

**SILVER QUEST RESOURCES LTD.**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**Unaudited - prepared by management**

**AUGUST 31, 2009**

**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 consolidated financial statements of Silver Quest Resources Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

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

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



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

	<b>Three Month Period Ended August 31 2009</b>	<b>Three Month Period Ended August 31 2008</b>	<b>Six Month Period Ended August 31 2009</b>	<b>Six Month Period Ended August 31 2008</b>
<b>EXPENSES</b>				
Amortization	\$ 313	\$ 375	\$ 626	\$ 496
Business development	1,900	10,502	3,059	16,767
Consulting	2,400	7,395	2,400	19,345
Management fees and corporate services	19,764	14,992	32,299	31,242
Office and miscellaneous	8,468	9,641	10,228	15,528
Professional fees	11,121	3,692	7,392	3,881
Regulatory and filing fees	9,349	9,740	12,822	12,358
Rent	4,500	4,500	9,000	9,000
Salaries and benefits	22,739	38,028	46,762	60,600
Stock-based compensation (Note 10)	39,927	-	39,927	271,157
Travel	-	12,052	4,088	32,952
	<u>(120,481)</u>	<u>(110,917)</u>	<u>(168,603)</u>	<u>(473,326)</u>
<b>Loss before other items</b>				
<b>OTHER ITEMS</b>				
Interest income	53	5,763	3,265	11,633
Write-off of mineral properties (Note 5)	-	-	-	(267,899)
Write-off of deferred exploration costs (Note 6)	(3,175)	(7,335)	(5,762)	(526,360)
	<u>(3,122)</u>	<u>(1,572)</u>	<u>(2,497)</u>	<u>(782,626)</u>
<b>Loss and comprehensive loss for the period</b>	(123,603)	(112,489)	(171,100)	(1,255,952)
<b>Deficit, beginning of the period</b>	<u>(13,394,958)</u>	<u>(11,894,239)</u>	<u>(13,347,461)</u>	<u>(10,750,776)</u>
<b>Deficit, end of the period</b>	<u>\$ (13,518,561)</u>	<u>\$ (12,006,728)</u>	<u>\$ (13,518,561)</u>	<u>\$ (12,006,728)</u>
<b>Basic and diluted loss per common share:</b>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of common shares outstanding</b>	33,587,526	33,279,183	33,451,398	30,961,900

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 2009</b>	<b>Three Month Period Ended August 31 2008</b>	<b>Six Month Period Ended August 31 2009</b>	<b>Six Month Period Ended August 31 2008</b>
<b>Cash flows from operating activities</b>				
Loss for the period	\$ (123,603)	\$ (112,489)	\$ (171,100)	\$ (1,255,952)
Items not affecting cash:				
Amortization	313	375	626	496
Stock-based compensation	39,927	-	39,927	271,157
Write-off of mineral properties	-	-	-	267,899
Write-off of deferred exploration costs	3,175	7,335	5,762	526,360
Changes in non-cash working capital items				
(Increase) decrease in receivables	(383)	(37,173)	587	(33,732)
(Increase) decrease in prepaid expenses	2,034	2,811	(11,952)	(8,094)
Increase (decrease) in accounts payable and accrued liabilities	(2,250)	8,598	(15,711)	(8,650)
Net cash used in operating activities	<u>(80,787)</u>	<u>(130,543)</u>	<u>(151,861)</u>	<u>(240,516)</u>
<b>Cash flows from financing activities</b>				
Issuance of capital stock for cash	300,000	-	300,000	2,506,000
Share issuance costs	(24,750)	-	(24,750)	(153,011)
Net cash provided by financing activities	<u>275,250</u>	<u>-</u>	<u>275,250</u>	<u>2,352,989</u>
<b>Cash flows from investing activities</b>				
Acquisition of mineral properties	(35,000)	(11,000)	(35,000)	(111,925)
Exploration advances	(11,734)	116,549	(11,477)	(12,122)
Deferred exploration costs	(26,608)	(978,029)	(50,571)	(1,032,563)
Acquisition of equipment	-	(5,093)	-	(5,093)
Net cash used in investing activities	<u>(73,342)</u>	<u>(877,573)</u>	<u>(97,048)</u>	<u>(1,161,703)</u>
<b>Increase (decrease) in cash during the period</b>	121,121	(1,008,116)	26,341	950,770
<b>Cash, beginning of the period</b>	<u>173,051</u>	<u>2,016,415</u>	<u>267,831</u>	<u>57,529</u>
<b>Cash, end of the period</b>	<u>\$ 294,172</u>	<u>\$ 1,008,299</u>	<u>\$ 294,172</u>	<u>\$ 1,008,299</u>

