AUDITORS' REPORT

To the Shareholders of
Silver Quest Resources Ltd.

We have audited the consolidated balance sheets of Silver Quest Resources Ltd. as at February 29, 2008 and February 28, 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2008 and February 28, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

June 6, 2008

SILVER QUEST RESOURCES LTD.
Consolidated Balance Sheets
for the years ended February 29, 2008 and February 28, 2007

	2008	2007
ASSETS		
Current		
Cash	$ 57,529	$ 1,058,413
Prepaid expenses	818	39
Receivables	36,860	18,987
Marketable securities	-	19,688
	95,207	1,097,127
Equipment (Note 3)	2,416	3,020
Reclamation deposit (Note 4)	16,000	16,000
Mineral properties (Note 5)	885,045	459,401
Deferred exploration costs (Note 6)	4,359,807	3,901,123
Exploration advances (Note 7)	19,631	32,725
	$ 5,378,106	$ 5,509,396
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 55,550	$ 74,662
Shareholders' equity		
Capital stock (Note 9)	15,002,043	14,685,108
Contributed surplus (Note 9)	1,071,289	1,083,874
Deficit	(10,750,776)	(10,334,248)
	5,322,556	5,434,734
	$ 5,378,106	$ 5,509,396

Nature and continuance of operations (Note 1)
Subsequent events (Note 15)

On behalf of the Board:

"Robert F. Weicker"
Robert F. Weicker, Director

"Randy C. Turner"
Randy C. Turner, Director

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

SILVER QUEST RESOURCES LTD.
Consolidated Statements of Operations and Deficit
for the years ended February 29, 2008 and February 28, 2007

	2008	2007
EXPENSES		
Amortization	$ 604	$ 755
Business development	60,145	41,222
Consulting	26,400	24,860
Management fees and corporate services	50,852	54,826
Office and miscellaneous	14,011	35,626
Professional fees	70,873	76,754
Regulatory and filing fees	19,974	25,010
Rent	18,000	18,000
Salaries and benefits	73,042	74,573
Stock-based compensation (Note 10)	36,328	-
Travel	22,744	12,969
Loss before other items and income taxes	(392,973)	(364,595)
OTHER ITEMS		
Interest income	16,265	55,430
Gain on disposition of marketable securities	40,796	-
Write-off of mineral properties (Note 5)	(8,565)	(60,950)
Write-off of deferred exploration costs (Note 6)	(72,051)	(215,969)
	(23,555)	(221,489)
Loss and comprehensive loss for the year	(416,528)	(586,084)
Deficit, beginning of the year	(10,334,248)	(9,748,164)
Deficit, end of the year	$ (10,750,776)	$ (10,334,248)
Basic and diluted loss per common share:	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding	20,274,939	18,981,165

SILVER QUEST RESOURCES LTD.
Consolidated Statements of Cash Flows
for the years ended February 29, 2008 and February 28, 2007

	2008	2007
Cash flows from operating activities		
Loss for the year	$ (416,528)	$ (586,084)
Items not affecting cash:		
Amortization	604	755
Gain on disposition of marketable securities	(40,796)	-
Stock-based compensation	36,328	-
Write-off of mineral properties	8,565	60,950
Write-off of deferred exploration costs	72,051	215,969
Changes in non-cash working capital items		
(Increase) decrease in receivables	(17,873)	5,932
(Increase) decrease in prepaid expenses	(779)	1,961
Increase (decrease) in accounts payable and accrued liabilities	3,898	7,918
Net cash used in operating activities	(354,530)	(292,599)
Cash flows from financing activities		
Issuance of captial stock for cash	82,822	428,706
Net cash provided by financing activities	82,822	428,706
Cash flows from investing activities		
Acquisition of mineral properties	(249,009)	(116,207)
Exploration advances	13,094	(32,725)
Deferred exploration costs	(553,745)	(1,419,057)
Proceeds from disposal of marketable securities	60,484	-
Net cash used in investing activities	(729,176)	(1,567,989)
Decrease in cash during the year	(1,000,884)	(1,431,882)
Cash, beginning of the year	1,058,413	2,490,295
Cash, end of the year	$ 57,529	$ 1,058,413
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 11)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain ore reserves.

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

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence 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.

