

**SILVER QUEST RESOURCES LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Unaudited - prepared by management**

**AUGUST 31, 2007**

October 24, 2007

**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>2007</u>	<u>February 28</u> <u>2007</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 595,486	\$ 1,058,413
Prepaid expenses	27,252	39
Receivables	28,197	18,987
Marketable securities	-	19,688
	<u>650,935</u>	<u>1,097,127</u>
<b>Equipment</b> (Note 3)	2,718	3,020
<b>Reclamation deposit</b> (Note 4)	16,000	16,000
<b>Mineral properties</b> (Note 5)	698,462	459,401
<b>Deferred exploration costs</b> (Note 6)	4,138,096	3,901,123
<b>Exploration advances</b> (Note 7)	<u>27,570</u>	<u>32,725</u>
	<u>\$ 5,533,781</u>	<u>\$ 5,509,396</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ <u>25,472</u>	\$ <u>74,662</u>
 <b>Shareholders' equity</b>		
Capital stock (Note 9)	14,930,043	14,685,108
Contributed surplus (Note 9)	1,081,003	1,083,874
Deficit	<u>(10,502,737)</u>	<u>(10,334,248)</u>
	<u>5,508,309</u>	<u>5,434,734</u>
	<u>\$ 5,533,781</u>	<u>\$ 5,509,396</u>

**Nature and continuance of operations** (Note 2)

**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

	<b>Three Month Period Ended August 31 2007</b>	<b>Three Month Period Ended August 31 2006</b>	<b>Six Month Period Ended August 31 2007</b>	<b>Six Month Period Ended August 31 2006</b>
<b>EXPENSES</b>				
Amortization	\$ 151	\$ 189	\$ 302	\$ 378
Business development	16,269	14,574	31,803	19,294
Consulting	7,025	5,940	13,625	12,540
Management fees and corporate services	7,599	20,692	19,678	31,750
Office and miscellaneous	1,986	7,236	5,452	9,043
Professional fees	42,993	14,050	44,031	19,695
Regulatory and filing fees	8,675	10,269	10,847	14,537
Rent	4,500	4,500	9,000	9,000
Salaries and benefits	15,787	5,403	34,839	35,217
Stock-based compensation (Note 10)	-	-	46,042	-
Travel	20	-	5,473	7,046
<b>Loss before other items and income taxes</b>	<b>(105,005)</b>	<b>(82,853)</b>	<b>(221,092)</b>	<b>(158,500)</b>
<b>OTHER ITEMS</b>				
Interest income	5,110	5,905	11,807	13,095
Gain on disposition of marketable securities	-	-	40,796	-
	<u>5,110</u>	<u>5,905</u>	<u>52,603</u>	<u>13,095</u>
<b>Loss for the period</b>	<b>(99,895)</b>	<b>(76,948)</b>	<b>(168,489)</b>	<b>(145,405)</b>
<b>Deficit, beginning of the period</b>	<b>(10,402,842)</b>	<b>(9,816,621)</b>	<b>(10,334,248)</b>	<b>(9,748,164)</b>
<b>Deficit, end of the period</b>	<b>\$ (10,502,737)</b>	<b>\$ (9,893,569)</b>	<b>\$ (10,502,737)</b>	<b>\$ (9,893,569)</b>
<b>Basic and diluted loss per common share:</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>20,280,545</b>	<b>18,785,534</b>	<b>20,080,102</b>	<b>18,719,305</b>

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

	<b>Three Month Period Ended August 31 2007</b>	<b>Three Month Period Ended August 31 2006</b>	<b>Six Month Period Ended August 31 2007</b>	<b>Six Month Period Ended August 31 2006</b>
<b>Cash flows from operating activities</b>				
Loss for the period	\$ (99,895)	\$ (76,948)	\$ (168,489)	\$ (145,405)
Items not affecting cash:				
Amortization	151	189	302	378
Gain on disposition of marketable securities	-	-	(21,107)	-
Stock-based compensation	-	-	46,042	-
Changes in non-cash working capital items				
(Increase) decrease in receivables	(6,468)	21,520	(9,210)	16,760
(Increase) decrease in prepaid expenses	452	2,417	(27,213)	(596)
Increase (decrease) in accounts payable and accrued liabilities	(28,385)	(18,427)	(26,637)	(77,324)
Net cash used in operating activities	<u>(134,145)</u>	<u>(71,249)</u>	<u>(206,312)</u>	<u>(206,187)</u>
<b>Cash flows from financing activities</b>				
Issuance of captial stock for cash	69,172	1,130	82,822	23,033
Net cash provided by financing activities	<u>69,172</u>	<u>1,130</u>	<u>82,822</u>	<u>23,033</u>
<b>Cash flows from investing activities</b>				
Acquisition of mineral properties	(55,386)	(87,540)	(125,861)	(87,540)
Exploration advances	73,567	-	5,155	-
Deferred exploration costs	(206,464)	(46,823)	(259,526)	(409,793)
Proceeds from disposal of marketable securities	-	-	40,795	-
Net cash used in investing activities	<u>(188,283)</u>	<u>(134,363)</u>	<u>(339,437)</u>	<u>(497,333)</u>
<b>Change in cash during the period</b>	(253,256)	(204,482)	(462,927)	(680,487)
<b>Cash, beginning of the period</b>	<u>848,742</u>	<u>2,014,290</u>	<u>1,058,413</u>	<u>2,490,295</u>
<b>Cash, end of the period</b>	<u>\$ 595,486</u>	<u>\$ 1,809,808</u>	<u>\$ 595,486</u>	<u>\$ 1,809,808</u>

**Supplemental disclosure with respect to cash flows** (Note 11)

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

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

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**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.