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

## **1. BASIS OF PRESENTATION**

The 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 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 12)

#### 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 12)

#### Capital Management

Section 1535, Disclosure is required to provide information about an entity's capital and how it is managed. (Note 13)

### **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 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.

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the period ended August 31, 2009

**1. BASIS OF PRESENTATION** (continued)

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.

**2. 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 and repay its liabilities arising from normal business operations as they become due.

The Company has incurred ongoing losses and there is substantial doubt about the Company's ability to continue as a going concern. 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 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>August 31, 2009</b>	<b>February 28, 2009</b>
Deficit	\$ (13,518,561)	\$ (13,347,461)
Working capital	\$ 267,011	\$ 214,431

**3. EQUIPMENT**

	August 31, 2009			February 28, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 22,653	\$ 17,017	\$ 5,636	\$ 22,653	\$ 16,391	\$ 6,262

**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, 2009 a total of \$26,000 (2008 - \$26,000) had been lodged with the British Columbia Ministry of Energy and Mines.

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**5. MINERAL PROPERTIES**

The Company holds interests in various mineral claims as follows:

<b>BRITISH COLUMBIA</b>	<b>August 31 2009</b>	<b>February 28 2009</b>
<b>Capoose property, British Columbia</b>	\$ 203,450	\$ 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 (\$100,000 paid to date), issue a total 1,040,000 common shares (690,000 common shares issued to date with a fair value of \$103,450) 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>	62,250	80,000
A 100% interest, subject to a 2% NSR, which may be purchased back for \$2,000,000. The Company optioned up to a 75% interest in the property. The Optionee may acquire an initial 60% interest by making aggregate cash payments of \$90,000 (\$15,000 paid to date), issuing a total of 70,000 (350,000 pre-consolidation) shares (received 10,000 (50,000 pre-consolidation) shares at a value of \$2,750 to date) and incurring an aggregate \$1,000,000 in exploration expenditures within three years. An additional 15% interest may be acquired by the Optionee 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.		
<b>Howson property, British Columbia</b>	10,603	10,603
A 100% interest.		
<b>JAG property, British Columbia</b>	32,000	32,000
An Option to earn a 100% interest, subject to a 2.0% NSR. To earn its interest the Company must make staged cash payments of \$225,000 (\$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, 2012. The Company has the option to buy back 1% of the royalty for \$1,000,000 for a period of 21 years. 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>Total Properties - British Columbia</b>	<b>\$ 425,655</b>	<b>\$ 361,955</b>

