

**SILVER QUEST RESOURCES LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Unaudited - prepared by management**

**MAY 31, 2006**

July 5, 2006

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of Silver Quest Resources Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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



**SILVER QUEST RESOURCES LTD.**  
**Consolidated Statements of Operations and Deficit**  
Unaudited - prepared by management

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	<b>Three Month Period Ended May 31, 2006</b>	<b>Three Month Period Ended May 31, 2005</b>
<b>Expenses</b>		
Amortization	189	235
Business development	4,720	7,890
Consulting	6,600	10,754
Management fees and corporate services	11,058	10,500
Office and miscellaneous	1,807	6,861
Professional fees	5,645	6,381
Regulatory and transfer agent fees	4,268	6,254
Rent	4,500	4,500
Salaries and benefits	29,814	25,498
Travel	7,046	2,063
	<hr/>	<hr/>
<b>Loss before other items</b>	<b>(75,647)</b>	<b>(80,936)</b>
<b>Other items</b>		
Interest income	7,190	1,468
	<hr/>	<hr/>
	7,190	1,468
	<hr/>	<hr/>
<b>Loss for the period</b>	<b>(68,457)</b>	<b>(79,468)</b>
<b>Deficit, beginning of the period</b>	<b>(9,748,164)</b>	<b>(9,144,476)</b>
<b>Deficit, end of the period</b>	<b>(9,816,621)</b>	<b>(9,223,944)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Basic and diluted loss per common share:</b>	<b>(0.01)</b>	<b>(0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>18,688,358</b>	<b>10,441,724</b>

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

**SILVER QUEST RESOURCES LTD.**  
**Consolidated Statements of Cash Flows**  
Unaudited - prepared by management

	<b>Three Month Period Ended May 31, 2006</b>	<b>Three Month Period Ended May 31, 2005</b>
<b>Cash flows from operating activities</b>		
Loss for the period	(68,457)	(79,468)
Items not affecting cash:		
Amortization	189	235
Changes in non-cash working capital items:		
(Increase) decrease in pre-paid expenses	(4,760)	(4,123)
(Increase) decrease in accounts receivable	(3,013)	25,765
Increase (decrease) in accounts payable	(58,897)	(183,715)
	<u>(134,938)</u>	<u>(241,306)</u>
<b>Cash flows from investing activities</b>		
(Acquisition) disposition of mineral properties	-	(39,999)
(Deferred) exploration costs	(362,970)	(71,246)
	<u>(362,970)</u>	<u>(111,245)</u>
<b>Cash flows from financing activities</b>		
Capital stock	21,903	-
	<u>21,903</u>	<u>-</u>
<b>Change in cash during the period</b>	<b>(476,005)</b>	<b>(352,551)</b>
<b>Cash, beginning of the period</b>	<b>2,490,295</b>	<b>847,107</b>
<b>Cash, end of the period</b>	<b><u>2,014,290</u></b>	<b><u>494,556</u></b>

Supplemental disclosure with respect to cash flows (Note 10)

**1. BASIS OF PRESENTATION**

The interim period financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

**2. NATURE AND CONTINUANCE OF OPERATIONS**

Silver Quest Resources Ltd. ("the Company") was incorporated under the laws of British Columbia. During the year ended February 28, 2006, the Company changed its name from Southern Rio Resources Ltd. and consolidated its common shares on a 5:1 basis. All share and per share amounts have been restated to reflect the share consolidation. The Company's principal business is the acquisition and exploration of mineral properties. The Company is considered to be in the exploration stage.

The recoverability of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete its exploration and development and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	May 31, 2006	February 28, 2006
Deficit	\$ (9,816,621)	\$ (9,748,164)
Working capital	2,030,325	2,438,023

**3. RECLAMATION DEPOSIT**

The Company has provided a deposit as security against potential future reclamation work relating to its mineral properties. As at May 31, 2006, a total of \$16,000 (2005 - \$12,500) had been lodged with the British Columbia Ministry of Energy and Mines.

