which typically contribute high gross margins. The reduction in gross margin for the nine months ended June 30, 2006 compared to the same period in 2005 resulted from losses incurred in the second quarter of fiscal 2006 on the H-3100 hydrogen purifier installed at the HydroEdge liquid hydrogen plant, and on the prototype H-6200 hydrogen purifier to be demonstrated at an ExxonMobil refinery.

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 prototype H-6200 hydrogen purifier has been fully recognized.

Sales and marketing expenses were \$489,328 and \$1,472,316 for the quarter and nine months ended June 30, 2006, largely unchanged compared to the same periods in 2005.

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 June 30,		Nine months ended June 30,	
	2006	2005	2006	2005
Gross R&D Expenditure	1,641	1,964	5,133	5,762
Government & Partner Funding	405	473	1,371	1,464
Net R&D Expenditure	1,236	1,491	3,762	4,298

The reduction in gross R&D expenditures for the quarter and nine months ended June 30, 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 prototype H-6200 hydrogen purifier. Government funding decreased for the quarter and nine months ended June 30, 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 \$775,809 for the quarter ended June 30, 2006, a decrease of 18% from \$940,872 for the same period in 2005. The decrease in G&A expenses for the quarter related to a reduction in legal, accounting and investor

relations expenses. G&A expenses were \$2,475,989 for the nine months ended June 30, 2006, relatively unchanged compared to the same period in 2005.

Employee stock-based compensation expense was \$127,101 for the quarter ended June 30, 2006, relatively unchanged from the same period in 2005. Stock-based compensation expense was \$373,591 for the nine months ended June 30, 2006 compared to \$485,191 for the same period in 2005. Stock-based compensation expenses were higher for the nine months ended June 30, 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.

The net loss for the quarter ended June 30, 2006 was \$2,134,814 (\$0.05 per share) compared to \$2,562,676 (\$0.07 per share) for the same period in fiscal 2005. For the nine months ended June 30, 2006, the net loss was \$7,538,338 (\$0.19 per share) compared to \$6,929,057 (\$0.25 per share) for the same period in 2005. The reduction in the net loss for the quarter ended June 30, 2006 was a result of reduced R&D, G&A and amortization expenses compared to the same period in 2005. The increase in the net loss for the nine months ended June 30, 2006 was primarily a result of reduced gross profits compared to the same period in 2005, 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 quarter and nine months. The reduction in the loss per share for the quarter and nine months ended June 30, 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 net of Government funding and proceeds on sale ("Net CAPEX"), for the quarter ended June 30, 2006 were \$353,454, compared to \$574,636 for the same period in 2005. The reduction in net CAPEX for the quarter was a result of reduced capital expenditures on the refinery development program being undertaken with EMRE.

Net CAPEX for the nine months ended June 30, 2006 was \$750,971, compared to \$896,481 for the same period in 2005. 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 June 30, 2006 cash and short term investments were \$21,878,508, compared to \$5,262,559 at March 31, 2006. Not included in cash and short term investments at June 30, 2006 and March 31, 2006 was \$1,112,731 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 quarter ended June 30, 2006 was \$1,876,151, compared to \$1,672,893 for the same period in 2005. Cash used by operations and capital requirements for the nine months ended June 30, 2006 was \$5,922,222, compared to \$6,398,471 for the same period in 2005. The increase in operational cash burn for the quarter ended June 30, 2006 compared to the same period in 2005 resulted from reductions in cash flow from changes in working capital. The reductions in operational cash burn for the nine months ended June 30, 2006 compared to the same period in 2005 resulted from a positive change in cash flow from changes in working capital, which was offset somewhat by increased losses for the nine months ended June 30, 2006.

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 \$18,350,434.

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 June 30, 2006, the Company had drawn \$673,212 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 \$9,600,000 conditionally repayable loan from Technology Partnerships Canada, a funding program administered by Industry Canada. At June 30, 2006 the Company had claimed \$7,305,486 against this loan.

As at June 30, 2006, QuestAir had 52,276,597 common shares issued and outstanding. In addition, the Company had 4,933,650 stock options outstanding. During the quarter, 430,000 warrants that were issued to certain agents upon closing of the Company's IPO expired unexercised, leaving a total of 192,308 warrants outstanding as at June 30, 2006.

