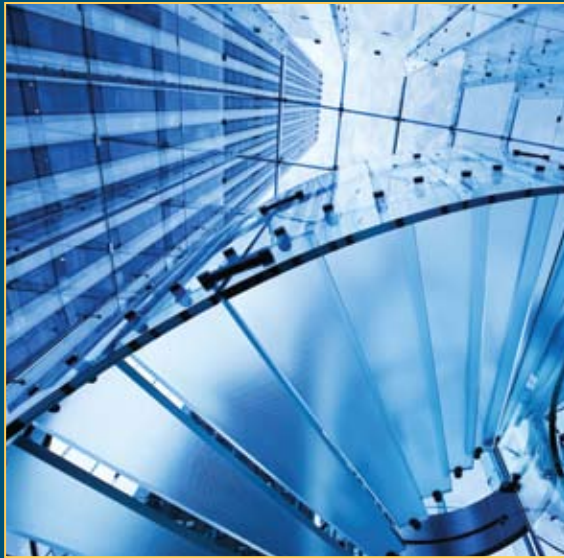


Quest Capital Corp.



ANNUAL REPORT

2008

Highlights

	2008	2007	2006
Interest income	46,819	40,021	30,764
Net income	22,831	23,667	43,701
Earnings per share - diluted	0.16	0.16	0.31
Dividends paid per share	0.160	0.095	0.050
Loans receivable	372,084	277,710	264,902
Loan production - net	179,479	208,392	245,611
Loan production - syndicated	55,800	76,871	16,466
Total assets	384,255	325,744	305,737
Shareholders' equity	290,999	290,634	274,129

(\$ thousands, except per share amounts)

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Letter to Shareholders

Fellow Shareholders:

The past year has been particularly difficult for any company operating on either side of the credit market. As the credit crisis worsened in the latter half of 2008, conventional sources of credit virtually disappeared leaving borrowers with few, if any, options to refinance. Lenders in turn were faced with the challenge of how to get their loans repaid. Compounding matters, property values dropped, precipitously in certain areas of western Canada, and certain companies that were over-levered simply vanished.

Quest finished with a profitable year in earning \$22.8 million (\$0.16 per share) as compared with \$23.7 million (\$0.16 per share) in 2007 and, as a Mortgage Investment Corporation, 2008 earnings were distributed to shareholders as dividends.

Quest's book value remained substantially unchanged at \$1.98 per share representing a total equity position of \$291 million. The Company's debt at year end, consisting of bank debt and preferred shares, was \$91 million, representing a prudent debt to equity ratio of 0.3 to 1. However, in this market environment, any debt may be too much and a principal objective for the current year will be to discharge completely the bank debt of \$51 million.

Quest entered 2008 cautiously with the goal of significantly reducing both its number of second mortgages and its overall exposure to land. While the former was accomplished (currently Quest has only 3% of its portfolio in second mortgages), the latter was not. At the end of 2008, Quest completed a comprehensive review of its loan portfolio, the result of which included the first loan losses realized in several years. Specific losses of \$13.7 million were incurred on a total loan book of \$388 million.

In this uncertain economic climate, Quest continues to reaffirm its fundamental objective - preserving capital.

Thus far in 2009, neither the credit nor real estate market in Canada has demonstrated any indication of material improvement over 2008. As a result, Quest has adopted a number of measures to address these challenging economic times.

- **Quest is committed to discharging its bank debt prior to its scheduled maturity in January 2010.** Quest successfully completed a \$40 million preferred share issuance in December 2008. Proceeds from this offering were used primarily to reduce drawings on the Company's revolving credit facility. Other steps to accelerate the repayment of the Company's bank debt include obtaining the right to pay preferred dividends in common shares at Quest's sole option; not paying a common share dividend March 31, 2009; overhead reductions; and eliminating executive bonuses for 2008.

- **Quest has chosen not to lend into a declining real estate market.** Quest stopped committing to new loans in the real estate market during the fourth quarter of 2008 and decided not to commit to any new loans until both the real estate and credit markets experience greater stability and visibility improves with respect to valuations and loan payouts. Quest has reoriented its internal resources to collection and remediation rather than loan origination.
- **Quest is requesting the repayment of all mortgages on maturity.** If borrowers are unable to repay their obligations, Quest will conduct a thorough review as to how its interests might be best protected. This may include liquidation of the borrower's property or a determination whether the borrower has any additional collateral to further secure the loan. Decisions will be made on a case by case basis.
- **Quest has indefinitely postponed its application for a deposit-taking license.** While a deposit-taking license is an excellent way to fund originations the reality is that the substantial management time that would have been devoted to pursuing this license is better used to monetize Quest's portfolio.

Looking Ahead

Market conditions are challenging and, in the absence of a material recovery in real estate and credit markets, it will likely take several quarters to monetize problem loans. In the meantime, Quest intends to focus on its commitment to preserve capital and maintain the stability of its net tangible book value.

At the time of writing, Quest's shares are trading at more than a 50% discount to its net tangible book value per share. While as a publicly traded financial services company this discount is not unique given the current economic climate, in our opinion this discount is not justified and undervalues Quest. Our commitment to you, the Company's owners, is to act cautiously, seek to collect on the existing loan book and thereby narrow the gap between the trading value of Quest's shares and the net tangible book value per share.

We understand that dividends are an important part of an investment in Quest and we hope to be able to reinstate our common share dividend in the future.

We thank our shareholders for your trust and pledge our full efforts to the execution of this plan.

Yours sincerely,



Brian Bayley
Co-Chairman of the Board

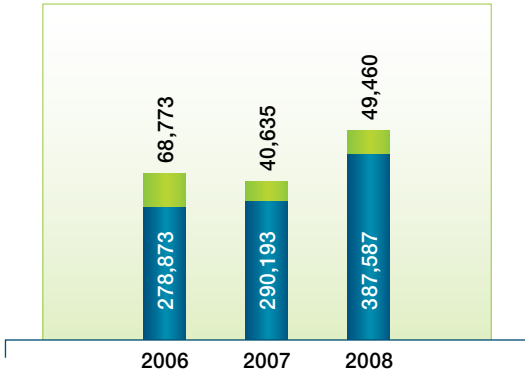


A. Murray Sinclair
Co-Chairman of the Board



Stephen Coffey
*President and
Chief Executive Officer*

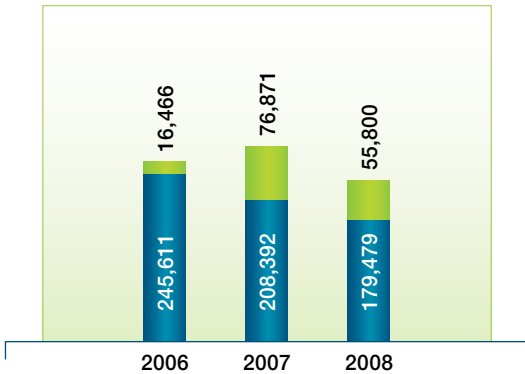
April 16, 2009



Loan Portfolio Principal Outstanding - Net & Syndicated

Our 2008 net loan portfolio principal outstanding has grown 34% since 2007 and 39% since 2006.

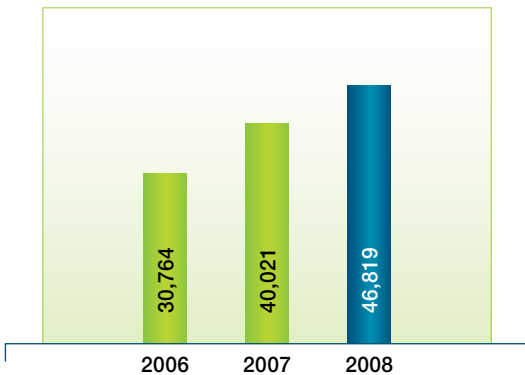
■ Net ■ Syndicated Loans



Loan Production - Net and Syndicated

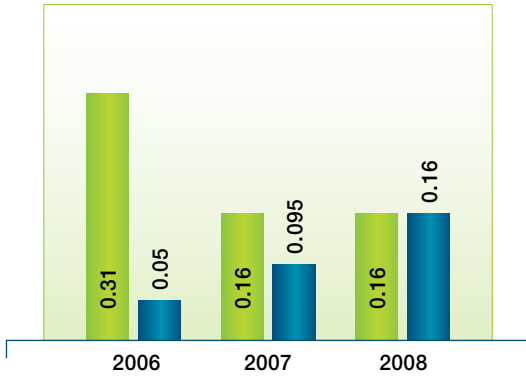
Total 2008 loan production (including syndicated loans) has decreased 18% since 2007 and 10% since 2006.

■ Net ■ Syndicated



Interest Income

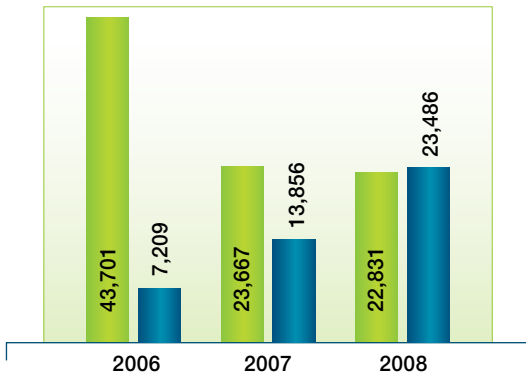
Interest income has increased 17% since 2007 and 52% since 2006.



Earnings Per Share - Diluted and Dividends Paid Per Share

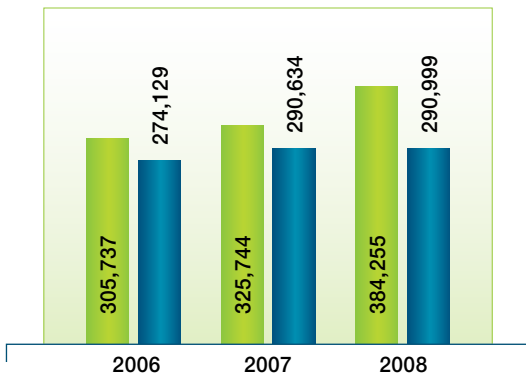
EPS - diluted was \$0.16 in 2008, the same as 2007 and a \$0.15 decrease from 2006.

Our 2008 dividend payout ratio on EPS - diluted increased to 100% in 2008 from 59% in 2007 and 16% in 2006.



Net Income and Dividends Paid

Net income decreased 4% from 2007 and 48% from 2006 while dividends paid in 2008 increased 70% from 2007 and 226% from 2006.



Total Assets and Shareholders' Equity

Our total 2008 assets and shareholders' equity have grown 18% and 0.1% respectively since 2007 and 26% and 6% since 2006.



Management's Discussion and Analysis

For the Year Ended December 31, 2008

INTRODUCTION

The following information, prepared as of March 26, 2009, should be read in conjunction with the audited annual consolidated financial statements of Quest Capital Corp. ("Quest" or the "Company") as at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 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.

BUSINESS PROFILE AND STRATEGY

Quest's primary business focus is to utilize its equity base of \$291 million, augmented by prudent leverage in the form of bank debt, to invest in first mortgages secured by Canadian real estate. The Company also uses, as required, loan syndication and more recently a preferred share issuance as tools to strengthen liquidity while at the same time providing flexibility to improve its balance sheet.

Quest has initiated the reduction of its revolving debt facility and it plans to continue to reduce its outstanding debt on the facility prior to its maturity in January 2010. In December 2008, the Company completed a \$40.0 million preferred share issuance which was primarily used to reduce the revolving debt facility and at that time, the total available amount on the facility was reduced from \$88.0 million to \$70.0 million.