**4. EQUIPMENT**

	May 31, 2006			February 28, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 17,560	\$ 13,974	\$ 3,586	\$ 17,560	\$ 13,785	\$ 3,775

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements - May 31, 2006**  
Unaudited - prepared by management

**5. MINERAL PROPERTIES**

The Company holds interests in various mineral claims, located in Canada, as follows:

	May 31 2006	February 28 2006
<b>Tam property, British Columbia</b> A 100% interest, subject to a 1% net smelter returns royalty ("NSR").	\$ 5,700	\$ 5,700
<b>Tsacha property, British Columbia</b> A 100% interest in certain claims subject to varying NSR's, one half of which may be purchased back at any time, up to the end of the first year of commercial production, for \$2,000,000.	66,130	66,130
<b>Taken property, British Columbia</b> A 100% interest in certain claims. To earn its interest the Company incurred \$250,000 in exploration expenditures and issued 40,000 common shares at a value of \$26,280. The property is subject to a sliding scale NSR ranging from 2% to 4%.	26,280	22,200
<b>Minnitaki property, Ontario</b> A 100% interest, subject to a sliding scale NSR ranging from 1.5% to 3%.	35,000	35,000
<b>Duke property, British Columbia</b> A 100% interest, subject to a 1% NSR. During the 2005 fiscal year, the Company entered into an agreement, subsequently amended, whereby an optionee can earn a 51% interest. To acquire its interest, the optionee must pay \$10,000 (received), issue 100,000 common shares (received, valued at \$22,250) and incur \$750,000 (incurred \$100,000 to date) in exploration expenditures by October 1, 2007. To acquire an additional 19%, the optionee must pay \$150,000, 50% of which may be through share issuances, within two years and incur \$1,000,000 in exploration expenditures within three years from the election date. The election date must be within 120 days from when the initial 51% interest is earned.	-	-
<b>Bond &amp; Johnson property, Ontario</b> A 100% interest, subject to a 2.5% NSR, 1.5% of which may be purchased back at any time for \$1,500,000.	25,000	25,000
<b>Davidson property, British Columbia</b> A 100% interest, subject to a 2% NSR, which may be purchased back for \$2,000,000.	80,000	80,000
<b>Uduk Lake property, British Columbia</b> A 100% interest, subject to a 3% NSR, 2% of which may be purchased back at any time for \$2,000,000.	22,500	22,500
<b>Sam property, British Columbia</b> A 100% interest, acquired by staking.	5,616	5,616
<b>Tommy Lake property, British Columbia</b> A 100% interest.	17,518	17,518
<b>Atna Bay property, British Columbia</b> A 100% interest, acquired by staking.	950	950
<b>Ebb property, British Columbia</b> A 100% interest. The Company may be required to issue 5,000 additional common shares under certain terms and conditions.	2,950	2,950
	<u>\$ 287,644</u>	<u>\$ 283,564</u>

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**SILVER QUEST RESOURCES LTD.**

**Notes to the Consolidated Financial Statements - May 31, 2006**

Unaudited - prepared by management

**6. DEFERRED EXPLORATION COSTS**

**May 31, 2006**

	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Minnitaki</b>	<b>Davidson</b>	<b>Ebb</b>	<b>Other</b>	<b>Total</b>
Balance, as at February 28, 2006	\$ 759,530	1,160,655	193,495	195,196	297,535	35,419	88,340	2,730,170
Data Management and Evaluation	-	-	-	-	16	-	-	16
Drilling	132,347	5,500	31,442	-	136,478	-	-	305,767
Field Sampling	-	-	-	-	-	33	582	615
Geology	2,849	942	981	18	1,592	585	3,490	10,457
Land Tenure	8,051	7,784	3,768	1,225	650	-	-	21,478
	<u>143,247</u>	<u>14,226</u>	<u>36,191</u>	<u>1,243</u>	<u>138,736</u>	<u>618</u>	<u>4,072</u>	<u>338,333</u>
Balance, as at May 31, 2006	\$ <u>902,777</u>	<u>1,174,881</u>	<u>229,686</u>	<u>196,439</u>	<u>436,271</u>	<u>36,037</u>	<u>92,412</u>	<u>3,068,503</u>

