

# METALQUEST MINERALS INC.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Three-Month Period Ended March 31, 2009

### DESCRIPTION OF BUSINESS

MetalQuest Minerals Inc. (the "Company") is engaged in the business of acquiring, exploring, and if warranted, developing mineral resource properties, and placing such properties into production. The Company currently holds interests in one mineral property located in British Columbia, Canada through the acquisition of Red Tusk Resources Inc. on July 11, 2006. The Company's operations are primarily funded by equity subscriptions. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol MQ.

### SELECTED FINANCIAL INFORMATION

#### Selected Annual Financial Information

	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Total revenue	Nil	Nil	Nil
Gain (Loss) before discontinued operations and extraordinary items:			
(i) total for the year	(\$161,115)	(\$614,312)	(\$450,129)
(ii) per share	(\$0.01)	(\$0.02)	(\$0.01)
(iii) per share fully diluted	(\$0.01)	(\$0.02)	(\$0.01)
Net Income or (loss):			
(i) total for the year	(\$290,739)	(\$941,526)	(\$450,129)
(ii) per share	(\$0.01)	(\$0.04)	(\$0.01)
(iii) per share fully diluted	(\$0.01)	(\$0.04)	(\$0.01)
Total assets	\$2,894,378	\$4,917,685	\$5,235,209
Total long-term financial liabilities	Nil	Nil	\$1,263,850
Cash dividends declared per-share	Nil	Nil	Nil

#### Selected Quarterly Financial Information

	4 <sup>th</sup> Quarter Ended December 31, 2009	3 <sup>rd</sup> Quarter Ended September 30, 2009	2 <sup>nd</sup> Quarter Ended June 30, 2009	1 <sup>st</sup> Quarter Ended March 31, 2009
(a) Revenue (Loss)	N/A	N/A	N/A	Nil
(b) Gain (loss) for period	N/A	N/A	N/A	(\$143,988)
(c) Gain (loss) per share	N/A	N/A	N/A	(\$0.006)
	4 <sup>th</sup> Quarter Ended December 31, 2008	3 <sup>rd</sup> Quarter Ended September 30, 2008	2 <sup>nd</sup> Quarter Ended June 30, 2008	1 <sup>st</sup> Quarter Ended March 31, 2008
(a) Revenue (Loss)	Nil	Nil	Nil	Nil
(b) Gain (loss) for period	(\$448,460)	(\$86,130)	(\$106,458)	\$350,309
(c) Gain (loss) per share	(\$0.02)	(\$0.003)	(\$0.004)	\$0.01
	4 <sup>th</sup> Quarter Ended December 31, 2007	3 <sup>rd</sup> Quarter Ended September 30, 2007	2 <sup>nd</sup> Quarter Ended June 30, 2007	1 <sup>st</sup> Quarter Ended March 31, 2007
(a) Revenue (Loss)	Nil	Nil	Nil	Nil
(b) Gain (loss) for period	(\$1,607,386)	\$899,349	(\$131,352)	(\$102,137)
(c) Gain (loss) per share	(\$0.07)	\$0.013	(\$0.002)	(\$0.001)

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**SUBSIDIARIES**

**Red Tusk Resources Inc.**

On July 11, 2006 the Company acquired 96.30% of issued and outstanding shares of Red Tusk Resources Inc. ("Red Tusk") for consideration of \$523,250. Red Tusk is engaged in the business of mineral exploration and has an option to acquire a 100% undivided legal and beneficial interest in 16 mineral claims located in the Liard Mining Division of British Columbia, Canada ("the RHG Property"). The acquisition has been accounted for using the purchase method of accounting. The consideration comprised of issuing one common share of the Company for every one common share of Red Tusk totaling 505,556 common shares (pre-consolidation 1,516,667 common shares) valued at \$0.115 per share (pre-consolidation \$0.345 per share). Included in the consideration is 111,111 common shares (pre-consolidation 333,333 common shares) issued to the optionor of the RHG Property in compliance with the option agreement.

