



Quest Capital Corp.

Restated Consolidated Financial Statements

March 31, 2007

(Expressed in thousands of Canadian dollars)

(Unaudited)

Quest Capital Corp.

Restated Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Restated (note 13) March 31, 2007	Restated (note 13) December 31, 2006
Assets		
Cash and cash equivalents	\$ 9,743	\$ 9,506
Marketable securities	2,597	1,865
Loans (note 5)	250,274	269,522
Investments	16,341	9,980
Future tax asset	11,805	14,500
Restricted cash	2,571	2,568
Prepaid and other receivables	321	686
Resource and capital assets	446	477
Other assets	1,232	1,253
	<u>\$ 295,330</u>	<u>\$ 310,357</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 5,798	\$ 4,290
Income taxes payable	2,192	2,981
Deferred interest and loan fees	-	4,620
Future income taxes	1,313	1,326
Asset retirement obligation	964	1,011
Debt payable (note 6)	-	22,000
	<u>10,267</u>	<u>36,228</u>
Shareholders' Equity		
Share capital (note 7)	203,110	202,513
Contributed capital (note 7)	6,511	6,479
Accumulated other comprehensive income	6,362	2,138
Retained earnings	69,080	62,999
	<u>285,063</u>	<u>274,129</u>
	<u>\$ 295,330</u>	<u>\$ 310,357</u>

Contingencies and commitments (note 10)

Approved by the Board of Directors

"Bob Buchan"

Director

"Brian E. Bayley"

Director

The accompanying notes are an integral part of these consolidated financial statements.

Quest Capital Corp.

Restated Consolidated Statements of Retained Earnings

Three months ended March 31, 2007 and 2006

(Expressed in thousands of Canadian dollars)

(Unaudited)

	Restated (note 13) 2007	Restated (note 13) 2006
Retained earnings - Beginning of period - as originally reported	\$ 67,231	\$ 30,739
Adjustment for future income taxes accounting error (note 13)	(4,232)	(4,232)
Retained earnings - Beginning of period - as restated	62,999	26,507
Adoption of financial instruments standards (note 4)	1,591	-
Net earnings for the period	7,389	8,028
Dividends	(2,899)	-
Retained earnings - End of period	\$ 69,080	\$ 34,535

The accompanying notes are an integral part of these consolidated financial statements.

Quest Capital Corp.

Restated Consolidated Statements of Earnings

For the three months ended March 31, 2007 and 2006

(Expressed in thousands of Canadian dollars, except per share amounts)

(Unaudited)

	2007	2006
Interest and related fees	\$ 10,807	\$ 5,798
Non-interest income		
Management and finder's fees	726	1,251
Marketable securities and other assets trading gains	1,041	1,738
Realized gains, net of writedowns of investments	1,116	2,956
Other income and gold sales	-	16
	2,883	5,961
Total interest and non-interest income	13,690	11,759
Interest on debt	(230)	-
	13,460	11,759
Expenses and other		
Salaries and benefits	899	668
Bonuses	1,350	1,600
Stock-based compensation	200	136
Office and other	314	198
Legal and professional services	360	467
Regulatory and shareholder relations	271	264
Directors' fees	66	88
Sales tax	650	-
Foreign exchange loss (gain)	19	(1)
Other expenses relating to resource properties	16	24
	4,145	3,444
Earnings before income taxes	9,315	8,315
Provision for income taxes (note 8)	1,926	287
Net earnings for the period	\$ 7,389	\$ 8,028
Earnings per share		
Basic	0.05	0.07
Diluted	0.05	0.06
Weighted average number of shares outstanding		
Basic	144,956,018	122,932,235
Diluted	148,654,198	126,053,811

The accompanying notes are an integral part of these consolidated financial statements.

Quest Capital Corp.

Restated Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2007

(Expressed in thousands of Canadian dollars)

(Unaudited)

	Restated (note 13) 2007
Net earnings for the period	<u>\$ 7,389</u>
Other comprehensive income, net of tax	
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	9
Unrealized gains on available-for-sale financial assets arising during the period	1,962
Reclassification adjustment for gains recorded included in net income	<u>21</u>
Other comprehensive income	<u>1,992</u>
Comprehensive income	<u><u>\$ 9,381</u></u>
Accumulated other comprehensive income – Beginning of period (note 4)	\$ 2,138
Adoption of financial instruments standards (note 4)	2,232
Other comprehensive income for the period	<u>1,992</u>
Accumulated other comprehensive income – End of period	<u><u>\$ 6,362</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Quest Capital Corp.

