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TSX: QC  
AMEX/AIM: QCC

## **QUEST REPORTS ITS FINANCIAL RESULTS FOR 2006**

**Vancouver, British Columbia** – Quest Capital Corp. ('Quest' or the 'Company'), announces its audited consolidated financial results for the year ended December 31, 2006.

### **HIGHLIGHTS**

- Earnings before income taxes of \$37.0 million (\$0.27 per share) for the year ended December 31, 2006, as compared to earnings before taxes of \$17.2 million (\$0.17 per share) for the comparative period in 2005;
- The Company recognized a future tax asset based on the likely realization of tax losses which are to be utilized against future taxable earnings. In 2005 a future tax asset of \$6.0 million was recognized and in 2006 an additional \$8.5 million was recognized. As a result of the recognition of a future tax recovery in 2005 and 2006, net earnings increased by \$6.3 million and \$6.7 million respectively.
- Net earnings of \$43.7 million (\$0.32 per share) for the year ended December 31 2006, as compared to net earnings of \$23.6 million (\$0.23 per share) for the comparative period in 2005;
- Total loans arranged in 2006 totaled \$279.2 million, of which the Company funded \$255.2 million;
- Loan portfolio increased 116% in 2006 to \$269.5 million, as compared to \$124.6 million as at December 31, 2005;
- Net realized gains from sale of marketable securities and investments during the year ended December 31, 2006 totaled \$14.5 million, as compared to \$4.9 million realized during the comparative period in 2005.

"In 2006, the Company generated record revenues and record earnings as we continue to experience strong performance on our operating fronts," said Managing Director, A. Murray Sinclair. "The outstanding financial results are a testament to our business model, and are reflective of our ability to adjust our lending strategy to take advantage of where the opportunities lie, and probably more importantly, where they do not. We continue to monitor the US market and currently have no material exposure there, but remain heavily invested in the western Canadian markets, with an emphasis on growth in Alberta. In 2007, we expect to continue to adjust our portfolio, to reflect our views of where opportunities lie."

### **About Quest**

Quest Capital Corp. is a merchant bank that focuses on providing financial services, specifically mortgages and bridge loans. Quest's primary expertise is providing asset backed loans to companies in real estate, manufacturing and resource sectors. Quest complements its lending business by providing corporate finance services through its wholly owned subsidiary, Quest Securities Corporation.

**A. Murray Sinclair (Managing Director) or Ken Gordon (Chief Operating Officer)**

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For more information about Quest, please visit our website ([www.questcapcorp.com](http://www.questcapcorp.com)).

### **Forward Looking Statements**

*Statements contained in this news release that are not historical facts are forward-looking statements that involve various risks and uncertainty affecting the business of Quest. Actual results realized may vary materially from the information provided in this release. As a result, there is no representation by Quest that actual results realized in the future will be the same in whole or in part as those presented herein.*

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#### **QUEST CAPITAL CORP.**

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# Quest Capital Corp.

Consolidated Balance Sheets

As at December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,506	\$ 33,739
Marketable securities	1,865	945
Loans	269,522	124,551
Investments	9,980	17,117
Future tax asset	14,500	6,488
Restricted cash	2,568	2,265
Prepaid and other receivable	686	739
Resource and fixed assets	477	700
Other assets	1,253	2,008
Assets held for disposition	-	1,051
	<u>\$ 310,357</u>	<u>\$ 189,603</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,290	\$ 3,734
Income taxes payable	1,009	458
Dividend payable	-	3,518
Deferred interest and loan fees	4,620	1,685
Asset retirement obligation	1,011	1,884
Debt payable	22,000	-
Liabilities and provision for loss on assets held for disposition	-	730
	<u>32,930</u>	<u>12,009</u>
<b>Shareholders' Equity</b>		
Share capital	202,513	138,891
Contributed capital	6,479	6,772
Retained earnings	67,231	30,739
Currency translation adjustment	1,204	1,192
	<u>277,427</u>	<u>177,594</u>
	<u>\$ 310,357</u>	<u>\$ 189,603</u>

Approved by the Board of Directors

"Bob Buchan"

Director "Brian E. Bayley"

Director

## Quest Capital Corp.

Consolidated Statements of Retained Earnings

For the years ended December 31, 2006, 2005 and 2004

(expressed in thousands of Canadian dollars)

