



March 17, 2008

TSX: QC  
AMEX/AIM: QCC

**QUEST REPORTS ITS FINANCIAL RESULTS FOR 2007**  
**AND ANNOUNCES 2008 DIVIDEND POLICY**

**Vancouver, British Columbia** – Quest Capital Corp. (“Quest” or the “Company”) today reported its financial results for the year ended December 31, 2007 and announced its 2008 dividend policy.

**2007 FINANCIAL HIGHLIGHTS**

- Total loans arranged in 2007 amounted to \$328.0 million, of which the Company funded \$250.1 million, as compared to \$279.2 million arranged in 2006, of which the Company funded \$255.4 million. Total loans arranged in 2007 increased \$48.8 million or 17% over the previous year;
- Interest and related fee revenue from the Company’s loan portfolio increased \$9.5 million to \$42.1 million in 2007, a 29% increase over 2006;
- The Company realized no loan losses in 2007;
- Earnings before income taxes remained relatively consistent at \$36.0 million in 2007 as compared to \$37.0 million in 2006, despite Quest experiencing approximately \$2.0 million of expenses in 2007 which may be considered non-recurring; and
- Net earnings decreased \$20.0 million or 46% to \$23.7 million in 2007 from \$43.7 million in 2006, primarily as a result of accounting for taxes, a largely non-cash item.

As a mortgage investment corporation (“MIC”), Quest will be subject to special Canadian tax treatment. The dividends it pays to shareholders reduce its taxable income and, if sufficient dividends are paid, the Company will not pay any Canadian taxes.

A. Murray Sinclair, Quest’s Co-Chair, commented:

We are particularly pleased with our ability to have transformed the Company into a MIC by its 2007 year-end. This provides our shareholders with clarity with respect to our goals - to become (i) Canada’s largest MIC in terms of the amount of loans generated and (ii) the country’s most profitable publicly traded MIC. Quest performed well in 2007 despite both the volatile credit market and the transition to a MIC being quite costly. One time charges related to the MIC conversion and other regulatory items amounted to approximately \$2.0 million in 2007.

Quest’s dividend policy for 2008 is outlined in detail in our MD&A. The Company’s dividend policy going forward will be to pay sufficient dividends to shareholders to reduce Quest’s taxable income to a negligible amount, after first deducting any non-capital losses or other deductions carried forward from 2007. This should translate into a significant yield increase for our shareholders in 2008 and beyond.

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**QUEST CAPITAL CORP.**

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Another positive message is the increase in depth of financial services experience in our management team, led by Stephen Coffey, our recently appointed President and new Chief Executive Officer, effective today's date.

Mr. Stephen Coffey, Quest's President & CEO, commented:

Our objectives for 2008 are clear. As well as increasing shareholder dividend yield, we will focus on safe, profitable growth in Quest's mortgage portfolio without shareholder dilution. Our increased bank lines should give us the leverage for this growth in 2008 without the need for additional capital.

We are very optimistic about the Company's opportunities. Despite the malaise in the credit markets, it is a great time for Quest Capital Corp.

Quest also reports herein that the Company's CFO, Narinder Nagra will be leaving Quest to pursue other opportunities. Mr. Nagra has been a valuable member of the management team and we wish him success in his future endeavours. Mr. Jim Grosdanis, CA will be appointed our new CFO effective after the certification of our 2008 first quarter results. With his previous employer, Mr. Grosdanis was involved in the successful application for a Schedule I Bank licence.

### About Quest

Quest's expertise is in providing financing for the real estate sector with emphasis on residentially oriented mortgages primarily in Western Canada.

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

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### Forward Looking Statements

*This press release includes certain statements that constitute "forward-looking statements", and "forward-looking information" within the meaning of applicable securities laws ("forward-looking statements" and "forward-looking information" are collectively referred to as "forward-looking statements", unless otherwise stated). 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. Forward-looking statements may relate to the Company's future outlook and anticipated events or results and may include statements regarding the Company's future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking*

*statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause our actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements should not be read as a guarantee of future performance or results. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, we assume no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If we update any one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. You should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this press release are expressly qualified in their entirety by this cautionary statement.*

# **Quest Capital Corp.**

Consolidated Financial Statements  
**December 31, 2007 and 2006**  
(expressed in thousands of Canadian dollars)

## **Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles and reconciled to United States generally accepted accounting principles. These consolidated financial statements contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained and that financial information is accurate and reliable.

The Audit Committee of the Board of Directors, which is composed of independent directors, reviews the results of the annual audit and the consolidated financial statements prior to submitting the consolidated financial statements to the Board for approval.

The Company's auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit and their report follows.

*"Brian E. Bayley"*

Chief Executive Officer

Vancouver, BC, Canada

March 14, 2008

*"Narinder Nagra"*

Chief Financial Officer

## **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. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Management used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to assess the effectiveness of the Company's internal control over financial reporting. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007.

Based on management's assessment, there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2007.

PricewaterhouseCoopers LLP, independent auditors, who have audited and issued a report on the consolidated financial statements of the Company for the year ended December 31, 2007, have also issued an attestation report on management's assessment of the Company's internal control over financial reporting. This attestation report follows.

*"Brian E. Bayley"*

Chief Executive Officer

Vancouver, BC, Canada

March 14, 2008

*"Narinder Nagra"*

Chief Financial Officer

March 14, 2008

## **Independent Auditors' Report To the Shareholders of Quest Capital Corp.**

We have completed an integrated audit of Quest Capital Corp.'s 2007 consolidated financial statements and of its internal control over financial reporting as of December 31, 2007, and the audits of Quest Capital Corp.'s consolidated financial statements for 2006 and 2005. Our opinions, based on our audits, are presented below.

### **Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Quest Capital Corp. as at December 31, 2007 and December 31, 2006, and the related consolidated statements of earnings, retained earnings and cash flows for each of the years in the three years period ended December 31, 2007. We have also audited the statement of comprehensive income and accumulated other comprehensive income for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of the Company's financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. A financial statement audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and December 31, 2006 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

### **Internal Control Over Financial Reporting**

We have also audited Quest Capital Corp.'s internal control over financial reporting as at December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's

management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Responsibility for Financial Reporting*. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2007 based on criteria established in Internal Control — Integrated Framework issued by the COSO.

*PriceWaterhouseCoopers LLP*

Chartered Accountants

**Quest Capital Corp.**  
**Consolidated Balance Sheets**  
**As at December 31, 2007 and 2006**  
(expressed in thousands of Canadian dollars)

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 30,484	\$ 9,506
Marketable securities (note 5)	-	1,865
Loans (note 6)	277,710	264,902
Investments (note 5)	-	9,980
Future income taxes (note 11)	3,916	14,500
Restricted cash (note 7)	12,452	2,568
Prepaid and other receivables	155	686
Resource and capital assets	841	477
Other assets (note 5 and 12)	186	1,253
	<u>\$ 325,744</u>	<u>\$ 305,737</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note 12)	\$ 7,081	\$ 4,290
Income taxes payable	188	2,981
Future income taxes (note 11)	904	1,326
Asset retirement obligation (note 9)	572	1,011
Debt payable (notes 5 and 8)	26,365	22,000
	<u>35,110</u>	<u>31,608</u>
<b>Shareholders' equity</b>		
Share capital (note 10)	207,161	202,513
Contributed capital (note 10)	6,934	6,479
Retained earnings	76,539	65,137
	<u>290,634</u>	<u>274,129</u>
	<u>\$ 325,744</u>	<u>\$ 305,737</u>

Contingencies and commitments (notes 6(c) and 13)

**Approved by the Board of Directors**

"Brian E. Bayley"  
Brian E. Bayley

Director "A. Murray Sinclair"  
A. Murray Sinclair

Director

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

## Quest Capital Corp.

### Consolidated Statements of Retained Earnings

For the years ended December 31, 2007, 2006 and 2005

(expressed in thousands of Canadian dollars)

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	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Retained earnings – beginning of year</b>	\$ 65,137 \$	28,645 \$	8,612
Adoption of financial instruments standards (note 2)	1,591	-	-
Net earnings for the year	23,667	43,701	23,551
Dividends	(13,856)	(7,209)	(3,518)
<b>Retained earnings – end of year</b>	<u>\$ 76,539 \$</u>	<u>65,137 \$</u>	<u>28,645</u>

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

# Quest Capital Corp.

## Consolidated Statements of Earnings

For the years ended December 31, 2007, 2006 and 2005

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

	2007	2006	2005
<b>Interest and related fees (note 12)</b>	\$ 42,114	\$ 32,591	\$ 17,410
<b>Non-interest income</b>			
Management and finder's fees (note 12)	2,445	3,993	4,204
Marketable securities and other assets trading gains (note 12)	1,475	5,616	743
Realized gains on sale of investments, net (note 12)	7,079	8,876	4,171
Other income (note 12)	51	14	372
	11,050	18,499	9,490
<b>Total interest and non-interest income</b>	53,164	51,090	26,900
<b>Interest on debt</b>	(666)	(1,380)	(63)
<b>Provision for loan losses</b>	-	(238)	-
<b>Net interest and non-interest income</b>	52,498	49,472	26,837
<b>Non-interest expense</b>			
Salaries and benefits	5,042	2,889	2,108
Bonuses	4,056	5,525	2,000
Stock-based compensation	1,085	521	2,142
Office and other	2,271	970	935
Legal and professional services	2,904	1,908	820
Regulatory and shareholder relations	579	478	522
Directors' fees	224	280	218
Sales tax	306	-	-
Foreign exchange loss (gain)	(18)	59	96
Losses (gains) and other expenses relating to resource assets	61	(142)	828
	16,510	12,488	9,669
<b>Earnings before income taxes</b>	35,988	36,984	17,168
<b>Provision for (recovery of) income taxes (note 11)</b>	12,321	(6,717)	(6,315)
<b>Non-controlling interest in a subsidiary (note 4)</b>	-	-	(68)
<b>Net earnings for the year</b>	\$ 23,667	\$ 43,701	\$ 23,551
<b>Weighted average number of shares outstanding</b>			
Basic	145,698,793	137,713,931	100,923,801
Diluted	148,792,349	140,826,503	103,563,223
<b>Earnings per share</b>			
Basic	\$ 0.16	\$ 0.32	\$ 0.23
Diluted	\$ 0.16	\$ 0.31	\$ 0.23

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 year ended December 31, 2007**

