

**METALQUEST MINERALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2009 AND 2008**



## **NOTICE TO READER**

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These financial statements have been prepared by management of the Company. We have compiled the interim balance sheet of MetalQuest Minerals Inc. as at June 30, 2009 and the interim statements of loss and deficit and cash flows for the six months then ended. Independent accountants have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Per NI 51-102 Section 4.3(3)(a), Continuous Disclosure Obligations, provides that if an auditor has not performed a review of interim financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. Readers are cautioned that these statements may not be appropriate for their purposes.

**MetalQuest Minerals Inc.**  
**Consolidated Balance Sheets**

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 29,163	\$ 284,234
Marketable securities (Note 4)	1,439,180	860,782
Amounts receivable	5,725	8,155
Current portion of long-term receivable (Note 5a)	274,615	575,562
Prepaid expenses	79,082	48,055
	<u>1,827,765</u>	<u>1,776,788</u>
Marketable securities (Note 4)	201,556	156,557
Long-term receivable (Note 5a)	556,048	508,033
Advance to related party (Note 10)	40,000	40,000
Advance to Canadian Ore Processor (Note 11)	50,000	-
Reclamation bond (Note 5b)	13,000	13,000
Resource property costs (Note 5)	398,409	400,000
	<u>\$ 3,086,778</u>	<u>\$ 2,894,378</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 46,969	\$ 52,826
Due to related parties (Note 10)	10,397	862
	<u>57,366</u>	<u>53,688</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 6)	12,165,843	12,165,843
Contributed surplus (Note 7)	1,484,163	1,459,688
Accumulated other comprehensive income (loss) (Note 8)	240,757	(223,462)
Deficit	(10,861,351)	(10,561,379)
	<u>3,029,412</u>	<u>2,840,690</u>
	<u>\$ 3,086,778</u>	<u>\$ 2,894,378</u>

**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 periods ended June 30, 2009 and 2008

	6 Months Ended June 30, 2009	6 Months Ended June 30, 2008	3 Months Ended June 30, 2009	3 Months Ended June 30, 2008
<b>Expenses</b>				
Accounting and audit fees <i>(Note 10)</i>	\$ 35,221	\$ 34,622	\$ 26,625	\$ 23,544
Consulting fees <i>(Note 10)</i>	82,037	16,423	68,077	14,365
Directors' fees <i>(Note 10)</i>	4,569	14,246	2,297	7,267
Interest and bank charges	194	379	119	264
Investor relations	7,314	8,275	6,546	1,007
Legal	7,517	4,304	4,842	4,304
Management fees <i>(Note 10)</i>	79,249	73,578	39,657	31,765
Office and administrative	43,210	24,306	14,379	12,566
Transfer agent, listing and filing fees	11,013	11,851	5,373	9,131
Travel and promotion	27,907	8,625	24,544	2,245
<b>Loss before other items</b>	<b>298,231</b>	<b>196,609</b>	<b>192,459</b>	<b>106,458</b>
Other Items				
Interest income on loans and receivables <i>(Notes 3h and 5a)</i>	54,771	-	54,771	-
Gain (loss) on disposition of marketable securities	(73,373)	-	(35,157)	-
Gain (loss) on foreign exchange	16,863	-	16,863	-
Gain (loss) on disposition of Mexican subsidiaries <i>(Notes 5a and b)</i>	-	440,460	-	-
	<b>(1,739)</b>	<b>440,460</b>	<b>36,477</b>	<b>-</b>
<b>Net loss (gain) for the period</b>	<b>299,970</b>	<b>(243,851)</b>	<b>155,982</b>	<b>106,458</b>
Deficit - beginning of period	10,561,381	10,270,642	10,705,369	9,920,333
<b>Deficit - end of period</b>	<b>\$ 10,861,351</b>	<b>\$ 10,026,791</b>	<b>\$ 10,861,351</b>	<b>\$ 10,026,791</b>
<b>Weighted average number of shares outstanding</b>				
	<b>24,672,346</b>	<b>24,672,346</b>	<b>24,672,346</b>	<b>24,672,346</b>
<b>Net loss (gain) per share - basic and diluted</b>	<b>\$ 0.012</b>	<b>\$ (0.010)</b>	<b>\$ 0.006</b>	<b>\$ 0.004</b>

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**

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

For the periods ended June 30, 2009 and 2008

	<b>6 Months Ended June 30, 2009</b>		<b>6 Months Ended June 30, 2008</b>
Net gain (loss) for the period	\$ (299,970)	\$	243,851
Unrealized gain (loss) on available-for-sale investments	<u>240,757</u>		<u>1,418,972</u>
Comprehensive income (loss) for the period	<u>\$ (59,213)</u>	<u>\$</u>	<u>1,662,823</u>