**Changes in accounting policies**

Effective October 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments - Recognition and Measurement, Section 3861 Financial Instruments -- Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its receivables as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

The adoption of Section 3855 by the Company has had no effect on the financial statements for the period ending August 31, 2007.

**2. NATURE AND CONTINUANCE OF OPERATIONS**

Silver Quest Resources Ltd. ("the Company") was incorporated under the laws of British Columbia. 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.

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

**2. NATURE AND CONTINUANCE OF OPERATIONS** (Continued)

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, 2007	February 28, 2007
Deficit	\$ (10,502,737)	\$ (10,334,248)
Working capital	\$ 625,463	\$ 1,022,465

**3. EQUIPMENT**

	August 31, 2007			February 28, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 17,560	\$ 14,842	\$ 2,718	\$ 17,560	\$ 14,540	\$ 3,020

**4. RECLAMATION DEPOSIT**

The Company has provided a deposit as security against potential future reclamation work relating to its mineral properties. As at August 31, 2007, a total of \$16,000 (2006 - \$16,000) had been lodged with the British Columbia Ministry of Energy and Mines.

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

**5. MINERAL PROPERTIES**

The Company holds interests in various mineral claims as follows:

<b>CANADA</b>	<b>August 31 2007</b>	<b>February 28 2007</b>
<b>Davidson property, British Columbia</b> A 100% interest, subject to a 2% net smelter returns royalty ("NSR"), which may be purchased back for \$2,000,000.	\$ 80,000	\$ 80,000
<b>Duke property, British Columbia</b> A 100% interest, subject to a 1% NSR, one-half of which may be purchased back for \$250,000.	-	-
<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
<b>Howson property, British Columbia</b> A 100% interest, acquired by staking.	9,882	2,382
<b>Sam property, British Columbia</b> A 100% interest.	5,616	5,616
<b>Silver Trend property, British Columbia</b> A 100% interest.	1,724	-
<b>Taken property, British Columbia</b> A 100% interest in certain claims. The property is subject to a sliding scale NSR ranging from 2% to 4%. The Company may reduce the NSR to 1% by paying \$2,000,000 per percent.	26,280	26,280
<b>Tam property, British Columbia</b> A 100% interest, subject to a 1% NSR, one-half of which may be purchased back for \$250,000.	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>Tommy Lake property, British Columbia</b> A 100% interest.	17,518	17,518
<b>Uduk Lake property, British Columbia</b> A 100% interest, with certain claims subject to a 3% NSR, 2% of which may be purchased back at any time for \$2,000,000.	30,000	22,500
<b>Total Properties - Canada</b>	<b>\$ 245,800</b>	<b>\$ 229,076</b>

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

**5. MINERAL PROPERTIES (Continued)**

<b>USA &amp; MEXICO</b>	<b>August 31 2007</b>	<b>February 28 2007</b>
<b>Corcoran Canyon property, Nevada</b>		
An option to purchase up to a 75% interest. To acquire a 51% interest in the property, the Company must make cash payments of \$290,000 (USD)(\$90,000 (USD) paid to date), issue 500,000 shares (200,000 shares issued to date valued at \$110,000), and incur \$1,500,000 (USD) in exploration and development expenditures over a three year period. The Company also issued 50,000 common shares valued at \$23,500 as a finder's fee. The Company may increase its interest to 75%, by paying an additional \$1,000,000 (USD), issuing an additional 500,000 shares, and incurring an additional \$1,750,000 (USD) in expenditures.	\$ 237,899	\$ 114,237
<b>Wildhawk property, Nevada</b>		
A 100% interest, acquired by staking.	10,387	10,387
<b>Santa Rosa property, Mexico</b>		
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) (\$145,000 (USD) paid to date) over a 6 year period. The Company also issued 240,000 common shares valued at \$91,200 as a finders' fee relating to the acquisition of the property.	204,376	105,701
Total Properties - USA & Mexico	\$ 452,662	\$ 230,325
Total Mineral Properties	\$ 482,662	\$ 247,843

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**  
**August 31, 2007**

**6. DEFERRED EXPLORATION COSTS**

<b>August 31, 2007</b>	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Davidson</b>	<b>Howson</b>	<b>Santa Rosa</b>	<b>Corcoran Canyon</b>	<b>Other</b>	<b>Total</b>
Balance, as at February 28, 2007	\$ 1,402,206	1,187,912	239,853	450,316	15,964	7,855	470,800	126,217	3,901,123
Geology	3,806	1,277	676	916	213	24,195	6,374	6,372	43,829
Geophysics	-	-	-	-	-	-	-	-	-
Field Sampling	-	-	-	-	-	1,106	-	-	1,106
Drilling	11,011	440	176	389	-	135,585	4,406	-	152,007
Land Tenure	1,683	55	27	-	-	419	34,818	3,029	40,031
Data Management and Evaluation	-	-	-	-	-	-	-	-	-
	<u>16,500</u>	<u>1,772</u>	<u>879</u>	<u>1,305</u>	<u>213</u>	<u>161,305</u>	<u>45,598</u>	<u>9,401</u>	<u>236,973</u>
Balance, as at August 31, 2007	\$ <u>1,418,706</u>	<u>1,189,684</u>	<u>240,732</u>	<u>451,621</u>	<u>16,177</u>	<u>169,160</u>	<u>516,398</u>	<u>135,618</u>	<u>4,138,096</u>