	2008	2007
Deficit	$ (10,750,776)	$ (10,334,248)
Working capital	$ 39,657	$ 1,022,465

2. SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principals

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts, unless specifically indicated otherwise, are presented in Canadian dollars.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Golden Pavilion Resources Ltd., a British Columbia corporation and Silver Quest (US) Ltd., a Nevada corporation. All inter-company balances and transactions have been eliminated upon consolidation.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting year. Significant estimates used by management include the values for mineral properties, deferred exploration costs, stock-based compensation, and future income taxes. Actual results could differ from those estimates.

Furniture and equipment

Furniture and equipment is recorded at cost. Amortization is recorded on a declining basis at an annual rate of twenty percent.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property and deferred exploration cost is impaired, that property is written down to its estimated net realizable value. A mineral property and deferred exploration cost is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties and deferred exploration costs do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any significant asset retirement obligations.

Stock-based compensation

The Company uses the fair value method of accounting for all stock-based compensation, including options granted under the Company's incentive stock option plan and for compensatory warrants. The fair value of options granted is determined using the Black-Scholes option pricing model and is recorded as stock-based compensation expense and is recognized over the period of vesting. Any consideration paid by the option holders to purchase shares is credited to capital stock.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. Capital stock is reduced and future income tax liability is increased by the estimated tax benefits that are transferred to the shareholders.

When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Loss per share is calculated using the weighted average number of common shares outstanding during the year.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Comparative figures

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

Change in accounting policies

Financial instruments

Effective March 1, 2007, 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 Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading financial instruments, 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 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 instruments are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired.

All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting policies (continued)

Financial instruments (continued)

As a result of the adoption of these new standards, the Company has classified its cash and marketable securities as held-for-trading. Receivables are classified as loans and receivables. Exploration deposits are classified as held-to-maturity investments. Accounts payable and accrued liabilities are classified as other financial liabilities.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

There has been no affect on these financial statements as a result of the adoption of the new standards.

Accounting Changes

Effective March 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under Handbook Section 1506: "Accounting Changes" ("Section 1506"). These new recommendations establish standards and new disclosures requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. Section 1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings.

Recent accounting pronouncements

Financial Instruments

AcSB issued CICA Handbook Section 3862, Financial Instruments – Disclosures, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, Financial Instruments – Recognition and Measurement, Section 3863, Financial Instruments – Presentation, and Section 3865, Hedges. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

AcSB issued CICA Handbook Section 3863, Financial Instruments – Presentation, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Capital Disclosures

AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Disclosures (Continued)

The Company will be required to adopt the above new accounting procedures for its fiscal period beginning October 1, 2007. The adoption of these new pronouncements is not expected to have an effect on the Company's financial position or results of operations.

Assessing Going Concern

AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	$ 17,560	$ 15,144	$ 2,416	$ 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 year end a total of $16,000 (2007 - $16,000) had been lodged with the British Columbia Ministry of Energy and Mines.

5. MINERAL PROPERTIES

The Company holds interests in various mineral claims as follows:

CANADA	2008	2007
Capoose property, British Columbia An Option to earn up to a 100% interest, subject to a 2.25% net smelter returns royalty ("NSR"). To earn an initial 60% the Company must make staged cash payments of $240,000 ($50,000 paid to date), issue a total 1,040,000 common shares (320,000 common shares issued to date with a fair value of $72,000) and incurr exploration expenditures of $1,250,000 on or before June 30, 2010. The Company can earn an addtional 40% by paying $2,500,000 in cash, issue an additonal 500,000 common shares and incur additional exploration expenditures of $2,000,000. The Company has the option to buy back 1% of the royalty for $1,500,000.	$ 122,000	$ -
Davidson property, British Columbia A 100% interest, subject to a 2% net smelter returns royalty, which may be purchased back for $2,000,000.	80,000	80,000
Duke property, British Columbia A 100% interest, subject to a 1% NSR. During the 2008 fiscal year the Company wrote off all acquisition and deferred exploration costs associated with this property.	-	-
Ebb property, British Columbia A 100% interest. During the 2008 fiscal year the Company wrote off all acquisition and deferred exploration costs associated with this property.	-	2,950
Howson property, British Columbia A 100% interest, acquired by staking.	10,603	2,382
Sam property, British Columbia A 100% interest. During the 2008 fiscal year the Company wrote off all acquisition and deferred exploration costs associated with this property.	-	5,616
Silver Trend property, British Columbia A 100% interest, subject to a 2.25% NSR. The Company has the option to buy back 1% of the royalty for $1,500,000.	1,724	-
Taken property, British Columbia 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
Tam property, British Columbia A 100% interest, subject to a 1% NSR, one-half of which may be purchased back for $250,000.	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
Tommy Lake property, British Columbia A 100% interest.	17,518	17,518
Uduk Lake property, British Columbia 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
Total Properties - Canada	$ 359,955	$ 229,076