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

<b>ONTARIO &amp; YUKON</b>	<b>August 31 2009</b>	<b>February 28 2009</b>
<b>Slate Falls property, Ontario</b>	\$ 13,500	\$ -
An option to purchase a 100% interest, subject to a 1.75% NSR. To acquire its interest in the property, the Company must make cash payments of \$100,000 (\$15,000 paid to date), issue 500,000 shares (150,000 shares valued at \$13,500 issued to date). The Company has the option, at any time after exercise of the option, to buy-back 0.75% (3/7th) of the NSR for \$1,000,000.		
<b>VO property, Yukon</b>	-	-
An option to purchase a 100% interest, subject to a 2.00% NSR. To acquire its interest in the property, the Company must make cash payments of \$60,000, issue 800,000 shares. The Company has the option, at any time after exercise of the option, to buy-back 1.00% of the NSR for \$1,000,000.		
<b>TAK property, Yukon</b>	-	-
An option to purchase a 100% interest, subject to a 2.00% NSR. To acquire its interest in the property, the Company must make cash payments of \$60,000, issue 800,000 shares. The Company has the option, at any time after exercise of the option, to buy-back 1.00% of the NSR for \$1,000,000.		
<b>CC property, Yukon</b>	-	-
An option to purchase a 100% interest, subject to a 2.00% NSR. To acquire its interest in the property, the Company must make cash payments of \$60,000, issue 800,000 shares. The Company has the option, at any time after exercise of the option, to buy-back 1.00% of the NSR for \$1,000,000.		
<b>CCR (Sizzler) property, Yukon</b>	-	-
An option to purchase a 100% interest, subject to a 2.00% NSR. To acquire its interest in the property, the Company must make cash payments of \$60,000, issue 800,000 shares. The Company has the option, at any time after exercise of the option, to buy-back 1.00% of the NSR for \$1,000,000.		
<b>Boulevard property, Yukon</b>	18,000	-
An option to purchase a 100% interest, subject to a 2.00% NSR. To acquire its interest the Company must make cash payments of \$200,000 and issue 1,000,000 common shares (200,000 shares valued at \$18,000 issued to date). The Company as the option, at any time after the exercise of the option, to buy-back 0.5% of the NSR for \$750,000.		
<b>Total Properties - Ontario &amp; Yukon</b>	<b>\$ 31,500</b>	<b>\$ -</b>
<b>Total Mineral Properties</b>	<b>\$ 457,155</b>	<b>\$ 361,955</b>

**SILVER QUEST RESOURCES LTD.**  
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**6. DEFERRED EXPLORATION COSTS**

<b>August 31, 2009</b>	<b>Tam</b>	<b>Tsacha</b>	<b>Taken</b>	<b>Davidson</b>	<b>Silver Trend</b>	<b>Capoose</b>	<b>Other</b>	<b>Total</b>
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
Geology	2,211	2,211	1,120	2,979	10,788	18,863	4,212	42,384
Geophysics	-	-	-	-	-	-	-	-
Field Sampling	-	-	-	-	703	703	-	1,406
Drilling	-	-	-	-	1,247	2,867	-	4,114
Land Tenure	634	634	317	-	-	725	-	2,310
Data Management and Evaluation	8	8	8	-	210	210	1,550	1,994
Reporting	-	-	-	-	975	975	-	1,950
Community Relations & Safety	-	-	-	-	-	-	-	-
	2,853	2,853	1,445	2,979	13,923	24,343	5,762	54,158
Written-off during the period	-	-	-	-	-	-	(5,762)	(5,762)
	2,853	2,853	1,445	2,979	13,923	24,343	-	48,396
Balance, as at August 31, 2009	\$ 1,393,358	1,198,139	245,011	460,615	489,159	892,932	108,540	4,787,754

<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	1,739,876
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

**SILVER QUEST RESOURCES LTD.**  
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**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, 2009 the Company entered into the following transactions with related parties:

- a) Paid or accrued \$9,000 (2008 - \$9,000) for rent to a company controlled by a director.
- b) Paid or accrued \$42,000 (2008 - \$37,010) for salaries and benefits to an officer of the Company.
- c) Paid or accrued \$37,500 (2008 - \$37,500) for salaries and benefits included in deferred exploration costs to an officer of the Company.
- d) Paid or accrued \$7,799 (2008 - \$2,992) for management fees to a company controlled by an officer of the Company.