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	<u>2006</u>		<u>2005</u>		<u>2004</u>
<b>Retained earnings (deficit) - Beginning of year</b>	\$ 30,739	\$	10,706	\$	(2,041)
Net earnings for the year	43,701		23,551		12,747
Dividends	(7,209)		(3,518)		-
<b>Retained earnings - End of year</b>	<u>\$ 67,231</u>	\$	<u>30,739</u>	\$	<u>10,706</u>

# Quest Capital Corp.

## Consolidated Statements of Earnings

For the years ended December 31, 2006, 2005 and 2004

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

	2006	2005	2004
<b>Interest and related fees</b>	\$ 32,591	\$ 17,410	\$ 10,948
<b>Non-interest income</b>			
Management and finder's fees	3,993	4,204	2,200
Marketable securities and other assets trading gains (losses)	5,616	743	(1,020)
Realized gains and writedowns of investments	8,876	4,171	2,090
Other income and gold sales	14	372	3,505
	18,499	9,490	6,775
<b>Total interest and non-interest income</b>	51,090	26,900	17,723
<b>Interest on debt</b>	(1,380)	(63)	-
<b>Provision for losses</b>	(238)	-	(275)
	49,472	26,837	17,448
<b>Expenses and other</b>			
Salaries and benefits	2,889	2,108	1,650
Bonuses	5,525	2,000	1,500
Stock-based compensation	521	2,142	1,769
Office and other	970	935	771
Legal and professional services	1,908	820	1,412
Regulatory and shareholder relations	478	522	285
Director's fees	280	218	151
Foreign exchange loss (gain)	59	96	(275)
Gain on dilution net of provision for loss on disposition	-	91	-
Other expenses relating to resource properties	111	155	467
Gains on disposition, adjustment to reclamation provision and settlement of Australian operations	(253)	582	(3,349)
	12,488	9,669	4,381
<b>Earnings before income taxes</b>	36,984	17,168	13,067
<b>(Recovery of) provision for income taxes</b>	(6,717)	(6,315)	320
<b>Non-controlling interest in a subsidiary</b>	-	(68)	-
<b>Net earnings for the year</b>	\$ 43,701	\$ 23,551	\$ 12,747
<b>Earnings per share</b>			
Basic	0.32	0.23	0.14
Fully diluted	0.31	0.23	0.14
<b>Weighted average number of shares outstanding</b>			
Basic	137,713,931	100,923,801	87,997,155
Fully diluted	140,826,503	103,563,223	89,205,829

# Quest Capital Corp.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2006, 2005 and 2004

(expressed in thousands of Canadian dollars)

	2006		2005		2004	
<b>Cash flows from operating activities</b>						
Net earnings for the year	\$	43,701	\$	23,551	\$	12,747
Adjustments to determine net cash flows relating to operating items						
Future tax asset		(8,012)		(6,488)		-
Stock-based compensation		521		2,142		1,769
Non-controlling interest in subsidiary		-		(68)		-
Provision for losses		386		-		275
Amortization of deferred interest and loan fees		(5,539)		(4,568)		(4,693)
Marketable securities and other assets trading (gains) losses		(5,616)		(743)		1,020
Realized gains and writedowns of investments		(8,876)		(4,171)		(2,090)
Gain on dilution and provision for loss on disposition of subsidiary and other assets		-		156		-
Depreciation		162		128		110
Other expenses relating to resource properties		75		155		431
Gains on disposition of resource assets and adjustments to retirement obligations		(253)		582		(644)
Other assets and investments received as finder's fees		(862)		(1,245)		(566)
Deferred interest and loans fees received		6,428		3,083		2,117
Activity in marketable securities held for trading						
Purchases		(4,356)		(215)		(43)
Proceeds on sales		12,327		2,259		1,171
Expenditures for reclamation and closure		(934)		(2,498)		(4,747)
Changes in prepaid and other receivables		50		34		1,353
Changes in accounts payables and accrued liabilities		555		(1,784)		3,864
Changes in income taxes payable		552		-		-
		<u>30,309</u>		<u>10,310</u>		<u>12,074</u>
<b>Cash flows from financing activities</b>						
Proceeds from shares issued		62,807		56,025		2,329
Dividend payment		(10,727)		-		-
Proceeds from debt		99,931		-		-
Repayment of debt		(77,931)		-		-
		<u>74,080</u>		<u>56,025</u>		<u>2,329</u>
<b>Cash flows from investing activities</b>						
Activity in loans						
Net (increase) decrease in loans		(145,357)		(54,869)		(43,400)
Net decrease (increase) in convertible debentures		-		2,030		(975)
Activity in Investments						
Proceeds on sales		124,909		13,865		13,655
Purchases		(107,752)		(4,794)		(11,876)
Net proceeds on dilution of subsidiary		-		592		-
Change in restricted cash		(304)		7,655		2,761
Cash transferred to purchaser of resource property		-		(2,500)		-
Proceeds on sale of resource and fixed assets		356		210		864
Expenditures on resource and fixed assets		(77)		(368)		(295)
Net other assets acquired		(425)		(281)		-
Cash of subsidiary being held for sale/disposed		-		(678)		-
		<u>(128,650)</u>		<u>(39,138)</u>		<u>(39,266)</u>
<b>Foreign exchange loss on cash held in a foreign subsidiary</b>		28		(65)		(327)
<b>Increase (decrease) in cash and cash equivalents</b>		<u>(24,233)</u>		<u>27,132</u>		<u>(25,190)</u>
<b>Cash and cash equivalents - Beginning of year</b>		33,739		6,607		31,797
<b>Cash and cash equivalents - End of year</b>	\$	<u>9,506</u>	\$	<u>33,739</u>	\$	<u>6,607</u>
<b>Currency translation adjustment</b>						
<b>Supplemental cash flow information</b>						