Restated Consolidated Statements of Cash Flows
For the three months ended March 31, 2007 and 2006
 (Expressed in thousands of Canadian dollars)
 (Unaudited)

	2007	2006
Cash flows from operating activities		
Net earnings for the period	\$ 7,389	\$ 8,028
Items not affecting cash:		
Future tax asset	1,679	(12)
Stock-based compensation	200	136
Amortization of deferred interest and loan fees	(1,832)	(945)
Marketable securities and other assets trading gains	(1,041)	(1,738)
Realized gains, net of writedowns of investments	(1,116)	(2,956)
Other	44	61
Other assets and investments received as finder's fees	-	(394)
Deferred interest and loans fees received	226	1,232
Activity in marketable securities held for trading		
Purchases	(1,685)	(557)
Proceeds on sales	2,910	3,044
Expenditures for reclamation and closure	(55)	(593)
Changes in prepaid and other receivables	364	51
Changes in accounts payables and accrued liabilities	1,511	1,051
Changes in income taxes payable	(773)	-
	<u>7,821</u>	<u>6,408</u>
Cash flows from financing activities		
Proceeds from shares issued	429	13,300
Dividend payment	(2,899)	(3,518)
Proceeds from debt	8,000	-
Repayment of debt	(30,000)	-
	<u>(24,470)</u>	<u>9,782</u>
Cash flows from investing activities		
Net (increase) decrease in loans	15,625	(35,578)
Activity in investments		
Proceeds on sales	1,302	6,220
Purchases	-	(278)
Change in restricted cash	(29)	(1,523)
Expenditures on resource and fixed assets	(6)	(13)
Net other assets acquired	-	-
	<u>16,892</u>	<u>(31,172)</u>
Foreign exchange gain (loss) on cash held in a foreign subsidiary	(6)	26
Increase (decrease) in cash and cash equivalents	237	(14,956)
Cash and cash equivalents - Beginning of period	9,506	33,739
Cash and cash equivalents - End of period	<u>\$ 9,743</u>	<u>\$ 18,783</u>

Supplemental cash flow information (note 12)

The accompanying notes are an integral part of these consolidated financial statements.

Quest Capital Corp.

Notes to Restated Consolidated Financial Statements

Three months ended March 31, 2007

(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

1 Nature of operations

Quest Capital Corp.'s ("Quest" or the "Company") primary focus is providing commercial bridge loans and mortgage financings. The Company also provides a range of services including the raising of capital, consulting, management and administrative services through its wholly owned subsidiaries, Quest Management Corp. and Quest Securities Corporation.

2 Basis of presentation

The accompanying financial information does not include all disclosure required under generally accepted accounting principles for annual financial statements. The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These consolidated financial statements should be read in conjunction with the Company's 2006 audited annual financial statements and notes.

3 Significant accounting policies

These interim consolidated financial statements follow the same accounting policies and methods of application as the Company's annual financial statements, except as noted below. These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the Company's accounts and those of its wholly-owned subsidiaries, Quest Management Corp., Quest Securities Corporation, Viceroy Gold Corporation and its 75% proportionate joint-venture interest in the Castle Mountain Property.

4 Change in accounting policies - restated

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income (the "Financial Instrument Standards"). As the Company has not undertaken any hedging activities, adoption of Section 3865 currently has no impact on the Company. Prior to January 1, 2007, the principal accounting policies affecting the Company's financial instruments were: marketable securities were valued at the lower of average cost and market value, investments were valued at cost or at cost less amounts written off to reflect any impairment in value considered to be other than temporary, loans were stated net of an allowance for credit losses on impaired loans and other assets were valued at the lower of cost and net realizable value.

The adoption of the Financial Instrument Standards requires the presentation of a separate statement of comprehensive income. Loans are recorded at amortized cost, subject to impairment reviews. Fees received for originating the loans are netted against the loans' cost and are recognized in net earnings using the effective interest rate method. Investments and marketable securities are recorded in the consolidated balance sheet at fair value. Fair value is determined directly by reference to

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Three months ended March 31, 2007

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(Unaudited)

quoted market prices in an active market. Changes in fair value of marketable securities are recorded in earnings and changes in the fair value of investments have been reported in other comprehensive income. The transitional adjustments in respect of these standards have been made to opening marketable securities, investments and loan balances and adjusted through retained earnings and accumulated other comprehensive income as at January 1, 2007.

As a consequence of adopting the Financial Instrument Standards at January 1, 2007, retained earnings increased by \$1.6 million, currency translation adjustment decreased by \$2.1 million and accumulated other comprehensive income increased by \$4.3 million. These movements reflect an increase of \$0.4 million in marketable securities, a \$3.4 million increase in investments, a decrease in deferred interest and loan fees of \$4.6 million and a decrease in loans of \$4.6 million. These adjustments represent the net gain on measuring the fair value of held for trading and available for sale investments, which had not been recognized on a fair value basis prior to January 1, 2007.

5 Loans

- a) Loans are repayable over various terms up to 24 months from March 31, 2007, and bear interest at a fixed rate of between 8% and 18% before commitment and other fees. Marketable securities, real property, real estate, corporate or personal guarantees generally are pledged as collateral. At March 31, 2007, the loan portfolio was comprised of 89% real estate mortgages, 9% in the resource sectors and 2% in other sectors. At March 31, 2007, the real estate mortgages were located as follows: 48% in British Columbia, 38% in Alberta, 12% in Ontario and 2% in other; and, 81% were first mortgages and 19% were second mortgages. As at March 31, 2007, the Company's loan portfolio consisted of 48 loans.