As a mortgage investment corporation ("MIC"), Quest's balance sheet is dominated by residentially oriented loans. In general, a loan is residentially oriented if, at the time the loan is made, greater than 80% of the real estate by which the loan is secured, is, or is intended to be, devoted to residential purposes. This includes loans for the development or financing of single family, apartment, condominium, social housing and nursing/retirement residences. Quest also invests in first mortgages secured by commercial real estate and, to a much lesser extent, in loans to the Canadian resource sector. However, recent events in the credit and real estate markets have resulted in Quest focusing on the collection of its loan portfolio and not the origination of new loans.

The mortgages Quest invests in are generally of a short-term nature with terms of less than two years. Quest's market is predominately in western Canada and Ontario and its borrowers are generally small to medium sized real estate developers. In many instances, these real estate developers require shorter term financing from Quest to bridge them between their acquiring real estate for development and taking their project to a stage whereby they can expect to obtain more traditional financing, at much lower rates, from conventional lenders. Quest charges higher rates than conventional lenders and therefore the borrowers have a compelling incentive to finish that stage of their project during which Quest is the lender.

Quest investigates the underlying business plan for each mortgage it considers financing and determines whether the plan is achievable before proceeding to further due diligence on the mortgage. Critical to the lending process is Quest's determination as to the likelihood of the borrower being able to pay out the loan on maturity. This includes estimating the market value of the project at completion or loan maturity. In most

instances, the borrower requires either take-out financing from a conventional lender to pay out Quest's mortgage or the ability to sell its real estate development to end users. Since the onset of the credit crisis, take-out financing from conventional sources has become more difficult to obtain for many of Quest's borrowers, and real estate sales have slowed considerably. As a result of this, the Company is experiencing delays in repayments and in receiving its interest payments on certain of its loans. As at December 31, 2008, this has led to a significant increase in the number of non-performing loans (loans on which the recording of interest income has ceased) in Quest's portfolio. Deterioration in real estate values in markets where Quest operates has resulted in specific allowances for loan losses of \$13.7 million as at December 31, 2008.

Quest did not originate any new loans in the fourth quarter of 2008 as the receipt of payment from loan maturities which could be used to fund new loans could not be accurately predicted and certain borrowers have been requesting an extension to the maturity date of their loans. Management has determined it is prudent to not commit to new loans in a declining real estate market and instead to reduce the Company's revolving debt facility.

As a result of the increase in impaired and non-performing loans and a decrease in new lending activities, Quest has reduced its mortgage origination staff and has increased staff in its collection and loan remediation areas. Currently, Quest is requesting the repayment of all loans on their maturity. Where this is not possible, Quest works closely with borrowers to extend the maturity for those who are acting in good faith and have a reasonable business plan that demonstrates a viable repayment strategy which includes the pledging of additional collateral where possible. In other circumstances, Quest will proceed with an orderly disposition of the real estate properties securing the impaired loans in order to mitigate loan losses.

In 2008, Quest applied for a deposit taking license from the Office of the Superintendent of Financial Institutions ("OSFI") in order to access alternative sources of funding. Management has reassessed this strategy and has decided to delay indefinitely its application to become a deposit taking institution. Quest's management is focused on managing its current loan portfolio, securing repayment of its impaired loans and implementing cost cutting measures.

As a MIC, Quest is able to reduce its taxable income through the payment of dividends to its common and preferred shareholders. A MIC is a special-purpose corporation defined under Section 130.1 of the *Income Tax Act* (Canada) (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. The Company must continually meet the following criteria to maintain MIC eligibility: (i) at least 50% of its assets must consist of residentially oriented mortgages and/or cash; (ii) it must not directly hold any foreign assets, including investments secured by real property located outside of Canada; (iii) it must not engage in operational activities outside of the business of lending and investing of funds; and (iv) no person may own more than 25% of any class of the issued and outstanding shares.

NON-GAAP MEASURES

Return on equity ("ROE"), return on assets ("ROA") and payout ratio on income before taxes do not have standardized meanings prescribed by GAAP and, therefore, may not be comparable to similar measures

presented by other companies. ROE and ROA are commonly used measures to compare the performance of lenders. The fact that the Company is a MIC is the major reason the Company calculates payout ratio on income before taxes. These non-GAAP measures used in this management's discussion and analysis ("MD&A") are calculated as follows:

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

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

2008 FINANCIAL HIGHLIGHTS

The following table highlights certain aspects of Quest's 2008 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
(\$ thousands, except per share amounts)

	2008	2007	2006	Change from 2007	
				\$	%
Key Performance Indicators					
Net interest income	43,852	39,355	29,384	4,497	11%
Other income	308	11,982	19,042	(11,674)	(97%)
Income before income taxes	21,819	35,988	36,984	(14,169)	(39%)
Net income	22,831	23,667	43,701	(836)	(4%)
Earnings per share – basic ⁽¹⁾	0.16	0.16	0.32	-	-
Earnings per share – diluted ⁽¹⁾	0.16	0.16	0.31	-	-
Return on equity ⁽¹⁾	8%	8%	19%		
Return on assets ⁽¹⁾	6%	7%	17%		
Dividends paid per share	0.16	0.095	0.050	0.065	68%
Payout ratio on income before taxes ⁽¹⁾	108%	39%	19%		
Loans receivable	372,084	277,710	264,902	94,374	34%
Total assets	384,255	325,744	305,737	58,511	18%
Revolving debt facilities	50,153	26,365	22,000	23,788	90%
Preferred share liability	38,724	-	-	38,724	n/a
Total liabilities	93,256	35,110	31,608	58,146	166%
Shareholders' equity	290,999	290,634	274,129	365	0%
Book value per share	1.98	1.98	1.89	0.00	0%
Impaired loans – gross					
outstanding principal	103,106	7,500	13,811	95,606	1,274%
Allowance for loan losses	13,735	-	586	13,735	n/a
Allowance as % of net impaired loans	13%	-	4%		

1. See page 3 for a discussion on non-GAAP measures.

Quest's shareholders' equity has remained at a consistent level of \$291.0 million at December 31, 2008, up marginally from \$290.6 million a year earlier. As a MIC, Quest's retained earnings are not expected to grow.

Quest's debt to equity ratio as at December 31, 2008 is 0.3 to 1 compared to 0.09 to 1 a year earlier. Total assets as a multiple of equity was 1.32 times as at December 31, 2008, up from 1.12 at December 31, 2007. These low ratios should assist the Company in the current economic climate.

Net income decreased \$0.8 million or 4% in 2008 to \$22.8 million as compared to \$23.7 million in 2007 while diluted earnings per share ("EPS") remained at \$0.16 per share compared to 2007. The Company recorded a specific allowance for loan losses of \$13.7 million in 2008 compared to \$nil in 2007.

Quest's total assets have increased \$58.5 million or 18% to \$384.3 million at December 31, 2008 compared to \$325.7 million a year earlier. Performing loans at December 31, 2008 were \$284.5 million compared to \$282.7 million at December 31, 2007, an increase of \$1.8 million or 0.6%. The gross principal outstanding of impaired (non-performing) loans and foreclosed real estate amounted to \$103.1 million at December 31, 2008 compared to \$7.5 million a year earlier. The increase in impaired loans is the result of the restrictive credit environment and declining real estate market values in certain markets.

Net interest income has increased by \$4.5 million or 11% to \$43.9 million in 2008 compared to \$39.4 million in 2007 as a result of the increased mortgage portfolio. Other income has decreased \$11.7 million from \$12.0 million in 2007 to \$0.3 million in 2008 as a result of the cessation of Quest's management and securities operations in December 2007.

No bonuses were awarded to Quest executives for the year ended December 31, 2008 compared to \$2.7 million awarded to executives in 2007.

Quest paid dividends to its common shareholders of \$0.16 per share during 2008, a \$0.065 or 68% increase over the \$0.095 paid in 2007. Total dividends paid in 2008 with other tax deductions were sufficient to offset any taxable income in the Company. A special dividend in the first quarter of 2009 is not required to bring Quest's 2008 taxable income to nil.

DIVIDEND POLICY FOR 2009

Quest's common share dividend policy is guided by its status as a MIC. This status allows the Company to reduce its taxable income to a negligible amount through the payment of dividends to common and preferred shareholders after first utilizing any tax losses and other tax deduction carry forwards. There are \$9.1 million of tax losses carried forward from 2008 which may be utilized in 2009. As a result of its ability to utilize these tax losses, Quest has decided to forego paying a quarterly common share dividend on March 31, 2009 thereby increasing liquidity. The Company currently intends to pay the 2009 dividends on its preferred shares in common shares of Quest. These preferred share dividends are cumulative and serve to reduce Quest's taxable income. The Company will monitor its 2009 taxable position and liquidity closely to determine if and when a common share dividend will be paid. Quest's taxable income in 2009 will be subject to many factors, not least of which is the amount of any additional specific loan loss provisions the Company might incur and any reduction in recording interest income as a result of any increase in impaired loans.

OUTLOOK

Many of Quest's borrowers require take-out financing from another lender in order to repay their mortgages. The success of this is contingent for the most part on an efficient credit market and a healthy real estate market in which Quest operates. It is likely that in 2009 there will be further instances of loans becoming impaired in the form of non-performing mortgages and the ceasing of interest income being recorded on these loans. It is also likely that certain previously impaired loans will be cured and that unrecorded interest will then be recorded as income.

In the view of management, Quest shareholders will best be served in 2009 by protecting the Company's balance sheet position and further preserving its capital to deal with continued economic turmoil. An increased emphasis on collections and loan remediation should assist in monetizing the current mortgage portfolio in order to reduce the revolving debt facility. Management may also further utilize its financial tools of loan syndication or the issue of preferred shares to increase liquidity and reduce debt. Quest is focused on further strengthening its balance sheet and liquidity in 2009 as further outlined under the "Liquidity Risk" section herein.

Quest's problem loan solving abilities will be put to the test in the upcoming year. There will very likely be further loan losses but the Company has sufficient capital to absorb these losses. Quest has chosen to delay indefinitely its application to become a deposit-taking institution. In 2009, the Company will concentrate on curing its impaired loans, reducing existing debt, expense reductions and preserving capital.

RESULTS OF OPERATIONS

Table 2 - Condensed Income Statement
(\$ thousands)

	2008		2007		2006	
	\$	%	\$	%	\$	%
Interest, other income, interest expense and provision for loan losses						
Interest and related fees	46,819	154	40,021	78	30,764	64
Non-interest or other income	308	1	11,982	23	19,042	40
Interest expense	(2,967)	(10)	(666)	(1)	(1,380)	(3)
Provision for loan losses	(13,735)	(45)	-	-	(238)	(1)
	30,425	100	51,337	100	48,188	100
Expenses						
Salaries and benefits	3,070	36	5,042	33	2,889	26
Bonuses	50	0	2,895	19	4,241	38
Stock-based compensation	1,020	12	1,085	7	521	4
Legal and professional services	1,348	16	2,904	19	1,908	17
Resource asset related expenses (recoveries)	481	5	61	-	(142)	(1)
Other	2,637	31	3,362	22	1,787	16
	8,606	100	15,349	100	11,204	100
Income before income taxes	21,819		35,988		36,984	
Income tax (recovery) expense	(1,012)		12,321		(6,717)	
Net income	22,831		23,667		43,701	

Interest and related fees

Interest and related fees increased by \$6.8 million or 17% to \$46.8 million for 2008 as compared to \$40.0 million in 2007 with a further comparison to \$30.8 million in 2006. This increase was largely due to greater average loan balances in 2008 as compared to 2007. Measured on a quarterly basis, the average outstanding loan portfolio was \$339 million in 2008, an \$80 million or 31% increase over the \$259 million average balance outstanding in 2007. Based on these average outstanding portfolio balances, interest and related fee yields were 14% in 2008 compared to 15% in 2007. This decrease may be attributed primarily to an increase in non-performing loans and the ceasing of recording interest income on these loans.

