

**METALQUEST MINERALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 AND 2007**



MANNING ELLIOTT  
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7

Phone: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

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## AUDITORS' REPORT

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To the Shareholders of  
MetalQuest Minerals Inc.

We have audited the consolidated balance sheets of MetalQuest Minerals Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Manning Elliott LLP*

Chartered Accountants  
Vancouver, British Columbia  
April 15, 2009

**MetalQuest Minerals Inc.**  
**Consolidated Balance Sheets**  
As at December 31, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 284,234	\$ 620,080
Marketable securities (Note 4)	860,782	972,948
Amounts receivable	8,155	10,968
Current portion of long-term receivable (Note 5a)	575,562	468,345
Prepaid expenses	48,055	31,308
	<b>1,776,788</b>	2,103,649
<b>Marketable securities (Note 4)</b>	<b>156,557</b>	912,677
<b>Long-term receivable (Note 5a)</b>	<b>508,033</b>	791,528
<b>Advance to related party (Note 10)</b>	<b>40,000</b>	-
<b>Reclamation bond (Note 5c)</b>	<b>13,000</b>	13,000
<b>Resource property costs (Note 5)</b>	<b>400,000</b>	1,096,831
	<b>\$ 2,894,378</b>	<b>\$ 4,917,685</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 52,826	\$ 65,250
Due to related parties (Note 10)	862	1,527
	<b>53,688</b>	66,777
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 6)</b>	<b>12,165,843</b>	12,163,593
<b>Contributed surplus (Note 7)</b>	<b>1,459,688</b>	1,378,282
<b>Accumulated other comprehensive income (loss) (Note 8)</b>	<b>(223,462)</b>	1,579,673
<b>Deficit</b>	<b>(10,561,379)</b>	(10,270,640)
	<b>2,840,690</b>	4,850,908
	<b>\$ 2,894,378</b>	<b>\$ 4,917,685</b>

**NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS (Note 1)**

**COMMITMENT (Note 13)**

**SUBSEQUENT EVENTS (Note 15)**

Approved on Behalf of the Board:

"David McMillan"

David McMillan, Director

"Harold Forzley"

Harold Forzley, Director

**MetalQuest Minerals Inc.****Consolidated Statements of Operations and Deficit**

For the years ended December 31, 2008 and 2007

	2008	2007
<b>Expenses</b>		
Accounting and audit fees	\$ 90,814	\$ 114,242
Amortization	-	1,162
Bad debts	1,522	-
Consulting fees <i>(Note 10)</i>	11,646	132,527
Directors' fees <i>(Note 10)</i>	33,871	40,840
Interest and bank charges	682	1,244
Investor relations	18,201	22,201
Legal	23,676	23,474
Management fees	157,999	84,512
Office and administrative	60,732	57,484
Transfer agent, listing and filing fees	19,404	28,690
Travel and promotion	16,526	21,656
	<hr/>	<hr/>
<b>Loss before other items</b>	<b>435,073</b>	<b>528,032</b>
Other Items		
Gain on write-off of debt	-	13,558
Interest income	600	5,439
Interest income on loans and receivables	103,252	69,406
Gain (loss) on foreign exchange	273,958	(86,280)
Loss on disposition of marketable securities	(18,194)	-
Gain (loss) on disposition of Mexican subsidiaries <i>(Notes 5a and b)</i>	482,664	(415,617)
Resource property costs written-off <i>(Note 5)</i>	(697,946)	-
	<hr/>	<hr/>
	<b>144,334</b>	<b>(413,494)</b>
<b>Net loss for the year</b>	<b>(290,739)</b>	<b>(941,526)</b>
Deficit - beginning of year	<hr/> <b>10,270,640</b>	<hr/> 9,329,114
<b>Deficit - end of year</b>	<b>\$ 10,561,379</b>	<b>\$ 10,270,640</b>
	<hr/>	<hr/>
<b>Weighted average number of shares outstanding</b>	<b>24,672,346</b>	<b>24,657,734</b>
	<hr/>	<hr/>
<b>Net loss per share - basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**

**Consolidated Statement of Comprehensive Income (Loss)**

For the years ended December 31, 2008 and 2007

	<b>2008</b>	2007
Net loss for the year	\$ <b>(290,739)</b>	\$ (941,526)
Unrealized gain (loss) on available-for-sale investments	<b>(223,462)</b>	1,579,673
Comprehensive income (loss) for the year	<b>\$ (514,201)</b>	\$ 638,147

