



November 2, 2007

TSX: QC  
AMEX/AIM: QCC

**QUEST REPORTS ITS FINANCIAL RESULTS  
FOR THIRD QUARTER 2007 AND DECLARES DIVIDEND**

**Vancouver, British Columbia** – Quest Capital Corp. ('Quest' or the 'Company'), announces its unaudited interim consolidated financial results for the third quarter ended September 30, 2007 (a copy of which is attached hereto and is also available on SEDAR).

**HIGHLIGHTS**

- Earnings before income taxes of \$7.8 million (\$0.05 per share) for the three months ended September 30, 2007 and \$27.8 million (\$0.19 per share) for the nine months ended September 30, 2007, as compared to earnings before income taxes of \$9.1 million (\$0.06 per share) and \$29.0 million (\$0.21 per share) for the comparative periods in 2006; and
- Loans funded during the nine months ended September 30, 2007 totaled \$187.5 million, of which the Company funded \$157.2 million. Total loans outstanding as at September 30, 2007 of \$273.1 million compared to \$240.1 million at June 30, 2007, representing a 14% increase for the quarter. Total unfunded loan commitments as of September 30, 2007 were \$90.2 million as compared to \$25.2 million at June 30, 2007.

Managing Director, A. Murray Sinclair noted:

Given the state of the credit markets and our cautious stance related thereto, Quest is pleased to report another profitable quarter. As we are rapidly utilizing our historical tax assets, management has initiated a review of tax planning alternatives. The results of this strategic planning exercise and a related public announcement are anticipated .

Chief Operating Officer, Ken Gordon also commented:

Our loan portfolio increased 14% over the previous quarter and more importantly our unfunded loan commitments tripled over the same time frame as we continue to benefit from the strong Canadian economy. In the real estate lending segment, the principal factor for our success is our commitment to funding quality loans and we are achieving that objective. To take advantage of this strong demand, the Company is pursuing an increase in its revolving line of credit to fund the growth in our loan portfolio.

---

**QUEST CAPITAL CORP.**

Vancouver: Suite 300, 570 Granville Street, Vancouver, BC, Canada V6C 3P1 • Tel: 604-689-1428 • Toll Free: 800-318-3094 • Fax: 604-681-4692  
Toronto: 77King Street West, PO Box 157, Suite 3110, Royal Trust Tower, Toronto-Dominion Centre, Toronto, ON, Canada M5K 1H1 • Tel: 416-367-8383 • Fax: 416-367-4624

The Board of Directors has today approved payment of the next quarterly dividend of \$0.025 per share on December 27, 2007 to shareholders of record at the close of business on December 14, 2007. Shareholders should refer to the Company's website for the tax treatment of these dividends.

### **About Quest**

Quest Capital Corp. is an asset backed lender 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 SEDAR ([www.sedar.com](http://www.sedar.com)) or contact:

#### **Contact in Canada**

A. Murray Sinclair, Managing Director

Tel: (604) 68-QUEST

(604) 687-8378

Toll free: (800) 318-3094

#### **Contacts in London**

**AIM NOMAD:**

**Canaccord Adams Limited**

Erin Needra: [erin.needra@canaccordadams.com](mailto:erin.needra@canaccordadams.com)

Robert Finlay: [robert.finlay@canaccordadams.com](mailto:robert.finlay@canaccordadams.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.*



# **Quest Capital Corp.**

Consolidated Financial Statements

**September 30, 2007**

(Expressed in thousands of Canadian dollars)

(Unaudited)

# Quest Capital Corp.

## Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)

(Unaudited)

	September 30, 2007	Restated (note 13) December 31, 2006
<b>Assets</b>		
Cash and cash equivalents	\$ 5,917	\$ 9,506
Marketable securities	3,301	1,865
Loans (notes 4 and 5)	273,141	269,522
Investments	10,410	9,980
Future income taxes	7,863	14,500
Restricted cash	2,038	2,568
Prepaid and other receivables	99	686
Resource and capital assets	622	477
Other assets	903	1,253
	<u>\$ 304,294</u>	<u>\$ 310,357</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,236	\$ 4,290
Income taxes payable	1,193	2,981
Deferred interest and loan fees (note 4)	-	4,620
Future income taxes	1,043	1,326
Asset retirement obligation	653	1,011
Debt payable (note 6)	6,000	22,000
	<u>13,125</u>	<u>36,228</u>
<b>Shareholders' Equity</b>		
Share capital (note 7)	205,949	202,513
Contributed capital (note 7)	7,029	6,479
Accumulated other comprehensive income	3,768	2,138
Retained earnings	74,423	62,999
	<u>291,169</u>	<u>274,129</u>
	<u>\$ 304,294</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

