

GOLDQUEST MINING CORP.

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Goldquest Mining Corp.

We have audited the accompanying consolidated financial statements of Goldquest Mining Corp. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss and deficit and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Goldquest Mining Corp. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 29, 2011

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GoldQuest Mining Corp.
(a Development Stage Enterprise)
Consolidated Balance Sheets

<i>As at</i>	December 31, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,055,664	\$ 766,410
Amounts receivable	128,668	5,720
Prepaid expenses	19,527	186,342
Deposits	22,188	-
	2,226,047	958,472
Equipment (note 7)	94,497	121,972
Mineral exploration properties and deferred exploration expenditures (note 8)	9,515,876	8,398,442
	\$ 11,836,420	\$ 9,478,886
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 10)	\$ 249,770	\$ 120,469
Current portion of lease obligations	8,175	-
	257,945	120,469
Future income tax liability (note 14)	851,548	846,000
Lease obligations	9,463	-
	1,118,956	966,469
SHAREHOLDERS' EQUITY		
Share capital (note 9(a)(b))	14,122,659	11,843,445
Shares subscribed (note 9(b))	16,000	-
Contributed surplus (note 9(b))	7,526,539	6,642,223
Deficit	(11,217,176)	(10,242,693)
Currency translation adjustment	269,442	269,442
	10,717,464	8,512,417
	\$ 11,836,420	\$ 9,478,886

Nature of operations and going concern (note 1)

Commitments and contingencies (notes 8 & 13)

Subsequent events (note 15)

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

Approved on behalf of the Board:

/s/ Julio Espallat, Director

/s/ Anthony Warrender, Director

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Consolidated Statements of Loss and Comprehensive Loss, and Deficit**

	For the years ended	
	December 31, 2010	December 31, 2009
EXPENSES		
Amortization	\$ 2,200	\$ 4,575
Foreign exchange loss (gain)	(178,269)	(143,792)
General and administrative	843,984	534,278
Stock-based compensation (note 9(e))	349,577	414,305
	1,017,492	809,366
OTHER EXPENSES (INCOME)		
Interest income	(6,221)	(10,201)
Gain on disposal of equipment (note 7)	(36,788)	-
Write-down of exploration properties and deferred exploration expenditures (note 8)	-	374,167
Future income tax recovery (note 14)	-	(197,077)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	974,483	976,255
OPENING DEFICIT	10,242,693	9,266,438
CLOSING DEFICIT	\$ 11,217,176	\$ 10,242,693
Basic and diluted loss per share	\$ 0.01	\$ 0.02
Weighted average number of common shares outstanding	85,902,656	62,727,320

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

GoldQuest Mining Corp.
(a Development Stage Enterprise)
Consolidated Statements of Cash Flows

	For the years ended	
	December 31, 2010	December 31, 2009
Cash flows provided from (used by):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (974,483)	\$ (976,255)
Adjustments for item not affecting cash:		
Amortization	2,200	4,575
Stock-based compensation	349,577	414,305
Gain on disposal of equipment	(36,788)	-
Unrealized interest	(473)	-
Exchange effects on lease obligation	190	-
Exchange effects on future income tax liabilities	(181,852)	-
Future income tax recovery	-	(197,077)
Write-down of exploration properties and deferred exploration expenditures	-	374,167
	(841,629)	(380,285)
Net changes in non-cash working capital items:		
Amounts receivable	(122,948)	16,764
Prepaid expenses	147,434	(84,357)
Deposits	(2,807)	-
Accounts payable and accrued liabilities	30,473	(13,461)
	(789,477)	(461,339)
FINANCING ACTIVITIES		
Proceeds from share issuance	3,074,291	-
Share issue costs	(260,338)	-
Shares subscribed	16,000	-
Lease payments	(6,601)	-
	2,823,352	-
INVESTING ACTIVITIES		
Purchase of equipment	(13,993)	(1,134)
Proceeds from disposal of equipment	86,662	-
Mineral exploration properties and deferred exploration expenditures	(817,290)	(515,292)
	(744,621)	(516,426)
Net increase (decrease) in cash and cash equivalents	1,289,254	(977,765)
Cash and cash equivalents, beginning of year	766,410	1,744,175
Cash and cash equivalents, end of year	\$ 2,055,664	\$ 766,410
Cash and cash equivalents consist of :		
Cash	\$ 542,766	\$ 66,410
Term deposits	1,512,898	700,000
	\$ 2,055,664	\$ 766,410

Supplemental cash flow information (Note 12)

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

GoldQuest Mining Corp.