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**  
**Consolidated Statements of Cash Flows**  
For the years ended December 31, 2008 and 2007

	2008	2007
<b>Cash resources provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	\$ (290,739)	\$ (941,526)
Items not affected by cash		
Stock-based compensation	81,406	149,120
Amortization	-	1,162
Gain on write off of debt	-	(13,558)
Loss on disposition of marketable securities	18,194	-
Interest income on loans and receivables	(103,252)	(69,406)
Unrealized foreign exchange gain	(218,021)	-
Loss (gain) on disposition of Mexican subsidiaries	(482,664)	415,617
Resource property costs written-off	697,946	-
Changes in non-cash working capital balances:		
Amounts receivable	2,813	(5,322)
Prepaid expenses	(16,747)	(4,582)
Accounts payable and accrued liabilities	(12,424)	(289,930)
	<u>(323,488)</u>	<u>(758,425)</u>
<b>Investing activities</b>		
Resource property costs, net	(1,115)	13,898
Cash from disposition of marketable securities	27,172	-
Cash from sale of subsidiaries	-	726,386
	<u>26,057</u>	<u>740,284</u>
<b>Financing activities</b>		
Share subscriptions received net of issue costs	-	488,815
Recovery of share issuance cost	2,250	-
Shares issued for cash	-	20,000
Due to related parties	(40,665)	(46,268)
	<u>(38,415)</u>	<u>462,547</u>
<b>Net increase (decrease) in cash</b>	<b>(335,846)</b>	<b>444,406</b>
Cash - beginning of year	<u>620,080</u>	<u>175,674</u>
<b>Cash - end of year</b>	<b>\$ 284,234</b>	<b>\$ 620,080</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ -	\$ 1,244
Income taxes paid	\$ -	\$ -

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS**

MetalQuest Minerals Inc. (the "Company") is an exploration stage company and is in the business of acquiring and exploring resource properties in British Columbia and Mexico. There has been no determination whether properties held contain ore reserves which are economically recoverable.

The recoverability of carrying amounts for resource properties and options is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying resource claims, the ability of the Company to obtain the necessary financing to complete the development and achieve profitable production or alternatively, dispose of the properties. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly a material portion of the carrying value of resource properties could be written-off.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. As at December 31, 2008, the Company has incurred significant losses since inception totalling \$9,863,433. The continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

**2. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS**

**Changes in accounting policies**

Effective on January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments - Disclosure" and Section 3863, "Financial Instruments - Presentation". These sections carry forward the former presentation requirements and increase the emphasis on recognition and management of the risks associated with recognized and unrecognized financial instruments. Disclosure requirements pertaining to this new standard are contained in Note 12.

Effective on January 1, 2008, the Company adopted the CICA Handbook Section 1535, "Capital Disclosures", which requires disclosure of information about an entity's capital and its objectives, policies and processes for managing capital. Disclosure requirements pertaining to this new standard are contained in Note 14.

Effective on January 1, 2008, the Company adopted CICA Handbook Section 1400, "General Standards of Financial Statement Presentation". This section provides revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this section had no significant impact on the Company's consolidated financial statements.

**Recent accounting pronouncements**

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**2. CHANGES IN ACCOUNTING POLICY AND RECENT ACCOUNTING PRONOUNCEMENTS -**  
*Continued*

**Recent accounting pronouncements**

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In 2008, the Accounting Standards Board issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on the Company's financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**a) Basis of consolidation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and Red Tusk Resources Inc. ("Red Tusk"), its wholly-owned subsidiary.

The 2007 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- Sonora Gold de Mexico, S.A. de C.V. ("Sonora de Mexico") – sold in 2007;
- Red Tusk Resources Inc. ("Red Tusk");
- Minera Montana Roja, S.A. de C.V. ("MMR") – sold in 2008.

All material intercompany balances and transactions have been eliminated on consolidation.

**b) Cash and cash equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

**c) Marketable securities**

The Company has classified its marketable securities as available-for-sale and therefore carries them at fair market value with the unrealized gain or loss recorded in accumulated other comprehensive income. Fair values were determined by reference to published price quotations in an active market as at December 31, 2008.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**3. SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**d) Resource properties**

All costs related to the acquisition, exploration and development of resource properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized to income using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that have lapsed, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of resource properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its resource properties contains economically recoverable reserves. Amounts capitalized as resource properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on resource properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

**e) Long-lived assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying value of the asset exceeds the fair value of the asset.