**For the three and nine months ended September 30, 2007 and 2006**

(Expressed in thousands of Canadian dollars)

(Unaudited)

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Retained earnings - Beginning of period – as originally reported</b>	\$ 72,816	\$ 41,104	\$ 67,231	\$ 26,507
Restatement (note 13)	-	-	(4,232)	-
<b>Retained earnings - Beginning of period – as restated</b>	72,816	41,104	62,999	26,507
Adoption of financial instruments standards (note 4)	-	-	1,591	-
As restated	72,816	41,104	64,590	26,507
Net earnings for the period	5,264	8,770	20,019	27,680
Dividends	(3,657)	-	(10,186)	(4,313)
<b>Retained earnings – End of period</b>	<b>\$ 74,423</b>	<b>\$ 49,874</b>	<b>\$ 74,423</b>	<b>\$ 49,874</b>

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

# Quest Capital Corp.

Consolidated Statements of Earnings

For the three and nine months ended September 30, 2007 and 2006

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

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Interest and related fees</b>	\$ 10,110	\$ 8,781	\$ 31,023	\$ 21,994
<b>Non-interest income</b>				
Management and finder's fees	1,034	1,051	2,176	3,499
Marketable securities and other trading gains (losses)	(675)	413	1,185	4,083
Realized gains, net of writedowns of investments	1,600	1,904	5,475	9,636
Other income	7	-	27	16
	1,966	3,368	8,863	17,234
<b>Total interest and non-interest income</b>	12,076	12,149	39,886	39,228
<b>Interest on debt</b>	(151)	(250)	(399)	(265)
<b>Provision for losses net of recovery</b>	-	(5)	-	(238)
	11,925	11,894	39,487	38,725
<b>Expenses and other</b>				
Salaries and benefits	1,149	878	3,066	2,249
Bonuses	974	904	3,717	4,562
Stock-based compensation	293	112	859	393
Office and other	927	255	1,598	747
Legal and professional services	527	432	1,239	1,182
Regulatory and shareholder relations	118	119	539	426
Directors' fees	53	53	163	214
Sales tax	-	-	306	-
Foreign exchange loss	106	24	157	59
Other expenses (recoveries) relating to resource properties	(4)	30	11	(173)
	4,143	2,807	11,655	9,659
<b>Earnings before income taxes</b>	7,782	9,087	27,832	29,066
<b>Provision for income taxes (note 8)</b>	2,518	317	7,813	1,386
<b>Net earnings for the period</b>	\$ 5,264	\$ 8,770	\$ 20,019	\$ 27,680
<b>Earnings per share</b>				
Basic	\$ 0.04	\$ 0.06	\$ 0.14	0.20
Fully diluted	\$ 0.04	\$ 0.06	\$ 0.13	0.20
<b>Weighted average number of shares outstanding</b>				
Basic	146,267,979	143,779,107	145,385,541	135,332,615
Fully diluted	149,867,568	146,746,232	148,731,789	138,460,558

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

# Quest Capital Corp.

## Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

**For the three and nine months ended September 30, 2007**

(Expressed in thousands of Canadian dollars)

(Unaudited)

	<b>Three Months ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2007</b>
<b>Net earnings for the period</b>	\$ 5,264	\$ 20,019
<b>Other comprehensive income, net of tax</b>		
Unrealized gains on translating financial statements of self-sustaining foreign operations	117	235
Unrealized gains (losses) on available-for-sale financial assets arising during the period	(755)	1,029
Reclassification adjustment for gains recorded included in net earnings	(826)	(1,866)
<b>Other comprehensive income</b>	<u>(1,464)</u>	<u>(602)</u>
<b>Comprehensive income</b>	<u>\$ 3,800</u>	<u>\$ 19,417</u>
<b>Accumulated other comprehensive income – Beginning of period (note 4)</b>	\$ 5,232	\$ 2,138
Adoption of financial instruments standards (note 4)	-	2,232
Other comprehensive income for the period	(1,464)	(602)
<b>Accumulated other comprehensive income – End of period</b>	<u>\$ 3,768</u>	<u>\$ 3,768</u>