  

<b>February 28, 2007</b>	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Minnitaki</b>	<b>Davidson</b>	<b>Howson</b>	<b>Santa Rosa</b>	<b>Corcoran Canyon</b>	<b>Other</b>	<b>Total</b>
Balance, as at February 28, 2006	\$ 759,530	1,160,655	193,495	195,196	297,535	-	-	-	123,759	2,730,170
Geology	33,609	2,483	3,108	85	8,683	14,755	2,119	22,878	15,424	103,144
Field Sampling	-	-	-	-	-	1,209	3,142	450	921	5,722
Drilling	593,900	9,603	36,290	-	143,185	-	-	410,156	66	1,193,200
Land Tenure	9,527	8,779	4,140	1,687	897	-	2,594	37,316	5,048	69,988
Environmental and safety	5,640	6,392	2,820	-	-	-	-	-	-	14,852
Data Management and Evaluation	-	-	-	-	16	-	-	-	-	16
	<u>642,676</u>	<u>27,257</u>	<u>46,358</u>	<u>1,772</u>	<u>152,781</u>	<u>15,964</u>	<u>7,855</u>	<u>470,800</u>	<u>21,459</u>	<u>1,386,922</u>
Written-off during the year	-	-	-	(196,968)	-	-	-	-	(19,001)	(215,969)
	<u>642,676</u>	<u>27,257</u>	<u>46,358</u>	<u>(195,196)</u>	<u>152,781</u>	<u>15,964</u>	<u>7,855</u>	<u>470,800</u>	<u>2,458</u>	<u>1,170,953</u>
Balance, as at February 28, 2007	\$ <u>1,402,206</u>	<u>1,187,912</u>	<u>239,853</u>	<u>-</u>	<u>450,316</u>	<u>15,964</u>	<u>7,855</u>	<u>470,800</u>	<u>126,217</u>	<u>3,901,123</u>

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

**7. EXPLORATION ADVANCES**

The Company has provided advances against future work relating to its mineral properties.

**8. RELATED PARTY TRANSACTIONS**

During the period ended August 31, 2007, the Company entered into the following transactions with related parties:

- a) Paid or accrued \$9,000 (2006 - \$9,000) for rent to a company controlled by a director.
- b) Paid or accrued \$27,604 (2006 - \$34,126) for salaries and benefits to an officer of the Company.
- c) Paid or accrued \$33,125 (2006 - \$9,938) for salaries and benefits included in deferred exploration costs to an officer of the Company.
- d) Paid or accrued \$2,134 (2006 - \$10,751) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is \$1,500 (2006 - \$1,713) owed to a related party. 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**

	<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
Share consolidation adjustment	14		-		-
For mineral properties	108,000		49,080		-
For finders' fees on mineral properties	170,000		71,500		-
For cash - warrants exercised	908,269		428,706		-
Contributed surplus transferred on exercise of warrants	-		36,074		(36,074)
As at February 28, 2007	19,868,637	\$	14,685,108	\$	1,083,874
Stock-based compensation	-		-		46,042
For mineral properties	320,000		113,200		-
For cash - warrants exercised	236,633		82,822		-
Contributed surplus transferred on exercise of warrants	-		48,913		(48,913)
As at August 31, 2007	20,425,270	\$	14,930,043	\$	1,081,003

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

**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.

The following incentive stock options were outstanding at August 31, 2007:

Number of Shares	Exercise Price	Expiry Date
80,000	\$ 0.75	October 7, 2008
25,000	\$ 1.35	February 13, 2009
10,000	\$ 0.75	September 8, 2009
190,000	\$ 0.75	August 2, 2010
1,060,000	\$ 0.45	January 13, 2011
<u>100,000</u>	<u>\$ 0.50</u>	<u>April 18, 2012</u>
1,465,000		

Stock option transactions are summarized as follows:

	<u>August 31, 2007</u>		<u>February 28, 2007</u>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	1,685,000	\$ 0.58	1,850,000	\$ 0.60
Granted	100,000	0.50	-	-
Exercised	-	-	-	-
Expired/cancelled	<u>(320,000)</u>	0.79	<u>(165,000)</u>	0.81
Balance, end of period	<u>1,465,000</u>	<u>\$ 0.53</u>	<u>1,685,000</u>	<u>\$ 0.58</u>
Options exercisable, end of period	<u>1,465,000</u>	<u>\$ 0.53</u>	<u>1,685,000</u>	<u>\$ 0.58</u>

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

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

**Stock options (Continued)**

During the period ended August 31, 2007, the Company granted 100,000 (2006 - Nil) stock options with a fair value under the Black-Scholes option-pricing model of \$46,042 (2006 - \$Nil) with a weighted average fair value of \$0.46 (2006 - \$Nil) per option.