**QUEST CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

**INTRODUCTION**

The following information, prepared as of March 7, 2007, should be read in conjunction with Quest Capital Corp.'s (the "Company") audited annual consolidated financial statements for the years ended December 31, 2006 and 2005 and related notes attached thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("Cdn GAAP"), together with the related management's discussion and analysis ("MD&A"). All amounts are expressed in Canadian dollars unless otherwise indicated.

The business of the Company consists of:

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

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

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

1. SELECTED ANNUAL INFORMATION
2. RESULTS OF OPERATIONS
3. SUMMARY OF QUARTERLY RESULTS
4. LIQUIDITY
5. RELATED PARTY TRANSACTIONS
6. SUBSEQUENT AND PROPOSED TRANSACTIONS
7. OFF BALANCE SHEET ARRANGEMENTS
8. OUTLOOK
9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES
10. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION
11. DISCLOSURE OF OUTSTANDING SHARE DATA
12. RISKS AND UNCERTAINTIES
13. FORWARD LOOKING INFORMATION
14. INTERNAL DISCLOSURE CONTROLS AND PROCEDURES

Additional information about the Company, including its Annual Information Form and other public filings, are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## 1. SELECTED ANNUAL INFORMATION

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

For the year ended December 31,

	2006	2005	2004
Interest and related fees	32,591	17,410	10,948
Non-interest income	18,499	9,490	6,775
Expenses and other	12,488	9,732	4,381
Earnings before income taxes	36,984	17,168	13,067
Net Earnings	43,701	23,551	12,747
Basic Earnings Per Share	0.32	0.23	0.14
Total Assets	310,357	189,603	111,905
Total Liabilities	32,930	12,009	12,385
Cash Dividends Declared Per Share	\$0.05	\$0.03	-

The Company's loan portfolio continued to grow in 2006 to \$269.5 million which is a 116% increase as compared to the previous year. As at December 31, 2006, the majority of the Company's loan portfolio includes first and second real estate mortgages. These loans are characterized by slightly lower interest rates and fees that the Company would otherwise realize from commercial loans to publicly traded development stage companies.

The Company realized net gains from sale of marketable securities and investments in 2006 totaling \$14.5 million, as compared to \$4.9 million realized in 2005 and \$1.1 million realized in 2004.

In 2004, the Company, through its wholly owned subsidiary Quest Securities Corporation, expanded its services to include corporate finance services in return for fees. In 2006, fees recorded from these activities totaled \$2.8 million, compared to \$3.3 million in 2005 and \$0.9 million in 2004. The decrease in 2006 is the result of changes in management of the Company's corporate finance services.

In 2006, the Company completed its closure obligations at the Castle Mountain property located in California, other than long-term monitoring and maintenance. In the impact of the Company's former resource operations were minimal in 2006 and 2005. Currently, the Company is seeking to sell the Castle Mountain property.