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

# Quest Capital Corp.

## Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2007 and 2006

(Expressed in thousands of Canadian dollars)

(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Cash flows from operating activities</b>				
Net earnings for the period	\$ 5,264	\$ 8,770	\$ 20,019	\$ 27,680
Items not affecting cash:				
Future income taxes	2,074	828	7,307	(700)
Stock-based compensation	293	112	859	393
Provision for losses	-	-	-	386
Amortization of deferred interest and loan fees	(2,119)	(1,332)	(6,642)	(3,624)
Marketable securities and other assets trading gains (losses)	675	(413)	(1,185)	(4,083)
Realized gains on investments, net of writedowns	(1,600)	(1,904)	(5,475)	(9,636)
Other assets and investments received as finder's fees	-	(231)	-	(728)
Other	39	72	144	186
Deferred interest and loan fees received	1,050	2,553	2,345	5,011
Activity in marketable securities held for trading				
Purchases	(455)	(1,371)	(2,892)	(3,382)
Proceeds on sales	1,413	1,970	6,402	8,975
Expenditures for reclamation and closure	(148)	(208)	(265)	(821)
Changes in prepaid and other receivables	256	72	584	51
Changes in accounts payables and accrued liabilities	629	(553)	(22)	180
Changes in income taxes payable	(638)	(748)	(1,621)	1,325
	<u>6,733</u>	<u>7,617</u>	<u>19,558</u>	<u>21,213</u>
<b>Cash flows from financing activities</b>				
Proceeds from shares issued	2,423	2,101	3,127	62,768
Dividend payments	(3,657)	(4,312)	(10,186)	(7,830)
Proceeds from debt	6,000	27,931	14,000	27,931
Repayment of debt	-	(17,931)	(30,000)	(17,931)
	<u>4,766</u>	<u>7,789</u>	<u>(23,059)</u>	<u>64,938</u>
<b>Cash flows from investing activities</b>				
Net (increase) decrease in loans	(33,220)	(55,351)	(7,316)	(122,466)
Activity in investments available for sale				
Proceeds on sales	2,173	77,627	8,049	91,966
Purchases	(488)	(75,073)	(488)	(75,679)
Change in restricted cash	104	17	178	(505)
Proceeds on sale of resource and fixed assets	-	-	-	103
Expenditures on resource and fixed assets	(246)	(2)	(259)	(73)
Net other assets acquired	-	(150)	-	(425)
	<u>(31,677)</u>	<u>(52,932)</u>	<u>164</u>	<u>(107,079)</u>
<b>Foreign exchange gain (loss) on cash held in a foreign subsidiary</b>	<u>(68)</u>	<u>(32)</u>	<u>(252)</u>	<u>(17)</u>
<b>Decrease in cash and cash equivalents</b>	<u>(20,246)</u>	<u>(37,558)</u>	<u>(3,589)</u>	<u>(20,945)</u>
<b>Cash and cash equivalents - Beginning of period</b>	<u>26,163</u>	<u>50,352</u>	<u>9,506</u>	<u>33,739</u>
<b>Cash and cash equivalents - End of period</b>	<u>\$ 5,917</u>	<u>\$ 12,794</u>	<u>\$ 5,917</u>	<u>\$ 12,794</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

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

## 1. Nature of operations

Quest Capital Corp.'s ("Quest" or the "Company") primary focus is providing mortgage financings and commercial bridge loans. 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 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 had no impact on the Company. Prior to January 1, 2007, the principal accounting policies affecting the Company's financial instruments were: marketable securities were valued at the lower of average cost and market value, investments were valued at cost or at cost less amounts written off to reflect any impairment in value considered to be other than temporary, loans were stated net of an allowance for credit losses on loans in default and other assets were valued at the lower of cost and net realizable value.

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

to opening marketable securities, investments and loan balances and adjusted through retained earnings and accumulated other comprehensive income as at January 1, 2007.