Included in accounts payable is \$22,276 (2008 - \$20,422) 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 29, 2008	20,745,270	\$ 15,002,043	\$ 1,071,289
For mineral properties	40,000	6,000	-
For cash	12,530,000	2,506,000	-
Share issuance costs	-	(256,295)	103,284
Stock-based compensation	-	-	271,157
As at February 28, 2009	<u>33,315,270</u>	<u>\$ 17,257,748</u>	<u>\$ 1,445,730</u>
Share consolidation adjustment	143	-	-
For mineral properties	720,000	62,950	-
For cash	3,000,000	300,000	-
Share issuance costs	-	(24,750)	-
Stock-based compensation	-	-	39,927
As at August 31, 2009	<u><u>37,035,413</u></u>	<u><u>\$ 17,595,948</u></u>	<u><u>\$ 1,485,657</u></u>

On August 31, 2009 the Company issued 3,000,000 flow-through units (the "Units") at a price of \$0.10 per Unit for total proceeds of \$300,000. 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 \$0.15 per share for a period of one year. Finders' fees included the Company paying \$24,750 and issuing 240,00 finders' units exercisable for one year into one additional common share and one half share purchase warrant, each full warrant entitles the holding finder to one additional common share at a price of \$0.15 per share.

On August 25, 2009 the Company issued 200,000 common shares at a value of \$18,000 as consideration towards the acquisition of the Boulevard property.

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**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)**

On August 25, 2009 the Company issued 150,000 common shares at a value of \$13,500 as consideration towards the acquisition of the Slate Falls property.

On June 30, 2009 the Company issued 370,000 common shares at a value of \$31,450 as consideration towards the acquisition of the Capoose property.

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.

**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, 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
1,610,000	\$ 0.30	April 24, 2013
<u>500,000</u>	\$ 0.10	June 16, 2014
3,225,000		

Stock option transactions are summarized as follows:

	August 31, 2009		February 28, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	2,725,000	\$ 0.38	1,275,000	\$ 0.52
Granted	500,000	0.10	1,660,000	0.30
Exercised	-	-	-	-
Expired/cancelled	<u>-</u>	-	<u>(210,000)</u>	0.62
Balance, end of period	3,225,000	\$ 0.33	2,725,000	\$ 0.38
Options exercisable, end of period	3,225,000	\$ 0.33	2,725,000	\$ 0.38

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

**Stock options (continued)**

During the period ended August 31, 2009, the Company granted 500,000 (2008 - 1,660,000) stock options with a fair value under the Black-Scholes option-pricing model of \$39,927 (2008 - \$271,157) with a weighted average fair value of \$0.17 (2008 - \$0.16) per option.

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

	<b>2009</b>	<b>2008</b>
Risk-free interest rate	2.65%	3.20%
Expected life of options	3.88 years	3.88 years
Annualized volatility	104.53%	80.45%
Dividend rate	0.00%	0.00%

**Warrants**

As at August 31, 2009, 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>
6,265,000	\$ 0.30	October 6, 2009 (subsequently extended)
<u>1,500,000</u>	\$ 0.15	August 31, 2010
7,765,000		

Share purchase warrant transactions were as follows:

	<b>August 31, 2009</b>		<b>February 28, 2009</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	6,963,600	\$ 0.29	-	\$ -
Granted	1,500,000	0.15	6,963,600	0.29
Exercised	-	-	-	-
Expired/cancelled	<u>(698,600)</u>	0.20	<u>-</u>	-
Balance, end of period	7,765,000	\$ 0.27	6,963,600	0.29
Warrants exercisable, end of period	7,765,000	\$ 0.27	6,963,600	0.29

During the period ended August 31, 2009, the Company granted Nil (2008 - 698,600) agents' warrants with a fair value under the Black-Scholes option-pricing model of \$Nil (2008 - \$103,284).

