

SILVER QUEST RESOURCES LTD.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Unaudited - prepared by management

AUGUST 31, 2006

October 26, 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 Balance Sheets
 unaudited - prepared by management

	<u>August 31</u> <u>2006</u>	<u>February 28</u> <u>2006</u>
ASSETS		
Current		
Cash and equivalents	\$ 1,809,808	\$ 2,490,295
Prepaid expenses	2,596	2,000
Receivables	8,159	24,919
Marketable securities	<u>19,688</u>	<u>19,688</u>
	1,840,251	2,536,902
Equipment (Note 4)	3,397	3,775
Mineral properties (Note 5)	361,367	283,564
Deferred exploration costs (Note 6)	3,173,570	2,730,170
Reclamation deposit (Note 3)	16,000	16,000
Deposits (Note 7)	<u>8,000</u>	<u>-</u>
	<u>\$ 5,402,585</u>	<u>\$ 5,570,411</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities		
Accounts payable and accrued liabilities	\$ <u>25,845</u>	\$ <u>98,879</u>
	25,845	98,879
Shareholders' equity		
Capital stock (Note 9)	14,150,774	14,099,748
Contributed surplus (Note 9)	1,119,535	1,119,948
Deficit	<u>(9,893,569)</u>	<u>(9,748,164)</u>
	<u>5,376,740</u>	<u>5,471,532</u>
	<u>\$ 5,402,585</u>	<u>\$ 5,570,411</u>

Nature and continuance of operations (Note 1)
Subsequent event (Note 14)

On behalf of the Board:

"Robert F. Weicker"

Robert F. Weicker, Director

"Randy C. Turner"

Randy C. Turner, Director

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

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

	Three Month Period Ended August 31 2006	Three Month Period Ended August 31 2005	Six Month Period Ended August 31 2006	Six Month Period Ended August 31 2005
EXPENSES				
Amortization	\$ 189	\$ 236	\$ 378	\$ 471
Business development	14,574	-	19,294	7,890
Consulting	5,940	9,000	12,540	19,754
Management fees and corporate services	20,692	10,500	31,750	21,000
Office and miscellaneous	7,236	5,378	9,043	12,239
Professional fees	14,050	13,030	19,695	19,411
Regulatory and filing fees	10,269	5,426	14,537	11,680
Rent	4,500	4,500	9,000	9,000
Salaries and benefits	5,403	20,383	35,217	45,881
Stock-based compensation	-	25,765	-	25,765
Travel	-	414	7,046	2,477
	<u>(82,853)</u>	<u>(94,632)</u>	<u>(158,500)</u>	<u>(175,568)</u>
Loss before other items and income tax				
OTHER ITEMS				
Interest income	5,905	815	13,095	2,283
	<u>5,905</u>	<u>815</u>	<u>13,095</u>	<u>2,283</u>
Loss for the period	(76,948)	(93,817)	(145,405)	(173,285)
Deficit, beginning of the period	<u>(9,816,621)</u>	<u>(9,223,944)</u>	<u>(9,748,164)</u>	<u>(9,144,476)</u>
Deficit, end of the period	<u>\$ (9,893,569)</u>	<u>\$ (9,317,761)</u>	<u>\$ (9,893,569)</u>	<u>\$ (9,317,761)</u>
Basic and diluted loss per common share:	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding:	18,785,534	10,550,593	18,719,305	10,481,758

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

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

	Three Month Period Ended August 31 2006	Three Month Period Ended August 31 2005	Six Month Period Ended August 31 2006	Six Month Period Ended August 31 2005
Cash flows from operating activities				
Loss for the year	\$ (76,948)	\$ (93,817)	\$ (145,405)	\$ (173,285)
Items not affecting cash:				
Amortization	189	236	378	471
Stock-based compensation	-	25,765	-	25,765
Changes in non-cash working capital items				
(Increase) decrease in receivables	21,520	5,618	16,760	31,383
(Increase) decrease in prepaid expenses	2,417	2,033	(596)	(2,090)
Increase (decrease) in accounts payable and accrued liabilities	(18,427)	(21,631)	(77,324)	(205,346)
Net cash used in operating activities	<u>(71,249)</u>	<u>(81,796)</u>	<u>(206,187)</u>	<u>(323,102)</u>
Cash flows from financing activities				
Issuance of capital stock for cash	1,130	-	23,033	-
Net cash provided by financing activities	<u>1,130</u>	<u>-</u>	<u>23,033</u>	<u>-</u>
Cash flows from investing activities				
Acquisition of mineral properties	(87,540)	(5,001)	(87,540)	(45,000)
Deferred exploration costs	(46,823)	(65,714)	(409,793)	(136,960)
Net cash used in investing activities	<u>(134,363)</u>	<u>(70,715)</u>	<u>(497,333)</u>	<u>(181,960)</u>
Decrease in cash and equivalents during the period	(204,482)	(152,511)	(680,487)	(505,062)
Cash and equivalents, beginning of the period	<u>2,014,290</u>	<u>494,556</u>	<u>2,490,295</u>	<u>847,107</u>
Cash and equivalents, end of the period	<u>\$ 1,809,808</u>	<u>\$ 342,045</u>	<u>\$ 1,809,808</u>	<u>\$ 342,045</u>
Cash and equivalents consisted of:				
Cash	\$ 809,808	\$ 342,045	\$ 809,808	\$ 342,045
Term deposits	1,000,000	-	1,000,000	-
	<u>\$ 1,809,808</u>	<u>\$ 342,045</u>	<u>\$ 1,809,808</u>	<u>\$ 342,045</u>