In 2005 and 2006, net earnings were also positively impacted by the recognition of a future tax asset (see Critical Accounting Policies and Estimates – Future Tax Asset) of \$6.0 million and \$8.5 million, respectively, as result of the likely realization of unused tax losses from future earnings. In 2007, the future tax asset will be utilized to offset taxable earnings. As the future tax asset is realized, future earnings will be reduced. As a result, the Company's 2007 attributed tax rate will be approximately 34%.

## 2. RESULTS OF OPERATIONS

Total assets as at December 31, 2006 were \$310.4 million comprised of \$9.5 million of cash, \$1.9 million of marketable securities, \$269.5 million in loans, \$10.0 million in investments with a fair value of \$13.4 million and \$19.5 million of other assets.

The loan portfolio at December 31, 2006 was comprised of 87% in first and second real estate mortgages, 12% in resource sectors, and 1% in other sectors. As at December 31, 2005, the loan portfolio was comprised of 89% in first and second real estate mortgages, 6% in resource sectors, and 5% in other sectors. At December 31, 2006, mortgages were geographically located as follows: 48% in British Columbia, 37% in Alberta, 13% in Ontario and 2% in other areas; of which 80% are first mortgages and 20% are second mortgages. This investment concentration may vary from time to time depending on the investment opportunities available, however in the near term the Company does not expect any material changes in the composition of its loan portfolio. As at December 31, 2006, the Company's loan portfolio consisted of 54 loans.

For the year ended December 31, 2006 the Company had consolidated net earnings of \$43.7 million (or \$0.32 per share) compared to consolidated net earnings of \$23.6 million ( or \$0.23 per share) in 2005 and consolidated net earnings of \$12.7 million (\$0.14 per share) in 2004. For fiscal years 2005 and 2006, the Company recognized a future tax asset based on the likely realization of tax losses which are to be utilized against future taxable earnings. In 2005 a future tax asset of \$6.0 million was recognized and in 2006 an additional \$8.5 million was recognized. As a result of the recognition of a future tax recovery in 2005 and 2006, earnings before tax increased by \$6.3 million and \$6.7 million respectively.

### ***Interest and Related Fees***

Net interest income from the Company's lending activities increased for 2006 as compared to 2005 and 2004 due to the growth in the loan portfolio year-over-year. Total loans as at December 31, 2006 were \$269.5 million as compared to \$124.6 million as at December 1, 2005, representing a 116% increase.

### ***Non-Interest Income***

Net earnings have been positively impacted over the past years with increases in management and finder's fees earned by the Company's corporate finance services. In 2006, fees recorded from these activities totaled \$2.8 million, compared to \$3.3 million in 2005 and \$0.9 million in 2004. The fair value of non-monetary compensation received as finder's fees in the form of shares, broker warrants and/or options are estimated using the trading price for shares, adjusted for liquidity, hold periods and other restrictions and the Black-Scholes option model for warrants.

Marketable securities are carried at the lower of average cost and market value. Accordingly, trading gains in 2006 resulted in the Company recording a gain of \$5.6 million compared to a net gain of \$0.7 million in 2005 and a net loss of \$1.0 million in 2004. Included in the net gain in 2006 is a write-down in the amount of \$0.4 million, no write-downs were recorded in 2005 or 2004.

Net realized gains from the sales and write-downs to carrying value of investments resulted in the Company recording a net gain of \$8.9 million in 2006 compared to a net gain of \$4.2 million in 2005 and a net gain of \$2.1 million in 2004. Included in the net gain in 2006 is a write-down in the amount of \$1.5 million and in 2005 a write-down of \$1.2 million.

### ***Expenses and Other***

Total expenses and other for the year ended December 31, 2006 were \$12.5 million as compared to \$9.7 million in 2005 and \$4.4 million in 2004.

Salaries and benefits increased in 2006 compared to 2005 and 2004 as a result of expansion of the business and the addition of new employees over the past three years.

Bonuses for the year ended December 31, 2006 were \$5.5 million as compared to \$2.0 million in 2005 and \$1.5 million in 2004. This represents amounts under the incentive plan to officers and employees of the Company. The 2006 increase in bonuses is the result of the realized gain on sale of securities and increased level of loan activity. The payments and allocations under such plan are subject to the approval of the Compensation Committee and Board of Directors. The Company's incentive plan includes discretionary and non-discretionary components. The non-discretionary components are based on the Company's corporate finance activities and loan underwritings. The discretionary components are primarily based on the earnings of the Company.