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

## 5. Loans

- a) Loans are repayable over various terms up to 24 months from September 30, 2007, and bear interest at rates of between 10.8% and 13% before commitment and other fees. Marketable securities, real property, real estate, corporate or personal guarantees generally are pledged as collateral. At September 30, 2007, the loan portfolio was comprised of 95% real estate mortgages, 4% in the resource sectors and 1% in other sectors. At September 30, 2007, the real estate mortgages were located as follows: 43% in British Columbia, 44% in Alberta, 11% in Ontario and 2% in other; and 93% were first mortgages and 7% were second mortgages. As at September 30, 2007, the Company's loan portfolio consisted of 51 loans.

As at September 30, 2007, 60% of the Company's loan portfolio is due within a year. The Company had six loans totalling approximately \$28.2 million in default as a result of certain principal and/or interest payments being in arrears as at September 30, 2007. Subsequent to the third quarter, \$7.8 million of loans in default were repaid or cured, reducing the number of loans in default from six to three. As at September 30, 2007, the Company does not have a provision for loan losses. The Company monitors the repayment ability of borrowers and the value of underlying collateral. In determining the provision for possible loan losses, management considers the length of time the loan has been in arrears, the overall financial strength of borrowers and the residual value of collateral pledged. The Company expects to collect the full carrying value of its loan portfolio.

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

	<u>2007</u>
Balance - January 1, 2007	\$ 586
Add:	
Specific provision for the period	-
Less:	
Loan provision applied	<u>(586)</u>
Balance - September 30, 2007	<u>\$ -</u>

- c) At September 30, 2007, the Company has entered into agreements and/or commitment letters to advance funds up to \$90.2 million. Advances under these agreements are subject to a number of conditions including due diligence and completion of documentation.

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

## 6. Debt payable

In March 2007, the Company entered into a collateralized revolving debt facility with the Bank of Nova Scotia for up to \$25 million. The facility bears interest at prime or bankers acceptance notes plus 1.25%. This facility comes due February 28, 2009 and is collateralized by the Company's loan portfolio.

In August 2006, the Company entered into a short-term unsecured debt facility. The facility bore interest at prime plus 2% and was payable on demand. The \$22 million outstanding as of December 31, 2006 on this facility was repaid in 2007.

## 7. Share capital

### a) Authorized

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

### b) Shares issued and outstanding

	<b>Number of Shares</b>		<b>Amount</b>
<b>Common shares</b>			
Opening balance – January 1, 2007	144,842,628	\$	202,513
Issued on exercise of stock options	370,000		700
Issued on exercise of compensation options	1,055,350		2,427
Transfer of fair value on exercise of options	-		309
Ending balance – September 30, 2007	146,267,978	\$	205,949

### 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	1,133,775	\$	2.30	
Exercised	(1,015,750)		2.30	August 23, 2007
	(39,600)		2.30	October 26, 2007
	(1,055,350)			
Expired	(70,025)		2.30	August 23, 2007
Ending balance – September 30, 2007	8,400		2.30	October 26, 2007

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

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 nine months ended September 30, 2007, the change in stock options outstanding was as follows:

	Number of shares		Weighted average share price
<b>Common shares</b>			
Opening balance	8,981,333	\$	2.01
Granted	2,855,000		3.05
Exercised	(370,000)		1.89
Expired or cancelled	(332,553)		3.02
Closing balance	11,133,780	\$	2.26
Options exercisable	9,003,169	\$	2.08

The following table summarizes information about stock options outstanding and exercisable at September 30, 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	0.06	\$ 0.81	113,333	\$ 0.81
\$ 0.82 to \$1.51	223,000	1.89	1.51	223,000	1.51
\$ 1.52 to \$1.95	6,550,000	1.37	1.95	6,550,000	1.95
\$ 1.96 to \$2.31	1,150,000	3.19	2.30	1,042,170	2.30
\$ 2.32 to \$3.23	3,097,447	4.32	3.00	1,074,666	2.93
	11,133,780	2.38	\$ 2.26	9,003,169	\$ 2.08

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

## e) Contributed capital

Opening balance	\$	6,479
Stock-based compensation		859
Fair value of stock options exercised		(309)
Ending balance	\$	<u>7,029</u>

The fair values of options granted during the nine months ended September 30, 2007 have been estimated using an option pricing model. Assumptions used in the pricing model are as follows:

Risk-free interest rate	4.10%
Expected life of options	3.0 years
Expected stock price volatility	34.62%
Expected dividend yield	2.74%
Weighted average fair value of options	\$ 0.72

