

## 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 28, 2009 and February 29, 2008 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 28, 2009 and February 29, 2008 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

May 13, 2009





**SILVER QUEST RESOURCES LTD.**  
**Consolidated Statements of Operations and Deficit**  
for the years ended February 28, 2009 and February 29, 2008

	<u>2009</u>	<u>2008</u>
<b>EXPENSES</b>		
Amortization	\$ 1,247	\$ 604
Business development	25,042	60,145
Consulting	19,945	26,400
Management fees and corporate services	53,858	50,852
Office and miscellaneous	26,259	14,011
Professional fees	39,037	70,873
Regulatory and filing fees	20,874	19,974
Rent	18,000	18,000
Salaries and benefits	114,296	73,042
Stock-based compensation (Note 10)	271,157	36,328
Travel	43,235	22,744
	<u>                    </u>	<u>                    </u>
<b>Loss before other items</b>	<u>(632,950)</u>	<u>(392,973)</u>
<b>OTHER ITEMS</b>		
Interest income	19,951	16,265
Gain on disposition of marketable securities	-	40,796
Write-off of mineral properties (Note 5)	(656,015)	(8,565)
Write-off of deferred exploration costs (Note 6)	(1,327,671)	(72,051)
	<u>                    </u>	<u>                    </u>
	<u>(1,963,735)</u>	<u>(23,555)</u>
<b>Loss and comprehensive loss for the year</b>	(2,596,685)	(416,528)
<b>Deficit, beginning of the year</b>	<u>(10,750,776)</u>	<u>(10,334,248)</u>
<b>Deficit, end of the year</b>	<u>\$ (13,347,461)</u>	<u>\$ (10,750,776)</u>
<b>Basic and diluted loss per common share:</b>	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding</b>	32,128,914	20,274,939

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

**SILVER QUEST RESOURCES LTD.****Consolidated Statements of Cash Flows**

for the years ended February 28, 2009 and February 29, 2008

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Loss for the year	\$ (2,596,685)	\$ (416,528)
Items not affecting cash:		
Amortization	1,247	604
Gain on disposition of marketable securities	-	(40,796)
Stock-based compensation	271,157	36,328
Write-off of mineral properties	656,015	8,565
Write-off of deferred exploration costs	1,327,671	72,051
Changes in non-cash working capital items		
(Increase) decrease in receivables	33,147	(17,873)
(Increase) decrease in prepaid expenses	(2,469)	(779)
Increase (decrease) in accounts payable and accrued liabilities	11,316	3,898
Net cash used in operating activities	<u>(298,601)</u>	<u>(354,530)</u>
<b>Cash flows from financing activities</b>		
Issuance of capital stock for cash	2,506,000	82,822
Share issuance costs	(153,011)	-
Net cash provided by financing activities	<u>2,352,989</u>	<u>82,822</u>
<b>Cash flows from investing activities</b>		
Acquisition of mineral properties	(126,925)	(249,009)
Exploration advances	-	13,094
Reclamation deposit	(10,000)	-
Deferred exploration costs	(1,734,722)	(553,745)
Deferred exploration costs recovery	32,654	-
Acquisition of equipment	(5,093)	-
Proceeds from disposal of marketable securities	-	60,484
Net cash used in investing activities	<u>(1,844,086)</u>	<u>(729,176)</u>
<b>Increase (decrease) in cash during the year</b>	210,302	(1,000,884)
<b>Cash, beginning of the year</b>	<u>57,529</u>	<u>1,058,413</u>
<b>Cash, end of the year</b>	<u>\$ 267,831</u>	<u>\$ 57,529</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**  
for the years ended February 28, 2009 and February 29, 2008

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

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 Company has incurred ongoing losses and there is substantial doubt about the Company's ability to continue as a going concern. The Company has reduced expenditures to conserve cash, including curtailing most exploration activities. A number of alternatives including, but not limited to selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. 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 and repay its liabilities arising from normal business operations as they become due.

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.

	<b>2009</b>	<b>2008</b>
Deficit	\$ (13,347,461)	\$ (10,750,776)
Working capital	\$ 214,431	\$ 39,657

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Generally accepted accounting principles**

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 carrying value of mineral properties and deferred exploration costs, stock-based compensation, and future income taxes. Actual results could differ from those estimates.

**Financial Instruments**

The Company adopted the 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 Handbook Sections 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

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

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.

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.

**Equipment**

Equipment is recorded at cost. Amortization is recorded at a 20% declining basis annually.

**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, the 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**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.

**Comparative figures**

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

**Changes in accounting policies**

Effective March 1, 2008, the Company adopted new accounting policies of the Canadian Institute of Chartered Accountants Handbook.