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

	<b>2007</b>
Risk-free interest rate	4.12%
Expected life of options	5 years
Annualized volatility	122.69%
Dividend rate	0.00%

**Warrants**

As at August 31, 2007, the Company had outstanding share purchase warrants, enabling the holders to acquire further shares as follows:

<b>Number of Shares</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<u>2,362,914</u> 2,362,914	\$ 0.65	December 23, 2007

Share purchase warrant transactions were as follows:

	<b>August 31, 2007</b>		<b>February 28, 2007</b>	
	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	2,607,714	\$ 0.62	4,390,483	\$ 0.57
Granted	-	-	-	-
Exercised	(236,633)	0.35	(908,269)	0.47
Expired/cancelled	<u>(8,167)</u>	0.35	<u>(874,500)</u>	0.91
Balance, end of period	2,362,914	\$ 0.65	2,607,714	\$ 0.62
Warrants exercisable, end of period	2,362,914	\$ 0.65	2,607,714	\$ 0.62

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
**August 31, 2007**

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

Significant non-cash transactions for the period ended August 31, 2007 included:

- a) The issuance of 120,000 common shares, with a value of \$43,200 as consideration towards the acquisition of the Santa Rosa property in Mexico (Note 5);
- b) The issuance of 200,000 common shares, with a value of \$70,000 as consideration towards the acquisition of the Corcoran Canyon property in Nevada (Note 5);
- c) The accrual in accounts payable and accrued liabilities of \$6,923 of deferred exploration costs; and
- d) The recognition of a fair value component of \$48,913 in respect of warrants exercised.

Significant non-cash transactions for the 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 of deferred exploration costs; and
- d) The accrual in advances of \$8,000 of deferred exploration costs.

**12. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, 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.

**Currency risk**

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risks.

**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.

<b>Capital assets located in:</b>	<b>August 31, 2007</b>		<b>February 28, 2007</b>	
Canada	\$	3,701,055	\$	3,654,564
USA		764,685		595,424
Mexico		373,536		113,556
	\$	<u>4,839,276</u>	\$	<u>4,363,544</u>

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1

August 31, 2007

This Management's Discussion and Analysis ("MD&A") reviews the activities of Silver Quest Resources Ltd. ("Silver Quest", or the "Company") and compares the financial results for the three and six month periods ended August 31, 2007 (respectively, the "second quarter fiscal 2008" and "first half fiscal 2008") with the comparable periods in the prior year (respectively, the "second quarter fiscal 2007" and "first half fiscal 2007"). This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the fiscal years ended February 28, 2007 and 2006, as well as the MD&A documents for all relevant periods. Copies of all such documents are filed on the SEDAR website and with the regulatory authorities<sup>(1)</sup>.

The information contained in this document is provided as of October 17, 2007 (the "Report Date").

### Overview

Silver Quest is a mineral exploration company listed on the TSX Venture Exchange under the symbol "SQI". Prior to December 15, 2005, the Company was known as Southern Rio Resources Ltd. ("Southern Rio"). On December 15, 2005, Southern Rio changed its name to Silver Quest Resources Ltd. and the shares were consolidated on a five old for one new basis. All share quantities and per share amounts stated in this MD&A have been adjusted to reflect the share consolidation.

Silver Quest's exploration activities are focused on precious metals, particularly silver, and are conducted primarily within Canada, Nevada and Mexico. Silver Quest presently holds interests in more than a dozen mineral exploration properties in Canada, principally in British Columbia, one property in the Yukon, two properties in Nevada and one property in Mexico.

Silver Quest has no producing operations, and as a consequence, the Company does not generate any operating income or a positive cash flow. Exploration of its properties is therefore entirely dependent on Silver Quest's ability to access public equity markets to raise sufficient capital and/or its ability to attract joint venture partners to finance further work on its properties.

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(1) The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. All monetary amounts are in Canadian dollars unless otherwise noted.

### FORWARD-LOOKING INFORMATION

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the Ontario Securities Act. This includes statements concerning the Company's plans at its mineral properties, which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, the ability of the Company to continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs; inability to fund the Company's share of costs incurred under joint venture agreements to which it is a party, and reduction or elimination of its joint venture interest as a result; competition within the minerals industry to acquire properties of merit, and competition from other companies possessing greater technical and financial resources; difficulties in executing exploration programs on the Company's proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring of its properties, such as the availability of essential supplies and services; factors beyond the capacity of the Company to anticipate and control, such as the marketability of mineral products produced from the Company's properties, government regulations relating to health, safety and the environment, and the scale and scope of royalties and taxes on production; the availability of experienced contractors and professional staff to perform work in a competitive environment and the resulting adverse impact on costs and performance and other risks and uncertainties, including those described in each management's discussion and analysis of financial condition and results of operations. In addition, forward-looking information is based on various assumptions including, without limitation, assumptions associated with exploration results and costs and the availability of materials and skilled labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking information. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or otherwise.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1**

August 31, 2007

During the second quarter fiscal 2008, Silver Quest's exploration activities were directed at sampling, geological mapping, drill road construction and establishing a water source with a limited reverse circulation drill program, at the Santa Rosa property in Mexico, and permitting activities related to a proposed diamond drill program at the Corcoran Canyon project in Nevada. Exploration activities amount to \$236,973, of which \$161,305 was incurred on the Santa Rosa project, and \$45,598 was incurred on the Corcoran project. More extensive drill programs are planned for the remainder of fiscal 2008 on the Corcoran Canyon and Santa Rosa projects.

Work at Santa Rosa consisted of geological mapping, prospecting, road construction for future drilling and an initial reverse circulation (RC) drilling program comprising 624.8 metres in six holes. Two holes targeted and successfully established a suitable water source, while the remaining four holes represented a series of short, angled exploration holes to test the extent of mineralization from the valley floor. Highlights of this program included a grab sample from a subcrop location uncovered during road construction. The sample returned 358 grams per tonne ("gpt") silver and 69.7% lead and a 9.1 metre long drill intercept in hole SR07-05 that returned 134.7 gpt silver and 0.45% copper, starting at 27.3 metres down the hole.