(expressed in thousands of Canadian dollars)

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	<b>2007</b>
<b>Net earnings for the year</b>	<u>\$ 23,667</u>
<b>Other comprehensive income (loss)</b>	
Reclassification adjustment for gains recorded included in net earnings (net of income tax of \$1,156)	<u>(2,232)</u>
<b>Other comprehensive income (loss)</b>	<u>(2,232)</u>
<b>Comprehensive income</b>	<u>\$ 21,435</u>
<b>Accumulated other comprehensive income – beginning of year</b>	\$ -
Adoption of financial instruments standards (note 2), (net of income tax of \$1,156)	2,232
Other comprehensive income (loss) for the year	<u>(2,232)</u>
<b>Accumulated other comprehensive income – end of year</b>	<u>\$ -</u>

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

# Quest Capital Corp.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2007, 2006 and 2005

(expressed in thousands of Canadian dollars)

	2007	2006	2005
<b>Cash flows from operating activities</b>			
Net earnings for the year	\$ 23,667	\$ 43,701	\$ 23,551
Adjustments to determine net cash flows relating to operating items			
Future income taxes	11,656	(8,012)	(6,488)
Stock-based compensation	1,085	521	2,142
Provision for loan losses	-	386	-
Amortization of deferred interest and loan fees	(8,855)	(5,539)	(4,568)
Marketable securities and other asset trading gains	(1,443)	(5,616)	(743)
Realized gains on sale of investments	(7,079)	(8,876)	(4,171)
Other assets and investments received as finder's fees	(638)	(862)	(1,245)
Gains (losses) and other expenses relating to resource assets	50	(178)	737
Foreign exchange gain related to investment in foreign subsidiary	(236)	-	-
Other	185	162	216
Deferred interest and loan fees received	1,348	6,428	3,083
Activity in marketable securities held for trading			
Purchases	(4,221)	(4,356)	(215)
Proceeds on sales	11,648	12,327	2,259
Expenditures for reclamation and closure	(352)	(934)	(2,498)
Changes in prepaid and other receivables	567	50	34
Changes in accounts payable and accrued liabilities	2,909	555	(1,784)
Changes in income taxes payable	(2,522)	552	-
	<u>27,769</u>	<u>30,309</u>	<u>10,310</u>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued	4,018	62,807	56,025
Dividend payment	(13,856)	(10,727)	-
Proceeds from debt	93,865	99,931	-
Repayment of debt	(89,500)	(77,931)	-
	<u>(5,473)</u>	<u>74,080</u>	<u>56,025</u>
<b>Cash flows from investing activities</b>			
Activity in loans			
Net increase in loans	(8,187)	(145,357)	(54,869)
Net decrease in convertible debenture	-	-	2,030
Activity in investments			
Proceeds on sales	18,181	124,909	13,865
Purchases	(488)	(107,752)	(4,794)
Net proceeds on dilution of subsidiary	-	-	592
Change in restricted cash	(10,249)	(304)	7,655
Cash transferred to purchaser of resource property	-	-	(2,500)
Proceeds on sale of resource and capital assets	-	356	210
Expenditures on resource and capital assets	(563)	(77)	(368)
Net other assets acquired	-	(425)	(281)
Net proceeds on sale and windup of subsidiaries	106	-	(678)
	<u>(1,200)</u>	<u>(128,650)</u>	<u>(39,138)</u>
<b>Foreign exchange loss on cash held in a foreign subsidiary</b>	<u>(118)</u>	<u>28</u>	<u>(65)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>20,978</u>	<u>(24,233)</u>	<u>27,132</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>9,506</u>	<u>33,739</u>	<u>6,607</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 30,484</u>	<u>\$ 9,506</u>	<u>\$ 33,739</u>

Supplemental cash flow information (note 16)

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

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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## 1 Nature of operations

Quest Capital Corp.'s ("Quest" or the "Company") focus is to provide mortgage financings. Throughout 2007, the Company also provided 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.

In December 2007, Quest reorganized its business, operations and assets in order to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. A MIC is a special-purpose corporation defined under Section 130.1 of the *Income Tax Act* (Canada). A MIC does not pay corporate-level taxes when all taxable income is distributed to shareholders as dividends during a taxation year and within 90 days of its year end. Taxable Canadian shareholders will have dividend payments subject to Canadian tax as interest income. As of January 1, 2008, the Company must continually meet the following criteria to maintain MIC eligibility: (i) at least 50% of its assets must consist of residentially oriented mortgages and/or cash; (ii) it must not directly hold any foreign assets, including investments secured by real property located outside of Canada; (iii) it must not engage in operational activities outside of the business of lending and investing of funds; and (iv) no person may own more than 25% of the issued and outstanding shares.

In establishing its status as a MIC, Quest was required to divest itself of assets deployed in operational activities outside of the business of real estate lending and investments in Canada. These divestitures included the sale of loans collateralized by properties outside of Canada, and the disposition of the Company's marketable securities and investment portfolios. The Company also disposed of two wholly-owned subsidiaries, Quest Management Corp. and Quest Securities Corporation (note 4(a)).

## 2 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 had 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 impaired loans; and other assets were valued at lower of cost and net realizable value.

The adoption of the Financial Instrument Standards requires the presentation of a separate consolidated statement of comprehensive income, which is comprised of net income, and changes in unrealized gains or losses related to available-for-sale securities.

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 at fair value. Fair value is determined directly by reference to quoted market prices in an active market. Changes in fair value

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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of marketable securities are recorded in earnings and changes in the fair value of investments are 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 \$1.6 million. Accumulated other comprehensive income increased by \$2.2 million (net of income taxes of \$1.1 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. Additional consequences were 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.

### 3 Significant accounting policies

#### Generally accepted accounting principles

These consolidated financial statements have been prepared using accounting principles generally accepted in Canada. Significant differences between Canadian and United States generally accepted accounting principles ("GAAP") as they relate to these financial statements are described in note 17.

#### Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. As at December 31, 2007, the Company's subsidiaries include QC Services Inc., Viceroy Capital Corp., Viceroy Gold Corporation and its 75% proportionate joint venture interest in the Castle Mountain property.

Certain comparative figures have been reclassified to conform to the current period's presentation, including a reclassification of \$2.1 million between retained earnings and cumulative translation adjustment to reflect the correction of an error preceding 2005.

#### Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results may differ. Financial statement items subject to significant management judgement include the Company's loan loss provision, investment carrying values, fair value of non-cash fees and stock-based compensation, asset retirement obligations and future income tax assets.

#### Cash and cash equivalents

Cash and cash equivalents include cash balances with a major Canadian chartered bank and short-term deposits and investments having maturity terms of 90 days or less at the time of acquisition.

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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Financial instruments included in cash and cash equivalents are classified as held for trading and are carried at fair value.

## **Marketable securities**

Marketable securities are designated as held for trading and, effective January 1, 2007, are recorded in the consolidated balance sheet at fair value based on quoted bid prices and consideration of other available information. Changes in the fair value of marketable securities since January 1, 2007 are recorded in non-interest income in the statements of earnings.

## **Loans**

Effective January 1, 2007, 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. Costs include loan origination fees and other direct and incremental costs.

Loans are classified as impaired when the principal is past due or interest is 90 days in arrears, and when there is no longer reasonable assurance of the timely collection of principal and interest. A provision for losses incurred on impaired loans is recorded to reduce the carrying amount to the estimated realizable amount.

## **Investments**

Investments are designated as available for sale and, effective January 1, 2007, are measured at fair value based on quoted bid prices and consideration of other available information. When neither an active market nor independent prices are available, the Company uses other methods of valuation to establish fair value. Changes in the fair value of investments are reported in comprehensive income, until the investment is disposed of or becomes other than temporarily impaired, at which time it will be recognized in the statements of earnings.

## **Provision for asset retirement obligations**

The Company recognizes a liability for asset retirement obligations associated with the retirement of long-lived assets when the liability is incurred. A liability is recognized initially at fair value if a reasonable estimate of the fair value can be made and the resulting amount would be capitalized as part of the asset. The liability is accreted over time through periodic charges to earnings. In subsequent periods, the Company adjusts the carrying amounts of the liability for changes in estimates of the amount or timing of underlying future cash flows. Any adjustments are accounted for in earnings in the period in which the adjustment is made.

It is possible that the Company's estimates of its ultimate reclamation and site restoration liability could change as a result of changes in regulations or cost estimates.

## **Translation of foreign currencies**

Self-sustaining foreign operations are translated using the current rate method. Under this method, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date and revenues and expenses at the average exchange rate during the period. The net effect of foreign

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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currency translation is deferred and shown as a currency translation adjustment in shareholders' equity until charged against earnings when the net investment in the operation is reduced.

## **Revenue recognition**

Interest income is recorded on an accrual basis except on loans classified as impaired. When a loan is classified as impaired, interest income is recognized on a cash basis only, after specific provisions or write-offs have been recovered and provided there is no further doubt about the collectability of remaining principal balances. Loan syndication fees are included in income as earned over the life of the loan. Loan commitment, origination, restructuring and renegotiation fees, and interest collected in advance, are netted against the loan receivable balance and recognized in income over the life of the loan.

Finder's fees received as compensation for corporate finance business activities are recorded when performance is complete and the cash or non-monetary consideration is received or is reasonably assured to be received. Non-monetary consideration includes shares, broker warrants and/or options and has been valued using the trading price of the shares at the time they are received and the Black Scholes option pricing model for warrants and options. Adjustments are made to the trading price for hold periods and other resale restrictions.

Trading revenue and the sale of investments are recognized on a settlement basis.

## **Income taxes**

Income taxes are calculated using the asset and liability method of accounting for income taxes. Accordingly, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on future taxes of a change in tax rates will be recognized in earnings in the period that includes the date of substantive enactment. In addition, future tax assets are recognized to the extent their realization is more likely than not.

## **Stock-based compensation**

The Company recognizes compensation expense for stock option grants based on the fair value of the stock options issued. The fair value of awards granted is estimated at the date of grant and recognized as employee compensation expense on a straight-line basis over the requisite service period with the offsetting credit to contributed capital. For awards with service conditions, the total amount of compensation cost to be recognized is based on the number of awards expected to vest and is adjusted to reflect those awards that do ultimately vest.

## **Earnings per share**

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by dividing net earnings available to common shareholders for the period by the diluted weighted average number of common

# Quest Capital Corp.

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shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options using the treasury stock method.