Stock based compensation decreased in 2006 to \$0.5 million as compared to \$2.1 million in 2005 and \$1.8 million in 2004, as a result of fewer options being issued and vested.

Legal and professional fees and regulatory and shareholder relations costs increased in 2006 as compared to 2005, primarily as a result of listing our shares on the London Alternative Investment Market (AIM) and other regulatory requirements. Legal and professional fees in 2004 included legal costs associated with resolving the legal claim in Australia.

Income tax recovery was \$6.7 million for the year ended December 31, 2006, compared to a recovery of \$6.3 million in 2005 and an income tax expense of \$0.3 million in 2004. Earnings has been positively impacted by the recognition of a future tax asset of \$8.5 million in 2006 and \$6.0 million in 2005, as a result of the likely realization of unused tax losses from future earnings.

### **3. SUMMARY OF QUARTERLY RESULTS**

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

	<b>Fourth Qtr 2006</b>	<b>Third Qtr 2006</b>	<b>Second Qtr 2006</b>	<b>First Qtr 2006</b>	<b>Fourth Qtr 2005</b>	<b>Third Qtr 2005</b>	<b>Second Qtr 2005</b>	<b>First Qtr 2005</b>
Interest and related fees	10,597	8,781	7,415	5,798	5,555	4,399	4,004	3,452
Non-interest income	1,265	3,368	7,905	5,961	4,028	1,883	2,377	1,202
Earnings before taxes	7,918	9,087	11,664	8,315	5,059	4,291	4,507	3,311
Net earnings	16,021	8,770	10,882	8,028	11,395	4,295	4,550	3,311
Basic and Diluted Earnings Per Share	0.12	0.06	0.08	0.06	0.10	0.04	0.05	0.04
Total Assets	310,357	284,935	267,891	208,060	189,603	166,928	123,487	114,030
Total Liabilities	32,930	20,885	14,828	8,999	12,009	6,718	7,525	10,684

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

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

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

#### ***Fourth Quarter***

For the quarter ended December 31, 2006, the Company had earnings of \$7.9 million before tax or net earnings of \$16.0 million. Net interest income increased as compared to the previous three quarters due to the growth in the loan portfolio quarter over quarter.

The increase of \$7.3 million in the future income tax asset between the third and fourth quarter of 2006 represents management's review of available tax losses and future earnings as at December 31, 2006.

## **4. LIQUIDITY**

The Company's cash resources at December 31, 2006 were \$9.5 million as compared to \$33.7 million as at December 31, 2005. The Company's primary focus is to provide loans and its cash balances will vary depending on the timing of loans advanced and repaid.

As at December 31, 2006, the Company had commitments under existing loan agreements to lend further funds of \$2.0 million. Advances under these agreements are subject to a number of conditions, including due diligence and no material adverse change in the assets, business or ownership of the borrower.

The Company's loan portfolio as at December 31, 2006 was \$269.5 million comprised of 87% real estate mortgages, 12% in resource sectors, and 1% in other sectors. As at December 31, 2006, 69% of the loan value is scheduled to mature within a year. The Company had approximately \$13.8 million of loans impaired as a result of certain principal and/or interest payments being in arrears as at December 31, 2006 against which the Company has a provision of \$0.6 million. The Company expects to collect the full carrying value of its loan portfolio.

For 2006, cash flow from operations provided \$30.3 million as compared to \$10.3 million for the comparative period in 2005, as a result of higher earnings and proceeds received from the sale of marketable securities.

In April 2006, the Company completed an equity offering of 15,625,000 common shares and received net proceeds of \$47.3 million.

In 2006, the Company's loan portfolio increased by \$144.9 million to \$269.5 million as compared to December 31, 2005. In 2006, the Company had arranged \$279.2 million of new loans (net to Company – \$255.2 million) and \$116.9 million of loans (net to the Company - \$101.5 million) were repaid.

As part of the Company's investment and tax planning strategies significant acquisitions and disposals of investments occurred in 2006 funded by internal sources and the use of margin accounts.