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

	<b>2008</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**

The significant non-cash transaction for the period ended August 31, 2009 included:

- a) The accrual in accounts payable and accrued liabilities of \$3,587 of deferred exploration costs;
- b) The issuance of 370,000 common shares, with a value of \$31,450, as consideration towards the acquisition of the Capoose property in British Columbia (Note 5);
- c) The issuance of 150,000 common shares, with a value of \$13,500, as consideration towards the acquisition of the Slate Falls property in Ontario (Note 5); and
- d) The issuance of 200,000 common shares, with a value of \$18,000, as consideration towards the acquisition of the Boulevard property in the Yukon (Note 5).

The significant non-cash transaction for the period ended August 31, 2008 included:

- a) The accrual in accounts payable and accrued liabilities of \$84,208 of deferred exploration costs; and
- b) 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 (Note 5).

**12. 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 a 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 sale, are generally held to maturity.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

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.

**13. 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.

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.

**14. SEGMENTED INFORMATION**

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

**15. SUBSEQUENT EVENTS**

Subsequent to August 31, 2009 the Company:

- a) closed a brokered private placement with Canaccord Capital Corporation (the "Agent") of 6,875,000 units (the "Units") at a price of \$0.08 per Unit and 4,000,000 flow-through units ("FT Units") at a price of \$0.10 per FT Unit for total gross proceeds of \$950,000. Each Unit consists of one common share and one non-transferable common share purchase warrant ("Unit Warrant"). Each Unit Warrant entitles the holder to purchase one additional common share for two years at a price of \$0.12 in the first year and at a price of \$0.18 in the second year. Each FT Unit consists of one flow-through common share and one-half of one non-transferable common share purchase warrant ("FT Warrant"). Each whole FT Warrant entitles the holder to purchase one additional common share at a price of \$0.15 for one year. The Agent was paid a 7% commission of the gross proceeds raised and has been granted broker warrants equal to 7% of the Units and FT Units sold under the offering. The terms of the broker warrants are the same as the Unit Warrants above. The Agent was also paid a corporate finance fee. The Company also completed a non-brokered private placement of 1,000,000 FT Units for gross proceeds of \$100,000 under similar terms as above.

**SILVER QUEST RESOURCES LTD.**  
**Notes to the Consolidated Financial Statements**  
for the period ended August 31, 2009

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**15. SUBSEQUENT EVENTS** (continued)

- b) Extended the expiry date of 6,265,000 outstanding share purchase warrants from October 6, 2009 to October 6, 2010;
- c) Granted incentive stock options to directors and employees to purchase up to 1,000,000 common shares for a period of five years at a price of \$0.25 per share;
- d) Paid \$15,000 and issued 200,000 common shares, with a value of \$56,000, as consideration towards the acquisition of the VO property;
- e) Paid \$15,000 and issued 200,000 common shares, with a value of \$56,000, as consideration towards the acquisition of the TAK property;
- f) Paid \$15,000 and issued 200,000 common shares, with a value of \$56,000, as consideration towards the acquisition of the CC property;
- g) Paid \$15,000 and issued 200,000 common shares, with a value of \$56,000, as consideration towards the acquisition of the CCR (Sizzler) property;
- h) Issued 500,000 common shares for gross proceeds of \$150,000 pursuant to the exercise of share purchase warrants;
- i) Issued 100,000 common shares for gross proceeds of \$10,000 pursuant to the exercise of incentive stock options;
- j) Entered into a property option agreement with North Bay Resources Inc. to acquire a 75% interest in the Fawn and Buck properties located in central British Columbia by making aggregate cash payments of \$100,000, issuing 150,000 shares and incurring \$1,500,000 in exploration expenditures within four years. Of the aggregate payments and commitments due, \$25,000 in cash and 50,000 shares are due upon receipt of regulatory acceptance, and \$250,000 in exploration expenditures must be expended in the first 12 months. The agreement is subject to acceptance by the TSX Venture Exchange;
- k) Paid \$140,000 and issued 350,000 common shares, with a value of \$87,500, as consideration towards the acquisition of the Capoose property; and
- l) Paid \$35,000 and issued 10,000 common shares, with a value of \$2,500, as consideration towards the acquisition of the JAG property.