



QUEST CAPITAL CORP. 2004 Second Quarter Report

REPORT TO SHAREHOLDERS'

Quest Capital Corp. ('Quest' or the 'Company'), is pleased to announce its financial results for the three and six months periods ended June 30, 2004.

- Consolidated net earnings for the second quarter double to \$5.8 million (\$0.07 per share);
- Consolidated net earnings for the six months were \$8.8 million (\$0.10 per share);
- Bridge Loans up 21% to \$41.1 million;
- Total assets continue to grow - totalling \$104.3 million.

For the three months ended June 30, 2004, Quest had consolidated net earnings of \$5.8 million (\$0.07 per share), double the \$2.9 million (\$0.03 per share) recorded in the first quarter. For the first half of the year, Quest had consolidated net earnings of \$8.8 million (\$0.10 per share), compared to consolidated net earnings of \$0.6 million (\$0.02 per share) in the corresponding period of 2003.

During the first half of 2004, demand for bridge loans remained steady resulting in total revenues for the second quarter and six months of \$2.5 million and \$5.8 million, respectively. At June 30, Quest had \$41.1 million in bridge loans and convertible debentures, up from the \$34.9 million recorded at the end of the first quarter.

Expenses during the second quarter have decreased slightly to \$1.5 million from \$1.7 million in the first quarter. The reduction is primarily due to a decrease in legal and professional fees as a result of the Company settling a legal dispute in Australia.

The Company also continued to benefit during the second quarter from a strong junior resource sector with its equity portfolio realizing a gain of \$1.7 million on sales of investments and securities. This compares to the \$0.7 million gain recorded in the first quarter.

During the second quarter the Company realized other income of \$2.6 million comprised of \$2.0 million received in settlement of the legal dispute in Australia and \$0.5 million in proceeds from gold sales.

Total assets at June 30, 2004 were \$104.3 million, which includes \$41.1 million in bridge loans and convertible debentures, \$17.2 million in securities, \$11.9 million in restricted and appropriated cash set aside for reclamation and closure obligations associated with the Company's mining properties and \$30.6 million of cash.

Respectfully submitted on behalf of the
Board of Directors:

Signed:

"Brian E. Bayley"

Brian E. Bayley
CEO and President

"A. Murray Sinclair"

A. Murray Sinclair
Managing Director

Quest Capital Corp.

Consolidated Balance Sheets as of

(expressed in thousands of Canadian dollars - Unaudited)

	June 30, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents	\$ 30,623	\$ 31,797
Appropriated and restricted cash	2,795	3,259
Accounts receivable	-	853
Marketable securities (Market Value - 2004 \$1,007; 2003 - \$1,436)	767	1,097
Bridge loans and convertible debentures	37,371	26,612
Prepays and other receivables	894	1,523
Inventories	-	72
	<u>72,450</u>	<u>65,213</u>
Investments (Market Value - 2004 \$21,124; 2003 - \$21,538)	16,449	12,969
Bridge loans and convertible debentures	3,702	5,647
Resource assets	2,212	2,149
Appropriated and restricted cash	9,101	9,690
Other assets	442	442
	<u>\$ 104,356</u>	<u>\$ 96,110</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 2,479	\$ 1,902
Deferred revenue	705	616
	<u>3,184</u>	<u>2,518</u>
Asset Retirement Obligation	<u>8,325</u>	<u>10,492</u>
	<u>11,509</u>	<u>13,010</u>
Shareholders' Equity		
Share capital	80,760	80,708
Warrants and options	3,471	2,779
Retained earnings/(deficit)	6,728	(2,041)
Currency translation adjustment	1,888	1,654
	<u>92,847</u>	<u>83,100</u>
	<u>\$ 104,356</u>	<u>\$ 96,110</u>

Quest Capital Corp.

Consolidated Statement of Retained Earnings/(Deficit)

For the period ended

(expressed in thousands of Canadian dollars, - unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Retained Earnings/(Deficit) - Beginning of Period	\$ 894	\$ (179,802)	\$ (2,041)	\$ (180,963)
Net Earnings (Loss) for the Period	5,834	(510)	8,769	651
Distribution to Shareholders	0	(5,272)	0	(5,272)
Reduction of stated capital	0	185,584	0	185,584
Retained Earnings/(Deficit) - End of Period	\$ 6,728	\$ -	\$ 6,728	\$ -

Quest Capital Corp.