Non-interest or other income

The Company's non-interest or other income in prior years largely related to gains on 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 December 2007 in part to attain MIC eligibility. Only loan syndication operations continued into 2008. Consequently, other income in 2008 decreased \$11.7 million or 97% to \$0.3 million from \$12.0 million in 2007. Other income amounted to \$19.0 million in 2006.

Interest expense

Interest expense relates to interest on Quest's revolving debt facility and will include dividends on its cumulative preferred shares in 2009. The utilization of the \$88 million facility during 2008 to fund loans increased interest expense \$2.3 million to \$3.0 million in 2008 from \$0.7 million in 2007. The facility bears interest based upon bank prime rate plus a spread. The Company decreased the available amount of its revolving debt facility to \$70 million at December 31, 2008 from the \$88 million it had arranged in January 2008.

Provision for loan losses

Quest has recorded \$13.7 million in specific provisions for loan losses in 2008 as compared to \$nil in 2007. The loan losses are primarily a result of the deterioration of the credit markets and a reduction in the property values held as collateral in certain markets in which the Company operates. The Company undertook an analysis of all of its loans as at December 31, 2008 and estimated on a loan by loan basis any requirement for a specific provision for loan losses. As a result of this detailed analysis, management believes there is no need for a general allowance for loan losses.

In establishing the Company's specific provision for loan losses, management must estimate the net realizable value of properties taken as security on loans. This is outlined in greater detail in the section entitled "Credit Quality and Impaired Loans". The use of independent appraisals and the process by which management estimates the value of security is subject to significant measurement uncertainty, especially in current volatile economic times. There may be significant differences between management's best estimate of the value of real estate or other assets securing a loan for the purposes of establishing a specific provision for loan losses and the ultimate value realized on that security.

Salaries and bonuses

Salaries and benefits decreased \$1.9 million or 38% to \$3.1 million in 2008 compared to \$5.0 million in 2007. In 2006, salaries and benefits totaled \$2.9 million. The reduction between 2007 and 2008 is largely the result of the Company ceasing its management and corporate finance services operations at the end of 2007. The number of employees, in Quest's lending business, as at December 31, 2008 was 25 compared to 21 as at December 31, 2007. 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 were recorded in 2007 relating to these terminations.

Bonus expense decreased \$2.8 million or 98% to \$0.05 million in 2008 compared to \$2.9 million in 2007. As a result of the Company's performance during the fourth quarter of 2008, no discretionary bonuses have been awarded to senior executives and any accruals recorded prior to the fourth quarter of 2008 have been reversed. Only bonuses to administrative staff have been accrued at December 31, 2008. Bonuses for the year ended December 31, 2007 were \$2.9 million compared to \$4.2 million in 2006. Bonuses represent amounts under the Company's discretionary 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 decreased \$0.1 million or 6% in 2008 to \$1.0 million as compared to \$1.1 million in 2007. In 2006, stock compensation amounted to \$0.5 million, \$0.6 million less than in 2007. In 2008, 2,455,000 options were granted to employees and directors and 7,733,336 options expired or were cancelled. In 2007, the number of options granted was 2,855,000 and 400,000 options expired. The expense related to options is recorded on a straight line basis over the expected vesting term of the option (usually three years).

Legal and professional fees

Legal and professional fees decreased \$1.6 million or 54% to \$1.3 million in 2008 as compared to \$2.9 million in 2007 with a further comparison to \$1.9 million in 2006. The decrease is primarily due to fewer advisory services being required in 2008 as compared to 2007. In 2007 there were non-recurring advisory expenses related to tax planning and advisory fees with respect to the Company's conversion to a MIC, Sarbanes-Oxley Act ("SOX") legislation compliance, including the provision of an internal audit function by external consultants and tax compliance fees related to the re-filing of prior years US tax returns. In 2008, Quest employed an internal auditor to assist in SOX compliance, which expense is included in salaries.

Resource asset related expenses

These expenses relate to the costs to fund reclamation and closure obligations at the Castle Mountain property and are over and above the amounts set aside in the asset retirement obligation ("ARO") account. The increase of \$0.4 million in expense in 2008 to \$0.5 million as compared to \$0.1 million in 2007 was primarily due to the required cost of drilling an additional water well for testing purposes. There was an expense recovery of \$0.1 million in 2006.

Other expenses

Other expenses include general and office expenses, directors' remuneration, regulatory and other miscellaneous expenses. These expenses have decreased \$0.7 million or 22% to \$2.6 million in 2008 from \$3.4 million in 2007 with a further comparison to \$1.8 million in 2006. The decrease in 2008 from 2007 is largely a result of cost containment and fewer non-recurring charges in 2008.

Provision for income taxes

The year 2008 was Quest's first as a MIC. The provision for income taxes in the statement of income reflects the deduction from taxable income of dividends paid during the year resulting in a corresponding low tax charge. A tax recovery of \$1.0 million has been recorded in 2008 as a result of Quest paying more dividends than its taxable income. For fiscal years 2007 and 2006, the Company was not a MIC and was not able to deduct dividends paid from taxable income and consequently the tax expense of those years is much higher than in 2008.

Net income

For the year ended December 31, 2008, the Company had net income of \$22.8 million (or \$0.16 EPS - diluted) compared to net income of \$23.7 million (or \$0.16 EPS - diluted) in 2007 and \$43.7 million (or \$0.31 EPS - diluted) in 2006.

Comprehensive income

At December 31, 2008 and 2007, the Company had no available-for-sale assets or liabilities whose fair values differ from their original carrying value. As a result, there is no accumulated other comprehensive income to report for the year ended December 31, 2008. Consequently comprehensive income is \$22.8 million in 2008, the same as net income. In 2007 the transition adjustment of \$2.2 million at January 1, 2007 relating to investments was realized due to dispositions of all of these assets during 2007, resulting in 2007 comprehensive income of \$21.4 million.

FINANCIAL POSITION

Table 3 - Asset Components

(\$ thousands)

Asset mix	2008		2007		2006	
	\$	%	\$	%	\$	%
Cash deposits	1,621	1%	30,484	9%	9,506	3%
Marketable securities and investments	-	-	-	-	11,845	4%
Loans	372,084	97%	277,710	85%	264,902	87%
Future income tax asset	4,944	1%	3,916	1%	14,500	5%
Other	5,606	1%	13,634	5%	4,984	1%
	384,255	100%	325,744	100%	305,737	100%

Cash, marketable securities and investments

The Company's cash resources at December 31, 2008 were \$1.6 million as compared to \$30.5 million as at December 31, 2007. Cash deposits include cash balances with major Canadian chartered banks. The Company's cash balances will vary depending on the timing of loans advanced and repaid. Quest attempts to maintain a low cash deposit equivalent balance when it has drawn on its revolving debt facility.

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

Loans

The Company's loan portfolio continued to grow in 2008 to \$372.1 million at year end representing a \$94.4 million or 34% increase over the previous year's portfolio balance of \$277.7 million. The increase was accomplished primarily through the utilization of the Company's revolving debt facility and its opening cash position. As at December 31, 2008, 99% of the Company's loan portfolio was comprised of mortgages on real estate, compared to 96% as at December 31, 2007.

As at December 31, 2008, Quest's loan portfolio consisted of 57 loans of which 53 were mortgages secured by real estate and 4 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 4 – Loan Portfolio
(\$ thousands)

	2008		2007		2006	
	\$	%	\$	%	\$	%
Principal Outstanding						
Mortgages						
Land under development	172,076	45%	151,607	52%	138,181	49%
Real estate – residential	35,954	9%	22,752	8%	5,600	2%
Real estate – commercial	64,784	17%	51,123	18%	80,678	29%
Construction	109,667	28%	54,162	18%	15,590	6%
Total mortgages	382,481	99%	279,644	96%	240,049	86%
Bridge loans	5,106	1%	10,549	4%	38,824	14%
Total principal outstanding	387,587	100%	290,193	100%	278,873	100%
Prepaid and accrued interest, net	952		(8,877)		(9,391)	
Deferred loan fees and other, net	(2,720)		(3,606)		(3,994)	
Allowance for loan losses	(13,735)		-		(586)	
As recorded on balance sheet	372,084		277,710		264,902	

On a gross basis (including loans syndicated), the Company funded \$329.7 million in loans in 2008, an increase of \$1.7 million or 0.5% over the gross loans funded of \$328.0 million in 2007. The Company funded (net of syndications) \$ 270.6 million of loans during 2008, an increase of \$20.5 million or 8% compared to a net of \$250.1 million funded during 2007. 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 decrease in repayments and other in 2008 to \$173.2 million from \$238.8 million in 2007 is due, in part, to certain loans not being repaid at their 2008 maturity dates as a result of certain borrowers' inability to obtain alternative financing to make these payments. This is also a contributing factor in the increase in impaired loans as at December 31, 2008.

Table 5 – Loan Principal Continuity
(\$ thousands)

	2008	2007	2006
	\$	\$	\$
Principal balance, beginning of year	290,193	278,873	125,903
Loans funded (net)	270,637	250,123	255,373
Loans repaid and other (net)	(173,243)	(238,803)	(102,403)
Principal balance, end of year	387,587	290,193	278,873
Loan renewals included in both loans funded and repaid	91,158	41,731	9,762

Loans repaid and other net of loan renewals in 2008 amounted to \$82.1 million compared to \$197.1 million in 2007, a decrease of \$115.0 million. This decrease in repayments is indicative of Quest's borrowers being unable to procure alternative financing and of the build up of loans which may become past due and/or impaired.

Quest made no new loan commitments in the fourth quarter of 2008. This course was taken due to increasing uncertainty surrounding the repayment of loans on maturity. Without this certainty, it was deemed prudent to not commit to new loans in a declining real estate market and to reduce the Company's revolving debt facility.

As at December 31, 2008, the portfolio was comprised of 97% first mortgages and 3% second mortgages. The following table outlines Quest's continuing evolution towards concentrating on first mortgages:

Table 6 - Priority of Mortgage Security Charges⁽¹⁾

(\$ thousands)

Principal secured by:	2008		2007		2006	
	\$	%	\$	%	\$	%
1st charges	369,647	97%	259,344	93%	193,144	80%
2nd charges	12,834	3%	20,300	7%	46,905	20%
Total mortgages	382,481	100%	279,644	100%	240,049	100%

1. Includes mortgage portion of loan portfolio only.

As at December 31, 2008, the mortgage portfolio was concentrated in western Canada, with loans in British Columbia representing 40% of the portfolio, 48% in the Prairies (primarily Alberta) and 12% in Ontario. The Company expects that the portfolio will continue to be weighted in favour of western Canada for the near term.

The following table indicates the geographic location of the Company's mortgages at the stated year ends.

Table 7 – Geographic Location of Mortgages⁽¹⁾

(\$ thousands)

Principal outstanding:	2008		2007		2006	
	\$	%	\$	%	\$	%
British Columbia	151,096	40%	160,986	58%	115,111	48%
Prairies	183,217	48%	101,158	36%	93,798	39%
Ontario	48,168	12%	17,500	6%	31,140	13%
Total mortgages	382,481	100%	279,644	100%	240,049	100%

1. Includes mortgage portion of loan portfolio only.

Credit quality and impaired loans

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

As at December 31, 2008, Quest had four loans totaling \$41.9 million which were classified as Past Due Loans that are not Impaired. One loan for \$5.3 million which was past its due date was repaid in full subsequent to year end. The other three loans (\$36.6 million) which were past maturity have been renewed subsequent to year end and are performing. These loans are not classified as impaired because they are less than 90 days past due and are fully secured and there is reasonable assurance of collection of principal and accrued interest.

