



May 9, 2007

TSX: QC  
AMEX/AIM: QCC

**QUEST REPORTS ITS FINANCIAL RESULTS FOR FIRST QUARTER 2007  
AND AN INCREASE IN ITS DIVIDEND RATE**

**Vancouver, British Columbia** – Quest Capital Corp. ('Quest' or the 'Company') announces its unaudited interim consolidated financial results for the three months ended March 31, 2007 (a copy of which is attached hereto and is also available on SEDAR at [www.sedar.com](http://www.sedar.com)).

**HIGHLIGHTS**

- Earnings before income taxes of \$9.3 million (\$0.06 per share) for the three months ended March 31, 2007, as compared to earnings before income taxes of \$8.3 million (\$0.07 per share) for the comparative period in 2006;
- Loans arranged during the three months ended March 31, 2007 totaled \$49.5 million, of which the Company funded \$25.8 million. Interest and related fees from loans increased during the three months ended March 31, 2007 to \$10.8 million as compared to \$5.8 million for the comparative period in 2006;
- Net realized gains from the sale of marketable securities and investments during the three months ended March 31, 2007 totaled \$2.2 million, as compared to \$4.7 million realized during the comparative period in 2006.

As a reflection of the continued growth in our business, the Company announces that on May 9, 2007 its Board of Directors approved an increase in its dividend rate from CAD \$0.02 per quarter to CAD \$0.025 per quarter. The quarterly dividend will be paid on June 26, 2007 to shareholders of record at the close of business on June 15, 2007. Shareholders should refer to the Company's website for the tax treatment of these dividends.

"The results for the start of 2007 were excellent as our lending business put in another strong quarterly performance," said Managing Director, A. Murray Sinclair. "Going forward, we remain focused on maintaining the positive growth momentum while providing shareholders with an increasing dividend stream. To accomplish this objective, we recently established our first bank credit facility that will allow us to enhance returns by utilizing leverage as we expand our lending activities with a focus on geographical and product diversification."

Over the past several months, Chief Operating Officer Kenneth Gordon has enhanced and further developed and expanded an internal structure designed to manage Quest's real estate lending operations and the expansion of its mortgage lending activities. "With this structure in place, Quest will gradually increase its leverage towards a debt target of 25% of total assets".

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**QUEST CAPITAL CORP.**

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The Company is also pleased to announce that Walter Traub, a lawyer specializing in commercial lending matters, and Dale Peniuk, Chartered Accountant, have joined the Board of Directors of the Company.

### **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.

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

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### **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.*



# Quest Capital Corp.

Consolidated Financial Statements

**March 31, 2007**

(Expressed in thousands of Canadian dollars)

(Unaudited)

# Quest Capital Corp.

## Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)

(Unaudited)

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,743	\$ 9,506
Marketable securities	2,597	1,865
Loans (note 5)	250,274	269,522
Investments	16,341	9,980
Future tax asset	10,500	14,500
Restricted cash	2,571	2,568
Prepaid and other receivables	321	686
Resource and capital assets	446	477
Other assets	1,232	1,253
	<u>\$ 294,025</u>	<u>\$ 310,357</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,798	\$ 4,290
Income taxes payable	237	1,009
Deferred interest and loan fees	-	4,620
Asset retirement obligation	964	1,011
Debt payable (note 6)	-	22,000
	<u>6,999</u>	<u>32,930</u>
<b>Shareholders' Equity</b>		
Share capital (note 7)	203,110	202,513
Contributed capital (note 7)	6,511	6,479
Accumulated other comprehensive income	5,398	1,204
Retained earnings	72,007	67,231
	<u>287,026</u>	<u>277,427</u>
	<u>\$ 294,025</u>	<u>\$ 310,357</u>

Contingencies and commitments (note 10)

### Approved by the Board of Directors

"Bob Buchan"

Director

"Brian E. Bayley"

Director

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

## Quest Capital Corp.

Consolidated Statements of Retained Earnings

Three months ended March 31, 2007 and 2006

(Expressed in thousands of Canadian dollars)