**f) Asset retirement obligations**

The Company follows CICA Handbook Section 3110, "Asset Retirement Obligations", which establishes standards for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment. The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value. As at December 31, 2008, the Company has not incurred any asset retirement obligation related to the exploration and development of its resource properties.

**g) Income taxes**

The Company utilizes the asset and liability method of accounting for income taxes. Under the liability method, future income taxes are recognized to reflect the expected future tax consequences arising from temporary differences between the carrying value and the tax bases of the Company's assets and liabilities. The amount of future income tax assets is not recognized until realization is more likely than not.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**3. SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**h) Financial instruments**

The Company's financial instruments consist of cash, marketable securities, long-term receivable, accounts payable and due to related parties.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 "Related Party Transactions".

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income.

The Company classified cash as held-for-trading, marketable securities as available-for-sale, long-term receivable as loans and receivables, accounts payable and due to related parties as other financial liabilities.

**i) Stock-based compensation**

The Company follows the recommendation of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under this method, compensation expense for stock option grants to employees and non-employees is based on the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees together with the related contributed surplus on the exercise of stock options is recorded as share capital.

**j) Non-monetary transactions**

Transactions in which shares or other non-cash consideration are exchanged for assets or services are measured at the fair value of the assets or services involved in accordance with CICA Handbook Section 3830 "Non-monetary Transactions".

**k) Earning (loss) per share**

The Company uses the treasury stock method in computing earning (loss) per share. Under this method, basic earning (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. For the years ended December 31, 2008 and 2007, the existence of warrants and options causes the calculation of fully diluted earning (loss) per share to be anti-dilutive. Accordingly, fully diluted earning (loss) per share information has not been shown.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**3. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**l) Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 period. Significant areas requiring the use of management estimates are the determination of impairment of resource properties, stock-based compensation and estimation of future income tax assets and liabilities. Actual results may differ from those estimates.

**4. MARKETABLE SECURITIES**

Marketable securities consist of 2,083,758 common shares of Animas Resources Inc. ("Animas"), a company listed on the TSX-V in Canada, with a fair value of \$1,017,339. 900,000 of these shares were held in escrow as at December 31, 2008 and will be released in 2009 and 2010 as disclosed in Note 5(a).

**5. RESOURCE PROPERTY COSTS**

Summary of cumulative expenditures are as follows:

<b>As at December 31, 2008</b>					
	Acquisition	Annual Mining Concession Fees	Exploration	Write-off	<b>Total</b>
Resource Property RHG Property	\$ 1,149,707	-	(51,761)	(697,946)	<b>\$ 400,000</b>
	<b>\$ 1,149,707</b>	<b>-</b>	<b>(51,761)</b>	<b>(697,946)</b>	<b>\$ 400,000</b>
<b>As at December 31, 2007</b>					
	Acquisition	Annual Mining Concession Fees	Exploration	Write-off	<b>Total</b>
Resource Properties Santa Gertudis	\$ 66,231	351,258	1,899,819	(2,317,308)	<b>\$ -</b>
Roca Roja	5,000	347,774	1,317,141	(1,669,915)	<b>-</b>
RHG Property	1,149,707	-	(52,876)	-	<b>1,096,831</b>
	<b>\$ 1,220,938</b>	<b>699,032</b>	<b>3,164,084</b>	<b>(3,987,223)</b>	<b>\$ 1,096,831</b>

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**5. RESOURCE PROPERTY COSTS - Continued**

Summary of current year expenditures:

	<b>2008</b>	<b>2007</b>
<b>Mexico</b>		
<i>Santa Gertrudis</i>		
Other	\$ -	\$ 34,667
Salaries and fees	-	45,161
Surface access fee	-	33,062
Annual mining taxes	-	2,107
Recovery of costs	-	(46,811)
Future income tax	-	(2,938)
	-	<u>65,248</u>
<i>Roca Roja</i>		
Other	-	31,494
Annual mining taxes	-	14,980
Future income tax	-	(226)
	-	<u>46,248</u>
<b>Canada</b>		
RHG Property		
Camp and supplies	(8,885)	8,885
Helicopter	10,000	-
Consulting	15,000	1,018
Geology	250	7,956
Equipment rental	-	270
Travel	-	4,583
Other	9,750	1,039
BC mining tax credit	-	(77,195)
Option payment	(25,000)	-
	<u>1,115</u>	<u>(53,444)</u>
Total costs for the year	1,115	58,052
Mineral property written-off	(697,946)	-
Disposition of Santa Gertrudis and Roca Roja	-	(3,987,222)
Net change for the year	(696,831)	(3,929,170)
Balance - Beginning of Year	1,096,831	5,026,001
<b>Balance - End of Year</b>	<b>\$ 400,000</b>	<b>\$ 1,096,831</b>