As at December 31, 2008, the Company had fourteen non-performing loans in the amount of \$103.7 million (2007 - \$7.5 million) on which remedial action has been undertaken. On ten of these loans totaling \$56.5 million, the Company has provided aggregate specific reserves for credit losses of \$13.7 million. For the remaining four impaired loans, totaling \$47.2 million, management has not provided for any specific loan losses as the estimated net realizable value of the collateral securing the loans is in excess of the carrying value of the impaired loans.

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

Quest has fourteen loans which are classified as impaired of which ten have a specific loan loss provision. The geographic concentration of these loans is as follows:

- The Okanagan region of British Columbia: Quest has three impaired loans in this area, which are primarily land loans awaiting re-development amounting to \$31.6 million and has made specific provisions for loan losses of \$4.8 million related to estimated losses on these loans.
- Edmonton, Alberta and the surrounding area: Quest had loans on two condominium conversion projects in Edmonton which it has foreclosed on and has an estimated loss of \$2.5 million. It also has a loan in Grande Prairie and one northeast of Edmonton where estimated values have decreased to below the carrying value of these loans. The provision for specific losses on these two land loans amounts to \$2.3 million. Quest also has a loan secured by resource assets in Alberta where the discounted expected net realizable value of the assets is less than their carrying value and on which a specific loan loss provision of \$1.3 million has been recorded. The gross principal outstanding of all of these loans prior to loan losses is \$16.8 million.
- Quest has a loan (a second mortgage) with a carrying value of \$7.6 million on a residential development property in Oakville, Ontario which has been in power of sale proceedings for over one year. There have been two failed sales transactions for the property and it continues to be the subject of litigation. As a result of a deterioration of property values brought on by the current economic recession, the specific

provision for losses on this loan has increased from \$nil at December 31, 2007 to \$2.9 million at December 31, 2008. Subsequent to December 31, 2008, Quest bought out the \$3.8 million first mortgage on this property to protect its overall investment.

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

Future income taxes and other assets

The Company has recognized a future tax asset based on the likely utilization of tax losses and other deductions against future taxable income. In 2008, the future income tax asset increased \$1.0 million to \$4.9 million at December 31 compared to \$3.9 million at December 31, 2007. This increase is a result of recognizing the tax benefits of increased non-capital losses in 2008 as compared to 2007. The balance of non-capital losses carried forward at December 31, 2008 is \$9.1 million, up \$2.4 million from the \$6.7 million at December 31, 2007 primarily as a result of the Company paying out 108% of its income before taxes in dividends, thus creating new non-capital losses to be used in future years. The Company has also recognized a future tax liability related to its former U.S. based operations.

Other assets at December 31, 2008 includes \$4 million of restricted cash, of which \$2.3 million was held in trust to fund borrowers' future interest payments as compared to \$12.5 million and \$10.5 million respectively at December 31, 2007.

Liabilities

Total liabilities at December 31, 2008 were \$93.3 million as compared to \$35.1 million, as at December 31, 2007 representing a \$58.2 million or 166% increase. The largest components of total liabilities were the Company's revolving debt facility and preferred share liability. At year end, the Company had an authorized \$70.0 million revolving debt facility, upon which the Company had drawn \$50.9 million. This facility is used to fund loans, as well as to bridge any gap between loan advances and loan repayments. In December 2008, the Company raised \$40 million in a 13.5% cumulative preferred share private placement for liquidity purposes and to pay down its revolving debt facility. The redeemable and retractable preferred shares are classified as liabilities under GAAP. They may not be redeemed or retracted without the permission of the Company's bankers prior to January 2010. They are required to be redeemed by December 31, 2010.

Capital management

Quest's shareholders' equity has increased \$0.4 million to \$291.0 million as at December 31, 2008 compared to \$290.6 million at December 31, 2007. During 2008, the Company paid out \$23.5 million in dividends, approximately 108% of its earnings before taxes. As discussed above, as a MIC, the Company intends to pay out sufficient dividends to reduce taxable income to a negligible amount. The Company paid out more dividends than were required in 2008.

In anticipation of its revolving debt facility maturity in January 2010, the Company decreased available borrowings on the revolving debt facility to \$70 million from \$88 million in December 2008. Further information on the impact on the Company's capital resources is discussed in the "Liquidity Risk" section herein.

Contractual obligations

The Company has contractual obligations for its leased office space in Vancouver and Toronto. The total minimum lease payments for the years 2009 – 2013 are \$2.1 million. As well, the Company has committed to fund loan principal as at December 31, 2008 in the amount of \$46.3 million. The following table illustrates these obligations due by period:

Table 8 – Contractual obligations
(\$ thousands)

Type of Contractual Obligation	Obligation due by period				
	Total	Less than 1 Year	1 - 3 Years	4 – 5 Years	After 5 Years
Office Leases and other	\$2,136	\$680	\$1,431	\$25	-
Loan Commitments	46,317	37,654	8,663	-	-
Total	\$48,453	\$38,334	\$10,094	\$25	-

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off balance sheet arrangements.

SUMMARY OF QUARTERLY AND FOURTH QUARTER RESULTS

Table 9 - Summary of quarterly results
(\$ thousands, except per share amounts)

	Fourth Qtr 2008	Third Qtr 2008	Second Qtr 2008	First Qtr 2008	Fourth Qtr 2007	Third Qtr 2007	Second Qtr 2007	First Qtr 2007
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	11,592	12,547	11,549	11,131	11,133	9,497	9,356	10,124
Other income	30	44	114	120	2,360	2,165	4,336	3,205
Provision for loan losses	10,685	2,600	246	204	-	-	-	-
(Loss) income before taxes	(380)	6,662	8,053	7,484	8,156	7,782	10,735	9,315
Net income	1,848	6,358	7,526	7,099	3,648	5,264	7,366	7,389
Earnings Per Share								
- Basic	0.01	0.04	0.05	0.05	0.02	0.04	0.05	0.05
Earnings Per Share								
- Diluted	0.01	0.04	0.05	0.05	0.02	0.04	0.05	0.05
Total Assets	384,255	381,722	366,539	342,491	325,744	304,294	295,798	294,025
Total Liabilities	93,256	86,211	71,015	48,156	35,110	13,125	7,487	6,999

As a result of the increase in non-performing loans on which the recording of interest income has ceased, the Company's interest income has decreased in the fourth quarter from the third quarter 2008. Prior to the fourth quarter 2008 interest income had generally continued to increase on a quarterly basis as the Company's loan portfolio had grown.

Other income has decreased in 2008 compared to 2007 as a result of the Company divesting its management and corporate finance services operations in December 2007.

Fourth Quarter

Interest income increased \$0.5 million or 4% to \$11.6 million during the fourth quarter of 2008 as compared to \$11.1 million in the fourth quarter of 2007.

Other income decreased \$2.3 million or 99% to \$0.01 million during the fourth quarter of 2008 as compared to \$2.4 million in the fourth quarter of 2007. This decrease was due to the sale of all of the Company's remaining marketable securities and investments in December 2007 to enable Quest to become eligible to be a MIC.

Income before taxes decreased \$8.5 million or 105% to a \$0.4 million loss during the fourth quarter of 2008 as compared to positive earnings of \$8.2 million in the fourth quarter of 2007 primarily as a result of a fourth quarter 2008 provision for loan losses of \$10.7 million compared to \$nil in the fourth quarter of 2007.

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, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006. Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in the preparation of its consolidated financial statements and the uncertainties which could materially impact its results, financial condition and cash flows. Management continually evaluates its assumptions and estimates; however, actual results could differ materially from these assumptions and estimates.

Allowance for loan losses

Loans are stated net of an allowance for loan 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. As discussed at greater length in the sections entitled "Provision for loan losses" and "Credit quality and impaired loans", this evaluation process involves estimates and judgments, which could change in the near term, and result in a significant change to a recognized allowance.

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

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

Commencing in 2008, the Company had established a general allowance for loan losses to provide for unknown but probable losses in the loan portfolio. As a result of a full-portfolio analysis carried out by the Company on its loan portfolio as at December 31, 2008 and the resulting provision for specific loan losses on any loan requiring these, management concluded that there was no need for a general allowance for loan losses as at December 31, 2008.

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, 2008, the Company adopted the CICA handbook section 1535, "Capital Disclosures", which requires an entity to disclose its objectives, policies, and processes for managing capital. In addition, this section requires disclosure of summary quantitative information about what an entity manages as capital; see note 16 to the consolidated financial statements for the year ended December 31, 2008.

Effective January 1, 2008, the Company has adopted the CICA handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation". These sections replace CICA handbook section 3861 "Financial Instruments – Disclosure and Presentation", and enhance disclosure requirements on the nature and extent of risks arising from financial instruments and how the entity manages those risks; see notes 14, 15 and 16 to the consolidated financial statements for the year ended December 31, 2008. Also, refer to "risk and uncertainties" section of this MD&A.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards ("IFRS") over a transition period effective for fiscal periods beginning on or after January 1, 2011. Management has established a changeover plan to adopt IFRS on January 1, 2011. An implementation team has been created and management has engaged a third-party advisor to assist. Management has not yet started the process of assessing accounting policy choices and elections that are allowed under IFRS. Management is also assessing the impact of the conversion on Quest's business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. Management will continually review and adjust its implementation process to ensure the plan and goals are met.

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, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006. The major related party transactions of 2008 involved administration services charged to and by a party related by virtue of having certain directors and officers in common. In prior years, 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 a number of related party transactions. As mentioned above, Quest Securities Corporation and Quest Management Corp.

were sold to certain officers and directors of Quest at the end of 2007. 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 26, 2009, the Company had the following common shares and stock options outstanding:

Common shares	148,194,473
Stock options	5,068,413
Fully diluted shares outstanding	153,262,886

As at March 26, 2009, there were no in the money stock options.

As at March 26, 2009, the Company had 20,000,000 first preferred shares Series A outstanding.

RISKS AND UNCERTAINTIES

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

Risk Management

The success of Quest is dependent upon its ability to assess and manage all forms of risk that affect its operations. Like other lending 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 compliance through ongoing reporting requirements. A description of the Company's most prominent risks follows.

Credit Risk Management

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

Senior management is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- emphasis on first mortgage financings;
- emphasis on borrowers' experience;
- local and regional diversification of mortgages;

- diversification of the loan portfolio by asset type;
- the investigation of the creditworthiness of all borrowers;
- the employment of qualified and experienced loan originators and underwriters;
- the engagement of qualified independent consultants and advisors such as lawyers, quantity surveyors, real estate appraisers and insurance consultants dedicated to protecting the Company's interests;
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding; and
- the prompt initiation of recovery procedures on 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 applications for loans between \$15 million and \$25 million, and any loan application for amounts greater than \$25 million must be approved by the Board. The Board has delegated approval authority for all loans less than \$15 million to an approval committee comprised of members of senior management. In addition, the Company does not allow any one loan to exceed 10% of the Company's equity and restricts lending to any one borrower to 20% or less of the Company's equity. As at December 31, 2008, the largest loan in the Company's loan portfolio was \$29 million (7% of the Company's loan portfolio) and was not impaired. This was also the largest aggregate amount owing by any one borrower. Also, the Company will syndicate loans in certain circumstances if it wishes to reduce its exposure to a borrower. The Company reviews its policies regarding its lending limits on an ongoing basis.

Liquidity Risk

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

As at December 31, 2008, the Company had drawn \$50.8 million on its \$70.0 million revolving debt facility and had future loan commitments to borrowers of up to \$46.3 million. Future loan commitments are primarily for construction draws which occur over the course of the term of the relevant loan which is typically 12 to 18 months in duration. Further, as at December 31, 2008, 76% of the Company's loan portfolio, or \$296 million, was due within a year. With the current economic climate, the ability to accurately forecast actual repayments on the Company's loan portfolio has become difficult.