## **Future accounting changes**

### **a) Financial Instruments**

Effective January 1, 2008, the Company is required to adopt CICA Handbook Sections 3862 "*Financial Instruments – Disclosure*" and 3863 "*Financial Instruments – Presentation*", which replaces section 3861 "*Financial Instruments – Disclosures and Presentation*". These new standards revise and enhance the disclosure requirements, and carry forward, substantially unchanged, the presentation requirements. Sections 3862 and 3863 require disclosure that would emphasize the significance of financial instruments on the Company's financial position and performance, the nature and extent of the risks arising from financial instruments, and how these risks are managed. These new Sections relate to disclosure and presentation only and do not impact the Company's financial results.

### **b) Capital Disclosures**

Effective January 1, 2008, the Company is required to adopt CICA Handbook Section 1535 "*Capital Disclosures*". Section 1535 specifies the disclosure (i) of the Company's objectives, policies, and processes for managing capital; (ii) of quantitative data regarding items considered as capital; (iii) of whether the Company has complied with any capital requirements; and (iv) of it has not complied, the consequences of such non-compliance. This new Section relates to disclosure only and does not impact the Company's financial results.

### **c) Goodwill and Intangible Assets**

In February 2008, the CICA issued Handbook Section 3064 "*Goodwill and Intangible Assets*". This Section, which replaces Section 3062 "*Goodwill and Other Intangible Assets*", and Section 3450 "*Research and Development Costs*", establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, "*Intangible Assets*." The Section will apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

## **4 Divestitures**

### **a) Quest Securities Corporation and Quest Management Corp.**

In December 2007, the Company disposed of its wholly-owned subsidiaries Quest Securities Corporation and Quest Management Corp. The shares of these subsidiaries were sold to parties related by virtue of having certain directors and officers in common for cash proceeds of \$375,000, representing fair value at the time of disposition, resulting in a net loss of \$12,000.

The following is a breakdown of the subsidiaries' combined net assets disposed of during 2007:

# Quest Capital Corp.

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<b>Assets</b>	
Cash	\$ 269
Marketable securities	52
Capital assets	25
Other assets	192
	<u>\$ 538</u>
<b>Liabilities</b>	
Accounts payable	\$ 59
Income taxes payable	92
	<u>\$ 151</u>
<b>Net Assets</b>	<u>\$ 387</u>

## b) Lara Exploration Ltd.

In November 2005, Lara Exploration Ltd. ("Lara"), in which the Company previously held a 66% interest, agreed to acquire a private Brazilian company. In return for the assignment of the shares of the private Brazilian company to Lara, the Company agreed to transfer its 3,000,000 escrowed shares of Lara to the shareholders of the private Brazilian company for nominal consideration. In February 2006, the transaction was completed and a concurrent private placement was done by Lara. The Company owned less than 10% of the outstanding shares of Lara after the transaction. The Company's remaining investment was accounted for using the cost method, and the following is a breakdown of the net assets disposed of during 2006:

<b>Assets</b>	
Cash	\$ 678
Resource assets	373
	<u>\$ 1,051</u>
<b>Liabilities</b>	
Accounts payable	\$ 32
Minority interest	355
Provision for loss on disposition	343
	<u>\$ 730</u>
<b>Net Assets</b>	<u>\$ 321</u>

The Company's remaining investment in Lara was disposed of in 2007 for cash proceeds of \$1,005,000, resulting in a net gain of \$681,000.

## 5 Financial instruments

The carrying values of other receivables, accounts payable and debt payable approximate their fair values due to the short-term nature of these instruments.

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The fair value of the Company's remaining financial assets and liabilities is as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Cash	\$ 30,484	30,484	9,506	\$ 9,506
Restricted cash	12,452	12,452	2,568	2,568
Marketable securities	-	-	1,865	2,301
Loans	277,710	277,710	264,902	264,902
Investments	-	-	9,980	13,368
Other assets	-	-	646	646

Marketable securities and investments represent shares in publicly traded companies. The fair value at December 31, 2006 represented the quoted trading price of the shares. Marketable securities and investments were sold during the year to related parties as disclosed in note 12(a). The fair value of the convertible debenture at December 31, 2006 is estimated to be approximately equal to the equivalent carrying value as the loan loss provision applied to the convertible debenture resulted in a carrying value of \$nil (note 6). There was no convertible debenture as of December 31, 2007. At December 31, 2007, there are no financial instruments included in other assets. At December 31, 2006, financial instruments included in other assets included warrants and investments in capital pool companies, which were restricted from trading and were carried at cost.

## 6 Loans

- a) Generally loans are repayable over terms of 6 to 24 months, and bear interest at rates of between 10% and 14% per annum before commitment and other fees. Real property, real estate, and/or corporate or personal guarantees are generally pledged as security. The loan portfolio can be broken down as follows:

	<u>2007</u>	<u>2006</u>
Real estate mortgages	94%	87%
Resource sector loans	5%	12%
Other sectors loans	1%	1%
Total	<u>100%</u>	<u>100%</u>

	<u>2007</u>	<u>2006</u>
British Columbia	58%	48%
Alberta	34%	37%
Ontario	6%	13%
Other	2%	2%
Total	<u>100%</u>	<u>100%</u>

	<u>2007</u>	<u>2006</u>
First mortgages	93%	80%

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Second mortgages	7%	20%
Total	<u>100%</u>	<u>100%</u>

As at December 31, 2007, 73% of the Company's loan portfolio was due within a year. The Company had approximately \$7.5 million of loans impaired as at December 31, 2007. The Company's provision for loan losses is \$nil. 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 or convertible debenture 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.

Loans (including convertible debenture) outstanding as at December 31, 2007 and 2006 were as follows:

				<b>2007</b>
	<b>#</b>	<b>Term</b>	<b>Specific</b>	<b>Carrying</b>
	<b>Loans</b>	<b>loans</b>	<b>allowance</b>	<b>amount</b>
Unimpaired loans	54	\$ 270,210	\$ -	\$ 270,210
Impaired loans	1	7,500	-	7,500
	<u>55</u>	<u>\$ 277,710</u>	<u>\$ -</u>	<u>\$ 277,710</u>

				<b>2006</b>
	<b>#</b>	<b>Term</b>	<b>Specific</b>	<b>Carrying</b>
	<b>Loans</b>	<b>loans</b>	<b>allowance</b>	<b>amount</b>
Unimpaired loans	50	\$ 256,357	\$ -	\$ 251,737
Impaired loans	4	13,165	-	13,165
	<u>54</u>	<u>\$ 269,522</u>	<u>\$ -</u>	<u>\$ 264,902</u>
Convertible debenture		586	586	-
		<u>\$ 270,108</u>	<u>\$ 586</u>	<u>\$ 264,902</u>

b) The Company has recorded an allowance for losses as follows:

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Balance - Beginning of year	\$ 586	\$ 537	\$ 537
Add:			
Specific provision for the year	-	386	-
Less:			
Loan provision applied	(586)	(337)	-
Balance - End of year	<u>\$ -</u>	<u>\$ 586</u>	<u>\$ 537</u>

c) At December 31, 2007, the Company had entered into agreements to advance funds of \$22.4 million. Advances under these agreements are subject to the completion of due diligence, no material adverse change in the assets, business or ownership of the borrower and other terms.

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In addition, at December 31, 2007, the Company had committed to future advances, primarily construction loans, of up to \$75.9 million.

## 7 Restricted cash

	<u>2007</u>	<u>2006</u>
Castle Mountain	\$ 1,999	\$ 2,568
Cash held for loans	10,453	-
Total	<u>\$ 12,452</u>	<u>\$ 2,568</u>

### a) Castle Mountain

Pursuant to an agreement among the partners of the Castle Mountain property, the Company is required to set aside restricted cash of US\$2,016,000 (\$1,999,000) as at December 31, 2007 (2006 - US\$2,204,000 or \$2,568,000) in a fund to fulfill reclamation and closure obligations at the Castle Mountain property.

### b) Cash held for loans

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

## 8 Debt payable

In March 2007, the Company entered into a revolving debt facility with a major Canadian chartered bank for up to \$25 million. In January 2008, the Company completed the refinancing of this credit facility, with the new facility syndicated among three major Canadian chartered banks. As a result of this refinancing, subsequent to December 31, 2007, the Company's access to debt financing increased from \$25 million to \$88 million. The facility bears interest at prime or bankers acceptance rates plus 1.25% per annum and is collateralized by the Company's loan portfolio. As at December 31, 2007, \$25.0 million was outstanding under the original facility.

In addition to the revolving debt facility, the Company had entered into a short-term unsecured debt facility. The facility bears interest at prime plus 2% and is payable on demand. As at December 31, 2006, \$22 million was outstanding on this facility and was repaid in 2007. As at December 31, 2007, \$1.4 million is outstanding on this facility.

## 9 Asset retirement obligation

The Company's asset retirement obligation relates to closure obligations at its Castle Mountain property.

A reconciliation of the asset retirement obligation is as follows:

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	<b>2007</b>		<b>2006</b>		<b>2005</b>	
Balance - beginning of year	\$	1,011	\$	1,884	\$	5,366
Liabilities settled during the year		(352)		(935)		(2,498)
Liabilities disposed of during the year				-		(2,078)
Accretion expense		50		75		155
Revisions in estimated cash flows		-		-		943
Currency translation adjustment		(137)		(13)		(4)
Balance - end of year	\$	572	\$	1,011	\$	1,884

## 10 Share capital

### a) Authorized

Unlimited First and Second Preferred Shares

Unlimited common shares without par value

Previously the Company had Class A Voting Shares and Class B Voting Shares. Effective April 19, 2005, the Class B Shares were cancelled and the designation of the Class A Shares was changed to common shares.