As at March 31, 2007, 70% of the Company's loan portfolio is due within a year. The Company had approximately \$24.8 million of loans impaired as a result of certain principal and/or interest payments being in arrears as at March 31, 2007. The Company does not have a provision for loan losses. The Company monitors the repayment ability of borrowers and the value of underlying collateral. In determining the provision for possible loan losses, management considers the length of time the loans has been in arrears, the overall financial strength of borrowers and the residual value of collateral pledged. The Company expects to collect the full carrying value of its loan portfolio. As at March 31, 2007, the Company had 5 impaired loans.

Subsequent to March 31, 2007, \$12.5 million of impaired loans were repaid or cured.

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Three months ended March 31, 2007

(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

- b) The Company has recorded changes in the allowance for loan losses as follows:

	<u>2007</u>
Balance - Beginning of period	\$ 586
Add:	
Specific provision for the period	-
Less:	
Loan write-offs	<u>(586)</u>
Balance - End of period	<u>\$ -</u>

- c) At March 31, 2007, the Company has entered into agreements to advance funds of \$3.6 million. Advances under these agreements are subject to a number of conditions including due diligence and completion of documentation.

6 Debt payable

In March 2007, the Company entered into a collateralized revolving debt facility with the Bank of Nova Scotia for up to \$25 million. The facility bears interest at prime or bankers acceptance notes plus 1.25%.

7 Share capital

- a) Authorized

Unlimited First and Second Preferred Shares
Unlimited common shares without par value

- b) Shares issued and outstanding

	<u>Number of Shares</u>		<u>Amount</u>
Common shares			
Opening balance – January 1, 2007	144,842,628	\$	202,513
Issued on exercise of stock options	220,000		597
Ending balance – March 31, 2007	<u>145,062,628</u>	<u>\$</u>	<u>203,110</u>

Quest Capital Corp.

Notes to Restated Consolidated Financial Statements

Three months ended March 31, 2007

(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

c) Compensation options issued and outstanding

	Number of options	Exercise price per share	Expiry date
Common shares			
Opening balance – January 1, 2007			
comprised of:	-	-	
Issued pursuant to a equity placement	1,085,775	\$ 2.30	August 23, 2007
Issued pursuant to a equity placement	48,000	2.30	October 26, 2007
	<u>1,133,775</u>		
Exercised	<u>-</u>		
Ending balance – March 31, 2007	<u>1,133,775</u>		

d) Stock options outstanding

The Company has a stock option plan under which the Company may grant options to its directors, employees and consultants for up to 10% of the issued and outstanding common shares. The exercise price of each option is required to be equal to or higher than the market price of the Company's common shares on the day of grant. Vesting and terms of the option agreement are at the discretion of the Board of Directors.

During the three months ended March 31, 2007, the change in stock options outstanding was as follows:

	Number of shares	Weighted average share price
Common shares		
Opening balance	8,981,333	\$ 2.01
Granted	1,770,000	3.12
Exercised	(220,000)	1.95
Expired	(57,032)	2.88
	<u>10,474,301</u>	<u>\$ 2.20</u>
Closing balance	<u>10,474,301</u>	<u>\$ 2.20</u>
Options exercisable	<u>8,334,281</u>	<u>\$ 2.01</u>

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(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

The following table summarizes information about stock options outstanding and exercisable at March 31, 2007:

Options outstanding				Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining contracted life (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
\$ 0.81	113,333	0.56	0.81	113,333	0.81
\$ 1.51	273,000	2.39	1.51	273,000	1.51
\$ 1.80 to 1.95	6,650,000	1.87	1.95	6,650,000	1.95
\$ 2.30	1,167,968	3.71	2.30	844,515	2.30
\$ 2.64 to 3.21	2,270,000	4.62	3.04	453,433	2.88
	10,474,301	2.67	2.20	8,334,281	2.01

e) Contributed capital

Opening balance	\$ 6,479
Stock-based compensation	200
Fair value of stock options exercised	(168)
Ending balance	<u>\$ 6,511</u>

The fair values of options granted during the three months ended March 31, 2007 have been estimated using an option pricing model. Assumptions used in the pricing model are as follows:

Risk-free interest rate	3.98%
Expected life of options	3.0 years
Expected stock price volatility	35%
Expected dividend yield	2.56%
Weighted average fair value of options	\$ 0.76

8 Income taxes

The Company has utilized tax losses in certain of its entities to reduce its taxable income in Canada. The Company has recognized a future tax asset to the extent that the amount is more likely than not to be realized from future earnings.