Total consideration for the business combination was allocated based on estimated fair values on the acquisition date as follows:

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Consideration Given:		
Common shares issued - 1,516,667	\$	523,250
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Net assets acquired at fair value:		
Current assets	\$	19,382
Equipment		112
Resource mineral property		1,149,707
Accounts payable		(645,951)
<b>Net assets acquired at fair value</b>	<b>\$</b>	<b>523,250</b>
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## **METALQUEST MINERALS INC.**

### **MANAGEMENT DISCUSSION & ANALYSIS**

For the Three-Month Period Ended March 31, 2009

#### **RESOURCE PROPERTIES**

##### **RHG Project**

Red Tusk holds options to earn 100% interest in the RHG project located in the Liard Mining Division of British Columbia. The RHG project is a 10,964 hectare located in the north central British Columbia porphyry/skarn Copper/Gold prospect located in the prolific Copper belt hosting the Galore Creek/Copper Canyon deposits.

On July 23, 2008, the Company entered into an assignment agreement with Red Tusk whereby Red Tusk assigns and transfers all of its interest in and to the RHG property to the Company for a consideration of \$1.00.

On September 10, 2008, the Company entered into an Option Agreement (the "Option Agreement") with Georgia Ventures Corp. ("Georgia Ventures"), a Canadian private corporation to grant them the option to acquire 65% interest in the RHG property (the "Option"). To exercise the Option, Georgia Ventures paid the Company \$25,000 on signing the Agreement. Georgia Ventures will pay an additional \$350,000, issue 1,000,000 common shares, and expend a minimum of \$3,500,000 on the property based on instalments due when Georgia Ventures obtain listing on the TSX Venture Exchange, and on the first, second and third anniversaries of date of TSX Venture Exchange listing.

If Georgia Ventures exercises the Option, the Company also grants Georgia Ventures an exclusive right to acquire an additional 10% interest in to the RHG Property (the "Additional Option"). This 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 Project to the Company.

On September 30, 2008, the Company entered into an assignment agreement with GMV Minerals Inc. ("GMV"), a Canadian reporting issuer with shares listed on the TSX Venture Exchange. Under the terms of the assignment agreement, all costs and benefits granted to Georgia Ventures from the Option Agreement has been assigned to GMV.

For the year ended December 31, 2008, the Company recognized an impairment of \$697,946 (2007- \$nil) on the RHG property due to the Option Agreement and results of GMV's RHG drilling program announced by GMV on November 27, 2008.

No additional activities were conducted on the property for the three month period ended March 31, 2009.

# METALQUEST MINERALS INC.

## MANAGEMENT DISCUSSION & ANALYSIS

For the Three-Month Period Ended March 31, 2009

### **OPERATING RESULTS, FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY**

#### **Current Economic Conditions:**

Since the disposition of its Mexican Subsidiaries in July 2007, the Company prospected for potential projects and acquisitions but Management has not identified any value added potentials to date. During this period, the Company have reduced and/or eliminated a large portion of its operating cost and commitments. Subsequent to the end of the period ended March 31, 2009, the Company announced plans to acquire all outstanding shares of Canadian Ore Processor Corp. ("Canadian Ore Processors"). Canadian Ore Processor owns 50% of a Peruvian company, Minera CanOrePro Ltda. S.A., set up for the purpose of developing gold ore toll processing in Northern Peru. The Company believes this transaction will add value to the Company's future growth. (See Subsequent Events).

From the disposition of its Mexican Subsidiaries to Animas in 2007, the Company received \$726,386, 1,500,000 escrowed common shares subject to an escrow release schedule, and US\$1,500,000 paid by instalments due on the first, second and third anniversaries of the closing date. As at March 31, 2009, the Company holds 2,479,958 Animas common shares with a fair market value of \$844,019 and US\$819,487 in accounts receivable on the balance of instalment payments.

On April 27, 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, the Company received an additional 254,454 common shares of Animas with a fair market value of \$89,300 on payment date. Total Animas shares held by the Company after receipt of these additional shares was 2,734,412.

Due to the volatility in Animas' share price, the Company sold 241,500 common shares, received net proceeds of \$92,042 (2008- \$Nil) and recorded capital loss of \$38,216 (2008 - \$Nil). This disposition contributed additional cash flow to the Company's working capital. The Company's working capital at March 31, 2009 was \$1,363,089 (2008 - \$2,551,224).

