



**QUEST CAPITAL CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE SECOND QUARTER ENDED JUNE 30, 2009**

INTRODUCTION

The following information, prepared as of August 6, 2009, should be read in conjunction with the unaudited interim consolidated financial statements of Quest Capital Corp. ("Quest" or the "Company") as at June 30, 2009 and for the six months ended June 30, 2009 and 2008 and its audited annual consolidated financial statements as at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006, and the related notes attached thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relating to the Company, including the Company's 2008 Annual Information Form, is available on SEDAR at www.sedar.com.

BUSINESS PROFILE AND STRATEGY

Historically, Quest's primary business focus was to utilize its common share equity base of \$291.0 million, augmented by prudent leverage in the form of preferred shares and minimal bank debt, to invest in first mortgages secured by Canadian real estate. The Company also periodically uses loan syndication as a tool to strengthen liquidity while at the same time providing flexibility to further strengthen its balance sheet. However, recent events in the credit and real estate markets have resulted in Quest focusing on the collection of its existing loan portfolio rather than on the origination of new loans.

In December 2008, Quest commenced reducing its revolving debt facility and has reduced the balance drawn to \$nil as at June 30, 2009. In December 2008, the Company completed a \$40 million preferred share issuance, the proceeds of which were primarily used to reduce the revolving debt facility and in April 2009, the Company syndicated \$30 million of its loan portfolio on a senior and subordinated basis which were used to further reduce its revolving debt facility. While the Company may continue to periodically utilize its debt facility for short-term liquidity purposes, the Company is focused on management of cash resources through monetization of the existing loan portfolio and cost reduction measures which were implemented in early 2009.

Since the onset of the credit crisis, take-out financing from conventional sources has become more difficult to obtain for many of Quest's borrowers, and real estate sales have slowed considerably. As a result of this, the Company continues to experience delays in repayments and in receiving its interest payments on certain of its loans. As at December 31, 2008, this had resulted in a significant increase in the number of impaired loans (loans on which the recording of interest income has ceased) in Quest's portfolio. Most of these loans continued to be impaired

as at June 30, 2009. Deterioration in real estate values in markets where Quest operates has resulted in specific loan losses being charged in the second quarter in the amount of \$5.9 million with total allowance for loan losses of \$20.0 million as at June 30, 2009.

As in the previous quarter, Quest did not originate any new loans in the second quarter of 2009. Management has determined it is prudent to not commit to new loans in a declining real estate market and instead to reduce the Company's revolving debt facility and preferred share liability. Currently, Quest intends to fund only existing loan commitments and any appropriate protective disbursements.

Quest is requesting the repayment of all loans on their maturity. Where repayment is not possible, Quest works closely with borrowers to extend the maturity for those who are acting in good faith and have a reasonable business plan that demonstrates a viable repayment strategy which includes the pledging of additional collateral where possible. In other circumstances, Quest will proceed with an orderly disposition of the real estate properties securing the impaired loans in order to mitigate loan losses.

During the three months ended June 30, 2009, Quest was able to monetize \$25.2 million of its loans, including five loans (\$21.4 million) fully repaid and five loans (\$3.8 million) partially repaid. The fully repaid loans included the sale of two foreclosed properties of \$4.4 million. Over the six month period ended June 30, 2009, Quest monetized \$37.6 million of its loans which nine loans (\$30.5 million) were fully repaid and nine loans (\$7.1 million) were partially repaid. The Company expects further monetization of its loan portfolio including proceeds on its impaired loans.

With the repayment of the Company's revolving debt facility, Quest is currently reviewing its business plan to determine the best use of its funds received from the repayment of its outstanding loans.

During this quarter, there were numerous changes to Quest's executive team including the resignation of Kenneth Gordon as Chief Operating Officer and Stephen Coffey as President and Chief Executive Officer. Brian Bayley resumed the role of President and Chief Executive Officer and A. Murray Sinclair, formerly the Co-Chairman, became the Chairman. In addition, other cost reduction measures were implemented including a reduction in executive salaries, closure of the Toronto office and reduction in employee staff count.

As a mortgage investment corporation ("MIC"), Quest's balance sheet is dominated by residentially oriented loans. In general, a loan is residentially oriented if, at the time the loan is made, greater than 80% of the real estate by which the loan is secured, is, or is intended to be, devoted to residential purposes. This includes loans for the development or financing of single family, apartment, condominium, social housing and nursing/retirement residences. Quest also invests in first mortgages secured by commercial real estate and, to a much lesser extent, in loans to the Canadian resource sector.

As a MIC, Quest is able to reduce its taxable income through the payment of dividends to its common and preferred shareholders. A MIC is a special-purpose corporation defined under Section 130.1 of the *Income Tax Act* (Canada). A MIC does not pay corporate-level taxes when all taxable income is distributed to shareholders as dividends during a taxation year or within 90 days of its year end. Taxable Canadian shareholders will have dividend payments subject to Canadian tax as interest income. The Company must continually meet the following criteria to maintain MIC eligibility: (i) at least 50% of its assets must consist of residentially oriented mortgages and/or cash; (ii) it must not directly hold any foreign assets, including investments

secured by real property located outside of Canada; (iii) it must not engage in operational activities outside of the business of lending and investing of funds; and (iv) no person may own more than 25% of any class of the issued and outstanding shares.

NON-GAAP MEASURES

Return on equity (“ROE”), return on assets (“ROA”) and payout ratio on income before taxes do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other companies. ROE and ROA are commonly used measures to compare the performance of lenders. The fact that the Company is a MIC is the major reason the Company calculates payout ratio on income before taxes. These non-GAAP measures used in this management’s discussion and analysis (“MD&A”) are calculated as follows:

- return on equity – net income divided by average shareholders’ equity.
- return on assets – net income divided by average total assets.
- payout ratio on income before taxes – dividends paid divided by income before taxes.

Readers are cautioned not to view non-GAAP measures as alternatives to financial measures calculated in accordance with GAAP.

FINANCIAL PERFORMANCE

Table 1 - Selected Quarterly Financial Information
(\$ thousands, except per share amounts)

	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Key Performance Indicators				
Net interest income	3,882	10,823	10,455	21,531
Other	(309)	114	(296)	234
(Loss) income before income taxes	(5,973)	8,053	(3,907)	15,537
Net (loss) income	(4,280)	7,526	(2,897)	14,625
(Loss) earnings per share – basic	(0.03)	0.05	(0.02)	0.10
(Loss) earnings per share – diluted	(0.03)	0.05	(0.02)	0.10
Return on equity ⁽¹⁾⁽²⁾	(6%)	10%	(2%)	10%
Return on assets ⁽¹⁾⁽²⁾	(5%)	8%	(2%)	8%
Dividends paid per share	-	0.045	-	0.070
Payout ratio on income before taxes ⁽¹⁾	-	82%	-	66%
Total assets			362,452	366,539
Loans receivable			349,810	350,419
Revolving debt facility			-	66,010
Preferred share liability			39,007	-
Non-recourse loan syndication			28,394	-
Total liabilities			71,495	71,015
Shareholders' equity			290,957	295,524
Book value per share			1.94	2.01
Impaired loans – gross outstanding principal			163,839	12,391
Allowance for loan losses			19,998	450
Allowance as a % of impaired loans			12%	4%

(1) See non-GAAP measures disclosed in this MD&A.

(2) Annualized basis.

Quest's shareholders' equity decreased by \$4.6 million or 2% to \$291.0 million at June 30, 2009, from \$295.5 million a year earlier. As a MIC, Quest's retained earnings are not expected to grow since any taxable income is distributed in the form of dividends.

Quest's debt facility, preferred share liability and non-recourse loan syndication to equity ratio as at June 30, 2009 is 0.23 to 1 compared to 0.22 to 1 a year earlier. Total assets as a multiple of equity was 1.20 times as at June 30, 2009, down from 1.25 at June 30, 2008. These low ratios should assist the Company in the current economic climate.

Net income decreased \$11.8 million or 157% for the three months ended June 30, 2009 to a net loss of \$4.3 million as compared to net income of \$7.5 million in the comparable period in 2008. Diluted earnings per share ("EPS") decreased from \$0.05 in 2008 to a per share loss of \$0.03 per share in the three months ended June 30, 2009. The Company recorded specific loan losses of \$5.9 million in the second quarter of 2009 compared to \$nil in 2008.

Quest's total assets have decreased \$4.1 million or 1% to \$362.5 million at June 30, 2009 compared to \$366.5 million a year earlier. Performing loans at June 30, 2009 were \$204.9 million compared to \$347.1 million at June 30, 2008, a decrease of \$142.2 million or 41%. The gross principal outstanding of impaired (non-performing) loans amounted to \$163.8 million at June 30, 2009 compared to \$12.4 million a year earlier. The increase in impaired loans is the result of the restrictive credit environment and declining real estate market values in certain markets.

Net interest income has decreased by \$6.9 million or 64% to \$3.9 million in the three month period ended June 30, 2009 compared to \$10.8 million in the 2008 comparable period as a result of the cessation of interest accruals on impaired mortgages in the portfolio which increased as a result of the deterioration in the credit environment in late 2008 and early 2009.

DIVIDEND POLICY FOR 2009

Quest's common share dividend policy is guided by its status as a MIC. This status allows the Company to reduce its taxable income to a negligible amount through the payment of dividends to common and preferred shareholders after first utilizing any tax losses and other tax deduction carry forwards. At June 30, 2009, there are \$13.5 million of tax losses carried forward from 2009 and prior years which may be utilized in 2009 and future periods. As a result of its ability to utilize these tax losses, Quest did not have taxable income in the first quarter. Quest did not have taxable income in the second quarter of 2009 to utilize these tax losses. Quest will not be paying a dividend on its common shares until it has utilized all of its tax losses and at this time, under the current economic circumstances, Quest cannot reasonably determine the precise timing, in the short term, of the utilization of its tax loss carry forwards.

The Company has the option to pay the 2009 dividends on its preferred shares in common shares of Quest. These preferred share dividends are cumulative and serve to reduce Quest's taxable income. On July 2, 2009, Quest paid the preferred share dividends declared in the second quarter in common shares. For the third quarter of 2009, Quest currently plans to pay any dividends declared on the preferred shares in cash.

OUTLOOK

In Quest's "Outlook" section of its Management Discussion and Analysis for December 31, 2008, issued March 26, 2009, management stated that the repayment of loans by the Company's borrowers is contingent for the most part on the return to a functioning and efficient credit market and a healthy real estate market. These markets have begun to improve modestly however Quest's loans continue to be exposed to further possible impairment and as a consequence further loan losses.

In the view of management, Quest shareholders will best be served in the remainder of 2009 by protecting the Company's balance sheet position and ongoing efforts to preserve its capital. There will very likely be further loan losses in the current real estate and economic conditions, but the Company has a sufficient capital base to absorb these potential losses. In 2009, the Company will continue to concentrate on curing its impaired loans, collecting outstanding loans, reducing existing debt and preferred share liability, expense reductions and preserving its capital.