Supplemental disclosure with respect to cash flows (Note 11)

SILVER QUEST RESOURCES LTD.
Notes to the Consolidated Financial Statements
Unaudited - prepared by management

1. BASIS OF PRESENTATION

These unaudited, interim period consolidated 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 consolidated statements should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim consolidated 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.

	August 31, 2006	February 28, 2006
Deficit	\$ (9,893,569)	\$ (9,748,164)
Working capital	1,814,406	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 August 31, 2006, a total of \$16,000 (2005 - \$12,500) had been lodged with the British Columbia Ministry of Energy and Mines.

4. EQUIPMENT

	August 31, 2006			February 28, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 17,560	\$ 14,163	\$ 3,397	\$ 17,560	\$ 13,785	\$ 3,775

SILVER QUEST RESOURCES LTD.
Notes to the Consolidated Financial Statements
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5. MINERAL PROPERTIES

The Company holds interests in various mineral claims as follows:

CANADA	August 31 2006	February 28 2006
Tam property, British Columbia A 100% interest, subject to a 1% net smelter returns royalty ("NSR").	\$ 5,700	\$ 5,700
Tsacha property, British Columbia 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
Taken property, British Columbia 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
Minnitaki property, Ontario A 100% interest, subject to a sliding scale NSR ranging from 1.5% to 3%.	35,000	35,000
Duke property, British Columbia A 100% interest, subject to a 1% NSR.	-	-
Bond & Johnson property, Ontario 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
Davidson property, British Columbia A 100% interest, subject to a 2% NSR, which may be purchased back for \$2,000,000.	80,000	80,000
Uduk Lake property, British Columbia 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
Sam property, British Columbia A 100% interest, acquired by staking.	5,616	5,616
Tommy Lake property, British Columbia A 100% interest.	17,518	17,518
Atna Bay property, British Columbia A 100% interest, acquired by staking.	950	950
Ebb property, British Columbia A 100% interest. The Company may be required to issue 5,000 additional common shares under certain terms and conditions.	2,950	2,950
Total Properties - Canada	\$ 287,644	\$ 283,564

SILVER QUEST RESOURCES LTD.
Notes to the Consolidated Financial Statements
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5. MINERAL PROPERTIES (Continued)

USA & MEXICO	August 31 2006	February 28 2006
Corcoran Canyon property, Nevada		
An Option Agreement to acquire up to a 75% interest. To acquire an initial 51% interest in the property, the Company must make cash payments of \$290,000 (USD)(\$40,000 (USD) paid to date), 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	\$ 69,238	\$ -
Wildhawk property, Nevada		
A 100% interest by staking	3,064	-
Santa Rosa property, Mexico		
An option to purchase a 100% interest. To acquire its interest the Company must pay, through staged cash payments, a total of \$2,000,000 (USD) over a 6 year period.	1,421	-
Total Properties - USA & Mexico	\$ 73,723	-
Total Mineral Properties	\$ 361,367	\$ 283,564

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
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6. DEFERRED EXPLORATION COSTS

August 31, 2006	Tam	Tsacha	Taken	Minnitaki	Davidson	Ebb	Santa Rosa	Corcoran Canyon	Other	Total
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	138,451	5,609	34,312	-	142,158	-	-	-	-	320,530
Environmental and safety	3,609	4,361	1,804	-	-	-	-	-	-	9,774
Field Sampling	-	-	-	-	-	33	3,099	-	582	3,714
Geology	16,305	2,830	4,489	108	14,215	715	2,174	-	7,158	47,994
Land Tenure	8,175	8,035	3,768	1,225	897	-	-	37,317	1,955	61,372
	<u>166,540</u>	<u>20,835</u>	<u>44,373</u>	<u>1,333</u>	<u>157,286</u>	<u>748</u>	<u>5,273</u>	<u>37,317</u>	<u>9,695</u>	<u>443,400</u>
Balance, as at August 31, 2006	\$ <u>926,070</u>	<u>1,181,490</u>	<u>237,868</u>	<u>196,529</u>	<u>454,821</u>	<u>36,167</u>	<u>5,273</u>	<u>37,317</u>	<u>98,035</u>	<u>3,173,570</u>