**Resource Properties**

Silver Quest currently owns, or has the option to earn a majority ownership in, ten mineral properties in British Columbia, a gold project in Ontario comprising two properties, one silver property in the Yukon, two silver properties in Nevada and one silver property in Mexico. All of the British Columbia properties consist of staked claims, while the Ontario project consists of both staked and patented claims and the Yukon property consists of mining leases. The Ontario and Yukon properties are currently inactive. The Nevada properties consist of unpatented lode mining claims and the Mexican property consists of granted mineral concessions.

Details concerning the size and location of the Company's various property interests, the terms of any applicable earn-in agreements and a history of work completed by Silver Quest through February 2007 and the results derived from that work are set out in the notes to the audited consolidated financial statements and the MD&A for fiscal 2007, copies of which are filed on the SEDAR website.

***Santa Rosa Property***

The Santa Rosa property represents an early stage exploration project with the potential to host bulk-tonnage silver-lead mineralization. Sulphide mineralization, including galena, tetrahedrite and minor pyrite, together with barite, occurs in a carbonate breccia unit within interbedded sedimentary and volcanic (andesite) units.

Assaying of 18 chip samples collected in early 2007 returned a weighted average of 186.1 gpt silver (ranging from 2.2 to 1,760 gpt); 2.66% lead (ranging from 0.02% to 20.10%); 0.43% zinc (ranging from 0.01% to 6.20%) and 0.225% copper (ranging from 0.003% to 1.100%).

Work on the Santa Rosa property during the second quarter fiscal 2008 consisted of an exploration program of geological mapping, prospecting, road construction for future drilling and an initial reverse circulation (RC) drilling program comprising 624.8 metres in six holes. Two holes targeted and successfully established a suitable water source, while the remaining four holes represented a series of short-angled exploration holes to test the extent of mineralization from the valley floor.

Reverse Circulation Drill Results							
Hole #	Drill Intersection			Silver (gpt)	Copper (%)	Lead (%)	Zinc (%)
	From (m)	To (m)	Length (m)				
SR07-01	Water hole, no significant mineralization						
SR07-1A	Water hole, no significant mineralization						
SR07-02	9.1	18.2	9.1	78.6	0.11	0.53	0.25
SR07-03	64.0	67.1	3.1	21.8	0.16	0.18	0.36
SR07-04	Not sampled						
SR07-05	27.3	60.8	33.5	49.0	0.16	Low	Low
Including	27.3	36.4	9.1	134.7	0.45	Low	Low

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1

August 31, 2007

Hole SR07-02 was the northernmost hole, angled at minus-50 degrees south. It encountered heavy water flow at 54.9 metres and was terminated. Hole SR07-03 was located 225 metres southeast of SR07-02 and was an angled hole (minus-50 degrees southwest) to a depth of 121.9 metres. Hole SR07-04 was located 50 metres southeast of hole SR07-03 and was an angled hole (minus-50 degrees south) to a depth of 97.5 metres. Hole SR07-05 was the southernmost hole, located 192 metres south-southeast of hole SR07-04, angled at minus-50 degrees west and was drilled to a depth of 121.9 metres.

This recent program has returned encouraging indications of widespread silver, lead, zinc and copper mineralization. Additional exploration is required to determine the extent of the mineralization, as sampling to date has not systematically tested the target areas.

New silver-lead showing: Previous sampling on the Santa Rosa property had focused on a low, southeast-trending ridge, 1.2 kilometres in length. Road construction to gain access to the upper portions of this ridge uncovered a subcrop of massive galena. A grab sample of this subcrop assayed 358 gpt silver and 69.7% lead. This grab sample is located approximately 130 to 175 metres horizontally and 70 metres vertically from previous samples taken near the base of the ridge. This new showing was exposed during road construction and is interpreted to represent upward continuation of the silver-lead mineralization through the siliceous jasperoid cap rock that underlies the upper portion of the ridge.

Sample preparation was completed by ALS Chemex in Hermosillo, Sonora, with analysis completed by the same firm at its laboratory facilities in Vancouver, British Columbia. Mr. Tom Evans (P.Geo., California) conducted the exploration program. Mr. Robert Weicker, P.Geo., the President of Silver Quest, is a "non-independent qualified person", as defined by National Instrument 43-101, for the Santa Rosa project and supervised the preparation of the technical information, visited the site during the drilling and verified the scientific and technical information and opinions contained herein by reviewing the underlying data.

Drill access roads have recently been constructed on the upper portion of the southeast-trending ridge, allowing for drill holes to test the entire known vertical extent of the mineralization uncovered to date. Silver Quest will initiate a reverse-circulation (RC) drill program with a "track" or "buggy" mounted drill rig as soon as a suitable machine is available.

### **Results of Operations**

Silver Quest is in the business of exploring for precious and base metal deposits. The Company has no producing properties and consequently no sales or revenues from operations.

The Company's accounting policy is to capitalize all costs to acquire and explore mineral properties until the property to which they relate is placed into production, sold or abandoned. As abandonment decisions are largely driven by exploration results, the amounts written-off from quarter to quarter can be highly variable and unpredictable in advance of the receipt of those results and other information relating to the underlying values of the properties in question. Project exploration activities conducted during first half fiscal 2008 are described in the section entitled "Resource Properties".