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(Unaudited)

The provisions for income taxes consists of the following:

	<u>2007</u>	<u>2006</u>
Current		
Canada	\$ 98	\$ 299
Total current expenses	<u>98</u>	<u>299</u>
Future		
Canada	<u>1,828</u>	<u>(12)</u>
Total future recovery	<u>1,828</u>	<u>(12)</u>
Total provision for income taxes	<u>\$ 1,926</u>	<u>\$ 287</u>

9 Related party transactions

- a) For the three months ended March 31, 2007, the Company received \$180,000 (2006 - \$262,000) in advisory, management and finder's fees from parties related by virtue of having certain directors and officers in common. Other assets include \$345,000 of non-transferable securities held in either private or publicly traded companies related by virtue of having certain directors and officers in common.
- b) Loans include \$nil (December 31, 2006 = \$nil) in amounts due from parties related by virtue of having certain directors and officers in common. During the three months ended March 31, 2007, the Company received \$nil (2006 - \$376,000) in interest and fees from related parties by virtue of having certain directors and officers in common. During the three months ended March 31, 2007, the Company has made no additional provision for losses on loans from a party related by virtue of having a director in common.
- c) For the three months ended March 31, 2007, the Company received \$12,000 (2006-\$12,000) in syndication loan administration fees from parties related by virtue of having certain directors and officers in common.
- d) Marketable securities and investments include \$15,358,000 (December 31, 2006 - \$9,143,000) of shares held in publicly traded companies related by virtue of having certain directors and officers in common. For the three months ended March 31, 2007, the Company recorded a gain on disposal of securities of \$213,000 (2006 - \$3.6 million) from parties related by virtue of having certain directors and officers in common.

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Three months ended March 31, 2007

(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

- e) Included in accounts payable at March 31, 2007 is \$4,085,000 due to employees, consultants and officers for bonuses.

10 Contingencies and commitments

- a) Surety bond guarantees totalling US\$2,405,000 have been provided by Castle Mountain Joint Venture for compliance with reclamation and other environmental agreements.
- b) On March 22, 2002, Quest Investment Corporation (a predecessor company) and other parties were named as defendants in a lawsuit filed in the Supreme Court of British Columbia. The plaintiff has claimed approximately \$410,000 plus interest due for consulting services. Management intends to fully defend this claim. No provision has been made for this claim in the consolidated financial statements. The ultimate outcome of this claim is not determinable at the time of issue of these consolidated financial statements and the costs, if any, will be charged to earnings in the period(s) in which they are finally determined.
- c) The Company has entered into operating leases for office premises. Minimum annual lease payments required are approximately as follows:

2007	\$	434,000
2008	\$	358,000
2009	\$	358,000
2010	\$	281,000
2011	\$	43,000

- d) Other commitments and contingencies are disclosed elsewhere in these consolidated financial statements and notes.

11 Segmented information

The Company has primarily one operating segment, which is financial services. The Company's geographic location is Canada.

12 Supplemental cash flow information

Non-cash financing and investing activities

	<u>2007</u>		<u>2006</u>	
Marketable securities and investments received as loan fees	\$	617	\$	475

Quest Capital Corp.

Notes to Restated Consolidated Financial Statements

Three months ended March 31, 2007

(Expressed in Canadian dollars; tables in thousands, except share capital information)

(Unaudited)

13 Restatement of Financial Statements

During 2007, the Company undertook a review of business alternatives for its wholly owned U.S. subsidiary, Viceroy Gold Corporation (“Viceroy Gold”), and management identified a historical accounting error related to the failure to recognize future income taxes, relating to the differences in the accounting and tax values of certain assets and liabilities held by Viceroy Gold. Management thereafter determined that amendments should be reflected in these restated consolidated financial statements.

As a result, the Company has recorded an adjustment to opening retained earnings at December 31, 2004 totaling \$4.2 million to recognize current and future taxes for the period from 2000 to 2003. As this liability is denominated in U.S. dollars, subsequent change in the foreign exchange rates are reflected in the accumulated other comprehensive income (previously currency translation adjustment) account.

In addition, the Company has recorded an adjustment of \$1.3 million to its future tax asset and retained earnings, related to the adoption of financial instruments standards disclosed in note 4 of the financial statements. This adjustment reflects an accounting error related to the adoption of financial instruments standards effective January 1, 2007.

The effect of the restatement on the restated consolidated financial statements is summarized below.

Balance Sheet – March 31, 2007	As previously reported	Adjustments	As restated
Future tax asset ⁽¹⁾	\$ 10,500	\$ 1,305	\$ 11,805
Income taxes payable	237	1,955	2,192
Future income taxes	-	1,313	1,313
Retained earnings ⁽¹⁾	72,007	(2,927)	69,080
Other comprehensive income	5,398	964	6,362

(1) Includes a \$1.3 million adjustment related to the adoption of financial instruments standards disclosed in note 4.

Balance Sheet – December 31, 2006	As previously reported	Adjustments	As restated
Income taxes payable	\$ 1,009	\$ 1,972	\$ 2,981
Future income taxes	-	1,326	1,326
Retained earnings	67,231	(4,232)	62,999
Other comprehensive income	1,204	934	2,138

There are no changes to the Company’s consolidated statement of earnings for the three months ended March 31, 2007 and 2006, as the error relates to tax provisions prior to fiscal year 2004.

QUEST CAPITAL CORP.
RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2007

INTRODUCTION

The following information, initially prepared as of May 4, 2007, should be read in conjunction with Quest Capital Corp.'s (the "Company") restated interim consolidated financial statements as at March 31, 2007 and for the three months ended March 31, 2007 and 2006 and its restated audited annual consolidated financial statements as at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004 and related notes attached thereto. These statements, together with the related management's discussion and analysis ("MD&A"), have been prepared in accordance with Canadian generally accepted accounting principles ("Cdn GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated. This report has been amended and restated as at August 2, 2007, as discussed below.