**Assessing Going Concern**

Section 1400 requires management to assess and disclose an entity's ability to continue as a going concern.

**Financial Instruments - Disclosures**

Section 3862, Disclosure is required to 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. (Note 13)

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the years ended February 28, 2009 and February 29, 2008

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

Financial Instruments - Presentation

Section 3863, Presentation is required 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. (Note 13)

Capital Management

Section 1535, Disclosure is required to provide information about an entity's capital and how it is managed. (Note 14)

**Recent Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("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 March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. 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.

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

**3. EQUIPMENT**

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 22,653	\$ 16,391	\$ 6,262	\$ 17,560	\$ 15,144	\$ 2,416

**4. RECLAMATION DEPOSIT**

The Company has provided a deposit as security against potential future reclamation work relating to its mineral properties. As at February 28, 2009 a total of \$26,000 (2008 - \$16,000) had been lodged with the British Columbia Ministry of Energy and Mines.

**SILVER QUEST RESOURCES LTD.****Notes to the Consolidated Financial Statements**

for the years ended February 28, 2009 and February 29, 2008

**5. MINERAL PROPERTIES**

The Company holds interests in various mineral claims as follows:

<b>CANADA</b>	<b>2009</b>	<b>2008</b>
<b>Capoose property, British Columbia</b>	\$ 122,000	\$ 122,000
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 incur exploration expenditures of \$1,000,000 on or before June 30, 2010. The Company can earn an additional 40% by paying \$2,500,000 in cash, with an option to pay 50% of this amount in shares, calculated on the 30 day weighted average of the Company's shares immediately prior to such election. The Company has the option to buy back 1% of the royalty for \$1,500,000.		
<b>Davidson property, British Columbia</b>	80,000	80,000
A 100% interest, subject to a 2% NSR, which may be purchased back for \$2,000,000.		
<b>Howson property, British Columbia</b>	10,603	10,603
A 100% interest, acquired by staking.		
<b>JAG property, British Columbia</b>	32,000	-
An Option to earn a 100% interest, subject to a 1.5% NSR. To earn its interest the Company must make staged cash payments of \$875,000 (\$15,000 paid to date), issue a total 200,000 common shares (40,000 common shares issued to date with a fair value of \$6,000) on or before July 4, 2018. The Company has the option to buy back 1% of the royalty for \$1,000,000. The Company also purchased, subject to a 0.5% NSR, additional claims at a cost of \$11,000. The Company has the option to buy back 50% of this NSR for \$250,000.		
<b>Silver Trend property, British Columbia</b>	1,724	1,724
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.		
<b>Taken property, British Columbia</b>	26,280	26,280
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.		
<b>Tam property, British Columbia</b>	5,700	5,700
A 100% interest, subject to a 1% NSR, one-half of which may be purchased back for \$250,000.		
<b>Tsacha property, British Columbia</b>	66,130	66,130
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.		
<b>Tommy Lake property, British Columbia</b>	17,518	17,518
A 100% interest.		
<b>Uduk Lake property, British Columbia</b>	-	30,000
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. During the 2009 fiscal year, the Company wrote off all acquisition and deferred exploration costs associated with this property.		
<b>Total Properties - Canada</b>	<b>\$ 361,955</b>	<b>\$ 359,955</b>

**SILVER QUEST RESOURCES LTD.****Notes to the Consolidated Financial Statements**

for the years ended February 28, 2009 and February 29, 2008

**5. MINERAL PROPERTIES (Continued)**

<b>USA &amp; MEXICO</b>	<b>2009</b>	<b>2008</b>
<b>Corcoran Canyon property, Nevada</b>	\$ -	\$ 237,899
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. During the 2009 fiscal year, the Company wrote off all acquisition and deferred exploration costs associated with this property.		
<b>Wildhawk property, Nevada</b>	-	10,387
A 100% interest, acquired by staking. During the 2009 fiscal year, the Company wrote off all acquisition and deferred exploration costs associated with this property.		
<b>Santa Rosa property, Mexico</b>	-	276,804
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) (\$275,000 (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. During the 2009 fiscal year, the Company wrote off all acquisition and deferred exploration costs associated with this property.		
<b>Total Properties - USA &amp; Mexico</b>	\$ -	\$ 525,090
<b>Total Mineral Properties</b>	\$ 361,955	\$ 885,045

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the years ended February 28, 2009 and February 29, 2008