RESULTS OF OPERATIONS

Table 2 - Condensed Income Statement

(\$ thousands)

	For the three months ended June 30, 2009		For the three months ended June 30, 2008		For the six months ended June 30, 2009		For the six months ended June 30, 2008	
Interest income, other and provision for loan losses								
Interest income	6,478	(280%)	11,549	108%	15,175	904%	22,680	106%
Other	(309)	13%	114	1%	(296)	(18%)	234	1%
Interest and syndication expenses	(2,596)	112%	(726)	(7%)	(4,720)	(281%)	(1,149)	(5%)
Provision for loan losses	(5,884)	255%	(246)	(2%)	(8,481)	(505%)	(450)	(2%)
	<u>(2,311)</u>	<u>100%</u>	<u>10,691</u>	<u>100%</u>	<u>1,678</u>	<u>100%</u>	<u>21,315</u>	<u>100%</u>
Expenses								
Salaries and benefits	2,411	66%	1,429	54%	3,285	59%	2,670	46%
Stock-based compensation	113	3%	268	10%	313	6%	540	9%
Legal and professional services	289	8%	258	10%	511	9%	980	17%
Resource expense	56	2%	11	1%	141	3%	74	1%
Other	793	21%	672	25%	1,335	23%	1,514	27%
	<u>3,662</u>	<u>100%</u>	<u>2,638</u>	<u>100%</u>	<u>5,585</u>	<u>100%</u>	<u>5,778</u>	<u>100%</u>
(Loss) income before income taxes	(5,973)		8,053		(3,907)		15,537	
Income tax (recovery) expense	<u>(1,693)</u>		<u>527</u>		<u>(1,010)</u>		<u>912</u>	
Net (loss) income for the period	<u>(4,280)</u>		<u>7,526</u>		<u>(2,897)</u>		<u>14,625</u>	

Interest income

Interest income includes loan interest at the stated loan rate excluding interest that has not been accrued on impaired loans plus loan commitment fees net of originators' fee expense. Interest is calculated using the effective interest rate method.

Interest income decreased \$5.1 million or 44% to \$6.5 million for three months ended June 30, 2009 as compared to \$11.5 million during comparative period in 2008. Additionally, effective interest yields were 7.2% in 2009 compared to 13.6% in 2008 which includes performing and impaired loans receivable. This decrease was primarily due to an increase in impaired loans and ceasing to accrue interest income on these loans. Measured on a quarterly basis, the average outstanding loan portfolio was \$360.1 million during the second quarter of 2009, a \$21.4 million or 6.7% increase over the \$338.7 million average balance outstanding during the second quarter of 2008.

Other

During the three months ended June 30, 2009, the Company reported \$0.02 million in servicing fees as compared to \$0.10 million in the comparative period in 2008. The decrease is a result of an increase in the required return by syndicate partners given the current credit environment. The syndicated loan portfolio excludes the syndication carried out April 22, 2009, which is further described herein; the portfolio was \$55.1 million as at June 30, 2009, an \$8 million or 17% increase from \$47.1 million at June 30, 2008. In addition, during the three months ended June 30, 2009, the Company sold a loan with a principal amount of \$8.0 million for net proceeds of \$7.7 million resulting in a loss of \$0.3 million in the period. The Company did not sell any loans in the comparative period.

Interest expense

Interest expense for the second quarter 2009 of \$2.6 million relates to \$0.7 million of interest on Quest's revolving debt facility, unchanged from the comparable 2008 quarter, \$1.5 million of expense on its cumulative preferred shares and \$0.4 of non-recourse loan syndication expense. At June 30, 2009 the Company had reduced the balance drawn on the facility to \$nil. During the period, the Company renegotiated the revolving debt facility whereby the authorized available debt facility was reduced to a maximum of \$40 million. The existing facility expires in January 2010. In addition, certain covenants were removed and the facility spread, which bears interest based upon bank prime rate plus a spread, was increased.

Preferred share dividends net of financing fees were \$1.4 million for the three months ended June 30, 2009 compared to \$nil for the comparative period. On April 9, 2009 the Company paid the declared dividend on the cumulative preferred shares in common shares of the Company.

The Company completed a \$30 million non-recourse syndication of various loans on April 22, 2009. The transaction was implemented through a structure involving senior and subordinated positions, whereby the syndicate partners hold the senior position and the Company in the subordinated position. The proceeds of the syndication were applied to reduce the Company's revolving debt facility. The interest earned by the senior position is recorded as interest expense.

Provision for loan losses

Quest has recorded \$5.9 million in specific provisions for loan losses in the second quarter of 2009 as compared to \$nil in 2008. The loan losses are primarily a result of the continued deterioration of the credit markets and a reduction in the property values held as collateral in certain markets in which the Company operates. The Company has reviewed its entire loan portfolio and estimated a specific provision on a loan by loan basis and as a result, there is no need for a general allowance for loan losses for the period ended June 30, 2009. As at

June 30, 2008 the Company had established a general provision of \$0.45 million to absorb probable losses that had not yet been identified by management and which were not associated with specific loans. Subsequent to June 30, 2008, Quest reversed its general provision for loan losses as the Company began to estimate a specific provision on a loan by loan basis to proactively assess the extent of any impairment losses on specific loans given the current economic conditions.

Salaries and bonuses

Salaries and benefits increased \$1.0 million or 69% to \$2.4 million during the three months ended June 30, 2009 compared to 2008. The increase relates to severance costs in the amount of \$1.5 million incurred in connection with the reorganization of executive and other employees undertaken during the current quarter. As at June 30, 2009, the Company had 17 employees as compared to 22 employees as at June 30, 2008.

Included in salaries and benefits for the three months ended June 30, 2009 were \$0.22 million related to the Company's bonus plan, compared to \$0.49 million for the three months ended June 30, 2009 and 2008, respectively. During 2008, bonuses represented amounts under the Company's discretionary incentive plans accrued for officers and employees of the Company, and the Board determined that no bonuses would be paid to executives for 2008 and any accruals for this expense were reversed. Discretionary payments and allocations are subject to the approval of the Compensation Committee and the Board of Directors. For 2009, the bonus plan was amended to be consistent with the Company's focus on the collection of its loan portfolio. The Compensation Committee and the Board of Directors approved a new bonus plan which is primarily based on funds collected by Quest on its loan portfolio.

Stock-based compensation

Stock-based compensation decreased \$0.16 million or 58% to \$0.11 million in the second quarter of 2009 as compared to 2008. The expense is recorded on a straight line basis over the expected vesting term of the option (usually three years). The decrease in expense is a result of the early cancellation of 1,403,946 options in the quarter and a lower fair value assigned to the 250,000 options granted in the same period.

Legal and professional fees

Legal and professional fees were unchanged at \$0.3 million during the three months ended June 30, 2009 as compared to 2008.

Resource asset related expenses

These expenses relate to the costs to fund reclamation and closure obligations at the Castle Mountain property and are over and above the amounts set aside in the asset retirement obligation account. The increase of \$0.05 million in 2009 to \$0.06 million compared to a recovery of \$0.01 million in the comparable period in 2008 relates mainly to compliance and professional fees.

Other expenses

Other expenses include general and office expenses, directors' remuneration, regulatory and other foreign exchange. These expenses have increased \$0.1 million or 14% to \$0.8 million

during the three months ended June 30, 2009 as compared to \$0.7 million in the comparable period in 2008 largely due to regulatory filings, technology upgrades and foreign exchange translation related to the Company's Castle Mountain property.

Provision for income taxes

During prior years, the Company recognized a future tax asset based on the likely realization of tax losses which were to be utilized against future taxable earnings. The provision for income taxes in the statement of income (loss) reflects a tax recovery of \$1.1 million as a result of an increase in non-capital losses due to further loan loss provisions. During the second quarter of 2009, the Company incurred \$4.3 million of tax losses primarily as a result of specific loan provisions and reduced interest income accrual recognition due to the current level of impaired loans. Combined with losses carried forward from prior years, there is approximately \$13.5 million of loss carry-forwards available to be utilized during the remainder of 2009 and future years.

Net (loss) income

For the three months ended June 30, 2009, the Company had a net loss of \$4.3 million (or \$0.03 loss per share) compared to net income of \$7.5 million (or \$0.05 EPS – diluted) during the comparative period in 2008.

Comprehensive income

At June 30, 2009 and 2008, the Company had no available-for-sale assets or liabilities whose fair values differ from their original carrying value. As a result, there is no accumulated other comprehensive income to report for the period ended June 30, 2009 and 2008.

FINANCIAL POSITION

Table 3 - Asset Components						
(\$ thousands)						
	June 30, 2009		December 31, 2008		June 30, 2008	
Asset mix						
Cash deposits	3,136	1%	1,621	1%	3,101	1%
Loans receivable	349,810	97%	372,084	97%	350,419	96%
Future income tax	5,907	1%	4,944	1%	2,981	1%
Other	3,599	1%	5,606	1%	10,038	2%
	<u>362,452</u>	<u>100%</u>	<u>384,255</u>	<u>100%</u>	<u>366,539</u>	<u>100%</u>

Cash deposits

The Company's cash resources at June 30, 2009 were \$3.1 million as compared to \$1.6 million as at December 31, 2008 and \$3.1 million at June 30, 2008. Cash deposits include cash balances with major Canadian chartered banks. The Company's cash balances will vary depending on the timing of loans funded and repaid.

Loans receivable

Compared to December 31, 2008, the outstanding balance of the Company's loan portfolio decreased \$22.3 million or 6% to \$349.8 million management restricting new loan fundings and the collection of loans. Compared to June 30, 2008, the loan portfolio decreased marginally by \$0.6 million or 0.2%. As at June 30, 2009 and December 31, 2008, 99% of the Company's loan portfolio was comprised of mortgages on real estate, compared to 95% at June 30, 2008. As at June 30, 2009, Quest's loan portfolio consisted of 49 loans of which 46 were mortgages secured by real estate and 3 were bridge loans secured by various mining and energy related assets.

The following table illustrates the evolution of the Company's loan portfolio:

Table 4 – Loan Portfolio						
(\$ thousands)						
	June 30, 2009		December 31, 2008		June 30, 2008	
Principal Outstanding						
Mortgages						
Land under development	177,262	48%	172,076	44%	148,841	41%
Real estate – residential	1,775	1%	13,704	4%	39,923	11%
Real estate – commercial	63,592	17%	64,784	17%	68,359	19%
Construction	121,612	33%	131,917	34%	83,525	24%
Total mortgages	364,241	99%	382,481	99%	340,648	95%
Bridge loans	4,468	1%	5,106	1%	18,846	5%
Total principal outstanding	368,709	100%	387,587	100%	359,494	100%
Prepaid and accrued interest, net	2,126		952		(4,630)	
Deferred loan fees and other, net	(1,027)		(2,720)		(3,995)	
Allowance for loan losses	(19,998)		(13,735)		(450)	
As recorded on the balance sheet	<u>349,810</u>		<u>372,084</u>		<u>350,419</u>	

Net funding decreased \$54.3 million or 88% to \$8.0 million compared to June 30, 2008. The fundings in the second quarter were the result of prior commitments made by the Company in respect of construction loans and protective disbursements intended to control or protect the value of the underlying security of the loan during the remediation process.

The amounts are net of certain syndications and, as mentioned above, the Company will syndicate a loan if it does not have sufficient cash resources to fund the entire loan itself or if it wishes to reduce its exposure to a borrower.

During the period, the Company syndicated \$30 million of its loan portfolio on a non-recourse basis. This syndication has been effected through a structure involving senior and subordinated positions, whereby the syndicate partners take the senior position and Quest the subordinated position. Since the Company, at its discretion, may repurchase the senior position, the full loan amount is recorded in loans receivable and the senior position is recorded in liabilities as non-recourse loan syndication using a gross rather than net presentation. The Company's other syndications are recorded using a net position.