Consolidated Statement of Earnings/(Loss)

For the period ended

(expressed in thousands of Canadian dollars, except per share amounts - unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Revenues				
Interest and related fees	\$ 2,168	\$ 543	\$ 4,813	\$ 861
Management and finders fees	364	-	1,014	-
Gold Sales	-	1,466	-	3,461
	<u>2,532</u>	<u>2,009</u>	<u>5,827</u>	<u>4,322</u>
Expenses/(Income)				
Cost of Sales	-	1,021	-	1,953
Depreciation and depletion	-	38	-	86
Accretion	123	180	272	369
Salaries & benefits	361	28	783	96
Stock based compensation	336	-	692	-
Professional services	182	252	537	430
Legal	96	84	311	231
Office, insurance and other	194	103	318	190
Director's fees	53	-	53	-
Corporate relations	166	90	222	105
Exploration	-	73	-	195
Royalties	-	136	-	(54)
	<u>1,511</u>	<u>2,005</u>	<u>3,188</u>	<u>3,601</u>
Earnings/(Loss) before the following	1,021	4	2,639	721
Other income/(expense)	2,573	(26)	2,631	84
Provision for loan losses	(75)	-	(75)	-
Gain on sale of investments & marketable securities	1,710	-	2,411	714
Write-down of marketable securities	(75)	(97)	(75)	(97)
Foreign exchange gain/(loss)	172	(864)	591	(1,192)
Gain on disposition of resource assets	72	603	72	603
Changes in asset retirement obligations	438	-	562	87
Earnings (loss) before income taxes	5,836	(380)	8,756	920
Income tax (recovery) expense	2	130	(13)	269
Net earnings (loss) for the period	<u>\$ 5,834</u>	<u>\$ (510)</u>	<u>\$ 8,769</u>	<u>\$ 651</u>
Basic and Fully Diluted Earnings/(Loss) per Share	0.07	(0.01)	0.10	0.02
Weighted Average Shares Outstanding	87,486,507	35,649,193	87,479,146	34,559,832

Quest Capital Corp.

Consolidated Statements of Cash Flows for the Period Ended

(expressed in thousands of Canadian dollars - Unaudited)

	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	2004	2003	2004	2003
Operating Activities				
Earnings for the Period	\$ 5,834	\$ (510)	\$ 8,769	\$ 651
Items not affecting cash				
Stock based compensation	336	-	692	-
Depreciation	20	48	36	103
Gain on sale of marketable securities and investments	(1,710)	-	(2,411)	(714)
Write-down of marketable securities	75	97	75	97
Provision for loan losses	75	-	75	-
Deferred interest and related fees	(956)	(168)	(2,338)	(211)
Shares received as finder's fees	(178)	-	(178)	-
Accretion expense	123	180	272	369
Change in asset retirement obligations	(438)	-	(562)	(87)
Gain on disposal of resource assets	(72)	(525)	(72)	(603)
	3,109	(878)	4,358	(395)
Expenditures for reclamation and closure	(1,074)	(1,014)	(2,144)	(1,380)
Changes in non-cash balanced relating to operations	1,774	(289)	3,591	1,399
	3,809	(2,181)	5,805	(376)
Financing Activities				
Net proceeds from shares issued	52	11,727	52	12,019
Cash flows from investing activities				
Loans advanced	(6,219)	4,522	(8,889)	(6,254)
Expenditures on long term investments	(3,184)	(10)	(10,255)	(160)
Proceeds from sale of long term investments	4,948	-	10,568	-
(Increase) decrease in appropriated and restricted cash	660	(547)	1,362	(35)
Disposal of subsidiaries	-	(1,045)	-	(1,045)
Net cash acquired on the arrangement	-	14,600	-	14,064
Proceeds from disposal of resource assets	119	196	119	196
Expenditures for resource assets	(22)	-	(67)	-
	(3,698)	17,716	(7,162)	6,766
Foreign exchange gain (loss) on Cash Held in a Foreign Subsidiary	133	312	131	(1,200)
Change in Cash and Cash Equivalents	296	27,574	(1,174)	17,209
Cash and Cash Equivalents - Beginning of the Period	30,327	5,513	31,797	15,878
Cash and Cash Equivalents - End of Period	\$ 30,623	\$ 33,087	\$ 30,623	\$ 33,087

Quest Capital Corp.

Notes to Consolidated Financial Statements

For the six months ended June 30, 2004 and 2003

(expressed in Canadian dollars – Unaudited)

1. Basis of Presentation

- (a) These consolidated financial statements should be read in conjunction with the most recent annual consolidated financials statements.
- (b) Certain comparative figures have been restated to conform to the current period's presentation

2. Change in Accounting Policy

On January 1, 2004, the Company adopted the new pronouncements relating to revenue recognition prospectively and recognizes revenue from sales of precious metals when title passes. Previously sales of precious metal were recorded at the estimated net realizable value when the metals were available for delivery and unsettled amounts were recorded as accounts receivable.

3. Loans and Convertible Debentures

Bridge loan and convertible debenture analysis as at June 30, 2004 is as follows:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Bridge loans	\$38,750	\$1,000	\$39,750
Convertible debentures	<u>168</u>	<u>2,702</u>	<u>2,870</u>
Total	\$38,918	\$3,702	\$42,620
Specific allowance	<u>(1,547)</u>	-	<u>(1,547)</u>
Carrying Value	<u>\$37,371</u>	<u>\$3,702</u>	<u>\$41,073</u>

Loans and convertible debentures bear interest at various rates and are collateralized and/or supported by guarantees. As at June 30, 2004, loans and convertible debentures are denominated in Canadian and United States dollars. Of the total, \$1,023,000 (US\$798,000) is denominated in United States dollars and the remainder of \$41,597,000 is denominated in Canadian dollars. The fair value of the loans and convertible debenture is approximately equal to their carrying value.