5. MINERAL PROPERTIES *(Continued)*

USA & MEXICO		**2008**	**2007**
Corcoran Canyon property, Nevada 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 (300,000 shares issued to date valued at $115,000), and incur $1,500,000 (USD) in exploration and development expenditures on or before June 30, 2009. 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
Wildhawk property, Nevada A 100% interest, acquired by staking.		10,387	10,387
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) ($175,000 (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.		276,804	105,701
Total Properties - USA & Mexico	$	525,090	$ 230,325
Total Mineral Properties	$	885,045	$ 459,401

6. DEFERRED EXPLORATION COSTS

February 29, 2008		Tam	Tsacha	Taken	Davidson	Howson	Santa Rosa	Corcoran Canyon	Other	Total
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		3,748	1,445	764	988	701	55,376	6,790	10,769	80,581
Geophysics		-	-	-	-	-	-	-	-	-
Field Sampling		-	-	-	-	-	1,843	-	-	1,843
Drilling		12,582	1,831	893	1,053	-	367,084	5,494	450	389,387
Land Tenure		1,683	55	27	-	3,451	6,123	41,577	5,412	58,328
Data Management and Evaluation		-	-	-	-	-	-	46	550	596
		18,013	3,331	1,684	2,041	4,152	430,426	53,907	17,181	530,735
Written-off during the year		-	-	-	-	-	-	-	(72,051)	(72,051)
		18,013	3,331	1,684	2,041	4,152	430,426	53,907	(54,870)	458,684
Balance, as at February 29, 2008	$	1,420,219	1,191,243	241,537	452,357	20,116	438,281	524,707	71,347	4,359,807

February 28, 2007		Tam	Tsacha	Taken	Minnitaki	Davidson	Howson	Santa Rosa	Corcoran Canyon	Other	Total
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
		642,676	27,257	46,358	1,772	152,781	15,964	7,855	470,800	21,459	1,386,922
Written-off during the year		-	-	-	(196,968)	-	-	-	-	(19,001)	(215,969)
		642,676	27,257	46,358	(195,196)	152,781	15,964	7,855	470,800	2,458	1,170,953
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

7. EXPLORATION ADVANCES

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

8. RELATED PARTY TRANSACTIONS

During the year ended February 29, 2008, the Company entered into the following transactions with related parties:

a) Paid or accrued $18,000 (2007 - $18,000) for rent to a company controlled by a director.

b) Paid or accrued $57,670 (2007 - $63,490) for salaries and benefits to an officer of the Company.

c) Paid or accrued $63,898 (2007 - $66,250) for salaries and benefits included in deferred exploration costs to an officer of the Company.

d) Paid or accrued $6,808 (2007 - $12,826) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is $10,299 (2007 - $825) owed to a 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	18,682,354	$	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
For mineral properties	640,000		185,200		-
For cash - warrants exercised	236,633		82,822		-
Contributed surplus transferred on exercise of warrants	-		48,913		(48,913)
Stock-based compensation	-		-		36,328
As at February 29, 2008	20,745,270	$	15,002,043	$	1,071,289

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 February 29, 2008:

Number of Shares	Exercise Price	Expiry Date
40,000	$ 0.75	October 7, 2008
25,000	$ 1.35	February 13, 2009
10,000	$ 0.75	September 8, 2009
140,000	$ 0.75	August 2, 2010
960,000	$ 0.45	January 13, 2011
100,000	$ 0.50	April 18, 2012
1,275,000		

Stock option transactions are summarized as follows:

	2008			2007		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balance, beginning of year	1,685,000	$	0.58	1,850,000	$	0.60
Granted	100,000		0.50	-		-
Exercised	-		-	-		-
Expired/cancelled	(510,000)		0.72	(165,000)		0.81
Balance, end of year	1,275,000	$	0.52	1,685,000	$	0.58
Options exercisable, end of year	1,275,000	$	0.52	1,685,000	$	0.58

During the year ended February 29, 2008, the Company granted 100,000 (2007 - Nil) stock options with a fair value under the Black-Scholes option-pricing model of $36,328 (2007 - $Nil) with a weighted average fair value of $0.36 (2007 - $Nil) per option.