**6. DEFERRED EXPLORATION COSTS**

<b>February 28, 2009</b>	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Davidson</b>	<b>Silver Trend</b>	<b>Santa Rosa</b>	<b>Capoose</b>	<b>Other</b>	<b>Total</b>
Balance, as at February 29, 2008	\$ 1,420,219	1,191,243	241,537	452,357	2,390	438,281	-	613,780	4,359,807
Geology	796	843	422	897	24,720	32,816	50,280	32,827	143,601
Geophysics	1,254	2,507	1,254	2,507	70,144	-	60,770	-	138,436
Field Sampling	-	-	-	-	351,686	-	376,442	354	728,482
Drilling	890	693	353	730	16,898	297,532	369,088	-	686,184
Land Tenure	-	-	-	657	7,489	5,517	8,072	13,825	35,560
Data Management and Evaluation	-	-	-	-	179	1,279	1,551	-	3,009
Reporting	-	-	-	-	753	-	714	-	1,467
Community Relations & Safety	-	-	-	488	977	-	1,672	-	3,137
	2,940	4,043	2,029	5,279	472,846	337,144	868,589	47,006	1,739,786
Written-off during the year	-	-	-	-	-	(775,425)	-	(552,246)	(1,327,671)
BC Mining Exploration Tax Credit	(32,654)	-	-	-	-	-	-	-	(32,654)
	(29,714)	4,043	2,029	5,279	472,846	(438,281)	868,589	(505,240)	379,551
Balance, as at February 28, 2009	\$ 1,390,505	1,195,286	243,566	457,636	475,236	-	868,589	108,540	4,739,358

<b>February 29, 2008</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	3,748	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

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the years ended February 28, 2009 and February 29, 2008

**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 28, 2009 the Company entered into the following transactions with related parties:

- a) Paid or accrued \$18,000 (2008 - \$18,000) for rent to a company controlled by a director.
- b) Paid or accrued \$74,372 (2008 - \$57,670) for salaries and benefits to an officer of the Company.
- c) Paid or accrued \$75,000 (2008 - \$63,898) for salaries and benefits included in deferred exploration costs to an officer of the Company.
- d) Paid or accrued \$4,608 (2008 - \$6,808) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is \$13,190 (2008 - \$10,299) owed to related parties. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	<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, 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	<u>20,745,270</u>	<u>\$ 15,002,043</u>	<u>\$ 1,071,289</u>
For mineral properties	40,000	6,000	-
For cash - private placement	12,530,000	2,506,000	-
Share issuance costs	-	(256,295)	103,284
Stock-based compensation	-	-	271,157
As at February 28, 2009	<u><u>33,315,270</u></u>	<u><u>\$ 17,257,748</u></u>	<u><u>\$ 1,445,730</u></u>

On August 22, 2008 the Company issued 40,000 common shares at a value of \$6,000 as consideration towards the acquisition of the JAG property.

On April 3, 2008 the Company issued 12,530,000 units at a price of \$0.20 per unit for total proceeds of \$2,506,000. Each unit consisted of one common share and one half share purchase warrant, each full share purchase warrant entitles the holder thereof to one additional common share at a price of \$0.30 per share for a period of eighteen months. Agents' fees included the Company paying \$139,720 and issuing 698,600 agents' warrants exercisable for one year into one additional common share and one half share purchase warrant, each full warrant entitles the holding agent to one additional common share at a price of \$0.30 per share. The agents' warrants have been recorded at a fair value of \$103,284, which is included in contributed surplus.

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the years ended February 28, 2009 and February 29, 2008

**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 28, 2009:

Number of Shares	Exercise Price	Expiry Date
120,000	\$ 0.75	August 2, 2010
895,000	\$ 0.45	January 13, 2011
100,000	\$ 0.50	April 18, 2012
<u>1,610,000</u>	\$ 0.30	April 24, 2013
2,725,000		

Stock option transactions are summarized as follows:

	2009		2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	1,275,000	\$ 0.52	1,685,000	\$ 0.58
Granted	1,660,000	0.30	100,000	0.50
Exercised	-	-	-	-
Expired/cancelled	<u>(210,000)</u>	0.62	<u>(510,000)</u>	0.72
Balance, end of year	2,725,000	\$ 0.38	1,275,000	\$ 0.52
Options exercisable, end of year	2,725,000	\$ 0.38	1,275,000	\$ 0.52

During the year ended February 28, 2009, the Company granted 1,660,000 (2008 - 100,000) stock options with a fair value under the Black-Scholes option-pricing model of \$271,157 (2008 - \$36,328) with a weighted average fair value of \$0.16 (2008 - \$0.36) per option.