The following table illustrates the gross position of loans under the senior / subordinated structure noted above:

Table 5 – Non-recourse loan syndication

(\$ thousands)	<u>June 30, 2009</u>	<u>December 31, 2008</u>	<u>June 30, 2008</u>
Principal balance under a senior/subordinated structure	93,870	-	-
Non-recourse senior position in principal	28,581	-	-

The following table illustrates loan continuity on a net basis. The decrease in repayments and other in the three months ended June 30, 2009 to \$25 million from \$38 million in the 2008 comparable period is due, in part, to certain loans not being repaid at their 2009 maturity dates as a result of certain borrowers' inability to obtain alternative financing to make these payments.

Table 6 – Loan Principal Continuity

(\$ thousands)	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Principal balance, beginning of period	386,178	335,445	387,587	290,193
Loans funded	7,731	62,043	18,747	123,736
Loans repaid and other	(25,200)	(37,994)	(37,625)	(54,435)
Principal balance, end of period	<u>368,709</u>	<u>359,494</u>	<u>368,709</u>	<u>359,494</u>

As at June 30, 2009, the mortgage portfolio was comprised of 99% first mortgages and 1% second mortgages. The following table outlines Quest's loan portfolio based on the priority of mortgage security:

Table 7 - Priority of Mortgage Security Charges⁽¹⁾

(\$ thousands)	<u>June 30, 2009</u>		<u>December 31, 2008</u>		<u>June 30, 2008</u>	
Principal secured by:						
First mortgages	363,709	99%	369,647	97%	315,217	93%
Second mortgages	5,000	1%	12,834	3%	25,431	7%
Total mortgages	<u>368,709</u>	<u>100%</u>	<u>382,481</u>	<u>100%</u>	<u>340,648</u>	<u>100%</u>

1. Includes mortgage portion of loan portfolio only.

As at June 30, 2009, the mortgage portfolio was concentrated in western Canada, with loans in British Columbia representing 42% of the portfolio, the Prairies 43% and Ontario 15%. Management expects that the portfolio will continue to be weighted in favour of western Canada for the near term.

The following table indicates the geographical composition of the Company's mortgages at the stated period ends.

Table 8 - Geographic Location of Mortgages⁽¹⁾

(\$ thousands)

	June 30, 2009		December 31, 2008		June 30, 2008	
Principal outstanding:						
British Columbia	153,611	42%	151,096	40%	161,388	47%
Prairies	156,828	43%	183,217	48%	157,878	46%
Ontario	53,802	15%	48,168	12%	21,382	7%
Total mortgages	364,241	100%	382,481	100%	340,648	100%

1. Includes mortgage portion of loan portfolio only.

Credit quality and impaired loans

As part of the Company's security, corporate and/or personal guarantees are typically required from the borrower in addition to the property securing the mortgage. Where in Quest's opinion the real estate security alone is not sufficient to meet Quest's lending criteria, management requires additional collateral on other real estate owned by the borrower or letters of credit. Management reviews the portfolio on a regular basis to estimate the value of the underlying security and if credit conditions have adversely impacted the carrying value of the loan, suitable action is taken.

As at June 30, 2009, Quest had two loans totaling \$6.1 million which were classified as past due loans that are not impaired (2008 – three loans totaling \$13.7 million) These loans are not classified as impaired because they are less than 90 days past due and are fully secured and there is reasonable assurance of collection of principal and accrued interest.

As at June 30, 2009, the Company had impaired loans to seventeen borrowers in the amount of \$162.3 million (2008 – three impaired in the amount of \$12.4 million) on which remedial action has been undertaken. On twelve of these loans totaling \$95.0 million, the Company has provided aggregate specific reserves for credit losses of \$20.0 million. For the remaining five impaired loans, totaling \$67.3 million, management has not provided for any specific loan losses as the estimated net realizable value of the collateral securing the loans is in excess of the carrying value of the impaired loans.

In determining whether a loan is impaired, Quest looks first to loans where the fulfillment of any contractual terms is in arrears. If regular loan payments are in arrears 90 days or greater, the loan is declared to be impaired and non-performing and interest ceases to be recorded on the loan. If there has been a specific incident which gives rise to uncertainty as to the ultimate collectability of a loan, even though the regular loan payments may not be 90 days or over in arrears, the loan is declared to be impaired and non-performing. All impaired loans are analyzed to determine whether there has been a reduction in the value of the real estate and other collateral securing the loan such that the carrying value of the loan is in excess of the value of the security. The value of the security is estimated by management using independent appraisals and other market knowledge. Where management can reasonably estimate the time required to dispose of the security, Quest computes the discounted estimated net proceeds on disposal of the security at the interest rate inherent in the loan contract to arrive at the present value of the estimated future net proceeds. The difference between this present value of estimated future proceeds of the security

and the carrying value of the loan is charged against income as a specific provision for loan losses.

Quest uses various methods to estimate the current net realizable value for its impaired loans. Most important amongst these is the requisition of independent appraisals from recognized national appraisal firms. Appraisal methodology utilizes data points in the form of recent comparable transactions as a key basis for valuation. Where these data points are not available, the appraisal process is more difficult. The downturn in real estate sales over the past year has reduced the number of recent comparable transactions on which appraisals may be based and consequently, this has made it difficult to accurately value certain of the types of properties on which Quest lends. This leads to significant measurement uncertainty and the ultimate net realizable values for real estate by which an impaired loan is secured may be materially different than that estimated by management.

In particular, land development loans have a significant degree of measurement uncertainty. Quest has one significant land development loan totaling \$28.5 million where the loan is currently classified as a performing loan and the recent appraisal value is in excess of the carrying value. Should the loan become impaired, in the current economic climate, the Company may not be able to dispose of the collateral on a timely basis and the measurement of the value of the underlying security would be difficult to determine and a loan loss may be incurred.

As the loan remediation process continues, additional information may be identified, including the listing of properties for sale and the results of negotiations and comparable sales data. As at June 30, 2009, the Company's allowance for loan losses increased from \$16.3 million at March 31, 2009 to \$20.0 million. The increase is largely a result of increase in specific reserves in respect of four borrowers and offset by the sale of foreclosed property. The following describes certain of the impaired loans under remediation:

- Quest has four impaired loans totaling \$37.6 million with a specific reserve of \$5.4 million secured by property located in the Okanagan region of British Columbia, which are primarily land loans awaiting re-development. Included in the four Okanagan loans, is a loan in the amount of \$5.5 million which became impaired during the quarter but did not require a specific loan loss reserve.
- An increased specific loan loss reserve of \$0.9 to \$2.3 million was required on a \$4.7 million land loan located in northern Alberta. Marketing efforts to sell this property at the carrying value have not been successful which resulting in the increase to the reserve. During the quarter, two additional loans in Northern Alberta (to the same borrower) of \$16.3 million have become impaired and required specific loan loss reserves of \$1.3 million.
- A resource bridge loan of \$2.7 million on oil and gas properties located in Alberta and Saskatchewan required a further loan loss allowance of \$0.2 million to a total of \$2.1 million, mainly as a result of further deterioration in the value of the collateral. During the quarter, Quest classified another resource bridge loan for \$1.7 million as impaired as it is over 90 days past due, however Quest expects to receive full payment of its outstanding principal and interest as a result of Quest receiving payments subsequent to June 30, 2009 which reduced its loan balance to \$0.8 million.

- Quest has a residential condominium construction loan in northern Alberta in the amount of \$8.9 million. In order to maximize value and ultimately collect on the security, Quest will continue to participate in the funding construction until completion. Quest has taken a specific loan loss reserve of \$1.0 million on this loan, an increase of \$0.2 million during the quarter.
- Quest has three loans in the Vancouver, British Columbia region in the amount of \$68.1 million. During the quarter, for one of the loans in the amount of \$13.5 million required a specific loan loss provision of \$2.8 million as Quest agreed to the sale of the loan to a third party for net proceeds of \$11.4 million.

During the quarter, a land development loan located close to Vancouver in the amount of \$29.0 million was classified as impaired. A specific reserve has not been taken on this loan given a recent independent appraisal from a qualified third party having a value in excess of Quest's carrying value. However, the appraisal is based on a number of significant conditions including the timely ability to develop the land. Subsequent to the quarter, the property underlying the loan received final zoning.

In addition, Quest has a net loan in the amount of \$25.6 million on a condominium development project in downtown Vancouver, British Columbia. The loan continues to be classified as impaired however the property is no longer subject to receivership proceedings. Under proposals with various parties, it is expected the condominium project will be built on a timely basis. On completion of the definitive agreements within the next several months, Quest will assess the classification of the loan. The ultimate repayment of this loan will be from sales of completed condominium units. No provision for any loan loss has been determined as required as at June 30, 2009 though management will continue to assess for future quarters depending on the outcome of the final definitive agreements.

- Quest has a land development loan in the Toronto, Ontario region in the amount of \$11.4 million, with a specific reserve totaling \$3.1 million. Subsequent to June 30, 2009, Quest was successful in removing certain property development restrictions which removal, management believes, increases the value and marketability of the property.
- Quest has four remaining loans in Alberta and British Columbia for a total of \$10.8 million which have been classified as impaired since December 31, 2008. Quest has a specific loan loss reserve of \$2.0 million on these loans.
- During the quarter, Quest disposed of two properties located in Edmonton, Alberta that were in foreclosure for proceeds of \$4.4 million. These loans had a carrying value (net of a \$2.2 million specific loan loss reserve) of \$4.36 million.

Future income taxes and other assets

Future income tax assets and liabilities reflect management's estimate of the value of temporary differences. The Company has recognized a future tax asset based on the likely utilization of tax losses and other deductions against future taxable income. As at June 30, 2009, the future tax asset increased \$1.0 million to \$5.9 million compared to \$4.9 million at December 31, 2008. This increase is the result of recognizing the tax benefits of increased non-capital losses in 2009 as compared to 2008. The balance of non-capital losses carried forward is \$13.5 million at June 30, 2009, an increase of \$4.4 million compared to \$9.1 million at December 31, 2008. The increase is a result of the additional loan loss provision which is also deductible for tax purposes.

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

Other assets at June 30, 2009 include \$1.9 million of restricted cash, of which \$0.6 million was held in trust to fund borrower's future interest payments.

Liabilities

Total liabilities at June 30, 2009 were \$71.5 million as compared to \$93.3 million as at December 31, 2008, representing a \$21.8 million or 23% decrease. Compared to June 30, 2008, total liabilities increased \$0.5 million or 1%. The largest component of total liabilities was the Company's preferred share liability. In December 2008, the Company raised \$40 million in a 13.5% cumulative preferred share private placement, the proceeds of which were used for liquidity purposes and to pay down its revolving debt facility. The redeemable and retractable preferred shares are classified as liabilities under GAAP. The increase of \$0.3 million in the carrying value from \$38.7 million at December 31, 2008 represents the amortization of deferred transaction costs using the effective interest rate method. The preferred shares may not be redeemed or retracted without the permission of the Company's lenders prior to January 2010, and are required to be redeemed by December 31, 2010. The Company has an authorized \$39.6 million revolving debt facility which may be used to fund loans, as well as to bridge any gap between loan advances and loan repayments. As at June 30, 2009, the balance is \$nil compared to \$50.2 million at December 31, 2008 and \$66.0 million a year earlier.