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 June 30, 2006	As at September 30, 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 14,478,508	\$ 10,414,219
Restricted cash	1,112,731	-
Short term investments	7,400,000	-
Accounts receivable	621,204	1,075,255
Grants and funding receivables	484,633	493,913
Inventories	2,143,756	1,945,876
Prepaid expenses	514,959	299,757
	<u>26,755,791</u>	<u>14,229,020</u>
<b>Property, plant and equipment</b>	<u>1,792,192</u>	<u>1,984,014</u>
	<u>\$ 28,547,983</u>	<u>\$ 16,213,034</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 3,509,251	\$ 2,210,686
Deferred revenue	1,455,975	1,602,103
Current portion of bank debt	267,988	216,839
Current portion of obligations under capital lease	-	110,357
	<u>5,233,214</u>	<u>4,139,985</u>
<b>Long term liabilities:</b>		
Bank debt	<u>405,224</u>	<u>433,678</u>
	<u>5,638,438</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	108,317,011	89,774,802
<b>Contributed surplus</b>	6,913,432	6,647,129
<b>Deficit</b>	<u>(92,320,898)</u>	<u>(84,782,560)</u>
	<u>22,909,545</u>	<u>11,639,371</u>
	<u>\$ 28,547,983</u>	<u>\$ 16,213,034</u>

## Consolidated Statements of Operations and Deficit

Unaudited (expressed in Canadian dollars)	For the three months ended		For the nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Revenues</b>	\$ 1,193,380	\$ 2,643,892	\$ 4,861,497	\$ 5,133,411
<b>Cost of goods sold</b>	714,014	1,920,817	3,823,872	2,900,211
<b>Gross profit</b>	479,366	723,075	1,037,625	2,233,200
<b>Operating expenses</b>				
Research and development – net	1,236,313	1,491,092	3,762,538	4,297,956
General and administration	775,809	940,872	2,475,989	2,510,277
Sales and marketing	489,328	500,684	1,472,316	1,432,360
Amortization	187,360	415,716	951,218	1,171,638
	2,688,810	3,348,364	8,662,061	9,412,231
<b>Loss before undernoted</b>	(2,209,444)	(2,625,289)	(7,624,436)	(7,179,031)
<b>Other income</b>				
Interest income	90,316	66,065	179,779	174,887
Other income (expense)	(15,686)	(3,452)	(93,681)	75,087
	74,630	62,613	86,098	249,974
<b>Loss for the period</b>	(2,134,814)	(2,562,676)	(7,538,338)	(6,929,057)
<b>Deficit – Beginning of period</b>	(90,186,084)	(79,632,083)	(84,782,560)	(73,560,609)
<b>Preferred share conversion</b>	-	-	-	(1,705,093)
<b>Deficit – End of period</b>	\$ (92,320,898)	\$ (82,194,759)	\$ (92,320,898)	\$ (82,194,759)
<b>Basic and diluted loss per share</b>	\$ (0.05)	\$ (0.07)	\$ (0.19)	\$ (0.25)
<b>Weighted average number of common shares outstanding</b>	42,498,492	37,299,396	39,091,486	27,785,673

## Consolidated Statements of Cash Flows

Unaudited (expressed in Canadian dollars)	For the three months ended		For the nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Cash flows used in operating activities</b>				
Loss for the period	\$ (2,134,814)	\$ (2,562,676)	\$ (7,538,338)	\$ (6,929,057)
Items not involving cash				
Amortization	187,360	415,716	951,218	1,171,638
Gain on sale of property, plant and equipment	(350)	-	(8,424)	(6,523)
Non-cash compensation expense	127,101	111,033	373,591	485,191
Foreign currency loss (gain)	-	6,411	503	(3,747)
	<u>(1,820,703)</u>	<u>(2,029,516)</u>	<u>(6,221,450)</u>	<u>(5,282,498)</u>
Changes in non-cash operating working capital				
Accounts, grants and funding receivables	976,076	177,045	463,330	(340,296)
Inventories	(584,676)	1,132,362	(197,881)	(109,085)
Prepaid expenses	(178,503)	(57,191)	(215,202)	(95,308)
Accounts payable and accrued liabilities	635,126	470	1,146,080	606,729
Deferred revenue	(550,017)	(321,427)	(146,128)	(281,532)
	<u>298,006</u>	<u>931,259</u>	<u>1,050,199</u>	<u>(219,492)</u>
	<u>(1,522,697)</u>	<u>(1,098,257)</u>	<u>(5,171,251)</u>	<u>(5,501,990)</u>
<b>Cash flows used in investing activities</b>				
Increase in short term investments	(7,400,000)	-	(7,400,000)	-
Purchase of property, plant and equipment	(383,773)	(712,066)	(841,442)	(1,100,164)
Government grants and funding related to property, plant and equipment	29,969	137,430	86,621	193,683
Proceeds on sale of property, plant and equipment	350	-	3,850	10,000
Restricted cash	-	-	(1,112,731)	-
	<u>(7,753,454)</u>	<u>(574,636)</u>	<u>(9,263,702)</u>	<u>(896,481)</u>
<b>Cash flows from financing activities</b>				
Issuance of common shares	20,000,250	-	20,000,250	15,050,000
Share issue costs	(1,497,328)	(365,331)	(1,497,328)	(3,116,530)
Issuance of common shares on exercise of stock options	5,064	5	84,486	20,462
Repayment of bank debt	(58,472)	-	(130,752)	-
Term loan advance	153,446	650,518	153,446	650,518
Repayment of obligations under capital lease	(110,860)	(115,568)	(110,860)	(115,568)
	<u>18,492,100</u>	<u>169,624</u>	<u>18,499,242</u>	<u>12,488,882</u>
<b>Increase (decrease) in cash and equivalents</b>	<b>9,215,949</b>	<b>(1,503,270)</b>	<b>4,064,289</b>	<b>6,090,411</b>
<b>Cash and equivalents – Beginning of period</b>	<b>5,262,559</b>	<b>14,285,604</b>	<b>10,414,219</b>	<b>6,691,923</b>
<b>Cash and equivalents – End of period</b>	<b>\$ 14,478,508</b>	<b>\$ 12,782,334</b>	<b>\$ 14,478,508</b>	<b>\$ 12,782,334</b>