(Unaudited)

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	<u>2007</u>	<u>2006</u>
<b>Retained earnings - Beginning of period</b>	\$ 67,231	\$ 30,739
Adoption of financial instruments standards (note 4)	<u>286</u>	<u>-</u>
As restated	67,517	30,739
Net earnings for the period	7,389	8,028
Dividends	<u>(2,899)</u>	<u>-</u>
<b>Retained earnings - End of period</b>	<u>\$ 72,007</u>	<u>\$ 38,767</u>

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

# Quest Capital Corp.

Consolidated Statements of Earnings

For the three months ended March 31, 2007 and 2006

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

(Unaudited)

	2007	2006
<b>Interest and related fees</b>	\$ 10,807	\$ 5,798
<b>Non-interest income</b>		
Management and finder's fees	726	1,251
Marketable securities and other assets trading gains	1,041	1,738
Realized gains, net of writedowns of investments	1,116	2,956
Other income and gold sales	-	16
	2,883	5,961
<b>Total interest and non-interest income</b>	13,690	11,759
<b>Interest on debt</b>	(230)	-
	13,460	11,759
<b>Expenses and other</b>		
Salaries and benefits	899	668
Bonuses	1,350	1,600
Stock-based compensation	200	136
Office and other	314	198
Legal and professional services	360	467
Regulatory and shareholder relations	271	264
Director's fees	66	88
Sales tax	650	-
Foreign exchange loss (gain)	19	(1)
Other expenses relating to resource properties	16	24
	4,145	3,444
<b>Earnings before income taxes</b>	9,315	8,315
<b>Provision for income taxes</b> (note 8)	1,926	287
<b>Net earnings for the period</b>	\$ 7,389	\$ 8,028
<b>Earnings per share</b>		
Basic	0.05	0.07
Diluted	0.05	0.06
<b>Weighted average number of shares outstanding</b>		
Basic	144,956,018	122,932,235
Diluted	145,880,563	126,053,811

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

# Quest Capital Corp.

## Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2007

(Expressed in thousands of Canadian dollars)

(Unaudited)

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	<b>2007</b>
<b>Net earnings for the period</b>	\$ 7,389
<b>Other comprehensive income, net of tax</b>	
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	(21)
Unrealized gains on available-for-sale financial assets arising during the period	1,962
Reclassification adjustment for gains recorded included in net income	21
<b>Other comprehensive income</b>	<u>1,962</u>
<b>Comprehensive income</b>	<u>9,351</u>
<b>Accumulated other comprehensive income – Beginning of period (note 4)</b>	1,204
Adoption of financial instruments standards (note 4)	2,232
Other comprehensive income for the period	<u>1,962</u>
<b>Accumulated other comprehensive income – End of period</b>	<u>\$ 5,398</u>

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

# Quest Capital Corp.

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2007 and 2006

(Expressed in thousands of Canadian dollars)

(Unaudited)

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

Supplemental cash flow information (note 12)

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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## 1 Nature of operations

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

## 2 Basis of presentation

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

## 3 Significant accounting policies

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

## 4 Change in accounting policies

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

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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

As a consequence of adopting the Financial Instrument Standards at January 1, 2007, retained earnings increased by \$0.3 million, currency translation adjustment decreased by \$1.2 million and accumulated other comprehensive income increased by \$3.4 million. These movements reflect an increase of \$0.4 million in marketable securities, \$3.4 million increase in investments, a decrease in future tax asset of \$1.3 million, a decrease in deferred interest and loan fees of \$4.6 million and a decrease in loans of \$4.6 million. These adjustments represent the net gain on measuring the fair value of held for trading and available for sale investments, which had not been recognized on a fair value basis prior to January 1, 2007.