**February 28, 2006**

	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Minnitaki</b>	<b>Duke</b>	<b>Davidson</b>	<b>Ebb</b>	<b>Rey Lake</b>	<b>Other</b>	<b>Total</b>
Balance, as at February 28, 2005	\$ 811,760	1,139,724	176,285	194,878	3,406	-	-	-	88,324	2,414,377
Data Management and Evaluation	-	-	-	79	-	1,924	1,495	995	-	4,493
Drilling	10,175	44,164	21,784	-	144	267,065	-	-	-	343,332
Field Sampling	2,139	24,480	3,443	-	-	1,859	8,714	8,195	-	48,830
Geology	490	534	1,032	125	-	26,006	2,685	3,171	3,473	37,516
Geophysics	-	-	-	-	-	-	20,271	20,364	-	40,635
Land Tenure	574	9,894	1,795	114	2,003	682	2,254	-	-	17,316
	<u>13,378</u>	<u>79,072</u>	<u>28,054</u>	<u>318</u>	<u>2,147</u>	<u>297,536</u>	<u>35,419</u>	<u>32,725</u>	<u>3,473</u>	<u>492,122</u>
Written-off during the year	<u>(65,608)</u>	<u>(58,141)</u>	<u>(10,844)</u>		<u>(5,553)</u>			<u>(32,725)</u>	<u>(3,457)</u>	<u>(176,328)</u>
Balance, as at February 28, 2006	\$ <u>759,530</u>	<u>1,160,655</u>	<u>193,495</u>	<u>195,196</u>	<u>-</u>	<u>297,536</u>	<u>35,419</u>	<u>-</u>	<u>88,340</u>	<u>2,730,171</u>

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements - May 31, 2006**  
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**7. RELATED PARTY TRANSACTIONS**

During the period ended May 31, 2006, the Company entered into the following transactions with related parties:

- a) Paid or accrued \$4,500 (2005 - \$4,500) for rent to a company controlled by a director.
- b) Paid or accrued \$5,645 (2005 - \$3,491) for professional fees to a law firm in which an officer of the Company is a partner.
- c) Paid or accrued \$33,125 (2005 - \$23,760) for salaries and benefits to directors of the Company.
- d) Paid or accrued \$558 (2005 - \$Nil) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is \$Nil (2005 - \$Nil) owed to related parties. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	<b>Number of Shares</b>	<b>Capital Stock</b>	<b>Contributed Surplus</b>
Authorized			
Unlimited common shares without par value			
Issued			
As at February 28, 2006	18,682,354	\$ 14,099,748	\$ 1,119,948
For mineral properties	8,000	4,080	-
For cash - warrants exercised	42,736	21,903	-
As at May 31, 2006	<u>18,733,090</u>	<u>\$ 14,125,731</u>	<u>\$ 1,119,948</u>

**9. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company, in accordance with its shareholder approved stock option plan as amended, is authorized to grant options to directors, officers, employees and consultants, to acquire up to 10% of the issued and outstanding common shares. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. Options can be granted for a maximum term of five years and vest on grant.

The following incentive stock options were outstanding at May 31, 2006:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
90,000	\$ 0.75	June 4, 2006
10,000	\$ 0.75	February 28, 2007
200,000	\$ 1.00	May 15, 2007
120,000	\$ 0.75	October 7, 2008
30,000	\$ 1.35	February 13, 2009
10,000	\$ 0.75	September 8, 2009
230,000	\$ 0.75	August 2, 2010
<u>1,160,000</u>	\$ 0.45	January 13, 2011
1,850,000		

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements - May 31, 2006**  
Unaudited - prepared by management

**9. STOCK OPTIONS AND WARRANTS (Continued)**

**Stock options (Continued)**

Stock option transactions are summarized as follows:

	May 31, 2006		February 28, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	1,850,000	\$ 0.60	530,000	\$ 0.90
Granted	-	-	1,390,000	0.50
Exercised	-	-	-	-
Expired/cancelled	-	-	(70,000)	0.82
Balance, end of period	1,850,000	\$ 0.60	1,850,000	\$ 0.60
Options exercisable, end of period	1,850,000	\$ 0.60	1,850,000	\$ 0.60