The business of the Company consists of:

- mortgage financings secured by first and second real estate mortgages;
- commercial bridge loans provided primarily to publicly traded development stage companies;
- financial and corporate assistance in arranging equity offerings for companies; and
- management and administrative services to public and private companies.

The Company generates the majority of its revenues through interest it earns on its loan portfolio. The Company's revenues are subject to the return it is able to generate on its capital, its ability to reinvest funds as loans mature and are repaid and the nature and credit quality of its loan portfolio, including the quality of the collateral security. In addition, the Company generates revenues from gains on the sale of marketable securities and investments. The Company also receives fees from its corporate finance activities; these fees are subject to the number and value of the transactions in which the Company participates.

The following discussion, analysis and financial review is comprised of 14 main sections:

1. AMENDMENT AND RESTATEMENT TO THE COMPARATIVE PERIODS
2. RESULTS OF OPERATIONS
3. SUMMARY OF QUARTERLY RESULTS
4. LIQUIDITY
5. RELATED PARTY TRANSACTIONS
6. SUBSEQUENT AND PROPOSED TRANSACTIONS
7. OFF BALANCE SHEET ARRANGEMENTS
8. OUTLOOK
9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES
10. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION
11. DISCLOSURE OF OUTSTANDING SHARE DATA
12. RISKS AND UNCERTAINTIES
13. FORWARD LOOKING INFORMATION
14. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Additional information about the Company, including its Annual Information Form and other public filings, are available on SEDAR at www.sedar.com.

1. AMENDMENT AND RESTATEMENT TO THE COMPARATIVE PERIODS

During 2007, the Company undertook a review of business alternatives for its wholly owned U.S. subsidiary, Viceroy Gold Corporation (“Viceroy Gold”), and management identified a historical accounting error related to the failure to recognize future income taxes, relating to the differences in the accounting and tax values of certain assets and liabilities held by Viceroy Gold. Management thereafter determined that amendments should be reflected in these restated consolidated financial statements.

As a result the Company has recorded an adjustment to opening retained earnings at December 31, 2004 totaling \$4.2 million to recognize current and future taxes for the period from 2000 to 2003. As this liability is denominated in U.S. dollars, subsequent change in the foreign exchange rates are reflected in the accumulated other comprehensive income (previously currency translation adjustment) account.

In addition, the Company has recorded an adjustment of \$1.3 million to its future tax asset and retained earnings, related to the adoption of financial instruments standards disclosed in note 4 of the financial statements. This adjustment reflects an accounting error related to the adoption of financial instruments standards effective January 1, 2007.

There are no changes to the Company’s consolidated statement of earnings for the three months ended March 31, 2007 and 2006, as the error relates to tax provisions prior to fiscal year 2004.

Quarterly disclosures – (unaudited)

(In thousands of Canadian dollars)

	First Qtr 2007	Fourth Qtr 2006	Third Qtr 2006	Second Qtr 2006	First Qtr 2006	Fourth Qtr 2005	Third Qtr 2005	Second Qtr 2005
Total assets								
Previous	294,025	310,357	284,935	267,891	208,060	189,603	166,928	123,487
Restated	295,330	310,357	284,935	267,891	208,060	189,603	166,928	123,487
Total liabilities								
Previous	6,999	32,930	20,885	14,828	8,999	12,009	6,718	7,525
Restated	10,267	36,228	24,048	17,987	12,284	15,309	10,008	10,993

This MD&A reflects all amounts as restated to address the items discussed above.

2. RESULTS OF OPERATIONS

Total assets as at March 31, 2007 were \$295.3 million comprised of \$9.7 million of cash, \$2.6 million of marketable securities, \$250.3 million in loans, \$16.3 million in investments and \$16.4 million of other assets.

The loan portfolio at March 31, 2007 was comprised of 89% in first and second real estate mortgages, 9% in the resource sectors and 2% in other sectors. As at December 31, 2006, the loan portfolio was comprised of 87% in first and second real estate mortgages, 12% in resource sectors, and 1% in other sectors. At March 31, 2007, mortgages were located as follows: 48% in British Columbia, 38% in Alberta, 12% in Ontario and 2% in other areas; of which 81% were first mortgages and 19% were second mortgages. This investment concentration may vary from time to time depending on the investment opportunities available, however in the near term the Company does not expect any material changes in the composition of its loan portfolio. As at March 31, 2007, the Company's loan portfolio consisted of 48 loans.

For the three months ended March 31, 2007 the Company had consolidated earnings before taxes of \$9.3 million compared to \$8.3 million in the comparative period in 2006. For the three months ended March 31, 2007 the Company had consolidated net earnings of \$7.4 million compared to \$8.0 million in the comparative period in 2006.

During the three months ended March 31, 2007, the Company has recorded \$0.6 million as sales tax expense, related to certain tax filings (refer to management's report on internal controls over financial reporting).