(a Development Stage Enterprise)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

GoldQuest Mining Corp. (the "Company" or "GoldQuest") is a development stage company as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11 and currently has interests in exploration and development properties in the Dominican Republic through its wholly owned subsidiary GoldQuest Mining (BVI) Corp. (GQC-BVI) (previously Exploration and Discovery Latin America (Panama) Inc. ("EDLA")) and in Spain through the Company's wholly owned subsidiary GoldQuest Mining (Spain) Corp. ("GQC-Spain"). Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company's exploration assets are located outside of Canada and are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and currency exchange fluctuations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, other land claims and non-compliance with regulatory and environmental requirements. Assets located outside of North America are subject to the risk of foreign investment, including currency exchange fluctuations and restrictions and political uncertainty.

These audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, these audited consolidated financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

As at December 31, 2010, the Company had no source of operating cash flow and has an accumulated deficit of \$11,217,176 (December 31, 2009: \$10,242,693). Operations for the year ended December 31, 2010 have been funded primarily from the issuance of common shares. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, the discovery, development or sale of mining reserves and the achievement of profitable operations. The Company is planning to meet its future expenditures and obligations by raising funds through public offerings, private placements or by farm-outs of its mineral property interests.

It is not possible to predict whether these efforts will be successful or whether the Company will attain profitable levels of operation; however, the Company believes that it has adequate funds available to meet its corporate and administrative obligations and minimum property expenditures for the coming year.

GoldQuest Mining Corp.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian GAAP and their basis of application is consistent with that of the previous year.

Outlined below are those policies considered particularly significant:

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated.

b) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the reporting period.

The Company regularly reviews the estimates and assumptions that affect the consolidated financial statements and actual results could differ from those estimates. Significant areas where management judgment is applied are asset valuations, the allocation of proceeds on the purchase or sale of assets, the recoverability of exploration and development expenditures on mineral properties, the valuation of stock-based compensation, warrants, tax accounts, asset retirement obligations, and contingent liabilities. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented are reflected in the consolidated financial statements. Actual results could differ from those estimated.

c) Mineral exploration properties and deferred exploration properties

Direct property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties to which they relate are brought into production, at which time they will be amortized on a unit of production basis, or until the properties are sold, abandoned or allowed to lapse, at which time they will be written off.

Costs include the cash consideration paid and the fair market value of the shares as they are issued, if any, on the acquisition of exploration properties. Properties acquired under option agreements whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The proceeds from options granted are applied to the cost of the related property and any excess is included in income for the year. Costs incurred for administration and general exploration that are not project specific, are charged to operations.

The recorded amounts for acquisition costs of properties and their related capitalized exploration and development expenses represent actual expenditures incurred and are not intended to reflect present or future values. The Company, however, reviews the capitalized costs on its properties on a periodic basis and will recognize impairment in value based upon the stage of exploration and/or development, work programs proposed, current exploration results and upon management's assessment of the future probability of profitable revenues from each property, or from the sale of the relevant property.

Management's assessment of a property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

GoldQuest Mining Corp.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar.