Included in liabilities are non-recourse loan syndications of \$28.4 million. During the period, the Company syndicated \$30 million of its loan portfolio on a non-recourse basis. This syndication has been effected through a structure involving senior and subordinated positions, whereby the syndicate partners take the senior position and Quest the subordinated position. Since the Company, at its discretion, may repurchase the senior position, the full loan amount is recorded in loans receivable and the senior position is recorded in liabilities as non-recourse loan syndication using a gross rather than net presentation. The Company's other syndications are recorded using a net position.

Capital management

Quest's shareholders' equity was unchanged at \$291.0 million as at June 30, 2009 compared to December 31, 2008. The Company did not declare a common share dividend in the first or second quarters of 2009 in order to preserve capital, boost liquidity and utilize its tax loss carry forwards (see Dividend Policy).

In anticipation of its revolving debt facility maturity in January 2010, the Company continued to decrease available borrowings on the revolving debt facility to \$40 million from \$70 million during the quarter. Further information on the impact on the Company's capital resources is discussed in the "Liquidity and Liquidity Risk" section herein.

Contractual obligations

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The total minimum lease payments for the years 2009 – 2013 are \$1.8 million. Subsequent to June 30, 2009, the Toronto office was closed and is in the process of being sublet. The Company's contractual obligations related to the Toronto office remains. As well, the Company has committed to fund loan principal as at June 30, 2009 in the amount of \$27.7 million. The following table illustrates these obligations due by period:

Table 9 – Contractual obligations					
(\$ thousands)	Obligations due by period				
	Total	Less than 1 Year	1 - 3 Years	4 – 5 Years	After 5 Years
Office leases and other	1,798	341	1,432	25	-
Loan commitments	27,697	22,233	5,464	-	-
Total	29,495	22,574	6,896	25	-

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

SUMMARY OF QUARTERLY RESULTS

Table 10 - Summary of quarterly results								
(\$ thousands, except per share amounts)								
	Second Qtr 2009	First Qtr 2009	Fourth Qtr 2008	Third Qtr 2008	Second Qtr 2008	First Qtr 2008	Fourth Qtr 2007	Third Qtr 2007
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	6,478	8,697	11,592	12,547	11,549	11,000	11,133	9,497
Other	(309)	13	30	44	114	251	2,360	2,165
Provision for loan losses	5,884	2,597	10,685	2,600	246	204	-	-
(Loss) income before taxes	(5,973)	2,066	(380)	6,662	8,053	7,484	8,156	7,782
Net (loss) income	(4,280)	1,383	1,848	6,358	7,526	7,099	3,648	5,264
(Loss) Earnings Per Share – Basic	(0.03)	0.01	0.01	0.04	0.05	0.05	0.02	0.04
(Loss) Earnings Per Share - Diluted	(0.03)	0.01	0.01	0.04	0.05	0.05	0.02	0.04
Total Assets	362,452	382,824	384,255	381,722	366,539	342,491	325,744	304,294
Total Liabilities	71,495	89,062	93,256	86,211	71,015	48,156	35,110	13,125

As a result of the increase in impaired loans on which the recording of interest income has ceased, the Company's interest income has decreased during the second quarter of 2009 as compared to prior quarters. Prior to the fourth quarter 2008, interest income had generally continued to increase on a quarterly basis as the Company's loan portfolio had grown.

Other income continues to decrease in 2009 as a result of a lower fee structure on syndicated loans.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are described in Note 3 of its audited consolidated financial statements as at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006. 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 a general allowance for loan losses, and, where required, specific allowances 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. This 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 on at least a quarterly basis and specific provisions are established where required on a loan-by-loan basis. In determining the provision for possible loan losses, the Company considers the following:

- the nature and quality of collateral and, if applicable, any guarantee;
- secondary market value of the loan and the related collateral;
- the overall financial strength of the borrower;
- the length of time that the loan has been in arrears; and
- the borrower's plan, if any, with respect to restructuring the loan.

Commencing in 2008, the Company had established a general allowance for loan losses to provide for unknown but probable losses in the loan portfolio. As a result of a comprehensive portfolio review of its loan portfolio as at December 31, 2008 (and updated to June 30, 2009) and the resulting provision for a specific loan loss, where there is insufficient value of collateral or expected cashflows through remediation processes on any impaired loan, management concluded that there was no need for a general allowance for loan losses as at June 30, 2009.

Future Tax Assets and Liabilities

The Company has recognized a future tax asset based on the likely realization of tax losses 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 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.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for our fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the company's consolidated interim financial statements.

Effective January 1, 2009, the Company adopted the CICA handbook section 3064 "*Goodwill and Intangible Assets*". The adoption of this standard did not have a significant affect on the Company's consolidated interim financial statements.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Institute of Chartered Accountants ("CICA") has previously announced planned convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") for public companies over a transition period, with IFRS expected to be effective for fiscal periods beginning on or after January 1, 2011. Management has established a plan to adopt IFRS on January 1, 2011 with restatement for comparative purposes of amounts reported by the Company for the interim periods and the year ended December 31, 2010. An implementation team has been created and management has engaged a third-party advisor to assist. Management has completed the diagnostic phase and has begun the process of assessing the accounting policy choices and elections that are allowed under IFRS. While not an exhaustive list, following are identified as accounting differences that may have a significant impact:

- Accounting for joint ventures
- Stock-based compensation
- Financial instruments

As a number of existing IFRS are currently undergoing revision, including with respect to financial instruments, the Company's IFRS plan will be modified, as necessary, to take into account of any additional requirements arising from changes to existing IFRS prior to the Company's transition date.

Management will also assess the impact of the conversion on Quest's business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. Currently, Management expects there to be change to information technology related to accounting for stock-based compensation.

Management will continually review and adjust its implementation process to ensure the convergence timetable is met.

TRANSACTIONS WITH RELATED PARTIES

The Company's related party transactions are described in Note 12 of its unaudited interim consolidated financial statements as at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008. The significant related party transactions in 2009 involved administration services charged to and by a party related by virtue of having certain directors and officers in common.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 6, 2009, the Company had the following common shares and stock options outstanding:

Common shares	151,464,334
Stock options	<u>3,030,000</u>
Fully diluted shares outstanding	<u>154,494,334</u>

RISKS AND UNCERTAINTIES

Additional risk factors are disclosed under "Risk Factors" in the 2008 Annual Information Form filed on SEDAR at www.sedar.com.

Risk Management

The success of Quest is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Quest is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk Management

Credit risk is the risk that a borrower will not honour its commitments and a loss to the Company may result. The Company is further exposed to adverse changes in conditions which affect real estate values. These market changes may be regional, national or international in nature or may revolve around a specific product type. Risk is increased if the value of real estate securing the Company's loans falls to a level approaching or below the loan amounts. Any decrease in real

estate values may delay the development process and will adversely affect the value of the Company's security.

During the loan origination process, senior management takes into account a number of factors and is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- emphasis on first mortgage financings;
- emphasis on borrowers' experience;
- local and regional diversification of mortgages;
- diversification of the loan portfolio by asset type;
- the investigation of the creditworthiness of all borrowers;
- the employment of qualified and experienced loan originators and underwriters;
- allocation of the responsibility of the loan to two Quest employees which allow for peer review;
- physical inspection of the property;
- review of the sufficiency of the borrower's business plans including strategies to exit the property and/or enhance the value of the property;
- continuous written status updates provided on the business plans and if applicable, construction progress;
- the engagement of qualified independent consultants and advisors such as lawyers, quantity surveyors, real estate appraisers and insurance consultants dedicated to protecting the Company's interests; and
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding.

As a result of the recent changes to the credit markets and the Company's focus on loan remediation and the collection of loans, senior management has implemented several additional procedures as well as heightening others. These include:

- The formation of a remediation team who focus on the identification and remediation of problem loans;
- Strategy formulation as to the most appropriate method to protect the Company's interest including obtaining additional security, request for principal reductions, protective disbursements and foreclosure proceedings;
- Frequent physical inspection of the properties by loan remediation team members;
- Engaging new legal counsel, realtors, and other professionals;
- Frequent updating of appraisals and/or re-underwriting of loans including updating borrower and guarantor financial conditions; and
- Weekly management review and discussion of the status of the loan including legal status, market intelligence, and business plans of the borrower.

The Board of Directors has the responsibility of ensuring that credit risk management is adequate. The Board has delegated much of this responsibility to its Credit Committee, which comprise three independent directors. They are provided monthly with a detailed portfolio analysis including a report on all overdue and impaired loans, and meet on a quarterly basis, to review and assess the risk profile of the loan portfolio. The Credit Committee is required to approve all applications for loans between \$15 million and \$25 million, and any loan application for amounts greater than \$25 million must be approved by the Board. The Board has delegated approval authority for all loans less than \$15 million to an approval committee comprised of members of senior management. In addition at origination, the Company does not allow any one loan to exceed 10% of the Company's equity and restricts lending to any one borrower to 20% or less of the Company's equity. As at June 30, 2009, the largest loan in the Company's loan portfolio was \$29 million (8% of the Company's loan portfolio) and is considered impaired. This was also the largest aggregate amount owing by any one borrower. Also, the Company will syndicate loans in certain circumstances if it wishes to reduce its exposure to a borrower. The Company reviews its policies regarding its lending limits on an ongoing basis.

Liquidity and Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The goal of liquidity management is to ensure that adequate cash is available to honour all future loan commitments and the repayment of the revolving debt facility at maturity. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized. Quest manages its loan commitment liquidity risk by the ongoing monitoring of scheduled mortgage fundings and repayments, and whenever necessary, accessing its debt facility to bridge any gaps in loan maturities and funding obligations. The Company manages its revolving debt facility liquidity risk by accessing alternative sources of liquidity whether this be mortgage repayments, syndication proceeds or preferred share issuances. For both of these liquidity risks, the Company may syndicate a portion of its loans as part of its liquidity risk management.

As at June 30, 2009, the Company had no drawings on its revolving debt facility and had future loan commitments to borrowers of up to \$27.7 million. Currently, \$39.6 million is available under its revolving debt facility. The amount available under this facility decreases with loan repayments received by the Company. The facility is set to expire in January 2010 and the Company does not anticipate any non-compliance with its covenants, namely minimum equity, and tangible assets to debt ratios.

The Company's preferred share liabilities have a mandatory redemption in December 2010 and retraction and redemption privileges with the consent of the lenders prior to the expiry of the revolving debt facility in January 2010. Lender consent is not required upon the expiry of the revolving debt facility provided the debt is extinguished. The Company is obligated to retract the preferred shares only if more than 66 2/3% of the then issued and outstanding preferred shareholders provide a retraction notice. As there are five preferred shareholders, four out of the five preferred shareholders would have to provide a retraction notice to be more than 66 2/3%. The Company is negotiating with the preferred shareholders to amend the terms of the preferred shares including the retraction and redemption privileges.

Future loan commitments are primarily for construction draws which occur over the course of the term of the relevant loan which is typically 12 to 18 months in duration. Further, as at June 30, 2009, 23% of the Company's loan portfolio, or \$85.0 million, was due within a year. With the current economic climate, the ability to accurately forecast actual repayments on the Company's loan portfolio has become difficult. The current adverse economic climate is impacting real estate prices and the timing of take-out financing for certain loans in the Company's portfolio.