## 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.

The provisions for income taxes consists of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Current				
Canada	\$ 474	\$ (711)	\$ 603	\$ 1,886
United States	78	200	78	200
Total current expense	552	(511)	681	2,086
Future				
Canada	2,057	828	7,223	(700)
United States	(91)	-	(91)	-
Total future tax expense	1,966	828	7,132	(700)
Total provision for income taxes	\$ 2,518	\$ 317	\$ 7,813	\$ 1,386

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

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

	<b>September 30, 2007</b>
Loss carryforwards	\$ 4,008
Capital losses	14,967
Resource and fixed assets	3,182
Other	2,141
	<u>24,298</u>
Valuation allowance	<u>(16,435)</u>
Future tax asset	<u>\$ 7,863</u>
Deferred gain and other	<u>\$ 1,043</u>
Future tax liability	<u>\$ 1,043</u>

## 9. Related party transactions

- a) For the nine months ended September 30, 2007, the Company received \$73,000 (2006 - \$580,000) in interest and fees from parties related by virtue of having certain directors and officers in common.
- b) For the nine months ended September 30, 2007, the Company received \$620,000 (2006 - \$1,202,000) in advisory, management and finder's fees from parties related by virtue of having certain directors and officers in common. Other assets include \$205,000 (December 31, 2006 - 245,000) of non-transferable securities held in either private or publicly traded companies related by virtue of having certain directors and officers in common.
- c) For the nine months ended September 30, 2007, the Company received \$55,000 (2006 - \$31,000) in syndication loan administration fees from parties related by virtue of having certain directors and officers in common.
- d) Marketable securities and investments include \$10,214,000 (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 nine months ended September 30, 2007, the Company recorded a gain on disposal of securities of \$2,906,000 (2006 - \$9,005,000) from parties related by virtue of having certain directors and officers in common.
- e) Included in accounts payable at September 30, 2007 is \$3,182,000 (December 31, 2006 - \$3,170,000) due to employees, consultants and officers for bonuses.

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

## 10. Contingencies and commitments

- a) Surety bond guarantees totalling US\$2,405,000 (CDN\$2,392,000) have been provided by Castle Mountain Joint Venture for compliance with reclamation and other environmental agreements.
- b) On March 22, 2002, Quest Investment Corporation (a predecessor company) and other parties were named as defendants in a lawsuit filed in the Supreme Court of British Columbia. The plaintiff has claimed approximately \$410,000 plus interest due for consulting services. Management intends to fully defend this claim. No provision has been made for this claim in the consolidated financial statements. The ultimate outcome of this claim is not determinable at the time of issue of these consolidated financial statements and the costs, if any, will be charged to earnings in the period(s) in which they are finally determined.
- c) The Company has entered into operating leases for office premises. Minimum annual lease payments required are approximately as follows:

2007	\$	305
2008	\$	753
2009	\$	753
2010	\$	676
2011	\$	437
2012	\$	401

- 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

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Marketable securities and investments received as loan fees	\$ 1,204	\$ 804	\$ 3,375	\$ 1,204
Investment purchases funded by brokerage margin account	-	(30,899)	-	(30,899)
Investment proceeds used to repay brokerage margin accounts	-	30,899	-	30,899

# Quest Capital Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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

(Unaudited)

---

## 13. Restatement of Financial Statements

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

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

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

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

There are no changes to the Company’s consolidated statement of earnings for the years ended December 31, 2006, 2005 and 2004, as the error relates to tax provisions prior to fiscal year 2004.

**QUEST CAPITAL CORP.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2007**

**INTRODUCTION**

The following information of Quest Capital Corp (the "Company"), prepared as of October 31, 2007, should be read in conjunction with the Company's unaudited interim consolidated financial statements as at September 30, 2007 and for the three months and nine months ended September 30, 2007 and 2006 and its restated audited annual consolidated financial statements as at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004, and the related notes attached thereto. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Cdn GAAP"). All amounts in this management's discussion and analysis ("MD&A") are expressed in Canadian dollars unless otherwise indicated.

The business of the Company consists of:

- mortgage financings collateralized 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 the following 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 September 30, 2007 were \$304.3 million comprised of \$5.9 million of cash and cash equivalents, \$3.3 million of marketable securities, \$273.1 million in loans, \$10.4 million in investments and \$11.6 million of other assets.