Interest and Related Fees

Net interest income from the Company's lending activities increased to \$10.8 million for the first quarter of 2007 as compared to \$5.8 million in 2006 due to the growth in the loan portfolio year-over-year. Total loans as at March 31, 2007 were \$250.3 million as compared to \$264.9 million (net of deferred interest and loan fees) as at December 31, 2006, representing a decrease of 6%. During the current quarter approximately 14% of our loan portfolio was repaid. Included in interest and related fees is interest and related fees earned on bridge loans totaling \$2.4 million during the three months ended March 31, 2007 and \$0.9 million earned during the three months ended March 31, 2006.

Non-Interest Income

During the three months ended March 31, 2007, fees recorded from management and finder's fees totaled \$0.7 million, compared to \$1.3 million in the comparative period in 2006. This decrease is primarily due to a decrease in corporate finance services rendered as compared to the first quarter in 2006.

During the three months ended March 31, 2007, the Company recorded trading gains of \$1.0 million compared to gains of \$1.7 million in the comparative period in 2006.

Net realized gains from the sales of investments resulted in the Company recording gains of \$1.1 million in 2007 compared to gains of \$3.0 million in the comparative period in 2006.

Expenses and Other

Total expenses and other for the three months ended March 31, 2007 were \$4.1 million as compared to \$3.4 million in the comparative period in 2006.

Salaries and benefits increased to \$0.9 million in 2007 compared to \$0.7 million in 2006 as a result of expansion of the business and the addition of new employees. During the three months ended March 31, 2007, the Company's employees increased by four.

Bonuses for the three months ended March 31, 2007 were \$1.4 million as compared to \$1.6 million in the comparative period in 2006. This represents amounts allowed under the incentive plan to officers, employees and consultants of the Company. The payments and allocations under such plan are subject to the approval of the Compensation Committee and Board of Directors.

Income tax expense was \$1.9 million for the three months ended March 31, 2007, compared to an expense of \$0.3 million in the comparative period in 2006. The Company has recognized an additional \$1.3 million future tax asset during the three months ended March 31, 2007, based on the likely realization of certain time released tax deductions which will be utilized against future taxable earnings. Income tax expense reported in 2007 is primarily a non-cash item, as it is the draw down of the future tax asset, as shown on the Company's balance sheet.

During the three months ended March 31, 2007, the Company has recorded \$0.6 million as sales tax expense, related to certain tax filings (refer to management's report on internal controls over financial reporting).

Comprehensive Income

The Company is reporting comprehensive income for the first time, having adopted the new accounting standards for financial reporting which were effective for Canadian companies on January 1, 2007. The most significant components of other comprehensive income were the unrealized mark-to-market gains on the Company's investments in the available-for-sale investment category and currency translation adjustments.

3. SUMMARY OF QUARTERLY RESULTS

(In thousands of Canadian dollars, except per share amounts)

	Restated First Qtr 2007	Restated Fourth Qtr 2006	Restated Third Qtr 2006	Restated Second Qtr 2006	Restated First Qtr 2006	Restated Fourth Qtr 2005	Restated Third Qtr 2005	Restated Second Qtr 2005
Interest and related fees	10,807	10,597	8,781	7,415	5,798	5,555	4,399	4,004
Non-interest income	2,883	1,265	3,368	7,905	5,961	4,028	1,883	2,377
Earnings before taxes	9,315	7,918	9,087	11,664	8,315	5,059	4,291	4,507
Net earnings	7,398	16,021	8,770	10,882	8,028	11,395	4,295	4,550
Basic Earnings Per Share	0.05	0.12	0.06	0.08	0.07	0.10	0.04	0.05
Total Assets	295,330	310,357	284,935	267,891	208,060	189,603	166,928	123,487
Total Liabilities	10,267	36,228	24,048	17,987	12,284	15,309	10,008	10,993

The Company's interest and related fees have continued to increase for the past eight quarters as the Company's loan portfolio grows.

Non-interest income varies by quarter depending on the management, advisory, and finder's fees received, marketable securities' trading gains/(losses) and realized gains and write-down of investments. Quarter to quarter comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

During the fourth quarter of 2005, second quarter of 2006 and fourth quarter of 2006, net earnings were positively impacted by the recognition of a future tax asset of \$6.0 million, \$0.8 million and \$7.7 million, respectively, as a result of the likely realization of unused tax losses from future earnings.

4. LIQUIDITY

The Company's cash resources at March 31, 2007 were \$9.7 million as compared to \$9.5 million as at December 31, 2006. The Company's primary focus is to provide loans and its cash balances will vary depending on the timing of loans advanced and repaid.

As at March 31, 2007, the Company has also entered into agreements to advance funds of \$3.6 million. Advances under these agreements are subject to a number of conditions including due diligence and completion of documentation.

The Company's loan portfolio as at March 31, 2007 was \$250.3 million comprised of 89% real estate mortgages, 9% in the resource sectors and 2% in other sectors. As at March 31, 2007, 70% of the loan value is scheduled to mature within a year. The Company had approximately \$24.8 million of loans impaired as a result of certain principal and/or interest payments being in arrears as at March 31, 2007. The Company has not made any allowance for credit losses as the Company expects to collect the full carrying value of its loan portfolio.