Management is confident that the Company will continue its normal course of business, realize its assets and discharge its liabilities, and acquire additional valued added projects. The Company's current assets are highly liquid and this provides the Company with flexibility to continue its operation and take advantage of opportunities without the need to acquire additional financing in the near future. Management will continuously monitor its assets and will take appropriate actions to ensure the Company's strategic and short term goals and objectives are met.

#### **For the Three-Month Period Ended March 31, 2009 Summary**

For the three month period ended March 31, 2009, the Company reported operating loss before other items of \$105,772 (2008- \$90,151) made up of general and administrative expenses. Majority of the operating loss were rent and office expenses, \$28,831 (2008- \$11,740) and management fees, \$39,592 (2008- \$24,563). The Company incurred stock based compensation expenses of \$12,169 (2008- \$21,053), recorded to management fees, accounting fees, directors' fees and consulting fees.

During the period, the Company sold 241,500 common shares of Animas for gross proceeds of \$92,042 (2008- \$Nil) and recognized a loss of \$38,216 (2008- \$Nil) as a result of this disposition. The proceeds from disposition contributed to the Company's working capital, \$1,363,089 (2008- \$2,551,224). At March 31, 2009, the Company had current assets of \$1,427,038, predominately made up of receivables and marketable securities from Animas. The Company's current liabilities were \$63,949 (2008- \$56,205).

# METALQUEST MINERALS INC.

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For the Three-Month Period Ended March 31, 2009

### OPERATING RESULTS, FINANCIAL CONDITION, LIQUIDITY AND SOLVENCY- Continued

#### For the Three-Month Period Ended March 31, 2009 Summary - Continued

On March 10, 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. On April 27, 2009, the Company entered into an amending agreement with Animas whereby the Company agreed to extend the deadlines of Animas' remaining instalment payments. As consideration, Animas issued an additional 254,454 common shares with a deemed price of \$0.36 per share for a total value of \$89,300. Outstanding July 10, 2009 instalment payment after receipt of these shares is US\$250,000.

Table 2. General and Administrative Expenditures for the Three Months Period Ended March 31, 2009

	March 31, 2009	March 31, 2008
Accounting and audit fees*	8,596	11,078
Consulting fees*	13,960	19,308
Directors' fees*	2,272	6,979
Interest and bank charges	75	115
Investor relations	768	7,268
Legal	2,675	-
Management fees*	39,592	24,563
Office and administrative	28,831	11,740
Transfer agent, listing and filing fees	5,640	2,720
Travel and promotion	3,363	6,380
<b>Total</b>	<b>\$105,772</b>	<b>\$90,151</b>

\* Includes allocation stock-based compensation cost.

### CORPORATE INTERNAL CONTROL

The Company practices strict internal controls through proper segregation of responsibilities and internal reporting of its personnel. Agreements and commitments that involve cash and/or share capital distribution such as private placements, stock option grant, property, service, and consulting agreements require Board of Directors approval through Directors' Resolutions. The Company's drilling and exploration programs and budgets are planned and approved by the Company's President & CEO and Directors. All cash distribution requires the Company's President & CEO, CFO or Corporate Secretary's approval to ensure that all expenses are accurate and aligned with the Company's budget. Approved share capital distribution is executed through treasury orders that requires final approval from the Company's President & CEO, and one authorized director or officer. These internal control procedures are established and strictly practiced to ensure the Company's goals and best interest are effectively carried out.

Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2009 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Management is also responsible for the design of internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management believes the design to be sufficient and appropriate to provide such reasonable assurance.

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### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

The Accounting Standards Board of Canada (“AcSB”) plans to converge Canadian GAAP for publicly accountable enterprises with IFRS over a transition period that will end January 1, 2011 with the adoption of IFRS. The AcSB announced on February 13, 2008 that IFRS will be required in 2011 for publicly accountable profits oriented enterprises. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will present its first set of IFRS compliant financial statements for the year ending December 31, 2011. The Company is currently working on its IFRS conversion project which consists of four phases: diagnosis, design and planning, solution development and implementation. The plan addresses the impact of IFRS on accounting policies and implementation decisions, business activities and control activities. The Company plans to complete in a near future the first phase of its IFRS conversion, consisting in a preliminary study of the existing financial information and identifying the main areas where IFRS might have an impact. The IFRS conversion is a major initiative for the Company and all the necessary resources are being allocated to ensure the project's smooth transition. Throughout the 2009 fiscal year, the Company will be reporting on the progress of its IFRS implementation plan in its MD&A.