The loan portfolio at September 30, 2007 was comprised of 95% in first and second real estate mortgages, 4% in the resource sectors and 1% 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 September 30, 2007, mortgages were located as follows: 43% in British Columbia, 44% in Alberta, 11% in Ontario and 2% in other areas; of which 93% were first mortgages and 7% 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 September 30, 2007, the Company's loan portfolio consisted of 51 loans.

For the three months ended September 30, 2007 the Company had consolidated earnings before taxes of \$7.8 million (net earnings of \$5.3 million) compared to \$9.1 million (net earnings of \$8.8 million) in the comparative period in 2006. During the nine months ended September 30, 2007, the Company had consolidated earnings before taxes of \$27.8 million or \$0.19 basic earnings per share (net earnings of \$20.0 million or \$0.13 basic earnings per share) compared to \$29.1 million or \$0.21 basic earnings per share (net earnings of \$27.7 million or \$0.20 basic earnings per share) for the comparable period of the previous year.

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

For the three months ended September 30, 2007, the Company earned interest and fees of \$10.1 million compared to \$10.1 million for the second quarter and \$8.8 million for the three months ended September 30, 2006. During the nine months ended September 30, 2007, the Company earned interest and related fees of \$31.0 million compared to \$22.0 million for the same period in 2006, due to the growth in the loan portfolio year over year. Total loans as at September 30, 2007 were \$273.1 million as compared to \$240.1 million and \$269.5 million (net of deferred interest and loan fees) as at June 30, 2007 and December 31, 2006, respectively, representing an increase of 13 % and 1%.

Included in interest and related fee revenues are interest and related fees earned on bridge loans totaling \$6.2 million during the nine months ended September 30, 2007 compared to \$2.5 million earned during the nine months ended September 30, 2006.

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

During the three months ended September 30, 2007, management and finder's fees totaled \$1.0 million, compared to \$1.1 million in the comparative period in 2006. During the nine months ended September 30, 2007, management and finder's fees totaled \$2.2 million, compared to \$3.5 million in the comparative period in 2006. This decrease is primarily due to a decrease in corporate finance activities as compared to the comparative period in 2006.

During the three months ended September 30, 2007, the Company recorded net trading losses on marketable securities and other assets of \$0.7 million compared to net trading gains of \$0.4 million in the comparative period in 2006. During the nine months ended

September 30, 2007, the Company recorded net trading gains on marketable securities and other assets of \$1.2 million as compared to \$4.1 million in the comparative period in 2006. The decrease in net trading gains is the result of fewer broker warrants being exercised and subsequent sale of securities. In 2006, net trading gains and losses reported represent only realized gains and losses, compared to 2007 whereby unrealized trading gains and losses are also recognized due to the adoption of CICA Handbook Section 3855 Financial Instruments, effective January 1, 2007.

Net realized gains from the sales of investments resulted in the Company recording gains of \$1.6 million in 2007 compared to gains of \$1.9 million in the comparative period in 2006. During the nine months ended September 30, 2007, the Company realized gains from the sale of investments of \$5.5 million as compared to \$9.6 million in the comparative period in 2006.

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

Total expenses and other for the three months ended September 30, 2007 were \$4.1 million as compared to \$2.8 million in the comparative period in 2006. Total expenses and other for the nine months ended September 30, 2007 were \$11.7 million as compared to \$9.7 million in the comparative period in 2006.

Salaries and benefits increased to \$1.1 million for the three months ended September 30, 2007 compared to \$0.9 million in the comparative period in 2006. Salaries and benefits for the nine months ended September 30, 2007 totaled \$3.1 million as compared to \$2.2 million in the comparative period for 2006. The increase is due to the addition of new employees, primarily in the loan administration functions.

Bonuses for the three months ended September 30, 2007 were \$1.0 million as compared to \$0.9 million in the comparative period in 2006. Bonuses for the nine months ended September 30, 2007 totaled \$3.7 million as compared to \$4.6 million in the comparative period for 2006. The decrease in bonuses is primarily the result of a decrease in corporate finance activities, which is a component of the Company's incentive plan. Bonus accruals and payments are in accordance with the Company's incentive plan, and are subject to the approval of the Compensation Committee and the Board of Directors.