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

	2009	2008
Risk-free interest rate	3.20%	4.12%
Expected life of options	3.88 years	3.81 years
Annualized volatility	80.45%	92.03%
Dividend rate	0.00%	0.00%

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

**Warrants**

As at February 28, 2009, the Company had outstanding share purchase warrants, enabling the holders to acquire further shares as follows:

Number of Shares	Exercise Price	Expiry Date
6,265,000	\$ 0.30	October 6, 2009
<u>698,600</u>	\$ 0.20	April 3, 2009 (subsequently expired)
6,963,600		

Share purchase warrant transactions were as follows:

	2009		2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	-	\$ -	2,607,714	\$ 0.62
Granted	6,963,600	0.29	-	-
Exercised	-	-	(236,633)	0.35
Expired/cancelled	-	-	<u>(2,371,081)</u>	0.65
Balance, end of year	6,963,600	\$ 0.29	-	-
Warrants exercisable, end of year	6,963,600	\$ 0.29	-	-

During the year ended February 28, 2009, the Company granted 698,600 (2008 - Nil) agents' warrants with a fair value under the Black-Scholes option-pricing model of \$103,284 (2008 - \$Nil).

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

<b>2009</b>	
Risk-free interest rate	2.71%
Expected life of options	1.08 years
Annualized volatility	86.80%
Dividend rate	0.00%

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

Significant non-cash transactions for the year ended February 28, 2009 included:

- a) The issuance of 40,000 common shares, with a value of \$6,000, as consideration towards the acquisition of the JAG property in British Columbia (see Note 5); and
- b) The issuance of 698,600 agents' warrants with a value of \$103,284.

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

Significant non-cash transactions for the year ended February 28, 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 (see 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 (see 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 (see 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.

**12. INCOME TAXES**

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

	2009	2008
Loss before income taxes	\$ (2,596,685)	\$ (416,528)
Expected income tax recovery	\$ 798,000	\$ 141,000
Non deductible expenses	(669,000)	(67,000)
Effect of change in tax rates and other	(129,000)	(74,000)
Income tax (expense) recovery	\$ -	\$ -

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

	2009	2008
Future income tax assets:		
Equipment	\$ 4,000	\$ 4,000
Financing costs	40,000	23,000
Mineral properties and deferred exploration costs	840,000	339,000
Non-capital losses available for future periods	386,000	342,000
Capital losses available for future periods	8,000	13,000
	1,278,000	721,000
Valuation allowance	(1,278,000)	(721,000)
Net future income tax assets	\$ -	\$ -

The Company has available, the future income tax benefits of approximately \$1,485,000 of non-capital losses which may be applied to reduce taxable income in future years. If not utilized, the losses expire through to 2029. In addition, the Company has exploration and development expenditures of approximately \$8,300,000 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 AND RISK MANAGEMENT**

The Company's financial instruments consist of cash, receivables, exploration deposits and accounts payable and accrued liabilities. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

The Company is exposed to a variety of financial risks by virtue of its activities, including credit risk, interest rate risk and liquidity risk. The overall risk management program focusses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance. Risk management is carried out by management under the direction and guidance of the Board of Directors. Management is responsible for establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

#### Credit risk

Credit risk is the risk of a financial loss to the company if a counter-party to a financial instrument fails to meet its contractual obligation.

The Company manages credit risk by carrying short-term investments with investment grade ratings. The Company's receivables consist primarily of sales tax receivables due from federal and provincial government agencies and receivables from vendors with whom the Company has established credit policies. The Company does not have a significant concentration of credit risk with any single counter-party. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables and cash.

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Company to cash flow interest rate risk. The risk that the Company will realize a loss as a result of the decline in the fair value of any short-term investments included in cash is limited because these investments, although available for sales, are generally held to maturity.

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances, asset sales or a combination thereof. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

#### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

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. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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**14. CAPITAL MANAGEMENT** (continued)

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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.

**15. 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:	2009	2008
Canada	\$ 5,107,575	\$ 3,746,714
USA	-	780,321
Mexico	-	720,233
	\$ 5,107,575	\$ 5,247,268

**16. SUBSEQUENT EVENT**

The Company optioned the Davidson property to Richfield Ventures Corp ("Richfield") whereby Richfield can earn up to a 75% interest in the Property. Richfield may acquire an initial 60% interest by making aggregate cash payments of \$90,000, issuing a total of 350,000 shares and incurring an aggregate \$1,000,000 in exploration expenditures within three years. After vesting of a 60% interest, Richfield may acquire an additional 15% interest by making an additional cash payment of \$150,000, issuing an additional 400,000 shares and incurring an additional \$500,000 in exploration expenditures on the property in the fourth year.