Due to the current adverse economic climate which is impacting real estate prices and the timing of take-out financing for certain loans in the Company's portfolio, the Company issued a preference share offering and renegotiated certain terms of its revolving debt facility which reduced its debt facility prior to year-end. There is a risk that a further deterioration of the credit worthiness of loans in the Company's portfolio could adversely impact the Company's ability to meet one of its revolving debt facility covenants related to annualized income. The Company does not anticipate any non-compliance with its other covenants, namely minimum equity, interest coverage and tangible assets to debt. Management is negotiating amendments to its revolving debt facility covenants and anticipates that a new loan agreement will be in place during the second quarter of 2009. Management expects the amendments will increase its borrowing costs.

Management monitors rolling forecasts of the Company's cash position based on the timing of expected cash flows, which incorporates assumptions related to the likely timing of loan repayments. In addition, the Company has initiated a number of procedures to assist in its liquidity management including:

- restricting loan advances to existing lending obligations and protective disbursements and not committing to any new loans prior to repaying the revolving debt facility in full;
- syndication of existing loans using an A/B priority structure whereby Quest will hold the B portion;
- negotiating with the preferred shareholders to allow the Company the option of making their dividend payments in common shares of the Company.

As a result of these initiatives, it is management's opinion that the Company has sufficient resources to meet its current cash flow requirements.

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that a lender's earnings are exposed to volatility as a result of sudden changes in interest rates. This occurs, in most circumstances, when there is a mismatch between the maturity (or re-pricing characteristics) of loans and the liabilities or resources used to fund the loans. For loans funded

using bank debt priced on the basis of bank prime rate plus a spread, the Company manages this risk through the pricing of certain of its loans also being based upon the bank prime rate plus a spread. In addition, the Company will, in some cases, have minimum rates or an interest rate floor in its variable rate loans. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. Quest currently mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to two years, and by charging prepayment penalties and upfront commitment fees.

As at December 31, 2008, the Company had 7 variable-rate loans priced off the bank prime rate with an aggregate principal of \$50.2 million and 50 fixed-rate loans with an aggregate principal of \$337.4 million.

INTERNAL DISCLOSURE CONTROLS AND PROCEDURES

Changes in Internal Disclosure Controls and Procedures

There were no changes in the Company's internal disclosure controls and procedures that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to affect, the Company's internal disclosure controls and procedures or internal controls over financial reporting.

Effective March 17, 2008 Stephen Coffey was appointed Chief Executive Officer ("CEO") of the Company replacing Brian Bayley who remains as Co-Chairman. Effective May 9, 2008 James Grosdanis was appointed Chief Financial Officer ("CFO") of the Company replacing the previous CFO. There were no other changes during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Internal Disclosure Controls and Procedures

The CEO and CFO are responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's filings under applicable securities legislation is properly accumulated and communicated to management, including the CEO and CFO as appropriate, to allow timely decisions regarding public disclosure. They are designed to provide reasonable assurance that all information required to be disclosed in these filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. In addition, the Company's Audit Committee, on behalf of the Board of Directors, performs an oversight role with respect to all public financial disclosures made by the Company and has reviewed and approved this MD&A and the accompanying consolidated financial statements. The Company reviews its disclosure controls and procedures; however, it cannot provide an absolute level of assurance because of the inherent limitations in control systems to prevent or detect all misstatements due to error or fraud.

Internal Control over Financial Reporting

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

The Company reviews its controls and procedures over financial reporting. However, because of the inherent limitations in a control system, any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements.

ECONOMIC OUTLOOK

Many economic observers have noted that the fourth quarter of 2008 and the first quarter of 2009 have been unprecedented in terms of world-wide stock market volatility, central government incursions into the economy and downward asset revaluations. The Canadian experience to date has been somewhat better than the United States for various reasons, but historically, Canada has usually demonstrated similar, if not harsher, results to those of our neighbour to the south.

It is presently uncertain if Canada can weather the economic recession of the next 12 months better than the United States. The Bank of Canada has predicted a very deep, but short, recession. Short term interest rates have been decreased to all-time lows and announced stimulus packages have been of great magnitude in an effort to grease the credit channels and kick-start the continental economy out of the financial morass it finds itself in.

Quest must deal with this economic storm in 2009 and is modifying its operations to do so. An increased emphasis on collections and loan remediation should assist in monetizing the current mortgage portfolio. Quest's mortgage portfolio is concentrated in western Canada. The western Canadian economy is dependent upon current commodity prices, but to an even greater degree on the outlook for these commodity prices. Currently, this outlook is clouded.

FORWARD-LOOKING INFORMATION

This MD&A includes certain statements that constitute “forward-looking statements”, and “forward-looking information” within the meaning of applicable securities laws (“forward-looking statements” and “forward-looking information” are collectively referred to as “forward-looking statements”, unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations of our officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as “believe”, “anticipate”, “estimate”, “project”, “intend”, “expect”, “may”, “will”, “plan”, “should”, “would”, “contemplate”, “possible”, “attempts”, “seeks” and similar expressions are intended to identify these forward-looking statements. Forward-looking statements may relate to the Company’s future outlook and anticipated events or results and may include statements regarding the Company’s future financial position, business strategy, budgets, litigation, projected costs, financial results, taxes, plans and objectives. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities that could cause our actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Material risk factors which could cause actual results to differ materially include those disclosed herein under “Risks and Uncertainties”. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions. Forward-looking statements speak only as of the date those

statements are made. Except as required by applicable law, we assume no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If we update any one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. You should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.

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.

Management's Report on Internal Control over Financial Reporting

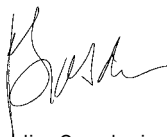
The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. Management used the Committee of Sponsoring Organizations 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, 2008.

Based on the Company's management's assessment, there were no material weaknesses in the Company's internal control over financial reporting as of December 31, 2008.

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, 2008, have also issued an attestation report on the Company's management's assessment of the Company's internal control over financial reporting. This attestation report follows.



Stephen Coffey
President and Chief Executive Officer
Vancouver, BC, Canada
March 26, 2009



Jim Grosdanis
Chief Financial Officer

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

We have completed integrated audits of Quest Capital Corp.'s 2008 and 2007 consolidated financial statements and of its internal control over financial reporting as at December 31, 2008 and an audit of its 2006 consolidated financial statements. 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, 2008 and December 31, 2007, and the related consolidated statements of income, retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for each of the years in the three year period ended December 31, 2008. 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 as at December 31, 2008 and for each of the years in the two year period then ended in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). We conducted our audit of the Company's financial statements for the year ended December 31, 2006 in accordance with Canadian generally accepted auditing standards. 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 audits provide 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 at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2008 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, 2008, 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, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by the COSO.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia, Canada

March 26, 2009

Consolidated Balance Sheets

As at December 31, 2008 and 2007
(Expressed in thousands of Canadian dollars)

	2008 \$	2007 \$
Assets		
Cash deposits	1,621	30,484
Restricted cash (note 5)	4,014	12,452
Loans receivable (note 6)	372,084	277,710
Income tax receivable	190	-
Future income tax (note 11)	4,944	3,916
Premises and equipment (note 7)	862	841
Other assets	540	341
	384,255	325,744
Liabilities		
Accounts payable and accrued liabilities (note 12)	3,079	7,081
Revolving debt facility (note 8)	50,153	26,365
Income taxes payable	-	188
Future income tax (note 11)	841	904
Asset retirement obligation (note 9)	459	572
Preferred share liability (note 10)	38,724	-
	93,256	35,110
Shareholders' Equity		
Share capital (note 10)	207,161	207,161
Contributed surplus (note 10)	7,954	6,934
Retained earnings	75,884	76,539
	290,999	290,634
	384,255	325,744

Commitments and contingencies (notes 6(d) and 13)
Subsequent event (note 20)

Approved by the Board of Directors



Stephen C. Coffey
Director



A. Murray Sinclair
Director

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

Consolidated Statements of Retained Earnings

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of Canadian dollars)

	2008 \$	2007 \$	2006 \$
Retained earnings – beginning of year	\$76,539	65,137	28,645
Adoption of CICA financial instrument standards (note 2)	-	1,591	-
Net income for the year	22,831	23,667	43,701
Dividends	(23,486)	(13,856)	(7,209)
Retained earnings – end of year	75,884	76,539	65,137

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

Consolidated Statements of Income

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of Canadian dollars, except per share amounts)

	2008 \$	2007 \$	2006 \$
Interest income	46,819	40,021	30,764
Interest expense	(2,967)	(666)	(1,380)
Net interest income	43,852	39,355	29,384
Provision for loan losses (note 6(c))	(13,735)	-	(238)
Net interest income after provision for loan losses	30,117	39,355	29,146
Other income			
Syndication fees (note 12)	297	932	543
Management and finder's fees (note 12)	-	2,445	3,993
Gains on sale of securities (note 12)	-	8,554	14,492
Other	11	51	14
	308	11,982	19,042
Net interest and other income	30,425	51,337	48,188
Non-interest expense			
Salaries and benefits	3,070	5,042	2,889
Bonuses	50	2,895	4,241
Stock-based compensation (note 10(f))	1,020	1,085	521
Office and other	1,843	2,559	1,029
Legal and professional services	1,348	2,904	1,908
Regulatory and shareholder relations	592	579	478
Directors' fees	202	224	280
Resource asset related expense (recoveries)	481	61	(142)
	8,606	15,349	11,204
Income before income taxes	21,819	35,988	36,984
Income tax (recovery) expense (note 11(a))			
Current	266	665	1,295
Future	(1,278)	11,656	(8,012)
	(1,012)	12,321	(6,717)
Net income for the year	22,831	23,667	43,701
Earnings per share			
Basic	0.16	0.16	0.32
Diluted	0.16	0.16	0.31
Weighted average number of shares outstanding			
Basic	146,789,711	145,698,793	137,713,931
Diluted	146,925,085	148,792,349	140,826,503

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

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

For the years ended December 31, 2008 and 2007
(Expressed in thousands of Canadian dollars)

	2008 \$	2007 \$
Net income for the year	22,831	23,667
Other comprehensive loss		
Reclassification adjustment for gains recorded included in net income (net of income tax of \$1,156)	-	(2,232)
Comprehensive income	22,831	21,435
Accumulated other comprehensive income – beginning of year	-	-
Adoption of financial instruments standards (note 2), (net of income tax of \$1,156)	-	2,232
Other comprehensive loss for the year (net of income tax of \$1,156)	-	(2,232)
Accumulated other comprehensive income – end of year	-	-

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2008, 2007 and 2006
(Expressed in thousands of Canadian dollars)

	2008 \$	2007 \$	2006 \$
Cash flows from operating activities			
Net income for the year	22,831	23,667	43,701
Adjustments to determine net cash flows relating to operating items:			
Amortization of premises and equipment	312	174	150
Future income taxes	(1,278)	11,656	(8,012)
Stock-based compensation	1,020	1,085	521
Provision for loan losses	13,735	-	(238)
Amortization of deferred interest and loan fees	(7,061)	(8,855)	(5,539)
Deferred interest and loan fees received	6,270	1,348	6,428
Other	474	(193)	636
Activity in marketable securities held for trading			
Purchases	-	(4,221)	(4,356)
Proceeds on sales	-	11,648	12,327
Gains on sale of marketable securities and investments	-	(8,554)	(14,492)
Other assets and investments received as finder's fees	-	(638)	(862)
Expenditures for reclamation and closure	(25)	(302)	(1,112)
(Increase) decrease in prepaid and other receivables	(200)	567	50
(Decrease) increase in accounts payable and accrued liabilities	(4,002)	2,909	(2,963)
Increase in income taxes receivable	(190)	-	-
(Decrease) increase in income taxes payable	(188)	(2,522)	552
	31,698	27,769	26,791
Cash flows from financing activities			
Proceeds from issuance of common shares	-	4,018	62,807
Proceeds from issuance of preferred shares	40,000	-	-
Preferred share issue costs	(1,276)	-	-
Dividends paid - common shares	(23,486)	(13,856)	(7,209)
Revolving debt facility - advances	169,110	-	-
Revolving debt facility - repayments	(118,250)	-	-
Revolving debt facility - financing costs	(1,038)	-	-
Repayment of other debt facility	(26,365)	4,365	22,000
	38,695	(5,473)	77,598
Cash flows from investing activities			
Activity in loans			
Funded	(179,479)	(208,392)	(245,611)
Repayments	79,238	192,325	91,912
Other	(7,078)	7,880	8,342
Activity in investments			
Proceeds on sales	-	18,181	124,909
Purchases	-	(488)	(107,752)
Activity in premises and equipment			
Proceeds on sales	-	-	356
Purchases	(378)	(563)	(502)
Net proceeds on sale and windup of subsidiaries	-	106	-
Decrease (increase) in restricted cash	8,438	(10,249)	(304)
	(99,259)	(1,200)	(128,650)
Unrealized foreign exchange gain (loss) on cash held in a foreign subsidiary	3	(118)	28
(Decrease) increase in cash deposits	(28,863)	20,978	(24,233)
Cash deposits - beginning of year	30,484	9,506	33,739
Cash deposits - end of year	1,621	30,484	9,506

Supplementary cash flow information (note 18)

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

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

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

1 NATURE OF OPERATIONS

Quest Capital Corp.'s ("Quest" or the "Company") business is to provide mortgage financings. Prior to 2008, the Company also provided a range of services including corporate finance, consulting, management and administrative services through its wholly-owned subsidiaries, Quest Management Corp. and Quest Securities Corporation, which were disposed of in December 2007 (note 4).