### b) Shares issued and outstanding

	<b>2007</b>		<b>2006</b>		<b>2005</b>	
	<b>Number of shares</b>	<b>Amount</b>	<b>Number of shares</b>	<b>Amount</b>	<b>Number of shares</b>	<b>Amount</b>
<b>Common Shares</b>						
Opening balance	144,842,628	\$ 202,513	119,265,568	\$ 138,891	-	\$ -
Issued for cash	-	-	15,625,000	50,000	24,300,000	51,890
Share issue costs		-		(2,684)		(3,587)
Issued on exercise of stock options	883,333	1,571	1,094,500	2,135	-	-
Issued on exercise of warrants	-	-	8,833,335	13,300	4,500,000	7,200
Issued on exercise of compensation options	1,063,750	2,447	24,225	56	-	-
Fair value of options exercised	-	630	-	815	-	-
Exchanged for Class A Shares	-	-	-	-	90,465,568	83,388
<b>Closing balance</b>	<b>146,789,711</b>	<b>\$ 207,161</b>	<b>144,842,628</b>	<b>\$ 202,513</b>	<b>119,265,568</b>	<b>\$ 138,891</b>

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	2007		2006		2005	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
<b>Class A Shares</b>						
Opening balance	-	-	-	-	90,465,568	83,388
Exchanged for common shares	-	-	-	-	(90,465,568)	(83,388)
<b>Closing balance</b>	-	-	-	-	-	-
<b>Total share capital</b>		<b>\$ 207,161</b>		<b>\$ 202,513</b>		<b>\$ 138,891</b>

In April 2006, the Company completed a public offering of 15,625,000 shares of the Company at a price of \$3.20 per share for aggregate proceeds of \$50,000,000. Net proceeds from the equity offering after expenses were \$47,316,000.

In August 2005, the Company completed a public offering of 18,500,000 shares of the Company at a price of \$2.30 per share for aggregate proceeds of \$42,550,000. The Company also granted the underwriters an over-allotment option exercisable to October 23, 2005 to purchase up to an additional 2,775,000 shares at a price of \$2.30 per share, of which the underwriters acquired 800,000 shares. In addition, the underwriters were granted 1,158,000 compensation options expiring August 23, 2007 and October 26, 2007. Each compensation option was exercisable at \$2.30 per common share. Net proceeds from the equity offering and over allotment after expenses were \$40,803,000.

In May 2005, the Company completed a private placement of 5,000,000 shares at a price of \$1.50 per share for aggregate proceeds of \$7,500,000.

c) Warrants issued and outstanding

	Number of warrants	Exercise price per share	Expiry date
<b>Class A Shares</b>			
Opening balance – January 1, 2005	13,333,335		
Exercised	(4,500,000)	\$1.60	October 20, 2008
Closing balance – December 31, 2005	8,833,335		
Exercised	(8,333,335)	1.50	June 30, 2008
Exercised	(500,000)	1.60	October 20, 2008
Closing balance – December 31, 2006 and 2007	-		

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d) Compensation options issued and outstanding

	Number of options	Exercise price per share	Expiry date
<b>Common shares</b>			
Opening balance – January 1, 2005	-		
Issued pursuant to a public offering	1,110,000	\$2.30	August 23, 2007
Issued pursuant to a public offering	48,000	2.30	October 26, 2007
Closing balance – December 31, 2005	1,158,000		
Exercised	(24,225)	2.30	August 23, 2007
Closing balance – December 31, 2006	1,133,775		
Exercised	(1,015,750)	2.30	August 23, 2007
Exercised	(48,000)	2.30	October 26, 2007
Expired	(70,025)	2.30	August 23, 2007
Closing balance – December 31, 2007	-		

e) Stock options outstanding

The Company has a stock option plan under which the Company may grant options to its directors, employees and consultants for up to 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 years ended December 31, 2007, 2006 and 2005, the changes in stock options outstanding are as follows:

	2007		2006		2005	
	Number of shares	Weighted average share price	Number of shares	Weighted average share price	Number of shares	Weighted average share price
<b>Common shares</b>						
Opening balance	8,981,333	\$ 2.02	9,563,333	\$ 1.97	-	\$ -
Granted	2,855,000	3.05	550,000	2.79	2,350,000	2.14
Exercised	(883,333)	1.78	(1,094,500)	1.95	-	-
Expired	(400,000)	3.04	-	-	(160,415)	1.89
Cancelled	-	-	(37,500)	2.30	-	-
Exchanged for Class A share options	-	-	-	-	7,373,748	1.91
Closing balance	10,553,000	\$ 2.28	8,981,333	\$ 2.02	9,563,333	\$ 1.97
Options exercisable at year-end	8,794,480	\$ 2.13	8,151,630	\$ 1.98	8,096,146	\$ 1.93

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

Range of exercise prices	Options outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contracted life (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
\$ 1.51	223,000	1.64	\$ 1.51	223,000	\$ 1.51
\$ 1.52 to 1.95	6,150,000	1.14	1.95	6,150,000	1.95
\$ 1.96 to 2.31	1,150,000	2.96	2.30	1,150,000	2.30
\$ 2.32 to 3.24	3,030,000	4.07	3.00	1,271,480	2.93
	<u>10,553,000</u>	<u>2.19</u>	<u>\$ 2.28</u>	<u>8,794,480</u>	<u>\$ 2.13</u>

## f) Contributed capital

	2007		2006		2005	
Opening balance	\$	6,479	\$	6,772	\$	4,198
Fair value of options exercised		(630)		(814)		-
Stock-based compensation		1,085		521		2,142
Other		-		-		(90)
Compensation options		-		-		522
Ending balance	\$	<u>6,934</u>	\$	<u>6,479</u>	\$	<u>6,772</u>

The fair values of options for 2007, 2006 and 2005 have been estimated using an option pricing model. Assumptions used in the pricing model are as follows:

	2007		2006		2005	
Risk-free interest rate		4.10%		3.73%		3.18%
Expected life of options		3.0 years		2.5 years		2.3 years
Expected stock price volatility		35%		33%		33%
Expected dividend yield		2.74%		2.81%		0%
Weighted average fair value of options	\$	0.72	\$	0.62	\$	0.42

## 11 Income taxes

a) The provision for (recovery of) income taxes consist of the following:

	2007		2006		2005	
Current						
Canada	\$	489	\$	1,184	\$	488
United States		176		111		(315)
Total current expenses		<u>665</u>		<u>1,295</u>		<u>173</u>
Future						
Canada		11,898		(8,012)		(6,488)

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United States	(242)		
Total future expenses (recoveries)	11,656	(8,012)	(6,488)
Total provision for (recovery of) income taxes	\$ 12,321	\$ (6,717)	\$ (6,315)

- b) The reconciliation of the statutory income tax rates to the effective tax rates on the earnings (loss) before income taxes is as follows:

	2007	2006	2005
Income taxes at statutory rates	\$ 12,278	\$ 14,925	\$ 5,985
Increase (decrease) in taxes from:			
Non-deductible differences	4,709	(193)	938
Difference in foreign tax rates	4	(173)	(92)
Change in enacted tax rates	3,502	-	-
Benefits of timing differences not previously recognized	(2,091)	(2,162)	(426)
Recognition of prior year tax losses	(6,081)	(19,114)	(12,720)
	\$ 12,321	\$ (6,717)	\$ (6,315)

- c) The Company has non-capital losses to reduce future taxable income in Canada of approximately \$6,729,000. These losses expire in 2015.

- d) The significant components of the future income tax assets and liabilities are as at December 31, 2007 are as follows:

	2007	2006
Loss carryforwards	\$ 2,116	\$ 8,524
Capital losses	9,186	16,669
Resource and capital assets	1,133	7,071
Investments and marketable securities	-	1,071
Other	2,168	3,029
	14,603	36,364
Valuation allowance	(10,687)	(21,864)
Future income tax asset	\$ 3,916	\$ 14,500
	\$ 904	\$ 1,326
Deferred gain and other	\$ 904	\$ 1,326
Future tax liability	\$ 904	\$ 1,326

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## 12 Related party transactions

Other than as reported elsewhere in these statements, related party transactions are as follows:

- a) Marketable securities and investments as at December 31, 2007 include \$nil (2006 - \$9,143,000) of shares held in publicly traded companies related by virtue of having certain directors and officers in common. For the year ended December 31, 2007, the Company recorded a gain on disposal of securities and investments of \$3,604,000 (2006 - \$10,627,000, 2005 - \$3,854,000) in companies related by virtue of having certain directors and officers in common. These transactions were recorded at the exchange amount which management believes to be a fair approximation of fair value. Included in the above gain is \$0.5 million (2006 - \$nil, 2005 - \$nil) related to marketable securities and investments sold to certain directors and officers. For the year ended December 31, 2007, the Company recorded a write-down of investments of \$nil (2006 - \$1,207,000, 2005 - \$nil) in companies related by virtue of having certain directors in common.
- b) For the year ended December 31, 2007, the Company borrowed and repaid \$nil (2006 - \$20,000,000, 2005 - \$nil) from related parties. Interest paid on these borrowings totalled \$nil (2006 - \$110,000, 2005 - \$nil).
- c) Included in accounts payable is \$4,620,000 (2006 - \$3,170,000) due to employees and officers for bonuses payable.
- d) For the year ended December 31, 2007, the Company received \$807,000 (2006 - \$1,507,000, 2005 - \$1,614,000) in management and finder's fees from parties related by virtue of having certain directors and officers in common. Other assets as at December 31, 2007 includes \$nil (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. For the year ended December 31, 2007, the Company recorded a write-down of other assets of \$37,000 (2006 - \$74,000, 2005 - \$nil) in parties related by virtue of having certain directors in common.
- e) During the year ended December 31, 2007, the Company received \$98,000 (2006 - \$607,000, 2005 - \$2,111,000) in interest and fees from related parties by virtue of having certain directors and officers in common. During the year ended December 31, 2007, the Company has made \$nil in additional provision for losses on loans and convertible debenture (2006 - \$386,000, 2005 - \$nil) from a party related by virtue of having a director in common.
- f) For the year ended December 31, 2007, the Company received \$41,000 (2006 - \$24,000, 2005 - \$128,000) in syndication loan administration fees from related parties.

## 13 Contingencies and commitments

- a) Surety bond guarantees totalling US\$2,405,000 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 corporation, and other parties were named as defendants in a lawsuit filed in the Supreme Court of British Columbia.

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The plaintiff has claimed approximately \$410,000 plus interest due for consulting services. Management intends to fully defend this claim. Accordingly, 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:

2008	\$	625
2009		625
2010		548
2011		395
2012		395

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

## 14 Risk management

The primary goals of the Company's risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the Company's objectives and risk tolerance, and to maintain an appropriate risk/reward balance while protecting the Company's balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventative controls and transferring risk to third parties.

The Company is exposed to potential loss from various risks, including interest rate risk and credit risk.

### *Interest Rate Risk*

Fluctuations in interest rates have a direct impact on the market valuation of the Company's loan portfolio. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding loans mature and the proceeds are invested in loans with lower rates. During periods of rising interest rates, the market value of the Company's existing loan portfolio will generally decline.