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

	2008
Risk-free interest rate	4.12%
Expected life of options	3.81 years
Annualized volatility	92.03%
Dividend rate	0.00%

10. STOCK OPTIONS AND WARRANTS (Continued)

Warrants

As at February 29, 2008, the Company had no outstanding share purchase warrants, enabling the holders to acquire further shares.

Share purchase warrant transactions were as follows:

	2008		2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	2,607,714	$ 0.62	4,390,483	$ 0.57
Granted	-	-	-	-
Exercised	(236,633)	0.35	(908,269)	0.47
Expired/cancelled	(2,371,081)	0.65	(874,500)	0.91
Balance, end of year	Nil		2,607,714	$ 0.62
Warrants exercisable, end of year	Nil		2,607,714	$ 0.62

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended February 29, 2008 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 issuance of 320,000 common shares, with a value of $72,000 as consideration towards the acquisition of the Capoose property in British Columbia (Note 5);
d) The accrual in accounts payable and accrued liabilities of $6,466 of deferred exploration costs; and
e) The recognition of a fair value component of $48,913 in respect of warrants exercised.

Significant non-cash transactions for the year ended February 28, 2007 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 150,000 common shares, with a value of $68,500 as consideration towards the acquisition of the Corcoran Canyon property in Nevada (Note 5);
c) The issuance of 120,000 common shares, with a value of $48,000 as consideration towards the acquisition of the Santa Rosa property in Mexico (Note 5);
d) The accrual in accounts payable and accrued liabilities of $29,476 of deferred exploration costs; and
e) The recognition of a fair value component of $36,074 in respect of warrants exercised.

12. INCOME TAXES

A reconciliation of current income taxes at statutory rates with reported taxes follows:

	2008	2007
Loss before income taxes	$ (416,528)	$ (586,084)
Expected income tax recovery	$ 141,000	$ 210,000
Non deductible expenses	(67,000)	(138,000)
Effect of change in tax rates and other	(74,000)	(72,000)
Income tax (expense) recovery	$ -	$ -

Significant components of future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets:		
Equipment	$ 4,000	$ 4,000
Financing costs	23,000	51,000
Mineral properties and deferred exploration costs	339,000	406,000
Non-capital losses available for future periods	342,000	372,000
Capital losses available for future periods	13,000	15,000
	721,000	848,000
Valuation allowance	(721,000)	(848,000)
Net future income tax assets	$ -	$ -

The Company has not recorded in these financial statements, the future income tax benefits of approximately $1,265,000 of non-capital losses which may be applied to reduce taxable income in future years. If not utilized, the losses expire through to 2028. In addition, the Company has exploration and development expenditures of approximately $6,500,000 available to reduce taxable income of future years. Future tax benefits which may arise as a result of these future income tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

During fiscal 2008, the Company was subject to a tax audit by Canada Revenue Agency. The Company has received a Notice of Assessment and has filed a Notice of Objection ("Objection"). The Company believes the assessment is without merit. The outcome of the Objection cannot be determined and no amounts have been recorded for this assessment.

13. 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.

14. 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:		**2008**		**2007**
Canada	$	3,746,714	$	3,654,564
USA		780,321		595,424
Mexico		720,233		113,556
	$	5,247,268	$	4,363,544

15. SUBSEQUENT EVENTS

Subsequent to February 29, 2008, the Company:

a) Completed a non-brokered private placement of 12,530,000 units at a price of $0.20 per unit for gross proceeds of $2,506,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.30 per share until October 6, 2009. As a finders fee, the Company paid $139,720 and issued 698,600 compensation units. Each compensation unit entitles the holder to purchase one common share at a price $0.20 per share until April 3, 2009 and one-half of one common share purchase warrant. Each whole compensation warrant is exercisable at $0.30 to purchase an additional common share of the Company until October 6, 2009; and

b) Granted incentive stock options to directors and employees to purchase up to 1,660,000 common shares for a period of five years at a price of $0.30 per share.