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

2 CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the 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.

Loans are recorded at amortized cost, less allowances for loan losses. Net fees received for originating the loans are netted against the loans' costs and are recognized in net income using the effective interest method. Investments and marketable securities are recorded at fair value on the balance sheet. Fair value is determined directly by reference to quoted market prices in an active market. Changes in fair value of marketable securities which were classified as held-for-trading were recorded in net income and changes in the fair value of available-for-sale investments were reported in other comprehensive income until sale or other than temporary impairment.

The standards were applied retrospectively without restatement of comparative balances. The transitional adjustments in respect of these standards were 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 been previously accounted for on a cost basis rather than fair value basis prior to January 1, 2007.

Effective January 1, 2008, the Company adopted the CICA handbook section 1535, "*Capital Disclosures*", which requires an entity to disclose its objectives, policies, and processes for managing capital. In addition, this section requires disclosure of summary quantitative information about what an entity defines as capital; see note 16 to these consolidated financial statements.

Effective January 1, 2008, the Company adopted the CICA handbook sections 3862 "*Financial Instruments – Disclosures*" and 3863 "*Financial Instruments – Presentation*". These sections replace CICA handbook section 3861 "*Financial Instruments – Disclosure and Presentation*", and enhance disclosure requirements on the nature and extent of risks arising from financial instruments and how the entity manages those risks; see notes 6, 14, 15 and 16 to these consolidated financial statements. Also, refer to "risk and uncertainties" section of the Company's Management Discussion and Analysis ("MD&A") for the year ended December 31, 2008.

3 SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

The consolidated financial statements have been prepared using accounting principles generally accepted in Canada ("Canadian GAAP"). Significant differences between Canadian GAAP and United States GAAP as they relate to these financial statements are described in note 19. The significant accounting policies used in the preparation of these financial statements are set out below.

Basis of presentation

The consolidated financial statements include the assets, liabilities and results of operations of the Company and all of its subsidiaries after the elimination of intercompany transactions and balances. As at December 31, 2008, the Company's subsidiaries include QC Services Inc., Viceroy Capital Corp., Viceroy Gold Corporation and a 75% proportionate joint venture interest in the Castle Mountain property.

Certain comparative figures have been reclassified to conform to the current year's presentation.

Use of estimates

The preparation of these consolidated financial statements in accordance with Canadian GAAP 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 reporting period. Financial statement items subject to significant management judgement include the Company's loan loss provisions and allowances for loan losses, fair value of non-cash fees and stock-based compensation, asset retirement obligations and future income tax assets. While management believes that these estimates and assumptions are reasonable, actual results could differ materially from those estimates.

Cash deposits

Deposits include cash balances with major Canadian chartered banks and short-term deposits and investments having maturity terms of 90 days or less at the time of acquisition. 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 gains on sale of securities in the statements of income. As at December 31, 2008 and 2007, no marketable securities were held.

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 income statement. As at December 31, 2008 and 2007 no investments were held.

Loans receivable

Loans are recorded at amortized cost, net of allowances for loan losses. Fees received for originating the loans are netted against the loans' cost and are recognized in net income using the effective interest rate method. Costs include loan origination fees and other direct and incremental costs.

Impaired loans

Loans are classified as impaired when payment is contractually 90 days past due, or when there is no longer assurance of the timely collection of principal and interest. Once a loan is impaired, the Company stops accruing interest and fee income as the loan is non-performing. Loans are reclassified to performing status when management obtains reasonable assurance that the full amount of principal and interest will be recovered in accordance with the terms and conditions of the loan and, as such is no longer classified as impaired. Alternatively, the Company may restructure a loan to bring it into good standing, and, if the loan is no longer considered impaired, interest and fee income will be recorded on an accrual basis.

Allowance for loan losses

The allowance for loan losses included in loans receivable on the Consolidated Balance Sheet is maintained at an amount, at which management has estimated, at December 31, 2008, is required to absorb credit-related losses on its loan portfolio. The adequacy of the allowance for loan losses is reviewed at least quarterly. The allowance is increased by changes in provision levels, which are expensed to net income, and

reduced by direct write-offs net of any recoveries. The allowance is deducted from the carrying value of loans on the Consolidated Balance Sheet. The allowance is a specific allowance for individual loans and a general allowance.

i) Specific allowances

Specific allowances are determined on a loan-by-loan basis and reflect the associated estimated credit loss. The specific allowance is the amount required to reduce the carrying value of an impaired loan to its estimated net realizable amount. The estimated net realizable amount is determined by discounting the expected future cash flows on the disposition of property securing the loan at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be reliably measured, the fair value of the underlying security, net of expected realization costs is used to measure the estimated net realizable amount. Security may include real property and other assets including securities, cash and borrower guarantees.

ii) General allowances

Specific allowances may be supplemented by a general allowance determined by management based on historical credit loss experience, review of the loan portfolio and current economic trends. A general allowance may be established to absorb losses inherent in the loan portfolio that have not presently been identified by management and are not associated with specific loans.

Foreclosed properties held-for-sale

When a loan is foreclosed, the real estate value of the foreclosed property is initially measured at the lower of the carrying value or fair value less selling costs. Amortization is not recorded while the foreclosed property is classified as held for sale.

Premises and equipment

Land is carried at cost. Leasehold improvements and equipment are carried at cost, less accumulated amortization and impairment losses.

Amortization is calculated using the straight-line method over the estimated useful lives of the related assets as indicated below:

<u>Leasehold improvements</u>	<u>Term of the lease</u>
Computer equipment and software	3 years
Other equipment	5 years

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 net income. 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 currency translation is initially recorded in other comprehensive income; however, to the extent the net investment in the operation has been reduced, the translation gain or loss is reported in net income for the year.

Revenue recognition

Interest income is recognized on an accrual basis using the effective interest method except for loans classified as impaired. When a loan is classified as impaired, amortization of commitment fee income ceases and interest income is recognized on a cash basis, 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 estimated term 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 estimated term of the loan.

Prior to 2008, finder's fees received as compensation for corporate finance business activities were recorded when performance was complete and the cash or non-monetary consideration received or collection was reasonably assured. Non-monetary consideration included shares, broker warrants and/or options. Shares were valued using the trading price of the shares at the time they were received. Adjustments were made to the trading price for hold periods and other re-sale restrictions. The Black-Scholes option pricing model was used to estimate the fair value of warrants and options. Prior to 2008, trading revenue and the sale of investments were 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 net income in the period that includes the date of substantive enactment. Future tax assets are recognized to the extent their realization is more likely than not and are adjusted by a valuation allowance when expected realization of future income tax assets does not meet the more likely than not realization test.

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 is amortized to

expense on the income statement as employee compensation expense on a straight-line basis over the requisite service period with the offsetting credit to contributed surplus. 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.

Common shares

The value of common shares issued in a public or private offering is equal to the cash consideration received. Common shares issued on exercise of stock options are recorded at the amount equal to the exercise price received plus the fair value of the underlying options that are transferred from contributed surplus. For common shares issued as consideration for services rendered, the amount credited to share capital is equal to the fair value of the liability incurred. The number of common shares issued as consideration for services is based on a volume-weighted average trading value of the common shares.

Preferred shares

Preferred shares with mandatory redemption features are accounted for in accordance with the substance of the contractual arrangement and, as such, are classified as financial liabilities. Dividends paid on preferred shares classified as liabilities are expensed to the income statement as interest expense.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the host instrument). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined contract is not held-for-trading or designated at fair value with subsequent changes in fair value recognised in net income.

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 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

Effective January 1, 2009, the Company will adopt the CICA handbook section 3064 "*Goodwill and Intangible Assets*". Adoption of this standard is not expected to have a material affect on the Company's consolidated financial statements.

The CICA plans to converge Canadian GAAP for public companies with *International Financial Reporting Standards* ("IFRS") over a transition period effective for fiscal periods ending on or after January 1, 2011.

Management has established a changeover plan to adopt IFRS on January 1, 2011. An implementation team will be created and management is investigating the use of third party advisors to assist in the process. The conversion plan timetable will include the assessment of accounting policy choices and elections. Management has not yet started the process of assessing accounting policy choices and elections that are permitted under IFRS. Management is also assessing the impact of the conversion on the Company's business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. Management will continually review and adjust its implementation plan to ensure the plan and its IFRS convergence timetable is met.

4 DIVESTITURES

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, representing fair value at the time of disposition, resulting in a net loss of \$12.

5 RESTRICTED CASH

Restricted cash comprises:

	December 31, 2008	December 31, 2007
	\$	\$
Castle Mountain	1,755	1,999
Interest on loans receivable (held in trust)	2,259	10,453
Total	4,014	12,452

a) Castle Mountain

Pursuant to an agreement among the partners of the Castle Mountain property, the Company is required to set aside restricted cash of US\$1,441 (\$1,755) as at December 31, 2008 (December 31, 2007 - US\$2,016 or \$1,999) in a fund to fulfill reclamation and closure obligations at its' Castle Mountain property.

b) Interest on loans receivable (held in trust)

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

6 LOANS RECEIVABLE

a) Loans and allowance for loan losses

Loans receivable as at December 31, 2008:

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

¹ Foreclosed real estate assets-held-for-sale with a net carrying value of \$4,259 (2007 - \$nil) are included in mortgage principal based on estimated net realizable value.