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and causes financial loss to another party. The Company is exposed to credit risk concentrated in its loan portfolio.

The Company's risk management strategy is to lend money to high net worth borrowers and to limit the amount of credit exposure with respect to any one borrower. The Company attempts to limit credit exposure by considering credit quality.

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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## 15 Segmented information

The Company has primarily one operating segment, which is to provide mortgage financings. The Company's geographic location is Canada.

## 16 Supplemental cash flow information

### a) Cash received or paid

	<u>2007</u>		<u>2006</u>		<u>2005</u>
Interest received (non-loan)	\$ 680	\$	1,380	\$	543
Interest paid	493		1,081		33
Income tax instalments	696		-		-
Income taxes paid, related to previous years	2,718		-		-

### b) Non-cash financing and investing activities

	<u>2007</u>		<u>2006</u>		<u>2005</u>
Marketable securities and investments received as loan fees	\$ 3,964	\$	2,157	\$	2,005
Investment purchases funded by brokerage margin account	-		(30,899)		-
Investment proceeds funded by brokerage margin account	-		30,899		-
Property and other assets received as loan fees	-		-		121
Loans and debenture settled with shares	-		-		4,516
Shares received as consideration for sale of resource property	-		-		1,800

## 17 United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which differ, in certain respects, from GAAP in the United States of America. Material measurement differences related to these consolidated financial statements are as follows:

### a) Reduction of stated capital

At the Company's Annual General Meeting in June 2003, shareholders approved a reduction of stated capital. This practice is allowed under Canadian GAAP. Under United States GAAP, companies are not allowed to record a reduction of stated capital in these circumstances. This GAAP difference has no net impact on total shareholders' equity reported.

### b) Unrealized holding gains (losses)

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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Under United States GAAP, securities are classified as held-for-trading assets and investments are classified as available-for-sale assets. Unrealized holding gains and losses for trading securities are included in earnings. Unrealized holding gains and losses for long-term available-for-sale investments are excluded from earnings and reported as a net amount in a separate component of shareholders' equity until realized.

Prior to January 1, 2007, marketable securities were recorded at the lower of average cost and market value under Canadian GAAP and investments were valued at cost or at cost less amounts written off to reflect any impairment in value considered to be other than temporary under Canadian GAAP. These differences were eliminated as a result of the adoption of the Financial Instruments Standards under Canadian GAAP, as described in Note 2.

c) Fair value of conversion option

For United States GAAP purposes, the conversion option of a debenture into shares is considered an embedded derivative to the holder of the debenture and changes in the fair value of such derivative is reported in the statements of earnings.

Prior to January 1, 2007, derivatives embedded within hybrid instruments generally were not separately accounted for under Canadian GAAP. This difference was eliminated as a result of the adoption of the Financial Instruments Standards under Canadian GAAP, as described in Note 2.

d) Dilution gains

Under Canadian GAAP, the Company recognizes a gain or loss on the dilution of its interests in subsidiaries upon the issue of new shares by the subsidiary to third parties. Under United States GAAP, such gains related to development stage subsidiaries are accounted for as an equity transaction.

e) Shareholders' equity

Under United States GAAP, accumulated other comprehensive income is recorded as a separate component of shareholder's equity. Prior to January 1, 2007, Canadian GAAP did not permit presentation of other comprehensive income. This difference was eliminated as a result of the change in accounting principles under Canadian GAAP, as described in Note 2.

f) Reconciliation to United States GAAP

The application of the above described United States GAAP differences would have the following effect on earnings and comprehensive income (loss), earnings per share, marketable securities, investments, and total shareholders' equity for United States GAAP purposes:

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

	2007	2006	2005
<b>Earnings</b>			
As reported in accordance with Canadian GAAP	\$ 23,667	\$ 43,701	\$ 23,551
Adjustment for unrealized (loss) gain on trading securities	-	213	(38)
Gain on dilution of shares	-	-	(252)
Fair value adjustment for derivatives	-	-	(250)
Net earnings under United States GAAP	23,667	43,914	23,011
Other comprehensive income	-	(2,545)	1,233
Adjustment for unrealized holding gains (losses)	-	-	-
Comprehensive income	\$ 23,667	\$ 41,369	\$ 24,496
<b>Earnings per share under United States GAAP</b>			
Basic	\$ 0.16	\$ 0.30	\$ 0.24
Diluted	\$ 0.16	\$ 0.29	\$ 0.24
<b>Marketable securities</b>			
Under Canadian GAAP	\$ -	\$ 1,865	\$ 945
Adjusted for fair market value (note 17(b))	-	436	223
Under United States GAAP	\$ -	\$ 2,301	\$ 1,168
<b>Investments</b>			
Under Canadian GAAP	\$ -	\$ 9,980	\$ 17,117
Adjusted for fair market value (note 17(b))	-	3,388	7,313
Under United States GAAP	\$ -	\$ 13,368	\$ 24,430
<b>Total shareholders' equity</b>			
<b>Share capital</b>			
Under Canadian GAAP	\$ 207,161	\$ 202,513	\$ 138,891
Adjusted for reduction of stated capital (note 17(a))	185,584	185,584	185,584
Under United States GAAP	\$ 392,745	\$ 388,097	\$ 324,475
<b>Warrants and options</b>			
Under Canadian and United States GAAP	\$ 6,934	\$ 6,479	\$ 6,772
<b>Retained earnings (deficit)</b>			
Under Canadian GAAP	\$ 76,539	\$ 65,137	\$ 26,645
Cumulative adjustments to deficit	(185,584)	(185,148)	(185,361)
Under United States GAAP	\$ (109,045)	\$ (120,011)	\$ (156,716)
<b>Cumulative other comprehensive income</b>			
Under Canadian GAAP	\$ -	\$ -	\$ -
Adjusted for fair value of investments	-	2,232	4,777
Under United States GAAP	\$ -	\$ 2,232	\$ 4,777
<b>Total shareholders' equity under United States GAAP</b>			
	\$ 290,634	\$ 276,797	\$ 179,308
<b>Statement of Cash Flows From</b>			
Operating activities under Canadian and United States GAAP	\$ 27,769	\$ 30,309	\$ 10,310
Financing activities under Canadian and United States GAAP	(5,473)	74,080	56,025
Investing activities under Canadian and United States GAAP	(1,200)	(128,650)	(39,138)

g) Significant accounting changes

In July 2006, the Financial Accounting Standards Board "FASB" issued Interpretation No. 48 "FIN 48", "Accounting for Uncertainty in Income Taxes". FIN 48 was issued to address

# Quest Capital Corp.

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

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

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financial statement recognition and measurement by an enterprise of a tax position taken or expected to be taken in a tax return. The Company adopted this standard on January 1, 2007. This new standard did not have any impact on its consolidated financial statements.

h) Impact of recently issued accounting standards

- (i) In September 2006, FASB issued *SFAS No. 157 "Fair Value Measurements"* ("*SFAS No. 157*"), effective for periods beginning after November 15, 2007. *SFAS No. 157* defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. In December 2007, FASB issued *SFAS 157-b*, which provided for a one-year deferral of the implementation of *SFAS No. 157* for financial assets and liabilities. However, *SFAS No. 157* is still required to be adopted effective January 1, 2008, for financial assets and liabilities that are carried at fair value. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.
- (ii) In February 2007, FASB issued *FASB Statement No. 159, The Fair Value for Financial Assets and Financial Liabilities Including an amendment of FASB No. 115*, which provides an option to elect to treat certain financial assets and liabilities on a fair value basis. This standard is effective for the Company's 2008 financial statements. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.
- (iii) In December 2007, FASB issued *SFAS 141(R) "Business Combinations"* and *SFAS 160 "Non-controlling Interest in Consolidated Financial Statements"* which are both effective for fiscal years beginning after December 15, 2008. *SFAS 141(R)* which will replace *FAS 141*, is applicable to business combinations consummated after the effective date of December 15, 2008. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

i) Adjustment to comparative figures

Comparative figures have been adjusted due to prior period disclosure errors relating to cumulative translation adjustment and other comprehensive income.

**QUEST CAPITAL CORP.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**INTRODUCTION**

The following information, prepared as of March 12, 2008, should be read in conjunction with the audited annual consolidated financial statements of Quest Capital Corp. ("Quest" or the "Company") as at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005 and related notes attached thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**BUSINESS PROFILE AND STRATEGY**

In December 2007, Quest reorganized its business, operations and assets in order to qualify as a mortgage investment corporation ("MIC") for Canadian income tax purposes. A MIC is a special-purpose corporation defined under Section 130.1 of the *Income Tax Act* (Canada) (the "Tax Act"). A MIC does not pay corporate-level taxes when all taxable income is distributed to shareholders as dividends during a taxation year and within 90 days of its year end. Taxable Canadian shareholders will have dividend payments subject to Canadian tax as interest income. As of January 1, 2008, the Company must continually meet the following criteria to maintain MIC eligibility: (i) at least 50% of its assets must consist of residentially oriented mortgages and/or cash; (ii) it must not directly hold any foreign assets, including investments secured by real property located outside of Canada; (iii) it must not engage in operational activities outside of the business of lending and investing of funds; and (iv) no person may own more than 25% of the issued and outstanding shares.

These steps represent the culmination of Quest's evolution into a mortgage lender, concentrating on residentially oriented properties in Canada. Whereas in the past, Quest had engaged in bridge loan financings to resource companies, corporate finance transactions and had made investments outside of Canada, as at December 31, 2007, the Company has streamlined and simplified its operations to conform to the MIC qualification rules under the Tax Act.

The Company's primary lending activities are hereafter anticipated to be in first mortgages on Canadian real estate, concentrating on residentially oriented loans. In general, a loan is residentially oriented if, at the time the loan is made, greater than 80% of the real estate by which the loan is secured, is, or is intended to be, devoted to residential purposes. This includes developing or financing single family, apartment, condominium, social housing and nursing/retirement residences.

The strategy of the Company is to produce a significant dividend yield for shareholders, while at the same time profitably growing the mortgage portfolio. To this end, Quest completed a financing in early January 2008 which provides it with an \$88.0 million revolving debt facility to be used to increase its mortgage portfolio. This is considered to be growth through leverage. The Company plans to pursue other avenues for increasing leverage in the future.