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**

**Consolidated Statements of Cash Flows**

For the periods ended June 30, 2009 and 2008

	6 Months Ended June 30, 2009	6 Months Ended June 30, 2008	3 Months Ended June 30, 2009	3 Months Ended June 30, 2008
<b>Cash resources provided by (used in)</b>				
<b>Operating activities</b>				
Net gain (loss) for the period	\$ (299,970)	\$ 243,851	\$ (155,982)	\$ (106,458)
Items not affected by cash				
Stock-based compensation	24,475	45,244	12,306	24,191
Loss (gain) on disposition of marketable securities	73,373	-	35,157	-
Loss (gain) on foreign exchange	(16,863)	-	(16,863)	-
Loss (gain) on disposition of Mexican subsidiaries	-	(440,460)	-	-
Interest income on loans and receivables ( <i>Notes 3h and 5a</i> )	(54,771)	-	(54,771)	-
Changes in non-cash working capital balances:				
Amounts receivable	2,430	(8,509)	6,850	(5,300)
Prepaid expenses	(31,027)	(39,076)	(31,027)	(427)
Accounts payable and accrued liabilities	(6,145)	(39,180)	(16,979)	(28,607)
	<u>(308,499)</u>	<u>(238,130)</u>	<u>(221,309)</u>	<u>(116,601)</u>
<b>Investing activities</b>				
Resource property costs, net	1,591	(10,000)	-	(10,000)
Cash from disposition of marketable securities	92,042	-	-	-
Advances to Canadian Ore Processor	(50,000)	-	(50,000)	-
Cash from sale of subsidiaries	-	-	-	-
	<u>43,633</u>	<u>(10,000)</u>	<u>(50,000)</u>	<u>(10,000)</u>
<b>Financing activities</b>				
Due to related party	10,396	-	10,396	-
	<u>10,396</u>	<u>-</u>	<u>10,396</u>	<u>-</u>
<b>Net increase (decrease) in cash</b>	<b>(254,470)</b>	<b>(248,130)</b>	<b>(260,913)</b>	<b>(126,601)</b>
Cash - beginning of year	283,633	630,080	290,076	498,551
<b>Cash - end of year</b>	<b>\$ 29,163</b>	<b>\$ 371,950</b>	<b>\$ 29,163</b>	<b>\$ 371,950</b>
<b>Supplemental cash flow information</b>				
Interest paid	\$ 194	\$ 379	\$ 119	\$ 264
Income taxes paid	\$ -	\$ -	\$ -	\$ -

- See accompanying notes to the consolidated financial statements -

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

**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. 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 June 30, 2009, the Company has incurred significant losses since inception totalling \$10,861,351. 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 six-month periods ended June 30, 2009 and 2008

**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 2009 consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

- Red Tusk Resources Inc. ("Red Tusk")- dissolved on June 25, 2009

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 June 30, 2009.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

**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 June 30, 2009, 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 six-month periods ended June 30, 2009 and 2008

**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 periods ended June 30, 2009 and 2008, 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 six-month periods ended June 30, 2009 and 2008

**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 2,734,412 common shares of Animas Resources Inc. ("Animas"), a company listed on the TSX-V in Canada, with a fair value of \$1,640,736. 675,000 of these shares were held in escrow as at June 30, 2009 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>June 30, 2009</b>				
		Acquisition	Annual Mining Concession Fees	Exploration	Write-off	<b>Total</b>
Resource Property	RHG Property	\$ 1,149,707	-	(53,352)	(697,946)	<b>\$ 398,409</b>
		<b>\$ 1,149,707</b>	<b>-</b>	<b>(53,352)</b>	<b>(697,946)</b>	<b>\$ 398,409</b>
		<b>As at June 30, 2008</b>				
		Acquisition	Annual Mining Concession Fees	Exploration	Write-off	<b>Total</b>
Resource Properties	RHG Property	\$ 1,149,707	-	(42,876)	-	<b>\$ 1,106,831</b>
		<b>\$ 1,149,707</b>	<b>-</b>	<b>(42,876)</b>	<b>-</b>	<b>\$ 1,106,831</b>

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

**5. RESOURCE PROPERTY COSTS - Continued**

Summary of current year expenditures:

	<b>2009</b>	2008
<b>Canada</b>		
RHG Property		
Camp and supplies	-	(8,885)
Helicopter	-	10,000
Consulting	-	15,000
Geology	-	250
Equipment rental	-	-
Travel	-	-
Other	-	9,750
BC mining tax credit	(1,591)	-
Option payment	-	(25,000)
	<u>(1,591)</u>	<u>1,115</u>
 Total costs for the period	 (1,591)	 1,115
Mineral property written-off	-	(697,946)
Net change for the year	<u>(1,591)</u>	<u>(696,831)</u>
Balance - Beginning of Year	400,000	1,096,831
<b>Balance - End of Period</b>	<b>\$ 398,409</b>	<b>\$ 400,000</b>

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

**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 June 30, 2009, 675,000 shares (2008 – 1,125,000 shares) were 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>825,000</b>	<b>675,000</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. As a result of the sale, the Company reduced the carrying values of the Santa Gertrudis and Roca Roja resources properties to \$Nil and recorded a loss on disposition of \$415,617 for the year ended December 31, 2007.