Management is not aware of any trends or expected fluctuations that would create any liquidity deficiencies. The Company believes that cash flow from continuing operations and existing cash resources will be sufficient to meet the Company's short-term requirements, as well as ongoing operations, and will be able to generate sufficient capital to support the Company's business. However, the Company assumes short-term debt from time to time to fund its investments and loan operations. In addition, the Company is reviewing the implementation of various term debt facilities.

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The total minimum lease payments for the years 2007 – 2011 are \$1,474,000.

**Obligation due by period**

<b>Type of Contractual Obligation</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 - 3 Years</b>	<b>3 – 5 Years</b>	<b>More than 5 Years</b>
Office Leases	\$1,474,000	\$434,000	\$997,000	\$43,000	-
Loan Commitments	\$2,000,000	\$2,000,000	-	-	-
<b>Total</b>	<b>\$3,474,000</b>	<b>\$2,434,000</b>	<b>\$997,000</b>	<b>\$43,000</b>	-

## **5. RELATED PARTY TRANSACTIONS**

For the year ended December 31, 2006, the Company received \$1.5 million (2005 - \$1.6 million, 2004 - \$1.5 million) in advisory, management and finder's fees from parties related by virtue of having certain directors and officers in common. Other assets includes \$0.2 million (2005 - \$0.5 million) of non-transferable securities held in either private or publicly traded companies related by virtue of certain directors and officers in common. For the year ended December 31, 2006, the Company recorded a write-down of other assets of \$0.1 million (2005 \$nil, 2004 \$nil) in parties related by virtue of having certain directors in common.

As at December 31, 2006, no loans and convertible debentures were due from parties related by virtue of directors and officers in common, compared with \$5.7 million in 2005. During the year ended December 31, 2006, the Company received \$0.6 million (2005 - \$2.1 million, 2004 - \$1.1 million) in interest and fees from a related parties by virtue of certain directors and officers in common. During the year ended December 31, 2006, the Company has made \$0.4 million in additional provision for losses on loans and convertible debentures (2005 - \$nil, 2004 - \$0.2 million) from a party related by virtue of having a director in common.

For the year ended December 31, 2006, the Company received \$24,000 (2005-\$128,000, 2004 - \$15,000) in syndication loan administration fees from parties related by virtue of certain directors and officers in common.

Marketable securities and investments include \$9.1 million (2005 - \$14.0 million) of shares held in publicly traded companies related by virtue of having certain directors and officers in common. For the year ended December 31, 2005, the Company recorded a gain on disposal of securities of \$10.6 million (2005 - \$3.9 million, 2004 - \$0.3 million) from parties related by virtue of having certain directors and officers in common. For the year ended December 31, 2006, the Company recorded a write-down of investments of \$1.2 million (2005 \$nil, 2004 \$nil) in parties related by virtue of having certain directors in common.

For the year ended December 31, 2006, the Company borrowed and repaid \$20.0 million (2005 - \$nil) from parties related by virtue of certain directors in common. Interest paid on these borrowings totalled \$110,000, with identical terms to the Company's debt facility described in note 10 of the audited consolidated financial statements.

Included in accounts payable is \$3.2 million (2005 - \$2.0 million) due to officers for bonuses payable.

## **6. SUBSEQUENT AND PROPOSED TRANSACTIONS**

The Company has no subsequent and proposed transactions to report.

## **7. OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

## **8. OUTLOOK**

As at December 31, 2006, the Company had \$9.5 million of cash on hand. Reinvestment of the Company's cash as loans mature is the paramount focus of management. The Company is not planning any material changes in the make-up of its lending business, although the precise composition of its loan portfolio may vary somewhat from the currently existing percentages as loans are made in the context of market conditions. During the upcoming year, the Company may hire additional employees and raise equity or debt as is required to fund the growth of the Company's loan portfolio (also refer to Liquidity).

## 9. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### *Provision for Loan Losses*

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

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

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

### *Valuation of Investments*

The Company's investments are primarily held in public companies. Investments are recorded at cost or at cost less amounts written off to reflect any impairment in value that is considered to be other than temporary. The Company regularly reviews the carrying value of its portfolio positions. A decline in market value may be only temporary in nature or may reflect conditions that are more permanent. Declines may be attributable to general market conditions, either globally or regionally, that reflect prospects of the economy as a whole or prospects of a particular industry or a particular company. Such declines may or may not reflect the likelihood of ultimate recovery of the carrying amount of an investment.