February 28, 2006	Tam	Tsacha	Taken	Minnitaki	Duke	Davidson	Ebb	Rey Lake	Other	Total
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	267,064	-	-	-	343,331
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	2,004	682	2,254	-	-	17,317
	<u>13,378</u>	<u>79,072</u>	<u>28,054</u>	<u>318</u>	<u>2,148</u>	<u>297,535</u>	<u>35,419</u>	<u>32,725</u>	<u>3,473</u>	<u>492,122</u>
Option recovery	-	-	-	-	(4,981)	-	-	-	-	(4,981)
British Columbia Mining Exploration Tax Credit recovery	(65,608)	(58,141)	(10,844)	-	(573)	-	-	-	(3,457)	(138,623)
Written-off during the year	-	-	-	-	-	-	-	(32,725)	-	(32,725)
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>297,535</u>	<u>35,419</u>	<u>-</u>	<u>88,340</u>	<u>2,730,170</u>

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Notes to the Consolidated Financial Statements
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7. DEPOSITS

The Company has provided deposits as security again future work relating to its mineral properties.

8. RELATED PARTY TRANSACTIONS

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

- a) Paid or accrued \$9,000 (2005 - \$9,000) for rent to a company controlled by a director.
- b) Paid or accrued \$16,096 (2005 - \$3,916) for professional fees to a law firm in which an officer of the Company is a partner.
- c) Paid or accrued \$66,250 (2005 - \$44,064) for salaries and benefits to directors of the Company.
- d) Paid or accrued \$10,751 (2005 - \$2,912) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is \$1,713 (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.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares		Capital Stock		Contributed Surplus
Authorized Unlimited common shares without par value					
Issued					
As at February 28, 2006	18,682,368	\$	14,099,748	\$	1,119,948
For mineral properties	58,000		27,580		-
For cash - warrants exercised	45,166		23,033		-
Stock-based compensation on warrants exercised	-		413		(413)
As at August 31, 2006	<u>18,785,534</u>	<u>\$</u>	<u>14,150,774</u>	<u>\$</u>	<u>1,119,535</u>

10. 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.

SILVER QUEST RESOURCES LTD.
Notes to the Consolidated Financial Statements
Unaudited - prepared by management

10. STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

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

Number of Shares	Exercise Price	Expiry Date
10,000	\$ 0.75	February 28, 2007
170,000	\$ 1.00	May 15, 2007
100,000	\$ 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>	<u>\$ 0.45</u>	<u>January 13, 2011</u>
1,710,000		

Stock option transactions are summarized as follows:

	August 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	<u>(140,000)</u>	<u>0.80</u>	<u>(70,000)</u>	<u>0.82</u>
Balance, end of period	<u>1,710,000</u>	<u>\$ 0.58</u>	<u>1,850,000</u>	<u>\$ 0.60</u>
Options exercisable, end of period	<u>1,710,000</u>	<u>\$ 0.58</u>	<u>1,850,000</u>	<u>\$ 0.60</u>

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

SILVER QUEST RESOURCES LTD.
Notes to the Consolidated Financial Statements
Unaudited - prepared by management

10. STOCK OPTIONS AND WARRANTS (Continued)

Warrants (Continued)

Number of Shares	Exercise Price	Expiry Date
549,500	\$ 1.00	December 20, 2006
325,000	\$ 0.75	December 20, 2006
417,322	\$ 0.35	June 3, 2007
3,053,495	\$ 0.50	December 23, 2006
if not then at	\$ 0.65	December 23, 2007
4,345,317		

Share purchase warrant transactions were as follows:

	August 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	(45,166)	0.51	-	-
Expired/cancelled	-	-	(726,485)	1.37
Balance, end of period	4,345,317	\$ 0.57	4,390,483	\$ 0.57
Warrants exercisable, end of period	4,345,317	\$ 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%

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

- a) 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).
- b) The issuance of 50,000 common shares with a value of \$23,500 as consideration towards the acquisition of the Corcoran Canyon property in Nevada (Note 5).
- c) The accrual in accounts payable and accrued liabilities of \$13,373 in deferred exploration costs.
- d) The accrual in advances of \$8,000 in deferred exploration costs.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)

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

- a) 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 5)
- b) 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 5).
- c) 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).
- d) The issuance of 40,000 common shares, with a value of \$14,000 as consideration towards the acquisition of the Rey Lake property in British Columbia (Note 5).

12. 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.

13. SEGMENTED INFORMATION

The Company primarily operates in one reportable segment, being the acquisition and exploration of mineral property interests in Canada, the United States and Mexico

Capital assets located in:	\$
Canada	3,422,021
USA	109,619
Mexico	6,694
	<u>3,538,334</u>
	<u>\$ 3,538,334</u>

14. SUBSEQUENT EVENTS

Subsequent to August 31, 2006, the Company:

- a) issued 120,000 common shares in consideration of the Santa Rosa property in Mexico.