During period ended June 30, 2009, Animas elected to pay US\$250,000 in common shares to the Company resulting in 637,700 common shares valued at \$231,995 with a deemed price of \$0.50 per share. Fair market value of Animas common share on payment date was \$0.36 per share.

During the period ended June 30, 2009, the Company entered into an Amending Agreement with Animas whereby the Company agreed to extend the due dates and deemed price per share of the remaining instalment payments. The minimum and maximum deemed price per share shall not be lower than \$0.50 or higher than \$1.00, if Animas elects to pay the Company with common shares. As consideration, Animas issued the Company an additional 254,454 common shares with a deemed price of \$0.36 per share for a total value of \$92,570.

The changes of due dates on the remaining instalment payments include:

- a) Extending the remaining July 10, 2009 balance to January 31, 2010;
- b) Reducing the \$500,000 due in July 10, 2010 to \$250,000; and
- c) Extending the remaining \$250,000 due in July 10, 2010 to January 31, 2011.

The following are details pertaining to the remaining receivable:

<b>Payment dates</b>	<b>Balance US\$</b>	<b>Balance CAD\$</b>
January 31, 2010	250,000	274,615
July 10, 2010	250,000	259,487
January 31, 2011	250,000	245,192
<b>Total</b>	<b>750,000</b>	<b>779,294</b>

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

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

a) **Santa Gertrudis and Roca Roja** – *Continued*

The Company accounted for long term receivables from Animas at amortized cost using the effective interest rate method. For the period ended June 30, 2009, the Company recorded \$54,771 (2008- \$nil) non cash interest on long term receivables.

b) **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 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; (received)
  - b. 250,000 common shares on or before the first 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.
- (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 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.

**MetalQuest Minerals Inc.**  
**Notes to the Consolidated Financial Statements**  
For the six-month periods ended June 30, 2009 and 2008

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

b) **RHG Property** - *Continued*

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:

	<u>Number</u>	<u>Amount</u>
Authorized:		
Unlimited common shares without par value		
Issued and fully paid:		
Balance - December 31, 2007	24,672,346	12,163,593
Share issuance cost recovery	-	2,250
Balance - December 31, 2008	24,672,346	12,165,843
<b>Balance- June 30, 2009</b>	<b>24,672,346</b>	<b>\$ 12,165,843</b>

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**6. SHARE CAPITAL - Continued**

b) **Warrants**

Warrant transactions are summarized as follows:

	<b>Number of Warrants</b>	
	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Balance - Beginning of year	-	8,819,848
Expired	-	(8,819,848)
<b>Balance - End of Period</b>	-	-

The Company did not have any warrants outstanding at June 30, 2009.

**7. CONTRIBUTED SURPLUS**

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

	<b>June 30, 2009</b>	June 30, 2008
Balance - Beginning of year	\$ 1,459,688	\$ 1,378,282
Stock-based compensation <i>(Note 8)</i>	24,475	45,244
<b>Balance - End of period</b>	<b>\$ 1,484,163</b>	<b>\$ 1,423,526</b>

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

	<b>June 30, 2009</b>	June 30, 2008
Balance - Beginning of year	\$ (223,462)	\$ 1,579,673
Unrealized gain (loss) on marketable securities	464,219	(160,701)
<b>Balance - End of period</b>	<b>\$ 240,757</b>	<b>\$ 1,418,972</b>

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**9. STOCK OPTIONS**

Per the Company's June 26, 2009 Annual General and Special Meeting of the Shareholders, 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 10% of the issued and outstanding common shares at the time of the grant. Options granted under the plan are not subject to vesting.