### **CORPORATE ACTIVITIES**

The officers and directors as at the date of this report are as follows:

David McMillan*	President, CEO, Audit Committee Member
Harold Forzley*	Secretary, Audit Committee Member
Chad McMillan	Vice President of Corporate Communications
Craig Robson*	Chairman of Audit Committee
Marc Tran	Chief Financial Officer

*\*Director*

### **RELATED PARTY TRANSACTIONS**

Related party transactions for the period ended March 31, 2008 are as follows:

- a) During the period, management fees of \$33,750 (2008 - \$21,000) were paid to companies controlled by a director and an officer of the Company.
- b) During the period, consulting fees of \$Nil (2008 - \$10,500) were paid to a non-arms length party related to a director.
- c) During the period, accounting fees of \$6,000 (2008 - \$4,000) were paid to an officer and a company controlled by an officer.
- d) During the period, the Company paid \$27,500 (2008 - \$15,424) for rent, office, accounting and investor relations expenses to a company controlled by directors and officers of the Company.
- e) During the period, the Company expensed \$12,169 (2008 - \$21,053) 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.

### **INVESTOR RELATIONS ACTIVITIES**

Investor relations duties are carried out by directors, officers and employees of the Company as part of their routine duties.

## METALQUEST MINERALS INC.

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For the Three-Month Period Ended March 31, 2009

#### SUBSEQUENT EVENTS

- a) On April 27, 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. The change to due dates of the remaining instalment payments include:
- i.* Extending the remaining July 10, 2009 balance to January 31, 2010;
  - ii.* Reducing the \$500,000 due in July 10, 2010 to \$250,000; and
  - iii.* Extending the remaining \$250,000 due in July 10, 2010 to January 31, 2011

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 \$89,300. Outstanding July 10, 2009 instalment payment after receipt of these shares is US\$250,000. (Note 5(a))

- b) On May 22, 2009, the Company plans to acquire all the outstanding shares of Canadian Ore Processors Corp., ("Canadian Ore Processors") a private Canadian corporation. Canadian Ore Processors was formed for the purpose of developing gold ore toll processing opportunities in northern Peru. Canadian Ore Processors has acquired US\$10 million in financing from the Grafton Resources Investment Trust ("Grafton") through a stock swap between Grafton and Minera CanOrePro Ltda. S.A. (Minera CanOrePro); a private Peruvian corporation and a subsidiary of Canadian Ore Processors. As a result of the acquisition of Canadian Ore Processors, MetalQuest will own 50% of Minera CanOrePro. Grafton will own the remaining 50% through their US\$10 million investment.

As a condition of the Grafton investment in Minera CanOrePro, MetalQuest will be seeking shareholder approval at the June 26, 2009 Annual General and Special Meeting, to consolidate MetalQuest shares on a three old for one new basis and change the name to Canada Gold Corporation ("Canada Gold"). On approval, Canada Gold will issue 1,190,000 common shares for 100% of the issued and outstanding shares of Canadian Ore Processors, as full consideration. As additional consideration, Grafton will issue a call option to Canada Gold to purchase, at Canada Gold's discretion, within 36 months, Grafton's interest in Minera CanOrePro for US\$10 million in cash or the equivalent in Canada Gold shares at a minimum floor price of US\$0.55, or the thirty day average trading price, whichever is higher, subject to regulatory approval, at the time of exercise.

Andrew Neale P.Eng., currently CEO and Director of Canadian Ore Processors will become the CEO of Canada Gold and will join the board as an executive director. Rick Plotzki, currently COO and Director of Canadian Ore Processors will assume the role of COO of Canada Gold and will join the board as an executive director. Dave McMillan, currently President and CEO of MetalQuest will take on the role of Executive Chairman of Canada Gold.

Grafton and its associates will assist Canada Gold in the disposal of the Grafton ordinary shares, held by Minera CanOrePro, to raise funds to construct and commission the toll processing plant. Grafton is a registered closed-end fund managed by Newland Fund Management LLP of London, England.

#### **MetalQuest Minerals Inc.**

David McMillan  
President  
May 26, 2009