### **Six month periods ended August 31, 2007 and 2006 (first half fiscal 2008 and 2007, respectively)**

In the first half fiscal 2008, the Company incurred a net loss of \$168,489 (2007 - \$145,405).

General and administrative expenses in the first half fiscal 2008 were \$221,092 (2007 - \$158,500). While a number of the cost categories included in G&A expenses were similar in the two periods, stock-based compensation expense was largely responsible for the increase in G&A expenses in the current period. Stock-based compensation expense in the first half fiscal 2008 was \$46,042 (2007 - \$Nil), as the result of granting 100,000 (2007 - nil) stock options. In addition, increases in business development expenditures in first half fiscal 2008 to \$31,803 (2007 - \$19,294) and professional fees in first half fiscal 2008 to \$44,031 (2007 - \$19,695) were also partially responsible for the increase in G&A expenses, as they more than offset the decrease in management fees and corporate services expenses (first half fiscal 2008 - \$19,678 versus 2007 - \$31,750). The increase in business development expenses between the two periods reflects an increase in activities aimed at increasing investor awareness of the Company and expenses incurred in following up on possible exploration opportunities.

In the first half of fiscal 2008, Silver Quest realized a gain of \$40,796 (2007 - \$Nil) on the sale of marketable securities.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1**

August 31, 2007

**Three month periods ended August 31, 2007 and 2006 (second quarter fiscal 2008 and 2007, respectively)**

In the second quarter fiscal 2008, the Company incurred a loss of \$99,895 (2007 - \$76,948).

General and administrative expenses in the second quarter fiscal 2008 were \$105,005 (2007 - \$82,853). The majority of the cost categories included in G&A expenses were similar in the two periods, however a decrease in management fees and corporate services expenses from \$20,692 in the 2007 fiscal period to \$7,599 in the 2008 fiscal period was not sufficient to offset an increase in professional fees and salaries and benefits between the two periods. No stock-based compensation expense was incurred in either period.

**Summary of quarterly results**

The following table summarizes information derived from the Company's financial statements for each of the eight most recent quarters:

<b>Year Quarter Ended:</b>	<b>2007 Aug. 31</b>	<b>2007 May 31</b>	<b>2007 Feb. 28</b>	<b>2006 Nov. 30</b>	<b>2006 Aug. 31</b>	<b>2006 May 31</b>	<b>2006 Feb. 28</b>	<b>2005 Nov. 30</b>
Net sales or total revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Net loss:								
(i) in total (000s)	\$100	\$68	\$376	\$65	\$77	\$68	\$368	\$62
(ii) on a per share basis	\$0.01	\$0.01	\$0.03	\$0.01	\$0.01	\$0.01	\$0.05	\$0.01

Per share amounts are calculated using the weighted average number of shares outstanding, after giving effect to the five for one share consolidation that occurred on December 15, 2005. Fully diluted loss per share amounts have not been calculated, as they would be anti-dilutive.

As the Company is actively exploring its properties and has no sales or operating revenues to generate earnings and cash flow, in most quarters losses can be expected due to the general and administrative expenses incurred in running the Company. However, there can be significant increases in G&A costs in those quarters in which stock options are granted, as this action results in stock-based compensation expense for such quarters. In addition, if properties are abandoned, those decisions are typically made in the fourth fiscal quarter and the capitalized acquisition and deferred exploration costs associated with such properties are written off in that quarter, increasing the net loss.

The net loss in the quarter ended February 28, 2007 was primarily due to write-offs of approximately \$277,000 of acquisition and deferred exploration costs associated with properties abandoned during fiscal 2007. In addition, increased general and administrative costs were only partially offset by an increase in interest income recorded during the quarter.

The net loss in the quarter ended February 28, 2006 was largely due to \$482,701 of stock-based compensation expense recorded in that quarter as a result of the granting of stock options and the write-offs of approximately \$52,000 of acquisition and deferred exploration costs associated with properties abandoned during fiscal 2006, partially offset by a future income tax recovery of \$301,000 as the result of the renunciation of exploration expenditures to the investors in a flow through financing that closed in December 2005.

**Liquidity and Capital Resources**

The Company does not use debt financing, nor does it rely on hedges or other derivative financial instruments. It has not to date entered, and has no current plans to enter, into off-balance sheet financings.

Silver Quest relies on the sale of securities to finance the Company's activities. No financings were completed in the first half fiscal 2008 or 2007, but \$82,822 (2007 - \$23,033) was received from the exercise of 236,633 (2007 - 45,166) warrants.

***Working Capital and Operating Expenditures***

The Company had working capital of \$625,463 as at August 31, 2007 (\$1,022,465 at February 28, 2007). The reduction in

## **MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1**

August 31, 2007

working capital during the first half fiscal 2008 is due to expenditures for property acquisitions, on-going exploration expenditures and general corporate expenses, net of funds received from the exercise of warrants.

In the first half fiscal 2008, expenditures for property acquisitions of \$239,061 (2007 - \$77,803), were partially funded through the issuance of 320,000 shares (2007 - 58,000 shares) with a value of \$113,200 (2007 - \$27,580).

Deferred exploration expenditures during the first half fiscal 2008 amounted to \$236,973 (2007 - \$443,400). Such expenditures in the current year included drilling costs of \$152,007, approximately 90% of which were incurred on the Santa Rosa property. Cash exploration expenditures in the first half fiscal 2008 amounted to \$259,526 (2007 - \$409,793).