4. Related Party Transactions

- (a) For the six months ended June 30, 2004, the Company received \$673,000 (2003 - Nil) in management and finders fees from related parties by virtue of certain directors and officers in common.
- (b) Bridge loans and convertible debentures include \$3,279,000 in amounts due from related parties by virtue of certain directors and officers in common. During the six months ended June 30, 2004, the Company received \$375,000 (2003 - \$Nil) in interest and fees from related parties by virtue of certain directors and officers in common.

- (c) For the six months ended June 30, 2004, the Company received \$15,000 (2003 - Nil) in syndication loan administration fees from related parties by virtue of certain directors and officers in common.
- (d) Marketable securities and investments include \$9,013,000 of shares held in either publicly traded or private companies related by virtue of certain directors and officers in common. For the six months ended June 30, 2004, the Company recorded a gain on disposal of securities of \$263,000 (2003 - Nil) from related parties by virtue of certain directors and officers in common.

5. Share Capital

(a) Authorized:

Unlimited First and Second Preferred Shares
 Unlimited Class A Voting ("Class A") and Class B Voting ("Class B") Shares

The Class B shares are convertible at any time at the option of the holder and the Company into Class A shares on the basis of 1.25 Class A share for each Class B share held.

(b) Issued:

	Number of Shares	Amount
Class A Shares		
Opening balance – December 31, 2003	83,194,934	\$76,330
Warrants exercised	<u>88,333</u>	<u>52</u>
Closing balance – June 30, 2004	<u>83,283,267</u>	<u>76,382</u>
Class B Shares		
Balance – December 31, 2003 and June 30, 2004	<u>4,276,851</u>	<u>4,378</u>
Total Share Capital		<u>\$80,760</u>

Subsequent to June 30, 2004, 1,315,403 Class B Shares were converted into 1,644,250 Class A Shares.

(c) Warrants and Options

Opening balance – December 31, 2003	\$2,779
Stock-based compensation	<u>692</u>
Ending balance – June 30, 2004	<u>\$3,471</u>

During 2004, the Company had 1,061,718 options of the total stock options outstanding vest to officers and directors. The fair value cost of the options that vested during the six months ended June 30, 2004 (2003 – Nil) amounts to \$692,000.

(d) Warrants Outstanding

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,836,250	\$1.24	December 23, 2004
8,333,335	\$1.50	June 30, 2008
5,000,000	\$1.60	October 20, 2008

(e) 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 8,319,000 Class A shares. The exercise price of each option is required to be equal to or higher than the market price of the Company's Class A shares on the day of grant. Vesting and terms of the option agreement are at the discretion of the Board of Directors.

During the six months ended June 30, 2004, the change in stock options outstanding was as follows:

	<u>Number of Options</u>	<u>Weighted Average Share Price</u>
Opening balance – December 31, 2003	7,725,828	\$1.97
Granted	-	-
Exercised	-	-
Expired	(133,330)	(4.27)
<u>Ending balance – June 30, 2004</u>	<u>7,592,498</u>	<u>\$1.93</u>
<u>Options Exercisable – June 30, 2004</u>	<u>4,407,908</u>	<u>\$1.92</u>

6. Segmented information

a) The Company's reportable operating segments are as follows:

	As of June 30, 2004					
	Revenue	Depreciation/ accretion	Income tax Expense (recovery)	Gains / (Write- downs)	Net earnings/ (loss)	Total assets*
Loans and investments	\$ 4,813	\$ -	\$ -	\$ 2,852	\$ 7,665	87,978
Management services	1,014	-	-	-	589	930
Resource properties	-	272	40	634	836	14,578
Other	-	-	(53)	-	(321)	870
	\$ 5,827	\$ 272	\$ (13)	\$ 3,486	\$ 8,769	104,356

	As of June 30, 2003					
	Revenue	Depreciation/ accretion	Income tax Expense (recovery)	Gains / (Write- downs)	Net earnings/ (loss)	Total assets*
Loans and investments	\$ 861	\$ -	\$ -	\$ (575)	\$ 286	78,228
Management services	-	-	-	-	-	1,092
Resource properties	3,461	86	269	690	1,333	15,551
Other	-	-	-	-	(968)	1,239
	\$ 4,322	\$ 86	\$ 269	\$ 115	\$ 651	96,110

* As of December 31, 2003

b) The Company operates in the following geographic areas:

	June 30, 2004		June 30, 2003	
	Revenue	Resource assets	Revenue	Resource assets*
Canada	\$ 5,688	\$ 1,315	\$ 697	\$ 1,238
United States	139	665	3,625	679
Peru	-	232	-	232
	\$ 5,827	\$ 2,212	\$ 4,322	\$ 2,149

* As at December 31, 2003