The Company's subsidiaries are integrated foreign operations. Amounts recorded in foreign currency have been translated into Canadian dollars using the temporal method as follows:

- i. Monetary items, at the rate of exchange in effect as at the balance sheet date;
- ii. Non-monetary items, at the exchange rates prevailing at the time of acquisition of the assets or assumption of the liabilities; and
- iii. Expenses, at the exchange rate prevailing on the transaction date with the exception of amortization which is translated at the same rates as the corresponding assets.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

e) Cash and cash equivalents

Cash and cash equivalents include cash on account and highly liquid investments with original maturities of three months or less.

f) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is provided on a straight line basis over the estimated useful lives of the equipment at the following annual rates:

- Computer Equipment 15%
- Vehicles 25%
- Office and Field Equipment 10% or 30%

An impairment loss is recognized when the undiscounted cash flows expected from the use and the eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

g) Asset retirement obligations

The Company's mineral exploration and development activities are subject to various Dominican Republican and Spanish laws and regulations regarding the protection of the environment. As a result of these, the Company is expected to incur expenses from time to time to discharge its obligations under these laws and regulations. Reclamation and closure costs are estimated based on the Company's interpretation of current regulatory and operating licence requirements and measured at fair value.

Fair value is determined based on the net present value of future cash expenditures expected upon reclamation and closure and subsequent annual recognition of an accretion amount on the discounted liability. Reclamation and closure costs are capitalized as property development costs. Management is not aware of any legal obligations relating to the reclamation of its mineral properties as at December 31, 2010 and 2009.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income Taxes

The Company accounts for and measures the future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

i) Stock-based compensation

All stock-based payments have been accounted for using a fair-value-based method of accounting. The fair value of each stock option is accounted for in operations, over the vesting period thereof, and the related credit is included in contributed surplus. If and when the stock options are ultimately exercised and common shares are issued, the applicable units of contributed surplus will be transferred to share capital. The fair value is calculated based on the Black-Scholes option pricing model. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable.

Common shares issued for non-monetary consideration are recorded at their fair market value based on the trading price of the Company's shares on the TSX Venture Exchange on the date when the shares are issued.

j) Loss per share

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share, according to the treasury stock method, assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

Stock options and share purchase warrants outstanding during the years ended December 31, 2010 and 2009 were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

GoldQuest Mining Corp.

(a Development Stage Enterprise)

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as “held-for-trading”, “available-for-sale” financial assets, “held-to maturity”, “loans and receivables”, or “other” financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

l) Comprehensive loss

Comprehensive loss, composed of net loss and other comprehensive loss, is defined as the change in shareholders’ equity from transactions and other events from non-owner sources. Other comprehensive loss for the Company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive loss are disclosed in the statement of operations and comprehensive loss. Cumulative changes in other comprehensive loss are included in accumulated other comprehensive loss (“AOCL”) which is presented as a new category in shareholders’ equity.

m) Leases

Leases of property, plant and equipment where substantially all the risks and benefits incidental to the ownership of the asset are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalized by recording an asset and a liability at the lower of the fair value of the leased property, plant and equipment or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognized as a liability and amortized on a straight-line basis over the life of the lease term.

n) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

GoldQuest Mining Corp.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

3. CHANGES IN ACCOUNTING POLICIES AND NEW ACCOUNTING DEVELOPMENTS

Future changes in accounting policies

i) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Effective January 1, 2011, the Company will require the restatement of amounts reported to IFRS for the year ending December 31, 2010 for comparative purposes.

ii) Business Combinations

In January 2009, the CICA issued Handbook section 1582, Business Combinations, section 1601, Consolidated Financial Statements, and section 1602, Non-Controlling Interests. These sections replace the former section 1581, Business Combinations, and section 1600, Consolidated Financial Statements, and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

4. ASSETS ACQUISITION AND LIABILITIES ASSUMED

On January 20, 2010, the Company completed the acquisition of all of the issued and outstanding shares of GoldQuest Iberica SL ("Iberica") (formerly known as Lundin Mining Exploration S.L.) from Lundin Mining Corporation ("Lundin"), an arm's length corporation.

Through its acquisition of Iberica, the Company acquired:

- A 100% interest in the Toral project, located in northwest Spain;
- A 100% interest in a second polymetallic project currently under application; and
- Access to a large exploration database covering northwest Spain.

The Company did not pay any upfront consideration for the assets but will compensate Lundin with a one-time payment of \$5 million payable upon commencement of commercial production from the Toral property and a royalty to Lundin of 1.25% on the net smelter return royalty ("NSR") from the Toral Project.