Loans receivable as at December 31, 2007:

	Gross Amount	Specific Allowance	Net Amount
	\$	\$	\$
Mortgage principal	279,644	-	279,644
Bridge loan principal	10,549	-	10,549
Accrued interest and deferred loan fees	(12,483)	-	(12,483)
	277,710	-	277,710

b) Past due loans that are not impaired

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

Carrying value of loans past maturity date:

Days Outstanding Past Maturity	December 31, 2008	December 31, 2007
	\$	\$
1 – 30 days	-	-
31 – 60 days	8,090	13,000
61 – 90 days	28,514	11,436
	36,604	24,436

Carrying value of loans past payment date:

Days Outstanding Past Payment Date	December 31, 2008	December 31, 2007
	\$	\$
1 – 30 days	5,337	-
31 – 60 days	-	-
61 – 90 days	-	-
	5,337	-

The principal collateral and other forms of collateral that the Company holds as security for the loans includes real property, and other assets including securities, cash and borrower guarantees. Valuations of the collateral are periodically updated depending on the nature of the collateral. The estimated fair value of the collateral of the past due loans that are not impaired is in excess of the carrying value of these loans as at December 31, 2008.

c) Impaired loans and specific allowances

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

	December 31, 2008		December 31, 2007	
	Number of loans	Gross Impaired Amount \$	Number of loans	Gross Impaired Amount \$
Impaired loans with specific allowances	10	56,544	-	-
Specific allowances		(13,735)		-
	10	42,809	-	-
Impaired loans without specific allowances	4	47,180	1	7,500
Total impaired loans, net of specific allowances	14	89,989	1	7,500

At December 31, 2008, the total estimated fair value of the collateral of impaired loans with specific allowances is \$48,100 and for impaired loans without specific allowances is \$79,222. Management has estimated the fair value of the collateral taking into account a number of factors including independent real estate appraisals, and management's knowledge of the collateral, credit and real estate markets.

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

	December 31, 2008	December 31, 2007
	\$	\$
Balance – beginning of year	-	586
Provision for loan losses	13,735	-
Reversal of allowances	-	586
Balance – end of year	13,735	-

As at December 31, 2008 the Company performed a comprehensive review of its loan portfolio for the purposes of determining any specific allowances for each loan and as such, a general allowance is not required.

d) Loan commitments

At December 31, 2008, the Company has loan commitments for future advances on construction loans of up to \$46 million of which \$37 million is scheduled for 2009, and \$9 million in 2010. However, these advances are subject to presale requirements, the completion of due diligence, and no material adverse changes in the assets, business or ownership of the borrower and other terms.

e) Composition of loan portfolio

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

	Number of loans	December 31, 2008	Number of loans	December 31, 2007
Principal Outstanding:		\$		\$
Land under development	21	172,076	23	151,607
Real estate – residential	7	35,954	6	22,752
Real estate – commercial	7	64,784	8	51,123
Construction	18	109,667	12	54,162
Total mortgages	53	382,481	49	279,644
Bridge loans	4	5,106	6	10,549
Total loan principal	57	387,587	55	290,193

f) Geographic distribution of loan principal

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

	Number of loans	December 31, 2008		Number of loans	December 31, 2007	
Principal Outstanding:		\$			\$	
British Columbia	17	151,096	40%	20	160,986	58%
Prairies	29	183,217	48%	27	101,158	36%
Ontario	7	48,168	12%	2	17,500	6%
Total mortgage loans	53	382,481	100%	49	279,644	100%

7 PREMISES AND EQUIPMENT

	Cost	Accumulated Amortization	2008 Net Book Value	2007 Net Book Value
	\$	\$	\$	\$
Land	35	-	35	35
Leasehold improvements	631	260	371	486
Computer equipment	506	291	215	169
Computer software	140	22	118	19
Office equipment	205	82	123	132
	1,517	655	862	841

Amortization included in net income is \$312 (2007 - \$174, 2006 - \$150).

8 REVOLVING DEBT FACILITY

In January 2008, the Company entered into a two year revolving debt facility syndicated among three Canadian chartered banks to a maximum of \$88,000. In December 2008, the Company amended the terms of the agreement and reduced the facility to \$70,000. The facility bears interest based on prime rate plus an increment and is collateralized by the Company's loan portfolio.

As at December 31, 2008, \$50,860 was drawn down under the facility. The Company amortizes financing costs associated with the revolving debt facility over the term of the facility. As at December 31, 2008, the Company was in compliance with all required financial covenants under the revolving debt facility. The Company had no defaults or breaches during the year.

	December 31, 2008	December 31, 2007
	\$	\$
Revolving debt facility drawn	50,860	-
Other debt facility drawn	-	26,365
Less: unamortized balance of financing costs	(707)	-
	50,153	26,365

9 ASSET RETIREMENT OBLIGATION

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

A reconciliation of the asset retirement obligation is as follows:

	December 31, 2008	December 31, 2007
	\$	\$
Balance - beginning of year	572	1,011
Liabilities settled during the year	(135)	(352)
Accretion expense	35	50
Revision in estimated cash flows	(123)	-
Foreign exchange	110	(137)
Balance - end of year	459	572

10 SHARE CAPITAL

a) Authorized

Unlimited first and second preferred shares

Unlimited common shares without par value

b) First Preferred Shares issued and outstanding

First Preferred Shares *	December 31, 2008		December 31, 2007	
	Number of shares	Amount	Number of shares	Amount
		\$		\$
Opening balance	-	-	-	-
Issued for cash	20,000,000	40,000	-	-
Issue costs	-	(1,276)	-	-
Closing balance	20,000,000	38,724	-	-

*Classified as liabilities

In December 2008, the Company completed a private placement of 20,000,000 13.5% Cumulative, First Preferred Shares, Series "A" with voting rights, at a price of \$2.00 per share for aggregate proceeds of \$40,000. Issue costs include an agent's commission of 2.95% (\$1,180) of the gross proceeds payable in common shares of the Company. As at December 31, 2008, regulatory approval had not been obtained for the issue of common shares therefore, the associated costs are included in accrued liabilities.

On January 19, 2009, regulatory approval was obtained and 1,404,762 treasury shares were issued at a price of \$0.84 per share to settle the agent's commission.

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

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

c) Common shares issued and outstanding

Common Shares	2008		2007	
	Number of shares	Amount	Number of shares	Amount
		\$		\$
Opening balance	146,789,711	207,161	144,842,628	202,513
Issued on exercise of stock options	-	-	883,333	1,571
Issued on exercise of compensation options	-	-	1,063,750	2,447
Fair value of options exercised	-	-	-	630
Closing balance	146,789,711	207,161	146,789,711	207,161

d) Compensation options issued and outstanding

	Number of options	Exercise price per share	Expiry date
Opening balance – January 1, 2007	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	-		
Closing balance – December 31, 2008	-		

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.

Changes in the number of stock options outstanding for the years indicated are as follows:

	2008		2007	
	Number of shares	Weighted average share price \$	Number of shares	Weighted average share price \$
Opening balance	10,553,000	2.28	8,981,333	2.02
Granted	2,455,000	2.37	2,855,000	3.05
Exercised	-	-	(883,333)	1.78
Expired	(5,083,336)	1.96	(400,000)	3.04
Cancelled	(2,650,000)	2.44	-	-
Closing balance	5,274,664	2.55	10,553,000	2.28
Options exercisable at year-end	2,957,059	2.56	8,794,480	2.13

The following table summarizes information about stock options outstanding and exercisable at December 31, 2008:

Range of exercise prices	Options outstanding	Options outstanding		Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
		(years)	\$		\$
\$1.51	223,000	0.63	1.51	223,000	1.51
\$1.52 to \$2.31	2,005,000	3.45	2.15	1,072,173	2.23
\$2.32 to \$3.24	3,046,664	3.55	2.89	1,661,886	2.92
	5,274,664	3.39	2.55	2,957,059	2.56

f) Contributed surplus

	2008	2007
	\$	\$
Opening balance	6,934	6,479
Fair value of options exercised	-	(630)
Stock-based compensation	1,020	1,085
Ending balance	7,954	6,934

The fair values of options for 2008 and 2007 have been estimated using an option pricing model. Assumptions used in the pricing model are as follows:

	2008	2007
	\$	\$
Risk-free interest rate	3.38%	4.10%
Expected life of options	3.0 years	3.0 years
Expected stock price volatility	34%	35%
Expected dividend yield	4.23%	2.74%
Weighted average fair value of options	0.46	0.72

11 INCOME TAXES

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

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

	2008	2007	2006
	\$	\$	\$
Current			
Canada	250	489	1,184
United States	16	176	111
Total current expenses	266	665	1,295
Future			
Canada	(1,028)	11,898	(8,012)
United States	(250)	(242)	-
Total future (recoveries) expenses	(1,278)	11,656	(8,012)
Total provision for income taxes	(1,012)	12,321	(6,717)

b) The amount of tax expense or recovery that would be computed by applying the federal and provincial statutory income tax rate of 30.66% (2007 – 34.07%, 2006 – 34.12%) to income before tax and the adjustments to reconcile to net income is as follows:

	2008	2007	2006
	\$	\$	\$
Income taxes at statutory rates	6,689	12,278	14,925
Increase (decrease) in taxes from:			
Non-deductible differences	215	4,709	(193)
Dividends deductible for tax purposes ¹	(7,201)	-	-
Difference in foreign tax rates	(44)	4	(173)
Change in enacted tax rates	248	3,502	-
Benefits of timing differences not previously recognized	(919)	(2,091)	(2,162)
Recognition of prior year tax losses	-	(6,081)	(19,114)
	(1,012)	12,321	(6,717)

¹ As the Company is organized as a MIC for tax purposes in 2008, it is eligible to deduct dividends paid from taxable income.

- c) The Company has non-capital losses to reduce future taxable income in Canada of approximately \$9,131. These losses will expire in 2015 (\$6,727) and 2028 (\$2,404).
- d) The significant components of the future income tax assets and liabilities are as follows:

	2008	2007
	\$	\$
Loss carry-forwards	2,753	2,116
Capital losses	7,935	9,186
Premises and equipment	9	1,133
Other	2,613	2,168
	13,310	14,603
Valuation allowance	(8,366)	(10,687)
Future income tax asset	4,944	3,916
Deferred gain and other	841	904
Future tax liability	841	904

12 RELATED PARTY TRANSACTIONS

- a) Included in accounts payable and accrued liabilities as at December 31, 2008 is \$50 due to employees for bonuses payable (2007 - \$4,620).
- b) For the year ended December 31, 2008, the Company borrowed and repaid \$nil (2007 - \$nil) from related parties. Interest paid on these borrowings totalled \$nil (2007 - \$nil, 2006 - \$110).
- c) For the year ended December 31, 2008, the Company paid \$127 (2007 - \$nil, 2006 - \$nil) for administration services to a party related by virtue of having certain directors and officers in common. The Company was also reimbursed \$87 (2007 - \$nil, 2006 - \$nil) in office and premises costs by the same related party, of which \$11 (2007 - \$nil) is included in accounts receivable.
- d) For the year ended December 31, 2008, the Company received \$25 (2007 - \$41, 2006 - \$24) in syndication loan administration fees from parties related by virtue of having certain directors and officers in common.
- e) For the year ended December 31, 2008, the Company recorded a gain on disposal of securities and investments of \$nil (2007 - \$3,604, 2006 - \$10,627) 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.
- f) For the year ended December 31, 2008, the Company received \$nil (2007 - \$807, 2006 - \$1,507) in management and finder's fees from parties related by virtue of having certain directors and officers in common.
- g) Included in accounts payable and accrued liabilities as at December 31, 2008 is \$39 (2007 - \$48) in co-lender interest payable to parties related by virtue of having certain directors and officers in common.

13 COMMITMENTS AND CONTINGENCIES

- a) During the year, surety bond guarantees have been reduced to \$592 (US\$486) (2007 - US\$2,405, 2006 - US\$2,405). The guarantees have been provided by Castle Mountain Joint Venture for compliance with reclamation and other environmental agreements.
- b) The Company has entered into operating leases for office premises and other commitments. Annual payments required are approximately as follows:

2009	\$	679
2010	\$	586
2011	\$	423
2012	\$	423
2013	\$	25

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

14 INTEREST RATE SENSITIVITY

The Company's exposure to interest rate changes results from the difference between assets and liabilities and their respective maturities or interest rate repricing dates. Based on current differences as at December 31, 2008, the Company estimates that an immediate and sustained 100 basis point increase in interest rates would decrease net interest income over the next 12 months by \$207. An immediate and sustained 100 basis point decrease in interest rates would increase net interest income over the next 12 months by \$271.