In determining whether the decline in value of the investment is other than temporary, quoted market price is not the only factor considered, particularly for thinly traded securities, large block holdings and restricted shares. Other factors considered include:

- the trend of the quoted market price and trading volume;
- the financial position of the company and its results;
- changes in or reorganization of the business plan of the investment; and
- the current fair value of the investment (based upon an appraisal thereof) relative to its carrying value.

### ***Future Tax Asset***

The Company has recognized a future tax asset based on the likely realization of tax losses which are to be utilized against future earnings. The Company will reassess at each balance sheet date its existing future income tax assets, as well as potential future income tax assets that have not been previously recognized. In determining whether an additional future income tax asset is to be recognized, the Company will assess its ability to continue to generate future earnings based on its current loan portfolio, expected rate of return, the quality of the collateral security and ability to reinvest the funds. If an asset has been recorded and the Company assesses that realization 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.

## **10. CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

No new accounting policies were adopted during the year ended December 31, 2006.

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

The adoption of the Financial Instrument Standards will require the presentation of a separate statement of comprehensive income. Investments and marketable securities will be recorded in the consolidated balance sheet at fair value. Changes in fair value of marketable securities will be recorded in income and changes in the fair value of investments will be reported in comprehensive income. The transitional adjustments in respect of these standards will be recorded to the opening marketable securities, investments and loan balances and adjusted through the retained earnings account and accumulated other comprehensive income, at January 1, 2007.

As a consequence of adopting the Financial Instrument Standards at January 1, 2007, retained earnings will increase by \$0.3 million, currency translation adjustment will decrease by \$1.2 million and accumulated other comprehensive income will increase by \$3.4 million. This reflects an increase of \$0.4 million in marketable securities, \$3.4 million increase in investments and a decrease in future tax asset of \$1.3 million. This represents the net gain on measuring the fair value of held for trading and available for sale investments, which was not recognized on a fair value basis prior to January 1, 2007.

## 11. DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 7, 2007, the Company had the following common shares, stock options and compensation options outstanding:

Common shares	144,962,628
Stock options	10,186,333
Compensation options	1,133,775
Fully diluted shares outstanding	156,282,736

### *Dividends*

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

## 12. RISKS AND UNCERTAINTIES

Additional risks factors are disclosed under "Risk Factors" in the Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Liquidity Risk*

The Company maintains a sufficient amount of liquidity to fund its obligations as they come due under normal operating conditions. As at December 31, 2006, 69% of the value of the loan portfolio is scheduled to mature within a year.

### *Credit Risk*

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

The composition of the loan portfolio at December 31, 2006 was 87% in first and second real estate mortgages, 12% in resource sectors, and 1% in other sectors. At December 31, 2006, mortgages were geographically located as follows; 48% in British Columbia, 37% in Alberta, 13% in Ontario and 2% in other; of which 80% are first mortgages and 20% are second mortgages. The Company generally provides real estate mortgages to approximately 75% of the value of the security and generally provides commercial bridge loans to primarily publicly traded development stage companies to approximately 50% of the value of guarantees and security. The Company provides for loan losses on a specific loan basis and has a provision of \$0.6 million as at December 31, 2006.

### **13. FORWARD LOOKING INFORMATION**

These materials include certain statements that constitute “forward-looking statements” within the meaning of Section 27A of the *United States Securities Act of 1933* and Section 21E of the *United States Securities Exchange Act of 1934*. These statements appear in a number of places in this document and include statements regarding our intent, belief or current expectation and that of our officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, words such as “believe”, “anticipate”, “estimate”, “project”, “intend”, “expect”, “may”, “will”, “plan”, “should”, “would” “contemplate”, “possible”, “attempts”, “seek”, and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are based on various factors and were derived utilizing numerous assumptions that could cause our actual results to differ materially from those in the forward-looking statements. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements include, among others, statements regarding our expected financial performance in future periods, our plan of operations and our business strategy and plans or budgets.

### **14. INTERNAL DISCLOSURE CONTROLS AND PROCEDURES**

#### ***Disclosure Controls and Procedures***

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

The Company’s management, including the CEO and CFO, conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2006. Based on this evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and procedures are effective.

#### ***Internal Control over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (3) provide

reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The Company's management has evaluated the effectiveness of internal control over financial reporting. Based on this evaluation, management has concluded that internal control over financial reporting was effective as of December 31, 2006.