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**5. RESOURCE PROPERTY COSTS - Continued**

a) **Santa Gertrudis and Roca Roja**

On April 15, 2007 the Company entered into an agreement to sell 100% of its shares, rights, title and interest of First Silver Reserves, S.A. de C.V. and Recursos Escondidos, S.A. de C.V. ("the Subsidiaries") to Animas Resources Inc. ("Animas"). The Subsidiaries are registered and beneficial holders of the Santa Gertrudis and Roca Roja properties located in Sonora, Mexico.

In consideration for the sale the Company received \$726,386 in cash and 1,500,000 common shares of Animas, which are subject to an escrow agreement. The shares will be released from escrow in share allotments of 225,000 in 6 month intervals until July 2010. As at December 31, 2008, 900,000 shares (2007 - 1,350,000 shares) are held in escrow. The following are details pertaining to the escrow release:

<b>Release dates</b>	<b>Shares to be released</b>	<b>Shares received</b>	<b>Escrow balance</b>
July 13, 2007	150,000	150,000	-
January 13, 2008	225,000	225,000	-
July 13, 2008	225,000	225,000	-
January 13, 2009	225,000	-	225,000
July 13, 2009	225,000	-	225,000
January 13, 2010	225,000	-	225,000
July 13, 2010	225,000	-	225,000
<b>Total</b>	<b>1,500,000</b>	<b>600,000</b>	<b>900,000</b>

In addition, Animas is required to pay US \$1,500,000 in three equal payments of US\$500,000. The payments can be made in cash and/or common shares of Animas, at the option of Animas, on the anniversary of the closing date, which is July 10. During the year ended December 31, 2008, Animas elected to pay US\$500,000 in common shares to the Company resulting in 325,829 common shares valued at \$497,551. The following are details pertaining to this receivable:

<b>Payment dates</b>	<b>Balance US\$</b>	<b>Balance CAD\$</b>
July 10, 2009	500,000	575,562
July 10, 2010	500,000	508,033
<b>Total</b>	<b>1,000,000</b>	<b>\$1,083,595</b>

As a result of the sale, the Company reduced the carrying values of the Santa Gertudis and Roca Roja resources properties to \$Nil and recorded a loss on disposition of \$415,617 for the year ended December 31, 2007.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**5. RESOURCE PROPERTY COSTS - *Continued***

b) **San Enrique**

Subsequent to the disposition of the Company's Mexican subsidiaries in 2007, the Company entered into an option agreement with Animas on July 5, 2007 offering a 120 day option to purchase the Company's 100% interest in the San Enrique property located in Sonora, Mexico for a consideration of US\$450,000.

On February 29, 2008, Animas exercised the option to acquire a 100% interest in the San Enrique property. As consideration, Animas elected to issue 307,429 common shares with a fair value of \$482,664. The Company recorded a gain of \$482,664 from the disposition of this property.

c) **RHG Property**

On December 15, 2005, Red Tusk entered into an option agreement to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division, British Columbia, Canada (the "RHG Property") in consideration for \$100,000 in cash (paid), the issuance of 1,000,000 common shares (issued) and reimbursement of exploration costs of \$405,775. The interest in the RHG Property is subject to a 2.5% net smelter return royalty. Red Tusk may purchase 60% of the net smelter return royalty at any time for \$1,000,000.

Reclamation bonds are cash deposits pledged to the Province government of B.C. The bonds mature and roll over every year until the Company is released from its obligation.

An officer of the Optionor is related to a director.