For the three months ended March 31, 2007, cash flow from operations provided \$7.8 million as compared to \$6.4 million for the comparative period in 2006, as a result of higher earnings.

During the three months ended March 31, 2007, the Company arranged \$49.5 million of new loans (net to the Company – \$25.8 million) and \$46.8 million of loans (net to the Company - \$38.9 million) were repaid.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's business. However, the Company assumes short-term debt from time to time to fund its investments and loan operations. The Company currently has a \$25 million revolving line of credit with Bank of Nova Scotia. In addition, the Company is reviewing the implementation of other term debt facilities.

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The total minimum lease payments for the years 2007 – 2012 are \$3,159,250.

Obligation due by period

Type of Contractual Obligation	Total	Less than 1 Year	1 - 3 Years	3 – 5 Years	More than 5 Years
Office Leases	\$3,159,250	\$755,000	\$1,639,000	\$685,000	\$80,250-
Loan Commitments	\$3,600,000	\$3,600,000	-	-	-
Total	\$6,759,250	\$4,355,000	\$1,639,000	\$685,000	\$80,250

5. RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2007, the Company received \$0.2 million (2006 - \$0.3 million) in advisory, management and finder's fees from parties related by virtue of having certain directors and officers in common. Other assets include \$0.3 million of non-transferable securities held in either private or publicly traded companies related by virtue of having certain directors and officers in common.

Loans include \$nil (December 31, 2006 - \$nil) in amounts due from parties related by virtue of having certain directors and officers in common. During the three months ended March 31, 2007, the Company received \$nil (2006 - \$0.4 million) in interest and fees from related parties by virtue of having certain directors and officers in common. During the three months ended March 31, 2007, the Company has made no additional provision for losses on loans from a party related by virtue of having a director in common.

For the three months ended March 31, 2007, the Company received \$12,000 (2006 - \$12,000) in syndication loan administration fees from parties related by virtue of having certain directors and officers in common.

Marketable securities and investments include \$15.4 million (December 31, 2006 - \$9,143,000) of shares held in publicly traded companies related by virtue of having certain directors and officers in common. For the three months ended March 31, 2007, the Company recorded a gain on disposal of securities of \$0.2 million (2006 - \$3.6 million) from parties related by virtue of having certain directors and officers in common.

Included in accounts payable at March 31, 2007 is \$4.1 million due to employees, consultants and officers for bonuses.

6. SUBSEQUENT AND PROPOSED TRANSACTIONS

The Company has no subsequent and proposed transactions to report.

7. OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

8. OUTLOOK

As at March 31, 2007, the Company had \$9.7 million of cash on hand. Reinvestment of the Company's cash as loans are repaid is the primarily focus of management. The Company is not planning any material changes in the make-up of its lending business, although the precise composition of its loan portfolio may vary somewhat from the currently existing percentages as loans are made in the context of market conditions. During the upcoming year, the Company may hire additional employees and raise equity or debt required to fund the growth of the Company's loan portfolio (also refer to Liquidity).

9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's accounting policies are described in Note 3 of its audited consolidated financial statements for the years ended December 31, 2006 and 2005. Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in the preparation of its consolidated financial statements and the uncertainties which could materially impact its results, financial condition and cash flows. Management continually evaluates its assumptions and estimates; however, actual results could differ materially from these assumptions and estimates.

Provision for Loan Losses

Loans are stated net of an allowance for credit losses on impaired loans. Such allowances reflect management's best estimate of the credit losses in the Company's loan portfolio and judgments about economic conditions. The evaluation process involves estimates and judgments, which could change in the near term, and result in a significant change to a recognized allowance.

The Company's Credit Committee reviews its loan portfolio at least on a quarterly basis and specific provisions are established on a loan-by-loan basis. In determining the provision for possible loan losses, the Company considers the following:

- length of time the loans have been in arrears;
- the overall financial strength of the borrowers;
- the nature and quality of collateral and, if applicable, guarantees;
- secondary market value of the loans and the collateral; and
- the borrower's plan, if any, with respect to restructuring the loans.

Valuation of Investments

The Company's investments are primarily held in public companies. Effective January 1, 2007, investments are recorded on the balance sheet at their fair value. Fair value is determined directly by reference to quoted market price in an active market (see section 10 below).

Future Tax Assets and Liabilities

The Company has recognized a future tax asset based on the likely realization of tax losses which are to be utilized against future earnings. The Company will reassess at each balance sheet date its existing future income tax assets, as well as potential future income tax assets that have not been previously recognized. In determining whether an additional future income tax asset is to be recognized, the Company will assess its ability to continue to generate future earnings based on its current loan portfolio, expected rate of return, the quality of the collateral security and ability to reinvest the funds. If an asset has been recorded and the Company assesses that the realization of the asset is no longer viable, the asset will be written down. Conversely, if the Company determines that there is an unrecognized future income tax asset which is more-likely-than-not to be realized, it will be recorded in the balance sheet and statement of earnings.

The Company has also recognized a future tax liability related to its former U.S. based operations.

10. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 Financial Instruments – Recognition and Measurement, Section 3865 Hedges and Section 1530 Comprehensive Income (the “Financial Instrument Standards”). As the Company has not undertaken any hedging activities, adoption of Section 3865 currently has no impact on the Company. Prior to January 1, 2007, the principal accounting policies affecting the Company’s financial instruments were: marketable securities were valued at the lower of average cost and market value, investments were valued at cost or at cost less amounts written off to reflect any impairment in value considered to be other than temporary, loans were stated net of an allowance for credit losses on impaired loans and other assets were valued at their net realizable value.

The adoption of the Financial Instrument Standards requires the presentation of a separate statement of comprehensive income. Loans are recorded at amortized cost, subject to impairment reviews. Fees received for originating the loan are netted against the loan’s cost and is recognized in net earnings using the effective interest method. Investments and marketable securities are recorded in the consolidated balance sheet at fair value. Fair value is determined directly by reference to quoted market prices in an active market. Changes in fair value of marketable securities are recorded in income and changes in the fair value of investments have been reported in other comprehensive income. The transitional adjustments in respect of these standards have been made to the opening marketable securities, investments and loan balances and adjusted through retained earnings and accumulated other comprehensive income, as at January 1, 2007. Prior periods have not been restated.

As a consequence of adopting the Financial Instrument Standards at January 1, 2007, retained earnings increased by \$1.6 million, currency translation adjustment decreased by \$2.1 million and accumulated other comprehensive income increased by \$4.3 million. These movements reflect an increase of \$0.4 million in marketable securities, \$3.4 million increase in investments, a decrease in deferred interest and loan fees of \$4.6 million and a decrease in loans of \$4.6 million. These adjustments represent the net gain on measuring the fair value of held for trading and available for sale investments, which had not been recognized on a fair value basis prior to January 1, 2007.

11. DISCLOSURE OF OUTSTANDING SHARE DATA

As at May 4, 2007, the Company had the following common shares, stock options and compensation options outstanding:

Common shares	145,062,628
Stock options	10,474,301
Compensation options	<u>1,133,775</u>
Fully diluted shares outstanding	156,670,704

Dividends

As a reflection of the continued profitability in the Company's business, on November 1, 2006 its board of directors approved an increase in its dividend rate from \$0.06 per year to \$0.08 per year. This new dividend will be paid quarterly, at the rate of \$0.02 per share.

12. RISKS AND UNCERTAINTIES

Additional risks factors are disclosed under "Risk Factors" in the Annual Information Form filed on SEDAR at www.sedar.com.

Liquidity Risk

The Company maintains a sufficient amount of liquidity to fund its obligations as they come due under normal operating conditions. As at March 31, 2007, 70% of the value of the loan portfolio is scheduled to mature within a year.

Credit Risk

Credit risk management is the management of all aspects of borrower risk associated with the total loan portfolio, including the risk of loss of principal and/or interest from the failure of the borrowers to honour their contractual obligations to the Company.

The Company generally provides real estate mortgages to approximately 75% of the value of the security and generally provides commercial bridge loans to primarily publicly traded development stage companies to approximately 50% of the value of guarantees and security (also refer to results of operations for current loan composition details). The Company provides for loan losses on a specific loan basis and had no provision as at March 31, 2007.

13. FORWARD LOOKING INFORMATION

These materials include certain statements that constitute "forward-looking statements" within the meaning of Section 27A of the *United States Securities Act of 1933* and Section 21E of the *United States Securities Exchange Act of 1934*. These statements appear in a number of places in this document and include statements regarding our intent, belief or current expectation and that of our officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, words such as "believe",

“anticipate”, “estimate”, “project”, “intend”, “expect”, “may”, “will”, “plan”, “should”, “would” “contemplate”, “possible”, “attempts”, “seek”, and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are based on various factors and were derived utilizing numerous assumptions that could cause our actual results to differ materially from those in the forward-looking statements. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements include, among others, statements regarding our expected financial performance in future periods, our plan of operations and our business strategy and plans or budgets.

14. MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal Disclosure Controls and Procedures

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company’s filings under securities legislation is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding public disclosure. They are designed to provide reasonable assurance that all information required to be disclosed in these filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company reviews its disclosure controls and procedures; however, it cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

As of December 31, 2006, the Company’s management, including the CEO and CFO, concluded an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on this evaluation, the CEO and CFO were of the view that the Company’s disclosure controls and procedures were effective.

Subsequent to December 31, 2006, this evaluation was revisited in connection with the preparation of the restated financial statements for the years ended December 31, 2006, 2005 and 2004 and three months ended March 31, 2007. In view of the restatement of financial statements described above, the CEO and CFO have concluded that a material weakness existed in the Company’s internal disclosure controls and procedures as of December 31, 2006, related specifically to certain tax filings and computation of future tax provisions. Management recognizes that improvements are required and is taking appropriate action to remediate deficiencies by the end of 2007.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in

accordance with authorizations of management and directors of the Company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management has evaluated the effectiveness of internal control over financial reporting. Based on this evaluation, management has concluded that internal control over financial reporting was not wholly effective as of December 31, 2006, specifically as it related to the determination of tax provisions, as noted in "Internal Disclosure Controls and Procedures".