Office and other expenses for the three months ended September 30, 2007 were \$0.9 million as compared to \$0.3 million for the comparative period in 2006. Office and other expenses for the nine months ended September 30, 2007 were \$1.6 million as compared to \$0.7 million in the comparative period in 2006. The increase is due to higher insurance costs from the underwriting of a Directors & Officers coverage policy, higher travel costs as a result of increasing shareholder relations, increase in rent due to the expiry of the Company office lease and new premises and interest and penalties associated with certain tax filings.

During the nine months ended September 30, 2007, the Company recorded a \$0.3 million sales tax expense related to certain tax filings.

Income tax expense for the three months ended September 30, 2007 was \$2.5 million compared to \$0.3 million in the comparative period in 2006. Income tax expense for the nine months ended September 30, 2007 was \$7.8 million compared to an expense of \$1.4 million in the comparative period in 2006. Income tax expense reported for the nine months ended in 2007

includes \$0.7 million in current income taxes payable and \$7.1 million in the net draw down of future income taxes, which is a non-cash item.

Additionally, the Company has recognized a \$1.8 million future tax asset during the nine months ended September 30, 2007, based on the likely realization of certain time released tax deductions which are expected to be utilized against future taxable earnings.

### ***Comprehensive Income***

The Company is reporting comprehensive income, having adopted the new accounting standards for financial reporting which were effective for Canadian companies with calendar year-ends effective on January 1, 2007. In the Company's case, the two significant components of other comprehensive income are the unrealized mark-to-market gains on the Company's investments, classified under the available-for-sale investment category for financial instruments, and currency translation adjustments.

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

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

	<b>Third Qtr 2007</b>	<b>Second Qtr 2007</b>	<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>
Interest and related fees	10,110	10,106	10,807	10,597	8,781	7,415	5,798	5,555
Non-interest income	1,966	4,014	2,883	1,265	3,368	7,905	5,961	4,028
Earnings before taxes	7,782	10,735	9,315	7,918	9,087	11,664	8,315	5,059
Net earnings	5,264	7,366	7,398	16,021	8,770	10,882	8,028	11,395
Basic Earnings Per Share	0.04	0.05	0.05	0.12	0.06	0.08	0.07	0.10
Total Assets	304,294	295,798	294,025	310,357	284,935	267,891	208,060	189,603
Total Liabilities	13,125	7,487	10,267	36,228	24,048	17,987	12,284	15,309

The Company's interest and related fees will fluctuate as the loan portfolio changes from quarter to quarter.

Non-interest income varies by quarter depending on the management, advisory and finder's fees earned, marketable securities' trading gains and losses and realized gains, net of write-downs 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. In 2007, net earnings are reduced by the net drawdowns of these future tax assets, as previously recognized; however, this impact is a non-cash item.

## **3. LIQUIDITY**

The Company's cash resources at September 30, 2007 were \$5.9 million as compared to \$9.5 million as at December 31, 2006. The Company's cash resources are invested in financial

instruments issued by major Canadian chartered banks and the Company does not invest in asset-backed commercial paper.

The Company takes on short-term debt from time to time to fund its investments and loan operations. In March 2007, the Company established a \$25 million revolving line of credit with a major Canadian chartered bank. The Company's primary focus is to provide loans, and its cash and debt balances will vary depending on the timing of loans advanced and repaid.

During the nine months ended September 30, 2007, the Company funded \$187.5 million of new loans, \$157.2 million net to the Company. During the third quarter of 2007, the Company funded \$75.0 million in new loans, \$72.7 million net to the Company.

During the nine months ended September 30, 2007, \$200.9 million of loans were repaid, \$157.4 million net to the Company. During the third quarter of 2007, \$71.1 million of loans were repaid, \$50.4 million net to the Company.

As at September 30, 2007, the Company had executed commitment letters to advance funds of up to \$90.2 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 September 30, 2007 was \$273.1 million comprised of 95% real estate mortgages, 4% in the resource sectors and 1% in other sectors. As at September 30, 2007, 60% of the loan portfolio is scheduled to mature within a year.

The Company had six loans totalling approximately \$28.2 million in default as a result of certain principal and/or interest payments being in arrears as at September 30, 2007. Subsequent to the third quarter, \$7.8 million of loans in default were repaid or cured, reducing the number of loans in default from six to three. For the nine months ended September 30, 2007, cash flow from operations provided \$19.6 million as compared to \$21.2 million for the comparative period in 2006.

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.

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The total minimum lease payments for the years 2007 to 2012 are \$3.3 million.