The following weighted-average assumptions were used for the Black-Scholes valuation of stock options granted during the noted periods:

	February 2006
Risk-free interest rate	4.03%
Expected life of options	5 years
Annualized volatility	114.06%
Dividend rate	0.00%

**Warrants**

As at May 31, 2006, the Company had outstanding share purchase warrants, enabling the holders to acquire further shares as follows:

Number of Shares	Exercise Price	Expiry Date
549,930	\$ 1.00	December 20, 2006
325,000	\$ 0.75	December 20, 2006
419,322	\$ 0.35	June 3, 2007
3,053,495	\$ 0.50	December 23, 2006
4,347,747	\$ 0.65	December 23, 2007
	if not then at	

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements - May 31, 2006**  
Unaudited - prepared by management

**9. STOCK OPTIONS AND WARRANTS** *(Continued)*

**Warrants** *(Continued)*

Share purchase warrant transactions were as follows:

	May 31, 2006		February 28, 2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	4,390,483	\$ 0.57	1,602,485	\$ 1.10
Granted	-	-	3,514,483	0.48
Exercised	(42,736)	0.51	-	-
Expired/cancelled	-	-	(726,485)	1.37
Balance, end of period	4,347,747	\$ 0.57	4,390,483	\$ 0.57
Warrants exercisable, end of period	4,347,747	\$ 0.57	4,390,483	\$ 0.57

The following weighted-average assumptions were used for the Black-Scholes valuation of warrants granted during the noted periods:

	February 2006
Risk-free interest rate	3.99%
Expected life of options	1.5 years
Annualized volatility	124.68%
Dividend rate	0.00%

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for period ended May 31, 2006 included:

- The issuance of 8,000 common shares with a value of \$4,080 as consideration towards the acquisition of the Taken property in British Columbia (Note 5).
- The accrual in accounts payable and accrued liabilities of \$7,446 in deferred exploration costs.
- The accrual in advances of \$23,000 in deferred exploration costs.

Significant non-cash transactions for the period ended May 31, 2005 included:

- The issuance of 20,000 common shares, with a value of \$9,000 as consideration towards the acquisition of the Tsacha property in British Columbia (Note 6)
- The issuance of 8,000 common shares, with a value of \$3,400 as consideration towards the acquisition of the Taken property in British Columbia (Note 6).
- The issuance of 100,000 common shares, with a value of \$40,000 as consideration towards the acquisition of the Blackwater-Davidson property in British Columbia (Note 5).

**11. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, receivables, marketable securities, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**12. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada.

**13. SUBSEQUENT EVENTS**

Subsequent to May 31, 2006, the Company:

- a) issued 2,000 common shares on the exercise of warrants at a price of \$0.35 per share;
- b) signed a Letter of Intent in respect to an option to purchase a 100% interest in the Santa Rosa property located in Hermosillo, Mexico. To acquire its interest the Company must pay, through staged cash payments, a total of \$2,000,000 (USD) over a 6 year period. The Company has a 60-day due diligence period to review the title status and to complete a formal option to purchase agreement. A finder's fee consisting of 240,000 shares is payable in connection to this transaction. All cash payments and the issuance of shares related to the finder's fee are subject to execution of a formal agreement and other conditions precedent for the benefit of the Company, and regulatory acceptance.
- c) entered into an Option/Joint Venture Agreement with Bullion River Gold Corp. under which the Company has the right to acquire up to a 75% interest in the Corcoran Canyon Silver Project in central Nevada. To acquire an initial 51% interest in the property, the Company must make cash payments of \$290,000 (USD), issue 500,000 shares, and incur \$1,500,000 (USD) in exploration and development expenditures over a three year period. The Company has a further option to increase its interest to 75%, by paying an additional \$1.0 million (USD), issuing an additional 500,000 shares, and incurring an additional \$1.75 million (USD) in expenditures.