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

	June 30, 2009		December 31, 2008	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Opening balance	1,950,000	\$0.18	2,066,666	\$0.29
Granted	-	-	1,250,000	\$0.13
Exercised	-	-	-	-
Expired/Cancelled	(1,016,667)	\$0.25	(1,366,666)	\$0.28
<b>Ending balance</b>	<b>933,333</b>	<b>\$0.13</b>	<b>1,950,000</b>	<b>\$0.18</b>

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

June 30, 2009			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
933,333	933,333	\$0.13	March 6, 2010
<b>933,333</b>	<b>933,333</b>		

  

June 30, 2008			
Quantity Outstanding	Quantity Exercisable	Exercise Price	Expiry Date
616,667	616,667	\$0.30	October 28, 2008
700,000	700,000	\$0.27	October 28, 2008
700,000	525,000	\$0.30	May 16, 2009
1,250,000	312,500	\$0.13	March 6, 2010
<b>3,266,667</b>	<b>2,154,167</b>		

The weighted average contract life remaining on the above options is 249 days or 0.68 years (2008 – 0.965 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>2009</b>	<b>2008</b>
Risk free interest rate	-	2.52%
Expected dividend yield	-	0%
Expected stock price volatility	-	78%
Expected life of options	-	2 years

The weighted average fair value of the options granted during the period was nil (2008 - \$0.13).

Total stock-based compensation for the period ended June 30, 2009 was \$24,475 (2008 - \$45,244) 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 period, management fees of \$67,500 (2008 - \$65,250) were paid to companies controlled by a director and an officer of the Company.
- b) During the period, consulting fees of \$Nil (2008 - \$23,250) were paid to a non-arms length party related to a director.
- c) During the period, accounting fees of \$12,000 (2008 - \$10,000) were paid to an officer and a company controlled by an officer.
- d) During the period, the Company paid \$41,117 (2008 - \$30,392) for rent, office, accounting and investor relations expenses to a company controlled by directors and officers of the Company.
- e) As at June 30, 2009, amounts of \$10,396 (2008- \$nil) were owed to a director for travel expenses.
- f) During the period, the Company expensed \$24,475 (2008 - \$45,244) 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 June 30, 2009, the Company had an advanced balance of \$40,000 (2008 - \$40,000) to a company controlled by directors and officer of the Company. This advance was made in 2008 and is a non-interest bearing loan with repayment due by December 31, 2009.

**11. LOAN AGREEMENT**

On May 15, 2009, the Company entered into a Loan Agreement with Canadian Ore Processors Corp. ("COP"), a private Canadian corporation that the Company subsequently entered into a Share Purchase Agreement with on June 15, 2009. The principal of the loan was \$50,000, repayable by August 15, 2009 (the "Maturity Date"), bearing no interest. If the principal is not repaid by the Maturity Date, COP will be required to pay interest at a rate of 5% per annum.

The principal of this loan remains outstanding as at August 18, 2009.

**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 June 30, 2009, the Company had long-term receivable of \$750,000 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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**11. 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 period ended June 30, 2009 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 +/- \$75,000 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	\$	56,872
2010		113,745
2011		75,830
Total	\$	<u>246,447</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 June 30, 2009, 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.

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**15. SUBSEQUENT EVENTS**

- a) On June 15, 2009, the Company entered into a Share Purchase Agreement with Canadian Ore Processors Corp. ("COP"), a private Canadian corporation, the shareholders of COP and Grafton Resource Investment Ltd. ("Grafton"). The Company will issue 3,570,003 common shares to acquire 2,380,002 common shares of COP from its shareholders. Grafton currently holds 15,400,000 common shares of COP and has agreed to return those shares to COP in exchange for a 50% equity interest in Procesador Canorepro S.A. ("COP Peru"), a Peruvian subsidiary of COP. Through this Share Purchase Agreement, the Company will acquire the remaining 50% equity interest in COP Peru. The Company also have the right to purchase Grafton's 50% interest in COP Peru at a price of US\$10,000,000 for a period of three years. The exercise price for this option will be repayable in common shares or cash at the election of the Company. If the consideration is made by common shares, the price per share is determined by the higher of US\$0.55 per share or the 30 day closing average.

The Company received TSX Venture Exchange approval on the Share Purchase Agreement on August 13, 2009.

COP and COP Peru were formed for the purpose of developing gold ore toll processing opportunities in northern Peru. COP has acquired US\$10,000,000 in financing from the Grafton through a stock swap between Grafton and COP;

- b) Per the Company's June 26, 2009 Annual and Special Meeting of the Shareholders, all resolutions including the consolidation of the Company's common shares on the basis of three (3) old for one (1) new and name change to Canada Gold Corporation were passed by the Company's shareholders. The Company is currently in the process of implementing these changes;
- c) On July 13, 2009, the Company received 225,000 common shares of Animas released from escrow. The balance of the escrowed shares was 450,000;
- d) On July 31, 2009, the Company received 250,000 common shares from GMV Minerals Inc. as part of the instalment payments per the RHG Option Agreement (Note 5 (b)(ii)(a)); and
- e) On August 6, 2009, the Company sold 60,000 common shares of Animas for net proceeds of \$48,123. The balance of Animas common shares was 2,674,412 with 450,000 held in escrow.