Management monitors rolling forecasts of the Company's cash position based on the timing of expected cash flows, which incorporates assumptions related to the likely timing of loan repayments and property sales.

In addition, the Company has initiated a number of procedures to assist in its liquidity management during 2009 including:

- restricting loan advances to existing lending obligations and protective disbursements and a commitment to not fund any new loans;
- syndication of existing loans and where necessary using a senior and subordinate priority structure whereby Quest will hold the subordinate portion;
- obtaining the agreement of preferred shareholders to enable the Company to settle their dividend payments in common shares of the Company, at the discretion of the Company.

As a result of these initiatives and projections, it is management's opinion that the Company has sufficient resources to meet its current cash flow requirements. Given the economic climate and the delays in repayment of some of the Company's loans, management continues to forecast expected cashflows, while considering current requirements and various liquidity management tools which are available.

Market Risk

Market risk is the impact on earnings as a result of changes in financial market variables such as interest rates and foreign exchange rates which can arise when making loans and borrowing and making investments. The Company does not engage in any type of trading activities. The Company's material market risk is limited to interest rates as noted below.

Interest Rate Risk

Interest rate risk is the risk that a lender's earnings are exposed to volatility as a result of sudden changes in interest rates. This occurs, in most circumstances, when there is a mismatch between the maturity (or re-pricing characteristics) of loans and the liabilities or resources used to fund the loans. For loans funded using bank debt priced on the basis of bank prime rate plus a spread, the Company manages this risk through the pricing of certain of its loans also being based upon the bank prime rate plus a spread. In addition, the Company will, in some cases, have minimum rates or an interest rate floor in its variable rate loans. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. Quest currently mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to two years, and by charging prepayment penalties and upfront commitment fees.

As at June 30, 2009, the Company had three variable rate loans priced off the bank prime rate with an aggregate principal of \$35.4 million and forty-six fixed-rate loans with an aggregate principal of \$333.3 million.

INTERNAL DISCLOSURE CONTROLS AND PROCEDURES

Changes in Internal Disclosure Controls and Procedures and Internal Control Over Financial Reporting

There were no changes in the Company's internal disclosure controls and procedures that occurred during the second quarter of 2009 that have materially affected, or are reasonably likely to affect, the Company's internal disclosure controls and procedures or internal controls over financial reporting. Brian Bayley has become President and CEO, replacing Stephen Coffey effective May 21, 2009 and Ken Gordon, Chief Operating Officer, is no longer with the Company. The position was eliminated. Effective June 1, 2009, Narinder Nagra, was appointed Senior Vice President Asset Management. Mr. Nagra oversees the loan remediation process.

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 applicable securities legislation is properly 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. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying consolidated financial statements. 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.

Internal Control over Financial Reporting

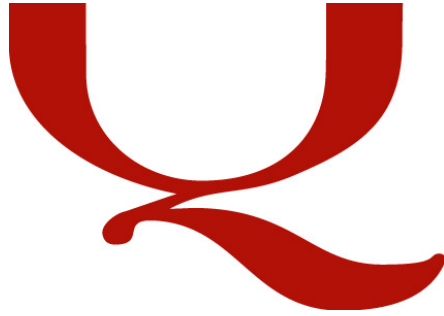
Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over 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 reviews its controls and procedures over financial reporting. However, because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements.

FORWARD LOOKING INFORMATION

This MD&A includes certain statements that constitute “forward-looking statements”, and “forward-looking information” within the meaning of applicable securities laws (“forward-looking statements” and “forward-looking information” are collectively referred to as “forward-looking statements”, unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations 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 MD&A, words such as “believe”, “anticipate”, “estimate”, “project”, “intend”, “expect”, “may”, “will”, “plan”, “should”, “would”, “contemplate”, “possible”, “attempts”, “seeks” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements may relate to the Company’s future outlook and anticipated events or results and may include statements regarding the Company’s future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause our actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Material risk factors which could cause actual results to differ materially include those disclosed herein under “Risks and Uncertainties”. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, we assume no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If we update any one or more forward-

looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. You should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.



QUEST CAPITAL CORP.

Unaudited Interim Consolidated Financial Statements
June 30, 2009
(Expressed in thousands of Canadian dollars)

Quest Capital Corp.

Unaudited Interim Consolidated Balance Sheets

As at June 30, 2009 with comparative figures for December 31, 2008 and June 30, 2008

(Expressed in thousands of Canadian dollars)

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
ASSETS			
Cash deposits	3,136	1,621	3,101
Restricted cash (note 5)	1,911	4,014	8,763
Loans receivable (note 6)	349,810	372,084	350,419
Income tax receivable	77	190	-
Future income tax (note 11)	5,907	4,944	2,981
Premises and equipment (note 7)	601	744	814
Intangible assets (note 7)	152	118	115
Other assets	858	540	346
	<u>362,452</u>	<u>384,255</u>	<u>366,539</u>
LIABILITIES			
Accounts payable and accrued liabilities (note 12)	3,072	3,079	3,559
Preferred share liability (note 10)	39,007	38,724	-
Non-recourse loan syndication (note 6(h))	28,394	-	-
Revolving debt facility (note 8)	-	50,153	66,010
Income tax payable	-	-	45
Future income tax (note 11)	646	841	879
Asset retirement obligation (note 9)	376	459	522
	<u>71,495</u>	<u>93,256</u>	<u>71,015</u>
SHAREHOLDERS' EQUITY			
Share capital (note 10)	209,256	207,161	207,161
Contributed surplus (note 10)	8,714	7,954	7,474
Retained earnings	72,987	75,884	80,889
	<u>290,957</u>	<u>290,999</u>	<u>295,524</u>
	<u>362,452</u>	<u>384,255</u>	<u>366,539</u>

Commitments and contingencies (notes 6(e) and 13)

Subsequent event (note 21)

Approved by the Board of Directors

"Brian E. Bayley"
Brian E. Bayley

Director "A. Murray Sinclair"
A. Murray Sinclair

Director

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

Quest Capital Corp.

Unaudited Interim Consolidated Statements of Retained Earnings

For the three and six months ended June 30, 2009 and 2008

(Expressed in thousands of Canadian dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Retained earnings - beginning of period	77,267	79,968	75,884	76,539
Net (loss) income for the period	(4,280)	7,526	(2,897)	14,625
Dividends	-	(6,605)	-	(10,275)
Retained earnings - end of period	72,987	80,889	72,987	80,889

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

Quest Capital Corp.

Unaudited Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the three and six months ended June 30, 2009 and 2008

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

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Interest income	6,478	11,549	15,175	22,680
Interest expense	(2,225)	(726)	(4,349)	(1,149)
Syndication expense (note 6(h))	(371)	-	(371)	-
Net interest income	3,882	10,823	10,455	21,531
Provision for loan losses (note 6(d))	(5,884)	(246)	(8,481)	(450)
Net interest (loss) income after provision for loan losses	(2,002)	10,577	1,974	21,081
Other				
Syndication and other income (note 12)	16	114	29	234
Loss on sale of loan	(325)	-	(325)	-
Net interest and other	(2,311)	10,691	1,678	21,315
Non-interest expense				
Salaries and benefits (note 20)	2,411	1,429	3,285	2,670
Stock-based compensation (note 10(e))	113	268	313	540
Office and other	524	452	925	1,038
Legal and professional services	289	258	511	980
Regulatory and shareholder relations	219	155	315	358
Directors' fees	50	65	95	118
Resource asset related expenses	56	11	141	74
	3,662	2,638	5,585	5,778
(Loss) income before income taxes	(5,973)	8,053	(3,907)	15,537
Income tax (recovery) expense (note 11)				
Current	22	(36)	116	28
Future	(1,715)	563	(1,126)	884
	(1,693)	527	(1,010)	912
Net (loss) income for the period	(4,280)	7,526	(2,897)	14,625
Other comprehensive income	-	-	-	-
Comprehensive (loss) income for the period	(4,280)	7,526	(2,897)	14,625
(Loss) earnings per share				
Basic	(0.03)	0.05	(0.02)	0.10
Diluted	(0.03)	0.05	(0.02)	0.10
Weighted average number of shares outstanding				
Basic	150,142,785	146,789,711	148,203,726	146,789,711
Diluted	150,142,785	146,839,776	148,203,726	147,315,821

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

Quest Capital Corp.

Unaudited Interim Consolidated Statements of Cash Flows For the three and six months ended June 30, 2009 and 2008 (Expressed in thousands of Canadian dollars)

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash flows from operating activities				
Net (loss) income for the period	(4,280)	7,526	(2,897)	14,625
Adjustments to determine net cash flows relating to operating items:				
Amortization of premises and equipment and intangible assets	85	70	174	146
Future income taxes	(1,715)	563	(1,126)	884
Stock-based compensation	113	268	313	540
Preferred share interest paid in common shares	1,361	-	1,361	-
Provision for loan losses	5,884	246	8,481	450
Loss on sale of loan	325	-	325	-
Amortization of deferred interest and loan fees	(543)	(1,281)	(1,493)	(2,931)
Deferred interest and loan fees (written-off) received	(32)	1,685	141	4,241
Amortization of syndication costs	413	-	413	-
Amortization of financing costs	659	83	968	164
Accretion expense	7	8	14	17
Expenditures for reclamation and closure	(64)	(39)	(97)	(67)
Decrease (increase) in prepaid and other	(18)	142	56	22
Increase (decrease) in accounts payables and accrued liabilities	380	(3,074)	1,174	(3,522)
Decrease in income tax receivable	14	-	113	-
Decrease in income tax payable	-	(120)	-	(143)
	2,589	6,081	7,920	14,426
Cash flows from (used in) financing activities				
Dividends paid – common shares	-	(6,605)	-	(10,275)
Non-recourse syndication				
Advances	30,000	-	30,000	-
Repayments	(1,418)	-	(1,418)	-
Financing costs	(600)	-	(600)	-
Revolving debt facility				
Advances	-	72,710	4,000	99,210
Repayments	(46,860)	(21,700)	(54,860)	(32,700)
Financing costs	(382)	-	(382)	(664)
Repayment of other debt facility	-	(25,000)	-	(26,365)
	(19,260)	19,405	(23,260)	29,206
Cash flows from (used in) investing activities				
Activity in loans				
Funded	(7,731)	(62,043)	(18,747)	(123,736)
Repayments	25,186	39,030	37,582	51,864
Other	(2,519)	(969)	(4,016)	(2,597)
Purchases of premises and equipment	-	(18)	-	(120)
Intangible assets acquired	-	(115)	(68)	(115)
Decrease (increase) in restricted cash	869	(178)	2,037	3,745
	15,805	(24,293)	16,788	(70,959)
Unrealized foreign exchange loss on cash held in foreign subsidiary	127	14	67	(56)
(Decrease) increase in cash deposits	(739)	1,207	1,515	(27,383)
Cash deposits - beginning of period	3,875	1,894	1,621	30,484
Cash deposits – end of period	3,136	3,101	3,136	3,101

Supplemental cash flow information (note 18)

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

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

1 NATURE OF OPERATIONS

Quest Capital Corp.'s ("Quest" or the "Company") business is to provide mortgage financings. The Company is a mortgage investment corporation ("MIC") for Canadian income tax purposes. A MIC is a special-purpose corporation defined under Section 130.1 of the *Income Tax Act* (Canada). A MIC does not pay corporate-level income taxes when all taxable income is distributed to shareholders as dividends during a taxation year and within 90 days of its year end. Dividend payments made to taxable Canadian shareholders are subject to Canadian tax as interest income. The Company must continually meet the following criteria to maintain MIC eligibility: (i) at least 50% of its assets must consist of residentially oriented mortgages and/or cash; (ii) it must not directly hold any foreign assets, including investments secured by real property located outside of Canada; (iii) it must not engage in operational activities outside of the business of lending and investing of funds; and (iv) no person may own more than 25% of any class of the issued and outstanding shares.