On September 10, 2008, the Company entered into an option agreement (the "Agreement") with Georgia Ventures Corp. ("Georgia Ventures"), a Canadian private corporation located in Vancouver, British Columbia. Under the terms of the Agreement, the Company granted Georgia Ventures an option to acquire 65% interest in the RHG Property. The option requires Georgia Ventures to:

- (i) pay the Company an aggregate of \$375,000 per the following instalments:
  - a. \$25,000 paid as a deposit upon completion of the Agreement; (received)
  - b. \$25,000 paid within 15 days from the time Georgia Ventures' common shares are listed for trading on the TSX Venture Exchange (the "Approval Date");
  - c. \$75,000 paid on or before the first anniversary of the Approval Date;
  - d. \$100,000 paid on or before the second anniversary of the Approval Date; and
  - e. \$150,000 paid on or before the third anniversary of the Approval Date.
- (ii) issue to the Company 1,000,000 common shares of Georgia Ventures per the following instalments:
  - a. 250,000 common shares within six months from the date of the Agreement;
  - b. 250,000 common shares on or before the first anniversary of the Approval Date;
  - c. 250,000 common shares on or before the second anniversary of the Approval Date; and
  - d. 250,000 common shares on or before the third anniversary of the Approval Date.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the years ended December 31, 2008 and 2007

**5. RESOURCE PROPERTY COSTS - Continued**

c) **RHG Property - Continued**

- (iii) complete minimum expenditures on the RHG Property of \$3,500,000 over three years per the following schedule:
- a. \$300,000 within six months from the date of the Agreement;
  - b. \$700,000 on or before the first anniversary of the Approval Date;
  - c. \$1,000,000 on or before the second anniversary of the Approval Date; and
  - d. \$1,500,000 on or before the third anniversary of the Approval Date.

If Georgia Ventures exercises the option, Georgia Ventures is also granted an exclusive option (the "Additional Option") to acquire an additional 10% interest in and to the RHG Property. The Additional Option requires Georgia Ventures to notify the Company 90 days before exercising the Additional Option and finance all expenditures related to the preparation and delivery of the feasibility report on the RHG to the Company.

On September 30, 2008, the Company entered into an assignment agreement whereby all benefits and costs related to the Agreement with Georgia Ventures have been assigned from Georgia Ventures to GMV Minerals Inc., a Canadian public corporation listed on the TSX Venture Exchange.

For the year ended December 31, 2008, the Company recognized an impairment charge of \$697,946 on the RHG property due to the Option Agreement and results of GMV's RHG drilling program.

**6. SHARE CAPITAL**

On October 17, 2007, the Company completed a 3 for 1 share consolidation. As at October 17, 2007, the Company had 74,017,038 common shares issued and outstanding resulting in 24,672,346 common shares outstanding after consolidation.

a) Details are as follows:

	<b>Number</b>	<b>Amount</b>
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
Balance - December 31, 2006	24,605,679	\$ 11,654,778
Share subscriptions received	-	497,375
Share issuance costs	-	(8,560)
Options exercised	66,667	20,000
Balance - December 31, 2007	24,672,346	12,163,593
Share issuance cost recovery	-	2,250
<b>Balance - December 31, 2008</b>	<b>24,672,346</b>	<b>\$ 12,165,843</b>

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**6. SHARE CAPITAL - Continued**

b) **Share issue**

During the year ended December 31, 2007, the Company issued common shares pursuant to the following:

- i) The Company received the remaining \$497,375 in subscriptions pursuant to the December 28, 2006 private placement.
- ii) The Company incurred \$8,650 share issuance costs for the 2006 private placement.
- iii) The Company issued 66,667 common shares for stock options that were exercised at \$0.30 for gross proceeds of \$20,000.

c) **Warrants**

Warrant transactions are summarized as follows:

	<b>Number of Warrants</b>	
	<b>2008</b>	<b>2007</b>
Balance - Beginning of year	8,819,848	11,019,848
Expired	(8,819,848)	(2,200,000)
<b>Balance - End of Year</b>	<b>-</b>	<b>8,819,848</b>

The Company did not have any warrants outstanding at December 31, 2008.

**7. CONTRIBUTED SURPLUS**

The Company's contributed surplus is comprised of the following:

	<b>2008</b>		<b>2007</b>	
Balance - Beginning of year	\$	1,378,282	\$	1,229,162
Stock-based compensation (Note 8)		81,406		149,120
<b>Balance - End of year</b>	<b>\$</b>	<b>1,459,688</b>	<b>\$</b>	<b>1,378,282</b>

**8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

	<b>2008</b>		<b>2007</b>	
Balance - Beginning of year	\$	1,579,673	\$	-
Unrealized gain (loss) on marketable securities		(1,803,135)		1,579,673
<b>Balance - End of year</b>	<b>\$</b>	<b>(223,462)</b>	<b>\$</b>	<b>1,579,673</b>

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**9. STOCK OPTIONS**

The Company adopted a stock option plan pursuant to which the directors may, from time to time, authorize the issuance of options to directors, officers, employees and consultants of the Company and its subsidiaries to a maximum of 20% of the issued and outstanding common shares at the time of the grant.