## Notes to the financial statements

### 1. United States generally accepted accounting principles

The Company follows Canadian GAAP, which are different in certain respects from generally accepted accounting principles 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)	June 30, 2006		September 30, 2005	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
	\$	\$	\$	\$
Shareholders’ equity				
Common shares	108,317,011	99,862,245	89,774,802	81,320,036
Contributed surplus	6,913,432	5,592,304	6,647,129	5,326,001

#### Consolidated statements of operations and deficit

Unaudited (expressed in Canadian dollars)	Three months ended		Nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	Loss for the period under Canadian GAAP	\$(2,134,814)	\$(2,562,676)	\$(7,538,338)
Preferred share conversion	-	-	-	1,790,253
Loss for the period under U.S. GAAP	(2,134,814)	(2,562,676)	(7,538,338)	(5,138,804)
Deficit - Beginning of period under Canadian GAAP	(90,186,084)	(79,632,083)	(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	1,790,253	-
Deficit - Beginning of period under U.S. GAAP	(80,410,191)	(69,807,409)	(75,006,666)	(65,526,188)
Preferred share conversion under Canadian and U.S. GAAP	-	-	-	(1,705,093)
Deficit - End of period under U.S. GAAP	\$(82,545,004)	\$(72,370,085)	\$(82,545,004)	\$(72,370,085)
Loss per share - U.S. GAAP	(\$0.05)	(\$0.07)	(\$0.19)	(\$0.25)

## Consolidated statements of cash flows

Unaudited (expressed in Canadian dollars)	Three months ended		Nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Loss for the period under U.S. GAAP	\$(2,134,814)	\$(2,562,676)	\$(7,538,338)	\$(5,138,804)
Items not involving cash				
Amortization	187,360	415,716	951,218	1,171,638
Gain on sale of property, plant and equipment	(350)	-	(8,424)	(6,523)
Non-cash compensation expense recorded in contributed surplus	127,101	111,033	373,591	485,191
Foreign currency loss (gain)	-	6,411	503	(3,747)
Changes in non-cash operating working capital	298,006	931,259	1,050,199	(219,492)
Cash flows used in operating activities under U.S. GAAP	(1,522,697)	(1,098,257)	(5,171,251)	(3,711,737)
Cash flows from financing activities under Canadian GAAP	18,492,100	169,624	18,499,242	12,488,882
Preferred share conversion under U.S. GAAP	-	-	-	(1,790,253)
Cash flows from financing activities under U.S. GAAP	18,492,100	169,624	18,499,242	10,698,629
Cash flows used in investing activities under U.S. and Canadian GAAP	(7,753,454)	(574,636)	(9,263,702)	(896,481)
Increase in cash and cash equivalents under U.S. and Canadian GAAP	\$9,215,949	\$(1,503,270)	\$4,064,289	\$6,090,411

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

Prior to the Company's IPO, 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 IPO, 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 IPO, 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 IPO. 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.

-30-

**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.

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