In other investing activities in the first half fiscal 2008, the Company received proceeds of \$40,795 from the sale of marketable securities. There were no sales of marketable securities in the first half fiscal 2007.

### **Related Party Transactions**

During the first half fiscal 2008, the Company entered into the following transactions with related parties:

- a) paid or accrued \$9,000 (2007 - \$9,000) for rent to Rand Explorations Ltd., a private company controlled by Randy Turner, a director of the Company;
- b) paid or accrued \$60,729 (2007 - \$44,064) for salary and benefits to Robert F. Weicker, the President of the Company; and
- c) paid or accrued \$2,134 (2007 - \$10,751) for management fees to Adera Company Management Inc., a private company controlled by J. Christopher Mitchell, the Company's Chief Financial Officer.

Prior to his becoming President and a director of Silver Quest, Mr. Weicker served as a consultant to Silver Quest. While he was a consultant to Silver Quest, Kleinebar Resources Ltd. ("Kleinebar"), a private company controlled by Mr. Weicker, vended a number of properties to the Company, including the Tam Property (which constitutes a part of the 3Ts property package), the Duke Property and the Ebb Property. A one percent net smelter return ("NSR") royalty is payable to Kleinebar on each of the Tam and Duke properties. Except for the royalties payable to Kleinebar, Mr. Weicker has no personal interest, direct or indirect, in any of the Company's properties.

### **Disclosure Controls and Procedures**

Multilateral Instrument 52-109 ("MI 52-109") issued by the Canadian Securities Administrators defines internal controls over financial reporting as "... a process designed by, or under the supervision of, the issuer's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

- a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements."

Silver Quest has evaluated its internal controls over financial reporting and believes that as at August 31, 2007 and as at the Report Date, its system of internal controls over financial reporting as defined under MI 52-109 is sufficiently designed and maintained to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP. Certain weaknesses in its system are apparent. These weaknesses arise primarily from the limited number of personnel employed in the accounting and financial reporting area, a situation that is common in many smaller companies. As a consequence of this situation:

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1

August 31, 2007

- a) it is not feasible to achieve the complete segregation of duties; and
- b) the Company does not possess "in house" the expertise needed to address complex areas of financial accounting, such as taxation.

The existence of internal control over financial reporting and disclosure and procedures control weaknesses in a small enterprise such as Silver Quest need not necessarily be interpreted as evidence of a lack of integrity, of unsound business practices or of unacceptable risks to its shareholders and other related parties. Silver Quest believes these weaknesses are mitigated by the nature and present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by senior management and the audit committee of the board of directors; together with third party consultants with relevant expertise; and, the active participation of senior management in monitoring financial reporting.

Notwithstanding the weaknesses noted above, based on the Company's mitigating procedures, the CEO and CFO have satisfied themselves that these weaknesses have not resulted in material errors in the financial statements.

It should be noted however, that these mitigating factors cannot eliminate the possibility that a material misstatement will occur as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A cost effective system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are achieved.

### **Changes in Accounting Policies**

In January 2005, the Canadian Institute of Chartered Accountants issued three new standards relating to financial instruments. These standards are applicable for fiscal years beginning on or after October 1, 2006. The effects resulting from the adoption of these standards on the Company's accounting procedures are discussed in Note 1 of the unaudited consolidated financial statements for the three and six month periods ended August 31, 2007. These financial statements will be filed on the SEDAR website concurrently with the filing of this MD&A.

### **Risk Factors**

As a company active in the mineral resource exploration and development industry, Silver Quest is exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities.

There can be no assurances the Company will continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs. In addition to this having an impact on its wholly-owned projects, Silver Quest could find itself in a position at a future time where it is unable to fund its share of costs incurred under joint venture agreements to which it is a party and its interest in such joint ventures could be reduced or eliminated as a result.

Silver Quest is reliant upon its existing management and if the services of such personnel were withdrawn for any reason, this could have a material adverse impact on the Company's operating activities.

There is intense competition within the minerals industry to acquire properties of merit and the Company competes with other companies possessing greater technical and financial resources than itself. Moreover, the resurgence of the minerals sector over the past two or three years has caused a rapid growth in exploration expenditures and intensified the competition for professional talent and services of all types used in exploration. These conditions are leading to increased costs and difficulties in scheduling contractors at times that are optimal from the Company's perspective.

Even if desirable properties are secured, there can be no assurances that Silver Quest will be able to execute its exploration programs on its proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, or increasingly stringent environmental regulations and other permitting restrictions.

The prices of major mineral commodities such as copper, gold and silver may be adversely affected by many factors beyond the control of the Company. The demand for metals is being driven by rapid industrialization in China and India. Should the pace of development in either country slow significantly, it could result in a marked decrease in the prices of many commodities. Such a situation could have an adverse effect on the Company, by impairing its ability to raise further funds for exploration.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-502F1

August 31, 2007

The Company's exploration activities require permits from various governmental agencies charged with administering laws and regulations governing exploration, labour standards, occupational health and safety, control of toxic substances, waste disposal, land use, environmental protection and other matters. Failure to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses. In addition, legislated changes to existing laws and regulations could result in significant additional costs to comply with the revised terms and could also result in delays in executing planned programs pending compliance with those terms.

There is no assurance that the government of any jurisdiction in which the Company holds properties will not change environmental regulations or taxation policies in a manner that would adversely affect the economic viability of those properties.