## **NON-GAAP MEASURES**

Basic earnings per share (“EPS”) before taxes, return on equity before taxes, return on assets before taxes and payout ratio on earnings before taxes do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similar measures presented by other companies. The fact that tax expense is for the most part a non-cash item is the major reason the Company calculates and highlights various ratios on a before tax basis. Non-GAAP measures used in this management’s discussion and analysis (“MD&A”) are calculated as follows:

- basic earnings per share before taxes – earnings before taxes divided by number of common shares outstanding for basic EPS purposes;
- return on equity before taxes – earnings before taxes divided by average shareholders’ equity;
- return on assets before taxes – earnings before taxes divided by average total assets; and
- payout ratio on earnings before taxes – dividends paid divided by earnings before taxes.

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

## **2007 FINANCIAL HIGHLIGHTS**

Among the major financial highlights for 2007 was Quest’s ability to increase its lending capacity in terms of human capital, credit adjudication and funding processes. The Company’s systems and processes have been developed to allow for a significant increase in its mortgage lending operations. At the end of 2007, Quest completed its transformation into a MIC. To do this, it shed itself of certain of its previous operating activities in its management and corporate services areas, as well as its investments in other public companies. The decrease in non-interest income in 2007 from that in 2006 reflects this decrease in activity. As well, the Company invested heavily in professional services for legal and taxation advice and a great deal of resources were devoted to complying with the Sarbanes-Oxley (“SOX”) regulations of the United States (“US”) securities regulators and with the ongoing corporate governance and disclosure requirements of the Canadian securities regulatory authorities. These significant non-recurring expenses inflated the Company’s non-compensation expenses above normal levels; details of this are included in the “results of operations” section of this MD&A.

The Company recorded significant tax expenses in 2007 as a result of drawing down on future tax assets set up in prior years. In the Company’s case, taxes are non-cash items for the most part; however, the reversal of tax assets set up in prior years has caused a significant increase in tax expense and a decrease in the Company’s 2007 net earnings from those of 2006. The fact that tax expense is for the most part a non-cash item is the major reason the Company calculates and highlights various ratios on a before tax basis.

The following table highlights certain aspects of Quest’s 2007 financial performance and should be read in conjunction with the “Results of Operations” section of this MD&A.

## FINANCIAL PERFORMANCE

**Table 1 - Selected Annual Financial Information<sup>(2)</sup>**  
(\$ thousands, except per share amounts)

	2007	2006	2005	Change from 2006	
				\$	%
<b>Key Performance Indicators</b>					
Interest and related fees	<b>42,114</b>	32,591	17,410	9,523	29%
Non-interest income	<b>11,050</b>	18,499	9,490	(7,449)	(40%)
Net interest and non-interest income	<b>52,498</b>	49,472	26,837	3,026	6%
Earnings before income taxes	<b>35,988</b>	36,984	17,168	(996)	(3%)
Earnings per share before taxes <sup>(1)</sup>	<b>0.25</b>	0.27	0.17	(0.02)	(7%)
Net earnings	<b>23,667</b>	43,701	23,551	(20,034)	(46%)
Earnings per share – basic	<b>0.16</b>	0.32	0.23	(0.16)	(49%)
Earnings per share – diluted	<b>0.16</b>	0.31	0.23	(0.15)	(49%)
Return on equity before taxes <sup>(1)</sup>	<b>13%</b>	16%	13%		
Return on assets before taxes <sup>(1)</sup>	<b>11%</b>	15%	11%		
Dividends per share	<b>0.095</b>	0.050	0.030		
Payout ratio on earnings before taxes <sup>(1)</sup>	<b>38%</b>	19%	18%		
Total assets	<b>325,744</b>	305,737	187,918	20,007	7%
Total liabilities	<b>35,110</b>	31,608	13,624	3,502	11%
Shareholders' equity	<b>290,634</b>	274,129	174,294	16,505	6%
Book value per share	<b>1.98</b>	1.89	1.46		

1. See page 2 for a discussion on non-GAAP measures.

2. The amounts presented reflect the adoption of financial instruments standards on a retroactively without restatement, refer to note 2 to the Company's financial statements.

## DIVIDEND POLICY FOR 2008

Dividend payments reduce the taxable income of a MIC. These dividends are taxed as interest in the hands of shareholders. Consistent with its MIC status for taxation purposes, Quest's dividend policy is to distribute sufficient dividends to shareholders throughout 2008 and within 90 days after the end of 2008 to reduce its taxable income to a negligible amount, after first deducting all available loss carry forwards and other deductions against 2008 taxable income. It is expected that this will result in a significant increase in dividends above 2007 levels.

## OUTLOOK

Quest's primary focus for 2008 is twofold. The first is to utilize its tax status as a MIC to pay negligible income taxes and in the process enhance the dividend yield for shareholders. The second is to grow its mortgage portfolio profitably and safely using leverage, that is, through using its revolving debt facility rather than through earnings retained in the business. The Company expects to be able to decrease certain of its general and administrative expenses. Staff growth will be contained as the human resources platform at the end of 2007 is expected to be sufficient to manage the expected growth in the loan portfolio. Non-interest income will be negligible in 2008 as the Company divested itself of the operations producing this income at the end of 2007 as part of its process to become MIC eligible.

## RESULTS OF OPERATIONS

**Table 3 - Condensed Income Statement**  
(\$ thousands)

	2007		2006		2005	
	\$	%	\$	%	\$	%
<b>Income net of interest expense and provisions</b>						
Interest and related fees	42,114	80	32,591	66	17,410	65
Non-interest income	11,050	21	18,499	37	9,490	35
Interest on debt	(666)	(1)	(1,380)	(3)	(63)	-
Provision for loan losses	-	-	(238)	-	-	-
	<u>52,498</u>	<u>100</u>	<u>49,472</u>	<u>100</u>	<u>26,837</u>	<u>100</u>
<b>Expenses</b>						
Salaries	5,042	30	2,889	23	2,108	22
Bonuses	4,056	24	5,525	44	2,000	21
Stock-based compensation	1,085	7	521	4	2,142	22
Legal and professional services	2,904	18	1,908	16	820	9
Other	3,423	21	1,645	13	2,531	26
	<u>16,510</u>	<u>100</u>	<u>12,488</u>	<u>100</u>	<u>9,601</u>	<u>100</u>
<b>Earnings before income taxes</b>	35,988		36,984		17,236	
<b>Income taxes (recovery)</b>	<u>12,321</u>		<u>(6,717)</u>		<u>(6,315)</u>	
<b>Net earnings</b>	<u>23,667</u>		<u>43,701</u>		<u>23,551</u>	

### Interest and related fees

Interest and related fees increased \$9.5 million or 29% to \$42.1 million for 2007 as compared to \$32.6 million in 2006 and \$17.4 million in 2005. This increase was largely due to greater average loan balances in 2007 as compared to 2006 resulting from an increase in Quest's market penetration related to the hiring of two additional loan originators. Measured on a quarterly basis, the average outstanding loan portfolio was \$260.3 million in 2007, a \$47.9 million or 23% increase over the \$212.4 million average balance outstanding in 2006. Based on these average outstanding portfolio balances, interest and related fee yields were 16.2% in 2007 compared to 15.3% in 2006.

### Non-interest income

The Company's non-interest income largely relates to its marketable securities and investments, and to its management and corporate finance services operations. As explained elsewhere in this MD&A, the Company divested itself of these operations during 2007 in part to attain MIC eligibility. Consequently, revenues from these activities in 2007 decreased \$7.4 million or 40% to \$11.1 million from \$18.5 million in 2006 and \$9.5 million in 2005.

### Interest expense and provision for loan losses

Interest expense relates to interest on Quest's revolving debt facility and other debt and is intermittent in nature. The Company plans to utilize its revolving debt facility to a greater extent in future periods. There was no provision for loan losses in 2007 compared to a provision on one loan for \$0.6 million in 2006.

## **Salaries and bonuses**

Salaries and benefits increased \$2.2 million or 75% to \$5.0 million in 2007 compared to \$2.9 million in 2006 and \$2.1 million in 2005 as a result of the addition of new employees to manage the increase in the average portfolio outstanding and to meet regulatory and more sophisticated procedural demands. Total head count, in Quest's lending business, as at December 31, 2007 was 21 compared to 13 as at December 31, 2006. At the time Quest Management Corp. and Quest Securities Corporation were disposed of in December 2007, all 10 employees engaged in management and corporate finance services were terminated. A total of \$0.6 million in severance charges have been recorded in 2007 compared to \$nil in 2006 and 2005.

Bonuses for the year ended December 31, 2007 were \$4.1 million, a decrease of \$1.5 million or 27% from \$5.5 million in 2006 and \$2.0 million in 2005, primarily due to a decrease in bonuses paid to employees in the corporate finance operations. Bonuses represent amounts under the Company's incentive plans paid to officers and employees of the Company. The Company's incentive plans include discretionary and non-discretionary components. Discretionary payments and allocations are subject to the approval of the Compensation Committee and the Board of Directors.

## **Stock based compensation**

Stock based compensation increased \$0.6 million or 108% in 2007 to \$1.1 million as compared to \$0.5 million in 2006 and \$2.1 million in 2005 as a result of a greater number of options being granted to employees and directors. In 2007, 2,855,000 options were granted to employees and directors, in 2006 the number of options granted was 550,000. The expense related to options is recorded on a straight line basis over the expected vesting term of the option (usually three years), therefore the 2007 expense relates to options vesting over a three year period.

## **Legal and professional fees**

Legal and professional fees increased \$1.0 million or 52% to \$2.9 million in 2007 as compared to \$1.9 million in 2006 and \$0.8 million in 2005, primarily due to several non-recurring advisory expenses in 2007 related to the following: \$0.4 million in tax planning and advisory fees relating to the Company's conversion to a MIC; \$0.8 million in advisory services related to SOX compliance, including the provision of an internal audit function by external consultants; \$0.2 million in tax compliance fees related to the re-filing of prior year's US tax returns.

## **Other expenses**

Other expenses include general and office expenses, directors' remuneration, regulatory and other miscellaneous expenses. These expenses have increased \$1.8 million or 108% to \$3.4 million in 2007 from \$1.6 million in 2006 and \$2.5 million in 2005. The 2007 increase is largely a result of costs associated with increased staff levels and loan activities during 2007. Also included in 2007 other expenses is a \$0.3 million non-recurring charge related to sales tax.