2 BASIS OF PRESENTATION

The accompanying financial information does not include all disclosures required under Canadian 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 interim unaudited consolidated financial statements should be read in conjunction with the Company's 2008 audited annual financial statements and notes. Certain comparative figures have been reclassified to conform to the current period's presentation.

3 SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements follow the same accounting policies and methods of application as the Company's audited annual financial statements, except as noted in Note 4 below. These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the Company's accounts and those of its wholly-owned subsidiaries, QC Services Inc., Viceroy Capital Corp., Viceroy Gold Corporation, 0854558 BC Ltd., 08454559 BC Ltd., 0854560 BC Ltd., 0854561 BC Ltd. and its 75% proportionate joint venture interest in the Castle Mountain property.

4 CHANGE IN ACCOUNTING POLICIES

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for our fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the company's consolidated interim financial statements.

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") handbook section 3064 "*Goodwill and Intangible Assets*". The adoption of this standard did not have a significant impact on the Company's consolidated interim financial statements..

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

5 RESTRICTED CASH

Restricted cash comprises:

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Castle Mountain	1,353	1,755	1,899
Interest on loans receivable (held in trust)	558	2,259	6,864
Total	1,911	4,014	8,763

a) Castle Mountain

Pursuant to an agreement among the partners of the Castle Mountain property, the Company is required to set aside restricted cash of US\$1,166 (\$1,353) as at June 30, 2009 (December 31, 2008 – US\$1,441 (\$1,755), June 30, 2008 US\$1,859 (\$1,899)) in a fund to fulfill reclamation and closure obligations at its' Castle Mountain property.

b) Interest on loans receivable (held in trust)

Certain of the Company's loan agreements permit the Company to withhold a portion of the total loan receivable amount in trust as interest reserves. These amounts are applied as interest payments become due. Amounts held in trust relating to unearned interest are reported as restricted cash.

6 LOANS RECEIVABLE

a) Loans and allowance for loan losses

Loans receivable as at June 30, 2009:

	Gross Amount	Allowance for loan losses			Net Amount
		Specific	General	Total	
	\$	\$	\$	\$	\$
Mortgage principal	364,241	17,901	-	17,901	346,340
Bridge loan principal	4,468	2,097	-	2,097	2,371
Accrued interest and deferred loan fees	1,099	-	-	-	1,099
	369,808	19,998	-	19,998	349,810

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

Loans receivable as at December 31, 2008:

	Allowance for loan losses				Net Amount
	Gross Amount	Specific	General	Total	
	\$	\$	\$	\$	
Mortgage principal	382,481	12,399	-	12,399	370,082
Bridge loan principal	5,106	1,336	-	1,336	3,770
Accrued interest and deferred loan fees	(1,768)	-	-	-	(1,768)
	385,819	13,735	-	13,735	372,084

Loans receivable as at June 30, 2008:

	Allowance for loan losses				Net Amount
	Gross Amount	Specific	General	Total	
	\$	\$	\$	\$	
Mortgage principal	340,648	-	426	426	340,222
Bridge loan principal	18,846	-	24	24	18,822
Accrued interest and deferred loan fees	(8,625)	-	-	-	(8,625)
	350,869	-	450	450	350,419

b) Past due loans that are not impaired

Loans are classified as past due when a loan is outstanding past the scheduled maturity or payment date. This may arise in the normal course of business as a result of various factors including construction or refinancing delays. These loans are not classified as impaired because they are either less than 90 days past due or are fully secured and there is reasonable assurance of collection of principal and accrued interest.

Loans past maturity date:

Days Outstanding Past Maturity	Number of Loans	June 30, 2009	Number of Loans	December 31, 2008	Number of Loans	June 30, 2008
		\$		\$		\$
1 – 30 days	1	5,423	-	-	1	4,173
31 – 60 days	1	643	1	8,090	-	-
61 – 90 days	-	-	2	28,514	2	9,615
	2	6,066	3	36,604	3	13,788

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

Loans past payment date:

Days Outstanding Past Payment Date	Number of Loans	June 30, 2009	Number of Loans	December 31, 2008	Number of Loans	June 30, 2008
		\$		\$		\$
1 – 30 days	-	-	1	5,337	-	-
31 – 60 days	-	-	-	-	-	-
61 – 90 days	-	-	-	-	-	-
	-	-	-	5,337	-	-

The principal collateral and other forms of collateral that the Company holds as security for the loans includes real property and other assets, including securities, cash and borrower guarantees. Valuations of the collateral are periodically updated depending on the nature of the collateral.

The estimated fair value of the collateral of the past due loans that are not impaired is in excess of the carrying value of these loans as at June 30, 2009.

c) Loans renegotiated or renewed during the period

The Company is requesting repayment of all loans at maturity. In certain instances the Company may choose to renegotiate or renew loans instead of enforcing its security on loans which have not been repaid. Loans whose terms have been renegotiated are no longer considered to be past due but are considered to be in good standing and are therefore treated as performing loans.

Given current adverse economic conditions and a lack of market take-out financing options for certain of the Company's loan borrowers, management uses its market knowledge in considering the most appropriate measures to achieve preservation of capital. As these borrowers are unable to repay their loans, the Company takes measures which may include changes in contractual maturity dates or interest terms, receipt of additional collateral, borrower personal guarantees or principal reductions.

During the six months ended June 30, 2009, four loans with an outstanding principal of \$37,923 were renegotiated or renewed. None of the loans were assessed by management as requiring a specific loan loss provision as at June 30, 2009 based on a comparison of estimated collateral value and/or expected future cashflows with the outstanding carrying value of the loans.

d) Impaired loans and allowances for loan losses

Loans are classified as impaired when payment is contractually 90 days past due, or when there is no longer assurance of the timely collection of principal and interest. Once a loan is impaired, the Company stops accruing interest and fee income as the loan is non-performing. Loans are reclassified to performing status when management obtains reasonable assurance that the full amount of principal and interest will be recovered in accordance with the terms and conditions of the loans and accordingly such loans are no longer classified as impaired.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

Alternatively, the Company may restructure a loan to bring it into good standing and, if the loan is no longer considered impaired, interest and fee income will be recorded on an accrual basis.

The Company's impaired loans and specific allowances are as follows:

	June 30, 2009		December 31, 2008		June 30, 2008	
	Number of loans	Gross Impaired Amount	Number of loans	Gross Impaired Amount	Number of loans	Gross Impaired Amount
		\$		\$		\$
Impaired loans with specific allowances	12	95,058	10	56,544	-	-
Specific allowances		(19,998)		(13,735)		-
	12	75,060	10	42,809	-	-
Impaired loans without specific allowances	5	67,268	4	47,180	3	12,391
Total impaired loans, net of specific allowances	17	142,328	14	89,989	3	12,391

At June 30, 2009, the total estimated fair value of the collateral of impaired loans with specific allowances is \$91,119 (December 31, 2008-\$48,100, June 30, 2008-\$nil) and for impaired loans without specific allowances is \$79,925 (December 31, 2008 - \$79,222, June 30, 2008 - \$20,538). Management has estimated the fair value of the collateral taking into account a number of factors including independent real estate appraisals, and management's knowledge of the collateral, credit and real estate markets. In assessing the adequacy of the specific loan loss provision management takes into account likely realizable values, legal costs and incorporates a time value and credit risk component into estimated future cashflows.

The Company has recorded specific allowances for loan losses as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	\$	\$	\$	\$
Balance – beginning of period	16,332	-	13,735	-
Provision for loan losses	5,843	-	8,440	-
Direct write-offs	(2,177)	-	(2,177)	-
Balance – end of period	19,998	-	19,998	-

During the six month period ended June 30, 2008, the Company began providing for a general allowance for loan losses to reflect probable, but unidentified losses in the portfolio. However, at June 30, 2009 and December 31, 2008, the Company performed a comprehensive review of its loan portfolio to determine specific allowances for each loan and as such, a general allowance is not required.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

The Company has recorded general allowances for loan losses as follows:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	\$	\$	\$	\$
Balance – beginning of period	-	204	-	-
General allowance for the period	-	246	-	450
Balance – end of period	-	450	-	450

e) Loan commitments

At June 30, 2009, the Company has loan commitments for future advances on construction loans of up to \$27,697 of which \$22,233 is scheduled for 2009, and \$5,464 in 2010. However, these advances are subject to a number of conditions including presale requirements, the completion of due diligence, and no material adverse changes in the assets, business or ownership of the borrower and other terms.

f) Composition of loan portfolio

The following table indicates the composition of the Company's loans by sector as follows:

	June 30, 2009		December 31, 2008		June 30, 2008	
	Number of loans	Principal Outstanding	Number of loans	Principal Outstanding	Number of loans	Principal Outstanding
		\$		\$		\$
Land under development	20	177,262	21	172,076	20	148,841
Real estate – residential	2	1,775	5	13,704	9	39,923
Real estate – commercial	7	63,592	7	64,784	10	68,359
Construction	17	121,612	20	131,917	18	83,525
Total mortgages	46	364,241	53	382,481	57	340,648
Bridge loans	3	4,468	4	5,106	6	18,846
Total loan principal ⁽¹⁾	49	368,709	57	387,587	63	359,494

⁽¹⁾ Excludes specific loan loss provision

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

g) Geographic distribution of loan principal

The following table indicates the geographical distribution of the Company's mortgage loans:

	June 30, 2009			December 31, 2008			June 30, 2008		
	Number of loans	Principal Outstanding		Number of loans	Principal Outstanding		Number of loans	Principal Outstanding	
		\$			\$			\$	
British Columbia	17	153,611	42%	17	151,096	40%	21	161,388	47%
Prairies	23	156,828	43%	29	183,217	48%	33	157,878	46%
Ontario	6	53,802	15%	7	48,168	12%	3	21,382	7%
Total mortgage loans ⁽¹⁾	46	364,241	100%	53	382,481	100%	57	340,648	100%

⁽¹⁾ Excludes specific loan loss allowances.

h) Non-recourse loan syndication

In April 2009, certain of the Company's loans receivable were individually syndicated to third parties on a non-recourse basis involving senior and subordinated positions in each loan, whereby the third party holds the senior position and Quest the subordinated position. The senior position earns interest at the contractual interest rate inherent in the loan with a term equal to the remaining term in the loan receivable.

At the Company's discretion, it may exercise an option to repurchase the senior position at principal plus accrued interest. Accordingly, under CICA Accounting Guideline 12, *Transfer of Receivables*, the Company is deemed to have retained effective control over the loan receivables. As a result, the Company has presented the senior position of \$28,394, net of deferred fees, separately from the loan receivable of \$93,870 using a gross rather than net presentation basis.

The Company amortizes the placement fee associated with this syndication over the remaining term inherent in the loans receivable.