### **Outstanding Share Data**

On the Report Date, the Company had 20,425,270 common shares issued and outstanding, or 24,253,184 common shares on a fully diluted basis. On that date, there were 1,465,000 stock options outstanding under the Company's incentive stock option plan, exercisable at an average price of \$0.58 per share, and with expiry dates to April 18, 2012, and 2,362,914 warrants outstanding that expire on or prior to December 23, 2007, exercisable at a price of \$0.65 per share. If all warrants and all incentive stock options outstanding were to be exercised, the Company would issue 3,827,914 common shares and would realize cash proceeds of \$2,306,644.

### **Outlook**

The Company has successfully expanded its exploration activities from a base in British Columbia, to the entire North American Cordillera, with new projects in Nevada and Mexico. The Company remains focused on projects with an emphasis principally on silver and gold mineralization, however often with appreciable byproduct values of copper, lead, zinc and molybdenum.

The 3Ts project remains an important asset, with combined inferred resources for the Tommy and Ted veins (above the microdiorite sill only) estimated at 826,300 tonnes grading 5.22 gpt gold and 84.8 gpt silver, or 6.64 gpt gold equivalent at a 60:1 silver:gold ratio, representing 138,800 ounces of gold and 2,252,000 ounces of silver. The Company's drill programs on the Lower Ted Vein have indicated a well-developed, robust epithermal vein system with excellent potential for expansion of the gold and silver resource.

*The Tommy Vein on the Tascha property has an inferred resource (calculated only above the flat lying microdiorite sill that crosscuts the vein structure) of 552,500 tonnes grading 6.82 gpt gold and 60.9 gpt silver, at a 3.0 gpt gold cut-off. This equates to a gold equivalent grade of 7.83 gpt, using a 60:1 silver to gold ratio. The Ted Vein has an inferred resource (also calculated only above the sill) of 273,800 tonnes grading 2.00 gpt gold and 133.0 gpt silver, that equates to a gold equivalent grade of 4.22 gpt. These references to inferred resources are covered in National Instrument 43-101 compliant technical reports by Sundance Ventures titled, "Technical Report on the Tam Property", that was filed on SEDAR on September 2, 2004 and "Technical Report the Tsacha Property", that was filed on SEDAR on February 11, 2003. The authors for both reports are Stewart Wallis, P. Geo., and Eric Fier, CPG, both of whom are qualified persons as defined by NI 43-101. The resource estimate was based on the following key assumptions: (i) gold grades exceeding 34 gpt gold were cut to 30 and 34 gpt for the Tommy and Ted veins, respectively; (ii) silver grades exceeding 1000 gpt were cut to 1000 gpt, and (iii) using a 4 gpt gold equivalent (Au Eq) cut-off grade based upon a silver to gold ratio of 60:1 assuming 100% metal recovery. The combined inferred resource for the Tommy and Ted veins (above the sill only) prepared in fiscal 2006 (which has not yet been revised to incorporate the results of drilling in calendar 2006) was estimated at 826,300 tonnes grading 5.22 gpt gold and 84.8 gpt silver, being a gold equivalent of 6.64 gpt gold, representing 138,800 ounces of gold and 2,252,000 ounces of silver.*

The potential to expand the resource of both the Tommy and Ted veins beneath the microdiorite sill and to expand and uncover other new epithermal veins (i.e., Mint, Ringer) is considered by Management to be favourable. The objective of drilling campaigns to be carried out in calendar 2007 will be to expand the resource base of the Ted and Tommy Veins and to test the extent of mineralization encountered beneath the microdiorite sill, at the Mint Vein, located approximately 500 metres north of the Ted Vein surface outcrop exposures.

On the Santa Rosa project, a drilling company has been contracted to undertake a program of reverse circulation drilling. Drill access roads have been constructed on the upper portion of the southeast-trending ridge, allowing for drill holes to test the entire known vertical extent of the mineralization identified to date. The program of approximately 2,000 metres commenced during the last week of September.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -  
FORM 51-502F1**

August 31, 2007

On the Corcoran Canyon project, Silver Quest is encouraged with the multiple high-grade silver intersections from the previous three-hole diamond drill program. Previous exploration has encountered at least fifteen individual vein structures, associated with intense silicification, drusy quartz-adularia veining and dark gray micro-breccias hosting significant silver (and gold) mineralization. The property had not been drilled since 1989 and there is potential to expand the historical geologic resource estimate of 1.61 million tonnes, grading 175 gpt silver (5.1 oz/t) and 0.86 gpt gold (0.025 oz/t) as reported by Bullion River.

*The foregoing historical resource estimate was completed by Echo Bay Exploration Inc., in March, 1988, using extensive technical data and economic parameters. This historical resource estimate predates and is non-compliant with National Instrument 43-101. Silver Quest is not treating the historical estimates as current mineral resources or reserves and has not undertaken any independent investigation of the resource estimates nor has it independently analyzed the results of the previous exploration work in order to verify the resources, and therefore, the historical estimates should not be relied upon. However, Silver Quest believes that these historical estimates provide a conceptual indication of the potential of the occurrences and are relevant to continuing exploration.*

Silver Quest has submitted permit applications for a significant drill program for the Corcoran project which, depending on the date the exploration permits are approved, could take place later in 2007 or in late spring 2008. The proposed drilling would be directed at the new shallow structural target discovered in hole CCD-06-02 and the known historic silver resource area. A diamond drill program totaling 1,500 to 2,000 metres is planned, with ten to twelve drill holes that are individually 150 to 200 metres in length, to test geological and structural targets.