Options granted under the plan shall vest as follows:

- 25% on the date of grant;
- 25% six months after the date of grant;
- 25% twelve months after the date of grant;
- 25% eighteen months after the date of grant.

An aggregate of 4,934,470 common shares have been reserved for issuance under the plan.

a) A summary of the Company's outstanding options is as follows:

	2008		2007	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	2,066,666	\$0.29	2,650,000	\$0.31
Granted	1,250,000	\$0.13	700,000	\$0.30
Exercised	-	-	(66,667)	\$0.30
Expired/Cancelled	(1,366,666)	\$0.28	(1,216,667)	\$0.33
<b>Ending balance</b>	<b>1,950,000</b>	<b>\$0.18</b>	<b>2,066,666</b>	<b>\$0.29</b>

b) The Company had the following share purchase options outstanding and exercisable:

December 31, 2008			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
700,000	700,000	\$0.30	May 16, 2009
1,250,000	625,000	\$0.13	March 6, 2010
<b>1,950,000</b>	<b>1,325,000</b>		

December 31, 2007			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
666,667	666,667	\$0.30	October 28, 2008
700,000	525,000	\$0.27	October 28, 2008
700,000	350,000	\$0.30	May 16, 2009
<b>2,066,667</b>	<b>1,541,667</b>		

The weighted average contract life remaining on the above options is 324 days or 0.89 years (2007 - 1.52 years).

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**9. STOCK OPTIONS - *Continued***

The Company uses the Black-Scholes Option Pricing Model (the "Model") to calculate the fair value of stock options granted. The Model was developed for use in estimating the fair value of traded options that have no vesting restrictions. The Model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. For purposes of the calculation, the following weighted average assumptions were used:

	<b>2008</b>	2007
Risk free interest rate	2.52%	4.20%
Expected dividend yield	0%	0%
Expected stock price volatility	78%	83%
Expected life of options	2 years	2 years

The weighted average fair value of the options granted during the year was \$0.06 (2007 - \$0.05).

Total stock-based compensation for the year ended December 31, 2008 was \$81,406 (2007 - \$149,120) and was expensed to operations and included in contributed surplus for options granted to directors, officers, and consultants of the Company.

**10. RELATED PARTY TRANSACTIONS**

Related party transactions not disclosed elsewhere in these consolidated financial statements, are as follows:

- a) During the year, management fees of \$132,750 (2007 - \$70,000) were paid to companies controlled by a director and an officer of the Company.
- b) During the year, consulting fees of \$Nil (2007 - \$24,000) were paid to a non-arms length party related to a director.
- c) During the year, consulting fees of \$1,350 (2007 - \$16,200) were paid to a company controlled by an officer.
- d) During the year, accounting fees of \$22,000 (2007 - \$Nil) were paid to an officer and a company controlled by an officer.
- e) During the year, the Company paid \$64,996 (2007 - \$Nil) for rent, office, accounting and investor relations expenses to a company controlled by directors and officers of the Company.
- f) During the year, the Company paid \$4,299 (2007 - \$Nil) for accounting and investor relations expenses to a company with common director.
- g) During the year, the Company entered into an option agreement with GMV Minerals Inc. ("GMV"), a company associated with the Company through a common director. Per the option agreement, the Company received \$25,000 (2007 - \$Nil) as consideration and reimbursement of \$13,000 for a reclamation bond (Note 4(c)). Accounting fees of \$12,000 were also paid to GMV.
- h) During the year, the Company expensed \$81,406 (2007 - \$149,120) of stock-based compensation cost to directors' fees, management fees, accounting and consulting fees for options granted to directors, officers, and companies with directors in common.

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**10. RELATED PARTY TRANSACTIONS - *Continued***

The above transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the consideration established and agreed to by the related parties and are on terms and conditions similar to non-related parties.