**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	\$3,325,000	\$305,000	\$2,182,000	\$838,000	\$-
Loan Commitments	\$90,200,000	\$90,200,000	-	-	-
<b>Total</b>	<b>\$93,525,000</b>	<b>\$90,505,000</b>	<b>\$2,182,000</b>	<b>\$838,000</b>	<b>\$-</b>

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

For the nine months ended September 30, 2007, the Company received \$0.1 million (2006 - \$0.6 million) in interest and fees from related parties by virtue of having certain directors and officers in common.

For the nine months ended September 30, 2007, the Company received \$0.6 million (2006 - \$1.2 million) in advisory, management and finder's fees from parties related by virtue of having certain having directors and officers in common. Other assets include \$0.2 million (December 31, 2006 - \$0.2 million) of non-transferable securities held in either private or publicly traded companies related by virtue of having certain directors and officers in common.

For the nine months ended September 30, 2007, the Company received \$55,000 (2006 - \$31,000) in syndication loan administration fees from parties related by virtue of having certain directors and officers in common.

Marketable securities and investments include \$10.2 million (December 31, 2006 - \$9.1 million) of shares held in publicly traded companies related by virtue of having certain directors and officers in common. For the nine months ended September 30, 2007, the Company recorded a gain on disposal of marketable securities and investments of \$2.9 million (2006 - \$9.0 million) from parties related by virtue of having certain directors and officers in common.

Included in accounts payable at September 30, 2007 is \$3.2 million (December 31, 2006 - \$3.17 million) due to employees, consultants and officers related to incentive plan compensation.

#### **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**

Real estate markets in Canada continue to perform well especially in the Western provinces. Growth in British Columbia continues at record pace. Price increases in Alberta have moderated somewhat, and Saskatchewan, in particular Regina and Saskatoon, have become the new hot real estate market. Although Canada does not have a huge sub-prime mortgage market, the impact of the meltdown in sub-prime lending in the United States is having an impact on the Canadian lending markets. Credit is tightening and spreads are widening. In many cases, major lending institutions have curtailed their lending programs and in some cases cancelled them altogether.

This has presented an opportunity for Quest, as the number of loans-in-progress is at a record high. As a result, the Company is able to achieve its lending goals, while being in a position to be more selective in terms of the location of loans and loan product-mix. The Company continues to maintain its mandate to mitigate risk by focusing on borrower quality.

As at September 30, 2007, the Company had \$5.9 million of cash on hand. In addition, the Company has a \$25.0 million revolving line of credit with the Bank of Nova Scotia of which \$6.0 million has been drawn upon. 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 additional 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 restated audited consolidated financial statements as at December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005 and 2004. 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 loans in default. 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.

Management reviews its loan portfolio on a monthly basis and recommends to the Credit Committee, where applicable, that specific provisions for loan loss be established. 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.

At September 30, 2007, the Company has no provision for loan losses (December 31, 2006 - \$0.6 million).

### ***Valuation of Marketable Securities and Investments***

The Company's marketable securities and investments are primarily held in public companies. Effective January 1, 2007, marketable securities and 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 Assets and Liabilities***

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

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

### **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 as follows: marketable securities were valued at the lower of average cost and market value; investments were valued at cost or at cost less amounts written off to reflect any impairment in value considered to be other than temporary; loans were stated net of an allowance for credit losses on loans in default; and other assets were valued at their net realizable value.

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

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

## 10. DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 31, 2007, the Company had the following common shares and stock options outstanding:

Common shares	146,551,378
Stock options	<u>10,791,333</u>
Fully diluted shares outstanding	<u>157,342,711</u>

### *Dividends*

As a reflection of the continued profitability in the Company's business, on May 9, 2007 its board of directors approved an increase in its quarterly dividend rate from \$0.02 to \$0.025.

## 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 September 30, 2007, 60% 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 has no provision as at September 30, 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**

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

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company’s filings under securities legislation is accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding public disclosure. They are designed to provide reasonable assurance that all information required to be disclosed in these filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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

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

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

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

The Company 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.

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

In taking appropriate action to remediate deficiencies by the end of 2007, management has engaged third party advisors to assist in the design, documentation, and testing of internal controls. As of September 30, 2007, changes have been made to the implementation of the Company's internal control over financial reporting to facilitate remediation.