## 5 Loans

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

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

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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

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

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

## 6 Debt payable

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

## 7 Share capital

- a) Authorized

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

- b) Shares issued and outstanding

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

c) Compensation options issued and outstanding

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

d) Stock options outstanding

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

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

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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

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

e) Contributed capital

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

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

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

## 8 Income taxes

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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The provisions for income taxes consists of the following:

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

## 9 Related party transactions

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

Three months ended March 31, 2007

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

(Unaudited)

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

## 10 Contingencies and commitments

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

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

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

## 11 Segmented information

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

## 12 Supplemental cash flow information

Non-cash financing and investing activities

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

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

**INTRODUCTION**

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

The business of the Company consists of:

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

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

The following discussion, analysis and financial review is comprised of 13 main sections:

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

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

## **1. RESULTS OF OPERATIONS**

Total assets as at March 31, 2007 were \$294.0 million comprised of \$9.7 million of cash, \$2.6 million of marketable securities, \$250.3 million in loans, \$16.3 million in investments and \$15.1 million of other assets.

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

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

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

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

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

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

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

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

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

## *Expenses and Other*

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

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

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

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

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

## *Comprehensive Income*

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

## **2. SUMMARY OF QUARTERLY RESULTS**

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

	<b>First Qtr 2007</b>	<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>
Interest and related fees	10,807	10,597	8,781	7,415	5,798	5,555	4,399	4,004
Non-interest income	2,883	1,265	3,368	7,905	5,961	4,028	1,883	2,377
Earnings before taxes	9,315	7,918	9,087	11,664	8,315	5,059	4,291	4,507
Net earnings	7,398	16,021	8,770	10,882	8,028	11,395	4,295	4,550
Basic Earnings Per Share	0.05	0.12	0.06	0.08	0.07	0.10	0.04	0.05
Total Assets	294,025	310,357	284,935	267,891	208,060	189,603	166,928	123,487
Total Liabilities	6,999	32,930	20,885	14,828	8,999	12,009	6,718	7,525

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.

### **3. LIQUIDITY**

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

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

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

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

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

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

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

**Obligation due by period**

<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	\$3,159,250	\$755,000	\$1,639,000	\$685,000	\$80,250-
Loan Commitments	\$3,600,000	\$3,600,000	-	-	-
<b>Total</b>	<b>\$6,759,250</b>	<b>\$4,355,000</b>	<b>\$1,639,000</b>	<b>\$685,000</b>	<b>\$80,250</b>

#### **4. RELATED PARTY TRANSACTIONS**

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

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

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

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

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

#### **5. SUBSEQUENT AND PROPOSED TRANSACTIONS**

The Company has no subsequent and proposed transactions to report.

#### **6. OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off balance sheet arrangements.

## **7. OUTLOOK**

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

## **8. 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. Effective January 1, 2007, investments are recorded on the balance sheet at their fair value. Fair value is determined directly by reference to quoted market price in an active market.

### ***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 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.

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

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

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

As a consequence of adopting the Financial Instrument Standards at January 1, 2007, retained earnings increased by \$0.3 million, currency translation adjustment decreased by \$1.2 million and accumulated other comprehensive income increased by \$3.4 million. These movements reflect an increase of \$0.4 million in marketable securities, \$3.4 million increase in investments, a decrease in future tax asset of \$1.3 million, a decrease in deferred interest and loan fees of \$4.6 million and a decrease in loans of \$4.6 million. These adjustments represent the net gain on measuring the fair value of held for trading and available for sale investments, which had not been recognized on a fair value basis prior to January 1, 2007.

## 10. DISCLOSURE OF OUTSTANDING SHARE DATA

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

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

### *Dividends*

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

## 11. 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 March 31, 2007, 70% of the value of the loan portfolio is scheduled to mature within a year.

### *Credit Risk*

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

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

## 12. 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.

### **13. MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. While management believes there are no deficiencies in internal controls over financial reporting which would result in a material misstatement, for the quarter ended March 31, 2007, management recognized that improvements in previously designed internal controls related to certain tax filings were required. Management is taking appropriate action and any deficiencies that exist will be being remediated.