## **Provision for income taxes**

For fiscal years 2005 and 2006, the Company recognized a future tax asset based on the likely realization of tax losses which were to be utilized against future taxable earnings. In 2005, a future tax asset (and a reduction in income tax expense) of \$6.5 million was recognized and in 2006 an additional \$8.0 million was recognized. As a result of the recognition of these future tax

assets in 2005 and 2006, net earnings increased by \$6.5 million and \$8.0 million, respectively.

In 2007, net earnings were reduced through the recording of a tax provision as a result of the utilization of the future tax assets set up in 2006 and 2005. The tax assets are comprised of losses carried forward and other tax deductions (see Critical Accounting Policies and Estimates – Future Tax Asset). In 2007, tax assets were reduced and transferred to the provision for taxes on the statements of earnings in the amount of \$11.9 million. The balance of the 2007 provision represents current tax expenses related to the Company’s subsidiaries. In 2008, the future tax asset will be further utilized to reduce taxable income. The set up and utilization of these tax assets are non-cash items.

### Net earnings

For the year ended December 31, 2007, the Company had consolidated net earnings of \$23.7 million (or \$0.16 basic EPS) compared to consolidated net earnings of \$43.7 million (or \$0.32 basic EPS) in 2006 and \$23.6 million (or \$0.23 basic EPS) in 2005. As discussed in the above section on income taxes, much of the decrease in net earnings is attributable to the manner by which income taxes, a non-cash item for the most part, has been accounted for.

### Comprehensive income

At December 31, 2007, the Company has no available for sale assets or liabilities whose fair values differ from their original carrying value. As a result, there is no accumulated other comprehensive income to report as at December 31, 2007. The transition adjustment of \$2.2 million at January 1, 2007 relating to investments was reversed due to dispositions of all of these assets during 2007, resulting in comprehensive income of \$21.4 million.

## FINANCIAL POSITION

**Table 4 - Asset Components**  
(\$ thousands)

Asset mix	2007		2006		2005	
	\$	%	\$	%	\$	%
Cash and cash equivalents	30,484	9%	9,506	3%	33,739	18%
Marketable securities and investments	-	-	11,845	4%	18,062	9%
Loans	277,710	85%	264,902	87%	124,551	66%
Future tax asset	3,916	1%	14,500	5%	6,488	3%
Other	13,634	5%	4,984	1%	6,763	4%
	<u>325,744</u>	<u>100%</u>	<u>305,737</u>	<u>100%</u>	<u>189,603</u>	<u>100%</u>

### Cash, marketable securities and investments

The Company’s cash resources at December 31, 2007 were \$30.5 million as compared to \$9.5 million as at December 31, 2006. Cash and cash equivalents include cash balances with a major Canadian chartered bank, and do not include any investments in commercial paper.

As the Company’s focus is to provide loans, its cash balances will vary depending on the timing of loans advanced and repaid.

As explained elsewhere in this MD&A, the Company disposed of its marketable securities and investments during 2007 in order to attain MIC eligibility.

## Loans

The Company's loan portfolio continued to grow in 2007 to \$277.7 million at year end representing a 5% increase over the previous year's portfolio balance. As at December 31, 2007, 94% of the Company's loan portfolio was comprised of mortgages on real estate, compared to 87% as at December 31, 2006.

As at December 31, 2007, Quest's loan portfolio consisted of 55 loans of which 49 were mortgages secured by real estate and 6 were bridge loans secured by various mining and energy related assets. The following table highlights the evolution of the portfolio by asset type over the last three years:

**Table 5 – Loan Portfolio**  
(\$ thousands)

	2007		2006		2005	
	\$	%	\$	%	\$	%
<b>Principal Outstanding</b>						
<b>Mortgages</b>						
Land under development	151,607	52%	138,181	49%	61,337	49%
Real estate – residential	22,752	8%	5,600	2%	5,091	4%
Real estate – commercial	51,123	18%	80,678	29%	36,152	29%
Construction	54,162	18%	15,590	6%	10,045	8%
<b>Total mortgages</b>	<b>279,644</b>	<b>96%</b>	<b>240,049</b>	<b>86%</b>	<b>112,625</b>	<b>90%</b>
<b>Bridge loans</b>	<b>10,549</b>	<b>4%</b>	<b>38,824</b>	<b>14%</b>	<b>13,278</b>	<b>10%</b>
<b>Total principal outstanding</b>	<b>290,193</b>	<b>100%</b>	<b>278,873</b>	<b>100%</b>	<b>125,903</b>	<b>100%</b>
Prepaid and accrued interest	(8,877)		(9,391)		(981)	
Deferred loan fees and other	(3,606)		(4,580)		(371)	
As recorded on balance sheet	<u>277,710</u>		<u>264,902</u>		<u>124,551</u>	

On a gross basis (including loans syndicated), the Company funded \$328.0 million in loans in 2007, an increase of \$48.8 million or 17% over the gross loans funded of \$279.2 million in 2006. The Company funded (net of syndications) \$250.1 million of loans during 2007 compared to a net of \$255.4 million funded during 2006. As mentioned above, the Company will syndicate a loan, in certain instances, if it does not have sufficient cash resources to fund the entire loan itself or if it wishes to reduce its exposure to a borrower.

The following table illustrates loan continuity on a net basis. The increase in repayments and other in 2007 to \$238.8 million from \$102.4 million in 2006 is due to the short terms of loans offered to borrowers. The Company charges commitment fees each time a loan is funded or renewed, hence the shorter the loan term, the greater the capacity to fund new loans and earn commitment fees.

**Table 6 – Loan Principal Continuity**  
(\$ thousands)

	2007	2006	2005
	\$	\$	\$
Principal balance, beginning of year	278,873	125,903	76,179
Loans funded (net)	250,123	255,373	116,884
Loans repaid and other (net)	(238,803)	(102,403)	(67,160)
Principal balance, end of year	<u>290,193</u>	<u>278,873</u>	<u>125,903</u>

As at December 31, 2007 the portfolio was comprised of 93% first mortgages and 7% second mortgages. In the case of second mortgages, the overall loan to value including Quest's second and others' prior first charges generally do not exceed 75%. The following table outlines Quest's continuing evolution towards concentrating on first mortgages:

**Table 7 - Priority of Mortgage Security Charges<sup>(1)</sup>**  
(\$ thousands)

	2007		2006		2005	
	\$	%	\$	%	\$	%
Principal secured by:						
1 <sup>st</sup> charges	259,344	93%	193,144	80%	75,923	67%
2 <sup>nd</sup> charges	20,300	7%	46,905	20%	36,702	33%
Total mortgages	279,644	100%	240,049	100%	112,625	100%

1. Includes mortgage portion of loan portfolio only.

As at December 31, 2007, the mortgage portfolio is concentrated in western Canada, orientated with loans in British Columbia representing 58% of the portfolio, 34% in Alberta and 8% in Ontario and other. The Company expects that the portfolio will continue to be weighted in favour of western Canada for the near term reflecting in part the economic strength of the region.

The following table indicates the geographical concentration of the Company's mortgages at the stated year ends.

**Table 8 - Geographic Location of Mortgages<sup>(1)</sup>**  
(\$ thousands)

	2007		2006		2005	
	\$	%	\$	%	\$	%
Principal outstanding						
British Columbia	160,986	58%	115,111	48%	56,602	50%
Alberta	94,440	34%	88,913	37%	30,995	28%
Ontario	17,500	6%	31,140	13%	20,198	18%
Other	6,718	2%	4,885	2%	4,830	4%
Total mortgages	279,644	100%	240,049	100%	112,625	100%

1. Includes mortgage portion of loan portfolio only.

Management reviews the loan portfolio's geographical portfolio composition on a regular basis and adjusts its targets to reflect market conditions and company requirements.

### Credit quality and impaired loans

As part of the Company's security, full corporate and/or personal guarantees may be required from the borrower. Where in Quest's opinion the real estate security alone is not as strong as management may require, additional collateral is obtained by way of collateral charges on other real estate owned by the borrower or by letters of credit. Management reviews the portfolio on a regular basis to confirm whether the quality of the underlying security is maintained and that, if credit conditions have deteriorated, suitable action is taken.

As at December 31, 2007, the Company had one non-performing loan in the amount of \$7.5 million on which remedial action has been undertaken. In management's estimate, the underlying security on this loan is of sufficient value to ensure recovery of the Company's investment.

Quest has no exposure to US sub-prime mortgages or to any structured investment vehicles. Quest also has no derivative instruments.

### **Future income taxes and other assets**

The Company has recognized a future tax asset based on the likely realization of tax losses to be utilized against future taxable income. In 2007, the provision for income taxes on the statements of earnings was charged for the amount of this asset, as represented by tax losses carried forward, required to reduce taxable income to nil and transferred the amount of \$11.9 million from future income tax asset to current year tax expense. The Company has also recognized a future tax liability related to its former U.S. based operations.

Other assets at December 31, 2007 include \$12.5 million of restricted cash, of which \$10.5 million was held in trust to fund borrower's future interest payments.

### **Liabilities**

Total liabilities at December 31, 2007 were \$35.1 million as compared to \$31.6 million, as at December 31, 2006 representing an 11% increase. The largest component of total liabilities was the Company's revolving debt facility. At year end, the Company had a \$25.0 million revolving debt facility, which the Company had fully drawn upon. In January 2008, this facility was increased to \$88.0 million. This facility is used to fund loans, as well as to bridge any gap between loan advances and loan repayments.

### **Capital management**

Quest's shareholders' equity as at December 31, 2007 of \$290.6 million is \$16.5 million or 6% greater than that as at December 31, 2006. During 2007, the Company paid out \$13.9 million in dividends, approximately 39% of its earnings before taxes. As discussed above, as a MIC, the Company intends to pay out sufficient dividends in 2008 to reduce taxable income to a negligible amount, after first deducting available losses and other tax deductions carried forward from 2007. The Company's current strategy is to grow through use of leverage and not through further accumulation of earnings. To this effect, as stated above, it has negotiated an increase in its revolving debt facility to \$88 million in early January 2008.