As at December 31, 2008, the Company advanced \$40,000 (2007 - \$Nil) to a company controlled by directors and officer of the Company. Prepaid expenses included \$1,575 (2007 - \$Nil) advance to a director. Due to related parties included \$862 (2007 - \$1,527) payable to a director. These amounts are non-interest bearing with no specific terms of repayment.

**11. INCOME TAXES**

a) The Company has the following non-capital tax loss carry-forwards expiring in the following years:

2009	\$	236,725
2010		284,563
2013		105,349
2014		471,748
2025		253,075
2026		360,069
2027		391,918
2028		64,429
	\$	<u>2,167,876</u>

b) The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2008	2007
Canadian statutory income tax rate	31.00%	34.12%
Income tax recovery at statutory rate	\$ (90,129)	\$ (319,895)
Permanent difference and others	309,737	429,419
Rate change	73,782	259,862
Expiry of loss	(21,226)	91,909
Change in valuation allowance	(272,164)	(461,295)
Income tax recoverable	\$ -	\$ -

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**11. INCOME TAXES - Continued**

- c) Future income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets and liabilities as at December 31, 2008 and 2007 are as follows:

	2008	2007
	25%	26%
Accounting value of resource property costs		
less than tax value	\$ 614,000	\$ 464,000
Property and equipment	2,000	2,000
Share issue costs	12,000	21,000
Investment tax credits	29,000	29,000
Marketable securities	28,000	(205,000)
Long term receivables	(33,000)	33,000
Non-capital losses carried forward	545,000	581,000
Eligible capital expenditures	26,000	26,000
Future income tax asset (liability)	1,223,000	951,000
Less: Valuation allowance	(1,223,000)	(951,000)
Future income tax asset (liability) recognized	\$ -	\$ -

**12. FINANCIAL INSTRUMENTS**

**Interest Rate and Credit Risk**

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and long-term receivable. To minimize the credit risk the Company places the cash with high credit quality financial institutions. Management, on an ongoing basis, monitors the financial condition of Animas in order to reduce the default risk.

The Company's long-term receivable is from Animas. Credit risk from long-term receivable encompasses the default risk of Animas. Management does not believe that there is significant credit risk arising from Animas; however, should Animas be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from long-term receivable is equal to their total carrying amounts. The Company is not exposed to interest rate risk on long-term receivable as the amount is fixed.

**Currency Risk**

The Company incurs expenses and expenditures primarily in Canada and is not exposed to risk from changes in foreign currency rates. However, the Company holds long-term receivable in U.S. dollars that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollars could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

At December 31, 2008, the Company had long-term receivable of \$1,083,595 denominated in U.S. dollars.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. Currently the Company has minimal liabilities and as a result, is not exposed to liquidity risk.

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**12. FINANCIAL INSTRUMENTS - *Continued***

Sensitivity analysis

The Company has completed a sensitivity analysis to estimate the impact on net income for the period, which a change in foreign exchange rate during the year ended December 31, 2008 would have had.

The sensitivity analysis includes the assumption of changes in individual foreign exchange rates do not cause foreign exchange rates in other countries to alter.

The result of the sensitivity analysis shows a change in +/- 10% in USD exchange rate could have an impact of approximately +/- \$108,000 on the Company's net income.

The above result arises primarily as a result of the Company having USD long-term receivable balance. The financial position of the Company may vary at the time that a change of the foreign exchange rate occurs, causing the impact on the Company's results to differ from that shown above.

**13. COMMITMENT**

The Company is committed to a lease for its office in Vancouver expiring in August 2011. Minimum lease payments are required as follows:

2009	\$	113,745
2010		113,745
2011		75,830
Total	\$	<u>303,320</u>

**14. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing, exploration and development of resource properties. The Company does not have any externally imposed capital requirements to which it is subject.

As at December 31, 2008, the Company had capital resources consisting of cash, marketable securities and long-term receivable. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

The Company's investment policy is to invest its cash in investment instruments of high credit quality financial institutions with terms to maturity selected with regards to the expected time of exploration and development expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration and development plans and operations through its current operating year.

**15. SUBSEQUENT EVENTS**

- a) Subsequent to the year end, the Company is in the process of dissolving Red Tusk Resources Inc., its wholly owned subsidiary and will transfer all assets and liabilities to the parent company.
- b) On January 13, 2009, the Company received 225,000 Animas common shares as disclosed in Note 5(a).
- c) On March 16, 2009, the Company received 637,700 Animas common shares as partial payment of the amount receivable as disclosed in Note 5(a).