The carrying amounts of assets and liabilities in the following table are presented in the periods in which they next reprice to market rates or mature based on the earlier of contractual repricing and maturity dates, as at December 31, 2008:

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

15 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$
Assets				
Deposits	1,621	1,621	30,484	30,484
Restricted cash	4,014	4,014	12,452	12,452
Loans receivable	373,852	372,757	277,710	277,710
Liabilities				
Revolving debt facility	50,860	50,860	26,365	26,365
Preferred share liability	40,000	40,000	-	-

16 CAPITAL AND RISK MANAGEMENT

Capital management

The Company's capital management objectives are to maintain a strong and efficient capital structure to provide liquidity to support lending operations. The Company continually monitors its capital position to ensure these objectives are met. A strong capital position also provides flexibility in considering accretive growth opportunities. As at December 31, 2008, the Company was in compliance with its revolving debt facility covenants.

At December 31, 2008, management considers the Company's capital to be comprised of debt payable of \$50,153, preferred share liability of \$38,724 and all components of shareholders' equity which amount to \$290,999 for a total of \$379,876.

Commencing in 2008, the Company's dividend policy is to distribute sufficient dividends to shareholders throughout the fiscal year and within 90 days thereafter to reduce its taxable income to a negligible amount, after first deducting all available loss carry-forwards and other deductions against taxable income. The execution of the Company's dividend policy is further described in the Company's management's discussion and analysis for the year ended December 31, 2008.

Risk Management

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

Credit Risk Management

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

Senior management is committed to several processes to ensure that this risk is appropriately mitigated. These include:

- emphasis on first mortgage financings;
- emphasis on borrowers' experience;
- local and regional diversification of mortgages;

- diversification of the loan portfolio by asset type;
- the investigation of the creditworthiness of all borrowers;
- the employment of qualified and experienced loan originators and underwriters;
- the engagement of qualified independent consultants and advisors such as lawyers, quantity surveyors, real estate appraisers and insurance consultants dedicated to protecting the Company's interests;
- the segregation of duties to ensure that qualified staff are satisfied with all due diligence requirements prior to funding; and
- the prompt initiation of recovery procedures on 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 applications for loans between \$15 million and \$25 million, and any loan application for amounts greater than \$25 million must be approved by the Board. The Board has delegated approval authority for all loans less than \$15 million to an approval committee comprised of members of senior management. In addition, the Company does not allow any one loan to exceed 10% of the Company's equity and restricts lending to any one borrower to 20% or less of the Company's equity. As at December 31, 2008, the largest loan in the Company's loan portfolio was \$29 million (7% of the Company's loan portfolio) and was not impaired. This was also the largest aggregate amount owing by any one borrower. Also, the Company will syndicate loans in certain circumstances if it wishes to reduce its exposure to a borrower. The Company reviews its policies regarding its lending limits on an ongoing basis.

Liquidity Risk

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

As at December 31, 2008, the Company had drawn \$50.1 million on its \$70.0 million revolving debt facility and had future loan commitments to borrowers of up to \$46.3 million. Future loan commitments are primarily for construction draws which occur over the course of the term of the relevant loan which is typically 12 to 18 months in duration. Further, as at December 31, 2008, 76% of the Company's loan portfolio, or \$296 million, was due within a year. With the current economic climate, the ability to accurately forecast actual repayments on the Company's loan portfolio has become difficult.

Due to the current adverse economic climate which is impacting real estate prices and the timing of take-out financing for certain loans in the Company's portfolio, the Company issued a preference share offering and renegotiated certain terms of its revolving debt facility which reduced its debt facility prior to year-end. There is a risk that a further deterioration of the credit worthiness of loans in the Company's portfolio could adversely impact the Company's ability to meet one of its revolving debt facility covenants related to annualized income. The Company does not anticipate any non-compliance with its other covenants, namely minimum equity, interest coverage and tangible assets to debt. Management is negotiating amendments to its revolving debt facility covenants and anticipates that a new loan agreement will be in place during the second quarter of 2009. Management expects the amendments will increase its borrowing costs.

Management monitors rolling forecasts of the Company's cash position based on the timing of expected cash flows, which incorporates assumptions related to the likely timing of loan repayments. In addition, the Company has initiated a number of procedures to assist in its liquidity management including:

- restricting loan advances to existing lending obligations and protective disbursements and not committing to any new loans prior to repaying the revolving debt facility in full;
- syndication of existing loans using an A/B priority structure whereby Quest will hold the B portion;
- negotiating with the preferred shareholders to allow the Company the option of making their dividend payments in common shares of the Company.

As a result of these initiatives, it is management's opinion that the Company has sufficient resources to meet its current cash flow requirements.

Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that a lender's earnings are exposed to volatility as a result of sudden changes in interest rates. This occurs, in most circumstances, when there is a mismatch between the maturity (or re-pricing characteristics) of loans and the liabilities or resources used to fund the loans. For loans funded using bank debt priced on the basis of bank prime rate plus a spread, the Company manages this risk

through the pricing of certain of its loans also being based upon the bank prime rate plus a spread. In addition, the Company will, in some cases, have minimum rates or an interest rate floor in its variable rate loans. The Company is also exposed to changes in the value of a loan when that loan's interest rate is at a rate other than current market rate. Quest currently mitigates this risk by lending for short terms, with terms at the inception of the loan generally varying from six months to two years, and by charging prepayment penalties and upfront commitment fees.

As at December 31, 2008, the Company had 7 variable rate loans priced off the bank prime rate with an aggregate principal of \$50.2 million and 50 fixed-rate loans with an aggregate principal of \$337.4 million.

17 SEGMENTED INFORMATION

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

18 SUPPLEMENTAL CASH FLOW INFORMATION

a) Cash received or paid

	2008	2007	2006
	\$	\$	\$
Interest received (non-loan)	465	680	1,380
Interest paid	2,389	493	1,081
Income tax instalments	86	696	-
Income taxes paid, related to previous years	452	2,718	-

b) Non-cash financing and investing activities

	2008	2007	2006
	\$	\$	\$
Marketable securities and investments received as loan fees	-	3,964	2,157
Investment purchases funded by brokerage margin account	-	-	(30,899)
Investment proceeds funded by brokerage margin account	-	-	30,899

19 UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with Canadian GAAP which differs in certain respects from United States GAAP. Material measurement differences between Canadian GAAP and United States GAAP would have the following effect on earnings and comprehensive income (loss),

earnings per share, revolving debt facility, preferred share liability, and shareholders' equity for United States GAAP purposes:

	2008	2007	2006
	\$	\$	\$
Earnings			
As reported in accordance with Canadian GAAP	22,831	23,667	43,701
Adjustment for unrealized (loss) gain on trading securities (note 19(b))	-	-	213
Net earnings under United States GAAP	22,831	23,667	43,914
Other comprehensive income			
Adjustment for unrealized holding gains (losses) (note 19(b))	-	-	(2,545)
Comprehensive income	22,831	23,667	41,369

Earnings per share under United States GAAP

Basic	0.16	0.16	0.32
Diluted	0.16	0.16	0.31

Deferred finance fees

Under Canadian GAAP	-	-	
Adjusted for preferred share liability and other financing costs (note 19(c))	1,983	-	
Under United States GAAP	1,983	-	

Revolving debt facility

Under Canadian GAAP	50,153	26,365	
Adjusted for financing costs (note 19(c))	707	-	
Under United States GAAP	50,860	26,365	

Preferred share liability

Under Canadian GAAP	38,724	-	
Adjusted for preferred share liability and other financing costs (note 19(c))	1,276	-	
Under United States GAAP	40,000	-	

	2008	2007
	\$	\$
Total shareholders' equity		
Share capital		
Under Canadian GAAP	207,161	207,161
Adjusted for reduction of stated capital (note 19(a))	185,584	185,584
Under United States GAAP	392,745	392,745
Contributed surplus		
Under Canadian and United States GAAP	7,954	6,934
Retained earnings (deficit)		
Under Canadian GAAP	75,884	76,539
Adjustment for reduction of stated capital	(185,584)	(185,584)
Under United States GAAP	(109,700)	(109,045)
Total shareholders' equity under United States GAAP	290,999	290,634

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)

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 3.

c) Deferred finance costs

Under Canadian GAAP, deferred finance costs related to the revolving debt facility and preferred share liability has been offset against the respective loan balances. Under United States GAAP, such finance costs would be reported as a deferred charge asset on the consolidated balance sheet.

d) Shareholders' equity

Under United States GAAP, accumulated other comprehensive income is recorded as a separate component of shareholders' 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.

e) Joint venture

Canadian GAAP provides for investments in jointly controlled entities to be accounted for using proportionate consolidation. Under United States GAAP, investments in incorporated joint ventures are to be accounted for using the equity method. Under an accommodation of the Securities and Exchange Commission, the accounting for joint ventures need not be reconciled from Canadian to United States GAAP. The different accounting treatment affects only the presentation and classification of financial statement items and not net income or shareholders' equity.

f) Income taxes

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 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 and determined it had no unrecognized tax benefits in 2007 and 2008.

g) Recently adopted accounting standards

(i) In September 2006, FASB issued *SFAS No. 157 "Fair Value Measurements"* ("*SFAS No. 157*"), to define fair value, establish a framework for measuring fair value in generally accepted accounting principles, and expand disclosures about fair value measurements. The statement only applies to fair value measurements that are already required or permitted under current accounting standards and is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 for financial instruments as required at January 1, 2008 did not have a material effect on the Company's results of operations or financial position. The Company will adopt SFAS 157 for non-financial assets and non-financial liabilities on January 1, 2009, as required, and does not expect the provisions to have a material effect on the Company's results of operations or financial position.

(ii) In February 2007, FASB issued FASB Statement No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities*", which provides an option to elect to treat certain financial assets and liabilities on a fair value basis. The adoption of SFAS 159 on January 1, 2008 did not have a material effect on the Company's results of operations or financial position.

h) Impact of recently issued accounting standards

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 new business combinations entered into after the effective date of December 15, 2008. The Company does not expect the adoption of these standards to have a material effect on the Company's results of operations or financial position.

20 SUBSEQUENT EVENT

On January 15, 2009, the Company issued 1,404,762 common shares. Refer to note 10(b).

Corporate Information

DIRECTORS:

Robert Atkinson

Director of Spur Ventures Inc.,
a plant nutrient manufacturer

Brian Bayley

Co-Chairman of the Company

David Black

Director of Spur Ventures Inc.
Director of South Western Resources Corp.
Director of Zincore Metals Inc.

Stephen Coffey

President and Chief Executive Officer
of the Company

Frank Mayer

Chairman of Vision Capital Corp.

Dale Peniuk

Chartered Accountant

A. Murray Sinclair

Co-Chairman of the Company

Walter Traub

Partner of Goldman Sloan Nash
and Haber LLP, a law firm

OTHER OFFICERS:

Rosita Brisebois

Chief Compliance Officer,
Corporate Secretary

Kenneth Gordon

Chief Operating Officer

Jim Grosdanis

Chief Financial Officer

Derek Wasson

Senior Vice President,
Originations

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AUDITOR

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Vancouver, British Columbia, Canada

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Vancouver, BC, Canada

SHARE CAPITALIZATION

December 31, 2008
Common Shares Issued and
Outstanding: 146,789,711
December 31, 2008
First Preferred Series A Shares Issued and
Outstanding: 20,000,000

SHARES LISTED

Exchange and Symbol
TSX - QC
AIM - QCC
NYSE AMEX - QCC

**ANNUAL MEETING OF
SHAREHOLDERS**

TSX Broadcast Conference Centre Gallery
130 King Street West
Toronto, Ontario, Canada
Thursday May 21, 2009
2:30 pm, EST

Quest Capital Corp.



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