### **Contractual obligations**

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The Company's Calgary office is leased on a month to month basis. The total minimum lease payments for the years 2008 – 2012 are \$2.6 million. As well, the Company has committed to fund loan principal as at December 31, 2007 in the amount of \$98.3 million. The following table illustrates these obligations by period due:

**Table 9 – Contractual obligations**  
(\$ thousands)

Type of Contractual Obligation	Obligation due by period				
	Total	Less than 1 Year	1 - 3 Years	3 – 5 Years	More than 5 Years
Office Leases	\$2,588	\$625	\$1,173	\$790	-
Loan Commitments	98,300	98,300	-	-	-
<b>Total</b>	<b>\$100,888</b>	<b>\$98,925</b>	<b>\$1,173</b>	<b>\$790</b>	<b>-</b>

## OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

## SUMMARY OF QUARTERLY AND FOURTH QUARTER RESULTS

**Table 10 - Summary Of Quarterly Results**  
(\$ thousands, except per share amounts)

	Fourth Qtr 2007	Third Qtr 2007	Second Qtr 2007	First Qtr 2007	Fourth Qtr 2006	Third Qtr 2006	Second Qtr 2006	First Qtr 2006
	\$	\$	\$	\$	\$	\$	\$	\$
Interest and related fees	11,091	10,110	10,106	10,807	10,597	8,781	7,415	5,798
Non-interest income	2,187	1,966	4,014	2,883	1,265	3,368	7,905	5,961
Earnings before taxes	8,156	7,782	10,735	9,315	7,918	9,087	11,664	8,315
Net earnings	3,648	5,264	7,366	7,389	16,021	8,770	10,882	8,028
Basic Earnings Per Share	0.02	0.04	0.05	0.05	0.12	0.06	0.08	0.06
Total Assets	325,744	304,294	295,798	244,025	301,117	280,784	265,614	205,614
Total Liabilities	35,110	13,125	7,487	6,999	36,228	25,036	20,264	11,445

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

Non-interest income varies by quarter depending on the amount of management, advisory, and finder's fees received, marketable securities' trading gains/(losses) and realized gains and write-down of investments. During the second quarter of 2006 and fourth quarter of 2006, net earnings were positively impacted by the recognition of a future tax asset of \$0.8 million and \$7.7 million, respectively, as a result of the likely realization of unused tax losses from future earnings.

### Fourth Quarter

Interest and related fees increased \$0.5 million or 5% to \$11.1 million during the fourth quarter of 2007 as compared to \$10.6 million in the fourth quarter of 2006.

Non-interest income increased \$0.9 million or 73% to \$2.2 million during the fourth quarter of 2007 as compared to \$1.3 million in the fourth quarter of 2006. This increase was due to the sale of all of the Company's marketable securities and investments to enable Quest to become MIC eligible.

Earnings before taxes increased \$0.2 million or 3% to \$8.2 million during the fourth quarter of 2007 as compared to \$7.9 million in the fourth quarter of 2006.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's accounting policies are described in Note 3 of its audited consolidated financial statements as at December 31, 2007 and 2006 and for the years ended December 31, 2007, 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, where required, on impaired loans. Such allowances reflect management's best estimate of the credit losses in the Company's loan portfolio and judgments about economic conditions. This evaluation process involves estimates and judgments, which could change in the near term, and result in a significant change to a recognized allowance.

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

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

### **Future Tax Assets and Liabilities**

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

be realized, it will be recorded in the balance sheet and statement of earnings. The Company has also recognized a future tax liability related to its former U.S. based operations.

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

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. As a result of adopting these new standards, a separate consolidated statement of comprehensive income is presented in the Company’s financial statements, comprised of net earnings and changes in unrealized gains or losses related to available-for-sale investments.

The Company will be adopting four new accounting of pronouncements, namely, Section 3862 “*Financial Instruments – Disclosure*”, Section 3863 “*Financial Instruments – Presentation*”, Section 1535 “*Capital Disclosures*” and Section 3064 “*Goodwill and intangible assets*”. For further details, refer to Note 3 of the Company’s audited consolidated financial statements as at December 31, 2007 and 2006, and for the years ended December 31, 2007, 2006, and 2005.

## **TRANSACTIONS WITH RELATED PARTIES**

The Company’s related party transactions are described in Notes 4 and 12 of its audited consolidated financial statements as at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006 and 2005. Historically, certain directors or officers of Quest joined the boards of companies in which Quest had invested or to which Quest had provided bridge loan financing to ensure Quest’s interests were represented. This strategy resulted in related party transactions. As mentioned above, Quest Securities Corporation and Quest Management Corp. were sold to certain officers and directors of Quest. These transactions were reviewed and approved by a valuation committee of the Board, comprised of three independent directors.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at March 12, 2008, the Company had the following common shares and stock options outstanding:

Common shares	146,789,711
Stock options	11,753,000
<hr/>	
Fully diluted shares outstanding	158,542,711

## **RISKS AND UNCERTAINTIES**

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

### **Risk Management**

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

procedures is the responsibility of senior management and the Board of Directors. The Board directly, or through its committees, reviews and approves these policies and procedures, and monitors their compliance with them through ongoing reporting requirements.

### **Credit Risk Management**

Credit risk is the risk that a borrower will not honour its commitments and a loss to the Company may result. Senior management is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- the employment of qualified and experienced loan originators and underwriters;
- the investigation of the creditworthiness of all borrowers;
- the engagement of qualified independent consultants such as lawyers, quantity surveyors, real estate appraisers and insurance consultants dedicated to protecting the Company's interests;
- the segregation of duties to ensure that a qualified funding manager is satisfied with all due diligence requirements prior to funding; and
- the prompt initiation of recovery procedures for all overdue loans.

The Board of Directors has the responsibility of ensuring that credit risk management is adequate. The Board has delegated much of this responsibility to its Credit Committee, which is comprised of three independent directors. They are provided monthly with a detailed portfolio analysis including a report on all overdue and impaired loans, and meet on a quarterly basis, to review and assess the risk profile of the loan portfolio. The Credit Committee is required to approve all loan applications between \$15 million and \$25 million, and any loan application for amounts greater than \$25 million must be approved by the Board. The Board has delegated approval authority for all loans less than \$15 million to an approval committee comprised of senior management. In addition, the Company does not allow any one loan to exceed 10% of the Company's loan portfolio and restricts lending to any one borrower to 20% or less of the Company's loan portfolio. As at December 31, 2007, the largest loan in the Company's loan portfolio was \$24.1 million (8% of the Company's loan portfolio); this was also the largest aggregate amount owing by any one borrower. The Company continually reviews its policies regarding its lending limits and expects to reduce the aggregate limit available to any one borrower in the view of the expected growth of its loan portfolio.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from making loan advances and receiving loan repayments. The goal of liquidity management is to ensure that adequate cash is available to honour all future loan commitments. As well, effective liquidity management involves determining the timing of such commitments to ensure cash resources are optimally utilized. Quest manages its liquidity risk by monitoring scheduled mortgage fundings and repayments, and whenever necessary, accessing its debt facility to bridge any gaps in loan maturities and funding obligations.

## **Market Risk**

Market risk arises as a result of changes in conditions which affect real estate values. These market changes may be regional or national in nature or may revolve around a specific product type. Risk is incurred if the value of real estate securing the Company's loans falls to a level approaching the loan amounts. Quest is subject to risks in its construction lending business if borrowers are not able to absorb rising costs of labour and materials. In addition, the Company has loaned funds to a number of companies, which funds are used for development including the re-zoning in respect of the relevant project. Any decrease in real estate values may delay the development process and will adversely affect the value of the Company's security. To manage these risks, management ensures that its mortgage origination team is aware of the market conditions that affect each mortgage application and the impact that any changes may have on security for a particular loan. Management and the Board monitor changes in the market on an ongoing basis and adjust the Company's lending practices and policies when necessary to reduce the impact of the above risks.

## **Interest Rate Risk**

Interest rate risk is the risk that a lender's earnings are exposed to volatility as a result of sudden changes in interest rates. This occurs, in most circumstances, when there is a mismatch between the maturity (or re-pricing characteristics) of loans and the liabilities or resources used to fund the loans. Quest has traditionally used equity to fund its loans and therefore has not been exposed to interest rate risk. With the advent of funding loans using its debt facility priced off the bank prime rate, the Company will incur interest rate risk. The Company manages this risk through matching of its lending rate and its borrowing rate and the pricing of certain loans is based upon bank prime rate. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. Quest currently mitigates this risk by lending for short terms, with terms at the inception of the loan varying from six months to two years. The average remaining term of the Company's loan portfolio at December 31, 2007 is less than one year.

## **INTERNAL DISCLOSURE CONTROLS AND PROCEDURES**

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

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

During the preparation of Note 17(f) "Reconciliation to US GAAP" of the Company's 2007 consolidated financial statements, management identified disclosure errors in the calculation of cumulative other comprehensive income. Adjustments were made to comparative figures,

specifically relating to cumulative translation adjustment and adjusted fair value of investments. As a result of these findings, the CEO and CFO have concluded that the Company's disclosure controls and procedures were not wholly effective for the 2006 and 2005 comparative years included in the December 31, 2007 consolidated financial statements.

Throughout 2007, the Company's management has taken appropriate action to remediate disclosure control deficiencies, and as at December 31, 2007, management, including the CEO and CFO, performed an evaluation of the design and operating effectiveness 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 to provide reasonable assurance that the information required to be disclosed by the Company is recorded, processed, summarized and reported using the appropriate forms and within the appropriate time periods.

### **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.

Management recognizes that the effectiveness of internal controls over financial reporting were not wholly effective in previous years, due to disclosure errors in US GAAP reconciling items. However, due to initiatives taken by management to improve its internal control over financial reporting during 2007, the CEO and CFO have concluded that internal control over financial reporting was effective as at December 31, 2007.

### **ECONOMIC OUTLOOK**

Canada's credit markets have entered one of the most uncertain times in recent memory. Interest rates are expected to fall, while credit spreads widen. Global credit markets are in disarray. At the same time, Canada's Western provinces are expected to weather the economic storms better than the Central provinces. These factors are viewed as opportunities by the Company given what management believes is its ability to extend credit quickly and efficiently in its' predominately British Columbia and Alberta niche markets. Quest recognizes, however, that uncertainty can evolve into a rapidly deteriorating credit climate regardless as to the health of underlying economic fundamentals and has resolved to increase its vigilance as to the credit quality of its loans.

The current credit difficulties which large lending institutions are experiencing may lead to more loan applications being presented to Quest for its consideration. This in turn should allow the Company to be more selective about the loans that it chooses to fund. The Company expects to be able to expand its mortgage portfolio, in 2008, through the utilization of its revolving debt facility, with loans which meet the Company's credit and yield criteria.

## **FORWARD LOOKING INFORMATION**

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