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Non-recourse loan syndication	28,581	-	-
Less: unamortized balance of deferred fees	(187)	-	-
	28,394	-	-

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

7 PREMISES AND EQUIPMENT AND INTANGIBLE ASSETS

Premises & equipment	June 30, 2009			December 31, 2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
	\$	\$	\$	\$	\$
Land	35	-	35	35	35
Leasehold improvements	631	326	305	371	430
Computer equipment	500	347	153	215	225
Office equipment	204	96	108	123	124
	1,370	769	601	744	814

Amortization included in the net loss for the six month period is \$139 (2008 - \$146).

Intangible assets	June 30, 2009			December 31, 2008	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
	\$	\$	\$	\$	\$
Computer software	208	56	152	118	115

Amortization included in the net loss for the six-month period is \$35 (2008 - \$nil).

8 REVOLVING DEBT FACILITY

In January 2008, the Company entered into a two-year revolving debt facility syndicated among three Canadian chartered banks for a maximum borrowing of \$88,000. In December 2008, the Company amended the terms of the agreement and reduced the facility limit to \$70,000. In May 2009 the facility was further reduced to \$55,000 and to a maximum of \$39,600 in June 2009. The maximum borrowing amount reduces with loans repaid. The facility bears interest based on prime rate plus an increment and is collateralized by the Company's loan portfolio.

As at June 30, 2009, no funds were drawn down under the facility. The Company amortizes financing costs associated with the revolving debt facility over the term of the facility which is due to mature in January 2010. As at June 30, 2009, the Company was in compliance with all required financial covenants under the revolving debt facility.

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Revolving debt facility drawn	-	50,860	66,510
Less: unamortized balance of financing costs ⁽¹⁾	-	(707)	(500)
	-	50,153	66,010

⁽¹⁾ At June 30, 2009 \$405 of deferred costs are included in other assets.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

9 ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation relates to closure obligations at its Castle Mountain property. The fair value of cash legally restricted for the purposes of settling asset retirement obligations is disclosed in note 5.

A reconciliation of the asset retirement obligation is as follows:

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Balance - beginning of period	459	572	572
Liabilities settled	(79)	(135)	(83)
Accretion expense	14	35	17
Revision in estimated cash flows	-	(123)	-
Foreign exchange	(18)	110	16
Balance - end of period	<u>376</u>	<u>459</u>	<u>522</u>

10 SHARE CAPITAL

a) Authorized

Unlimited first and second preferred shares
Unlimited common shares without par value

b) Cumulative 13.50% First Preferred Shares, Series A issued and outstanding (classified as liabilities)

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Preferred share liability	40,000	40,000	-
Less: unamortized balance of financing costs	(993)	(1,276)	-
Net liability	<u>39,007</u>	<u>38,724</u>	-
Number of shares outstanding	20,000,000	20,000,000	-

The First Preferred Shares, Series A expire on December 31, 2010. Prior to January 11, 2010, the preferred shares are redeemable and retractable at the Company's or holder's option, with consent of the Company's lenders (note 8) and after such date no consent is required (note 16 – "Liquidity and Liquidity Risks"). The redemption or retraction price is equal to the issue price plus all accrued and unpaid dividends. As the preferred shares are not convertible and are mandatorily retractable with a prescribed cumulative dividend, they have been classified as a liability on the balance sheet.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

Dividends are payable on a quarterly basis at a rate of 13.5% per annum. Dividend payments are recorded as interest expense in net income (loss). The preferred shareholders, after payment of dividends at the prescribed rate of 13.5% per annum and the payment of an equivalent amount of dividends to common shareholders, have the right to participate pari passu in any additional dividends payable to common shareholders.

By way of a Dividend Payment Agreement dated March 30, 2009, the Company has the option to pay declared preferred share dividends in common shares (note 10(c)).

c) Common shares issued and outstanding

	Number of shares	Amount
		\$
Common Shares		
Opening balance – January 1, 2009	146,789,711	207,161
Issued from treasury – agent’s fee on preferred share issuance	1,404,762	1,180
Issued from treasury – preferred share dividend (note 10(b))	2,141,435	1,361
Returned to treasury – expiry of sunset clause (note 10(e))	(442,709)	(446)
Closing balance – June 30, 2009	149,893,199	209,256

On January 15, 2009, the Company issued 1,404,762 shares for \$1,180 as an agent’s fee on the issuance of the First Preferred shares (note 10(b)).

On April 9, 2009, the Company issued 2,141,435 shares for \$1,361 to the holders of the Company’s First Preferred shares in settlement of the March 31, 2009 declared dividend.

On June 30, 2009 pursuant to the sunset clause included in the terms of the 2003 Plan of Arrangement (the “Arrangement”), 442,709 shares of the Company were returned to treasury for cancellation at an assigned value of \$1.01 per share. The shares had been held in escrow by the Company’s transfer agent as their owners did not exchange their shares of predecessor companies for common shares of the Company tendered as part of the Arrangement. The offsetting credit has been recorded in contributed surplus.

On July 2, 2009, the Company issued 1,571,135 shares for \$1,346 to the holders of the Company’s First Preferred shares in settlement of the June 30, 2009 declared dividend.

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.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

The change in stock options outstanding for the period was as follows:

	Number of options	Weighted average exercise price
Opening balance – January 1, 2009	5,274,664	\$ 2.55
Granted	250,000	1.05
Cancelled	(1,610,197)	2.48
Closing balance – June 30, 2009	3,914,467	\$2.48
Options exercisable – June 30, 2009	3,024,739	\$2.64

The following table summarizes information about stock options outstanding and exercisable at June 30, 2009:

Range of exercise prices	Options outstanding			Options exercisable	
	Options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
\$			\$		\$
0.00 to 1.49	250,000	4.89	1.05	20,830	1.05
1.50 to 1.99	350,000	3.91	1.99	145,820	1.99
2.00 to 2.49	1,371,664	2.53	2.20	1,027,804	2.24
2.50 to 2.99	785,306	3.39	2.65	785,306	2.65
3.00 to 3.49	1,157,497	2.66	3.16	1,044,979	3.15
	3,914,467	3.02	2.48	3,024,739	2.64

e) Contributed surplus

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	\$	\$
Balance – beginning of period	8,154	7,954
Stock-based compensation expense	113	313
Expiry of sunset clause (note 10(c))	447	447
Balance – end of period	8,714	8,714

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

11 INCOME TAXES

The Company has tax losses and other deductions in certain of its entities which are available 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.

a) The provision for income taxes consists of the following:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	\$	\$	\$	\$
Current				
Canada	-	(26)	-	23
United States	22	(10)	116	5
Total current expense (recovery)	22	(36)	116	28
Future				
Canada	(1,674)	570	(963)	934
United States	(41)	(7)	(163)	(50)
Total future (recovery) expense	(1,715)	563	(1,126)	884
Total income tax (recovery) expense	(1,693)	527	(1,010)	912

The significant components of the future income tax assets and liabilities are as follows:

	June 30, 2009	December 31, 2008	June 30, 2008
	\$	\$	\$
Non-capital loss carry-forwards	4,037	2,753	524
Capital loss carry-forwards	7,647	7,935	7,837
Premises and equipment	2	9	13
Other	2,255	2,613	2,871
	13,941	13,310	11,245
Valuation allowance	(8,034)	(8,366)	(8,264)
Future income tax asset	5,907	4,944	2,981
Deferred gain and other	646	841	879
Future tax liability	646	841	879

b) The Company has non-capital losses to reduce future taxable income in Canada of approximately \$13,526. These losses will expire in 2015 (\$6,727), 2028 (\$2,478) and 2029 (\$4,321).

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

12 RELATED PARTY TRANSACTIONS

- a) Included in accounts payable and accrued liabilities as at June 30, 2009 is \$216 due to employees and officers for bonuses payable (December 31, 2008 - \$50, June 30, 2008 - \$1,951).
- b) For the six months ended June 30, 2009, the Company paid \$56 (June 30, 2008 - \$nil) for administration services to a party related by virtue of having certain directors and officers in common. The Company was also reimbursed \$55 (June 30, 2008 - \$20) in office and premises costs by the same related party, of which \$18 (December 31, 2008 - \$11, June 30, 2008-\$nil) is included in accounts receivable.
- c) For the six months ended June 30, 2009, the Company received \$14 (June 30, 2008 - \$13) in syndication fees from parties related by virtue of having certain directors and officers in common.
- d) Included in accounts payable and accrued liabilities as at June 30, 2009 is \$43 (December 31, 2008 - \$39, June 30, 2008 - \$40) in co-lender interest payable to parties related by virtue of having certain directors and officers in common.

13 COMMITMENTS AND CONTINGENCIES

- a) Surety bond guarantees of \$564 (US\$486) have been provided by Castle Mountain Joint Venture for compliance with reclamation and other environmental agreements.
- b) The Company has entered into operating leases for office premises and other commitments. Annual payments required are approximately as follows:

	\$
2009	341
2010	586
2011	423
2012	423
2013	25

- c) Other commitments and contingencies are disclosed in note 6(e).

14 INTEREST RATE SENSITIVITY

The Company's exposure to interest rate changes results from the difference between assets and liabilities and their respective maturities or interest rate repricing dates. Based on current differences as at June 30, 2009, the Company estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income over the next 12 months by \$214. An immediate and sustained 100 basis point decrease in interest rates would increase net interest income over the next 12 months by \$214.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

The carrying amounts of assets and liabilities in the following tables are presented in the periods in which they next reprice to market rates or mature based on the earlier of contractual repricing and maturity dates:

June 30, 2009	Floating Rate	Within 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non – Interest Sensitive	Total
	\$	\$	\$	\$	\$	\$	\$
Total assets	35,362	244,882	84,965	3,500	-	(6,257)	362,452
Total liabilities and equity	-	26,082	2,500	40,000	-	293,870	362,452
Difference	35,362	218,800	82,465	(36,500)	-	(300,127)	-
Cumulative difference	35,362	254,162	336,627	300,127	300,127	-	-
Cumulative difference as a percentage of total assets	9.8%	70.1%	92.9	82.8%	82.8%	-	-

December 31, 2008	Floating Rate	Within 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non – Interest Sensitive	Total
	\$	\$	\$	\$	\$	\$	\$
Total assets	50,156	164,621	101,590	71,220	-	(3,332)	384,255
Total liabilities and equity	50,860	-	-	40,000	-	293,395	384,255
Difference	(704)	164,621	101,590	31,220	-	(296,727)	-
Cumulative difference	(704)	163,917	265,507	296,727	296,727	-	-
Cumulative difference as a percentage of total assets	(0.2%)	42.7%	69.1%	77.2%	77.2%	-	-

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

June 30, 2008	Floating Rate	Within 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years	Non – Interest Sensitive	Total
	\$	\$	\$	\$	\$	\$	\$
Total assets	44,990	173,451	53,732	82,592	-	11,774	366,539
Total liabilities and equity	66,510	-	-	-	-	300,029	366,539
Difference	(21,520)	173,451	53,732	82,592	-	(288,255)	-
Cumulative difference	(21,250)	151,931	205,663	288,255	288,255	-	-
Cumulative difference as a percentage of total assets	(5.8%)	41.4%	56.1%	78.6%	78.6%	-	-

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price in an active market. Quoted prices are not always available and in these cases, the Company determines fair value of financial assets using valuation techniques based on observable market data and management's best estimates of market conditions. The estimates are subjective and involve particular assumptions and matters of judgement and as such, may not be reflective of future realizable values.

The fair values of cash deposits are assumed to approximate their carrying values due to their short-term nature.

The fair values of loan principal reflects changes in the general level of interest rates that have occurred since the loans were originated, net of any allowances for loan losses. These instruments lack an available trading market and are not typically exchanged. They have been valued assuming they will not be sold. The fair values are not necessarily representative of the amounts realizable in an immediate settlement of the instrument. For variable rate loans, the fair value approximates their carrying values since these instruments reprice to market frequently. For fixed rate loans, fair value is determined by discounting the expected future cash flows at current market rates for loans with similar terms and risks.

The fair value of the revolving debt facility is based on a variable rate of interest and reprices to market frequently and on that basis the fair value approximates the carrying value.

The fair value of the preferred share liability is determined by using market interest rates for financial instruments with similar terms and risks. This instrument lacks an available trading market and is not typically exchanged.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

The table below sets out the fair values of financial instruments and does not include assets and liabilities that are not considered financial instruments.

	June 30, 2009		December 31, 2008		June 30, 2008	
	Carrying value	Fair value	Carrying value	Fair Value	Carrying value	Fair Value
	\$	\$	\$	\$	\$	\$
Assets						
Cash deposits	3,136	3,136	1,621	1,621	3,101	3,101
Restricted cash	1,911	1,911	4,014	4,014	8,763	8,763
Loan principal	348,711	348,921	373,852	372,757	359,494	359,494
Liabilities						
Preferred share liability	40,000	40,000	40,000	40,000	-	-
Non-recourse loan syndication	28,582	28,582	-	-	-	-
Revolving debt facility	-	-	50,860	50,860	66,510	66,510

16 CAPITAL AND RISK MANAGEMENT

Capital management

The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support operations. The Company continually monitors its capital position to ensure these objectives are met. A strong capital position also provides flexibility in considering accretive growth opportunities. As at June 30, 2009, the Company was in compliance with its revolving debt facility covenants.

At June 30, 2009, management considers the Company's capital to comprise revolving debt of \$nil, preferred share net liability of \$39,007 and all components of shareholders' equity which amount to \$290,957 for a total of \$329,964.

Commencing in 2008, the Company's dividend policy is to distribute sufficient dividends to shareholders throughout the fiscal year and within 90 days thereafter to reduce its taxable income to a negligible amount, after first deducting all available loss carry-forwards and other deductions against taxable income. The Company's dividend policy is further described in the Company's management's discussion and analysis for the six months ended June 30, 2009.

Risk Management

The success of Quest is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other financial institutions, Quest is exposed to many factors that could adversely affect its business, financial conditions or operating results. Developing policies and procedures to identify risk and the implementation of appropriate risk management policies and procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

monitors their compliance with them through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk Management

Credit risk is the risk that a borrower will not honour its commitments and a loss to the Company may result. The Company is further exposed to adverse changes in conditions which affect real estate values. These market changes may be regional, national or international in nature or may revolve around a specific product type. Risk is increased if the value of real estate securing the Company's loans falls to a level approaching or below the loan amounts. Any decrease in real estate values may delay the development process and will adversely affect the value of the Company's security.

During the loan origination process, senior management takes into account a number of factors and is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- emphasis on first mortgage financings;
- emphasis on borrowers' experience;
- local and regional diversification of mortgages;
- diversification of the loan portfolio by asset type;
- the investigation of the creditworthiness of all borrowers;
- the employment of qualified and experienced loan originators and underwriters;
- allocation of the responsibility of the loan to two Quest employees which allow for peer review;
- physical inspection of the property;
- review of the sufficiency of the borrower's business plans including strategies to exit the property and/or enhance the value of the property;
- continuous written status updates provided on the business plans and if applicable, construction progress;
- the engagement of qualified independent consultants and advisors such as lawyers, quantity surveyors, real estate appraisers and insurance consultants dedicated to protecting the Company's interests; and
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding.

As a result of the recent changes to the credit markets and the Company's focus on loan remediation and the collection of loans, senior management has implemented several additional procedures as well as heightening others. These include:

- The formation of a remediation team who focus on the identification and remediation of problem loans;
- Strategy formulation as to the most appropriate method to protect the Company's interest including obtaining additional security, request for principal reductions, protective disbursements and foreclosure proceedings;
- Frequent physical inspection of the properties by loan remediation team members;

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

- Engaging new legal counsel, realtors, and other professionals;
- Frequent updating of appraisals and/or re-underwriting of loans including updating borrower and guarantor financial conditions; and
- Weekly management review and discussion of the status of the loan including legal status, market intelligence, and business plans of the borrower.

The Board of Directors has the responsibility of ensuring that credit risk management is adequate. The Board has delegated much of this responsibility to its Credit Committee, which comprise three independent directors. They are provided monthly with a detailed portfolio analysis including a report on all overdue and impaired loans, and meet on a quarterly basis, to review and assess the risk profile of the loan portfolio. The Credit Committee is required to approve all applications for loans between \$15 million and \$25 million, and any loan application for amounts greater than \$25 million must be approved by the Board. The Board has delegated approval authority for all loans less than \$15 million to an approval committee comprised of members of senior management. In addition at origination, the Company does not allow any one loan to exceed 10% of the Company's equity and restricts lending to any one borrower to 20% or less of the Company's equity. As at June 30, 2009, the largest loan in the Company's loan portfolio was \$29 million (8% of the Company's loan portfolio) and is considered impaired. This was also the largest aggregate amount owing by any one borrower. Also, the Company will syndicate loans in certain circumstances if it wishes to reduce its exposure to a borrower. The Company reviews its policies regarding its lending limits on an ongoing basis.

Liquidity and Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The goal of liquidity management is to ensure that adequate cash is available to honour all future loan commitments and the repayment of the revolving debt facility at maturity. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized. Quest manages its loan commitment liquidity risk by the ongoing monitoring of scheduled mortgage fundings and repayments, and whenever necessary, accessing its debt facility to bridge any gaps in loan maturities and funding obligations. The Company manages its revolving debt facility liquidity risk by accessing alternative sources of liquidity whether this be mortgage repayments, syndication proceeds or preferred share issuances. For both of these liquidity risks, the Company may syndicate a portion of its loans as part of its liquidity risk management.

As at June 30, 2009, the Company had no drawings on its revolving debt facility and had future loan commitments to borrowers of up to \$27.7 million. Currently, \$39.6 million is available under its revolving debt facility. The amount available under this facility decreases with loan repayments received by the Company. The facility is set to expire in January 2010 and the Company does not anticipate any non-compliance with its covenants, namely minimum equity, and tangible assets to debt ratios.

The Company's preferred share liabilities have a mandatory redemption in December 2010 and retraction and redemption privileges with the consent of the lenders prior to the expiry of the revolving debt facility in January 2010. Lender consent is not required upon the expiry of the

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

revolving debt facility provided the debt is extinguished. The Company is obligated to retract the preferred shares only if more than 66 2/3% of the then issued and outstanding preferred shareholders provide a retraction notice. As there are five preferred shareholders, four out of the five preferred shareholders would have to provide a retraction notice to be more than 66 2/3%. The Company is negotiating with the preferred shareholders to amend the terms of the preferred shares including the retraction and redemption privileges.

Future loan commitments are primarily for construction draws which occur over the course of the term of the relevant loan which is typically 12 to 18 months in duration. Further, as at June 30, 2009, 23% of the Company's loan portfolio, or \$85.0 million, was due within a year. With the current economic climate, the ability to accurately forecast actual repayments on the Company's loan portfolio has become difficult. The current adverse economic climate is impacting real estate prices and the timing of take-out financing for certain loans in the Company's portfolio.

Management monitors rolling forecasts of the Company's cash position based on the timing of expected cash flows, which incorporates assumptions related to the likely timing of loan repayments and property sales.

In addition, the Company has initiated a number of procedures to assist in its liquidity management during 2009 including:

- restricting loan advances to existing lending obligations and protective disbursements and a commitment to not fund any new loans;
- syndication of existing loans and where necessary using a senior and subordinate priority structure whereby Quest will hold the subordinate portion;
- obtaining the agreement of preferred shareholders to enable the Company to settle their dividend payments in common shares of the Company, at the discretion of the Company.

As a result of these initiatives and projections, it is management's opinion that the Company has sufficient resources to meet its current cash flow requirements. Given the economic climate and the delays in repayment of some of the Company's loans, management continue to forecast expected cashflows, while considering current requirements and various liquidity management tools which are available.

Market Risk

Market risk is the impact on earnings as a result of changes in financial market variables such as interest rates and foreign exchange rates which can arise when making loans and borrowing and making investments. The Company does not engage in any type of trading activities. The Company's material market risk is limited to interest rates as noted below.

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

Interest Rate Risk

Interest rate risk is the risk that a lender's earnings are exposed to volatility as a result of sudden changes in interest rates. This occurs, in most circumstances, when there is a mismatch between the maturity (or re-pricing characteristics) of loans and the liabilities or resources used to fund the loans. For loans funded using bank debt priced on the basis of bank prime rate plus a spread, the Company manages this risk through the pricing of certain of its loans also being based upon the bank prime rate plus a spread. In addition, the Company will, in some cases, have minimum rates or an interest rate floor in its variable rate loans. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. Quest currently mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to two years, and by charging prepayment penalties and upfront commitment fees. As at June 30, 2009, the Company had 3 variable rate loans priced off the bank prime rate with an aggregate principal of \$35.4 million and 46 fixed-rate loans with an aggregate principal of \$333.3 million.

17 SEGMENTED INFORMATION

The Company principally has one operating segment, which is the provision of mortgage financings. The Company's geographic location is Canada.

18 SUPPLEMENTAL CASH FLOW INFORMATION

a) Cash received or paid:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	\$	\$	\$	\$
Interest received (non-loan)	4	88	18	342
Interest paid	73	601	397	920
Income tax instalments	28	-	61	67

b) Non-cash financing and investing activities:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	\$	\$	\$	\$
Common shares issued as agent's fee	-	-	1,180	-
Common shares issued for preferred share dividend	1,361	-	1,361	-

Quest Capital Corp.

Notes to the Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2009

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

19 FUTURE ACCOUNTING CHANGES

The CICA's Accounting Standards Board (AcSB) amended CICA Handbook Section 3862, *Financial Instruments – Disclosures*, to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. The amendments will be effective for the Company's annual fiscal year ending December 31, 2009.

The AcSB also amended CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The amendment clarified that, subsequent to the recognition of an impairment loss on a financial asset (other than a loan), interest income on the impaired financial asset is recognized using the interest rate used to determine the impairment loss. The amendment will be effective for interim periods ending after August 20, 2009.

The CICA has previously announced planned convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") for public companies over a transition period, with IFRS expected to be effective for fiscal periods beginning on or after January 1, 2011. Management has established a plan to adopt IFRS on January 1, 2011 with restatement for comparative purposes of amounts reported by the Company for the interim periods and the year ended December 31, 2010.

20 EMPLOYEE TERMINATION COSTS

In connection with a reorganization of the Company's executive and other employees undertaken in April and May 2009, the Company incurred one time salary and related benefit costs of \$1,499.

21 SUBSEQUENT EVENT

On July 2, 2009, the Company issued 1,571,135 common shares in payment of its June 30, 2009 declared dividend of \$1,346 on the Cumulative 13.5% First Preferred Shares, Series A. Refer to notes 10 (b) and (c).