Under the agreement, Lundin may exercise its one-time "back-in" right to reacquire a 51% interest in the Toral Project after the following events have occurred:

- i) delineation of an inferred resource on the Toral Property of greater than one million tonnes of contained lead and zinc, and
- ii) completion of not less than 5,000 metres of drilling on the Toral property.

To exercise the "back-in" right, Lundin must pay to the Company (or have spent on the project) an amount equal to 2.5 times the total expenditures made by the Company on the project. Following payment or expenditure in full by Lundin, a joint venture will be formed pursuant to which Lundin will hold a 51% interest and the Company will hold a 49% interest in the Toral project. Lundin will then have the right to increase its interest in the joint venture from 51% to 65% by advancing the project and completing a full feasibility study for the Toral property.

The acquisition was accounted for as an assets acquisition and liabilities assumed using the purchase method of accounting. Accordingly, the assets, liabilities, revenues and expenses of Iberica are consolidated with those of the Company from January 20, 2010. Management has allocated the purchase price to the assets acquired and liabilities assumed based upon their estimated fair values as follows:

Net working capital (other than cash)	\$	(1,023)
Mineral exploration properties and deferred exploration expenditures		158,989
Total net assets acquired (other than cash)	\$	157,966
Consideration:		
Acquisition costs	\$	157,966

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

5. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral exploration properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of share capital as well as cash and cash equivalents.

There were no changes to the Company policy for management capital during the years ended 2010 and 2009.

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 its capital structure, the Company may issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and short-term investments. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company and its subsidiaries are not subject to any externally imposed capital requirements.

The Company's investment policy is to invest its excess cash in highly liquid investments that are readily convertible into cash with maturities of three months or less from the original date of acquisition or when it is needed, selected with regards to the expected timing of expenditures from continuing operations. The Company expects that its current capital resources will be sufficient to carry out its full exploration plans and operations through the coming twelve months.

6. FINANCIAL INSTRUMENTS

The Company has designated its cash equivalents as held-for-trading; cash and amounts receivable as loans and receivables; deposits as held-to-maturity; and accounts payable and accrued liabilities and lease obligations as other financial liabilities.

a) Fair value

The carrying values of cash and cash equivalents, amounts receivable, deposits, and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments.

The CICA established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data.

As at December 31, 2010, the financial instruments recorded at fair value on the consolidated balance sheet are cash equivalents which are measured using Level 2 of the fair value hierarchy.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

6. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management

Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents. Cash and cash equivalents have been placed on deposit with major Canadian, Dominican and Spanish financial institutions.

The risk arises from the non-performance of counterparties of contractual financial obligations. The Company manages credit risk, in respect of cash and cash equivalents, by purchasing term deposits held at a major Canadian financial institution.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents as the majority of the amounts are held at a single Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	December 31, 2010	December 31, 2009
Held at major Canadian financial institution:		
Cash	\$ 529,563	\$ 52,994
Term deposits	1,512,898	700,000
	<u>2,042,461</u>	<u>752,994</u>
Held at major Dominican financial institution:		
Cash	13,203	13,416
Total cash and cash equivalents	\$ 2,055,664	\$ 766,410

The credit risk associated with cash and cash equivalents is minimized by ensuring the majority of these financial assets are held with major Canadian, Dominican and Spanish financial institutions with strong investment-grade ratings by a primary rating agency.

Interest rate risk

Interest rate risk consists of two components:

- i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- ii) To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash and cash equivalents include term deposits. The Company is not exposed to significant interest rate risk due to the short-term maturity of these monetary assets given fluctuations in market rates do not have a significant impact on estimated fair values at December 31, 2010 and 2009. Future cash flows from interest on cash and cash equivalents will be affected by interest rate fluctuations. The Company manages interest rate risk by investing in highly liquid investments with maturities of three months or less.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

6. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Currency risk

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and lease obligations are held in Canadian dollars, US dollars ("USD"), Dominican Pesos ("DOP") and Euros ("EUR"); therefore, USD, DOP and Euro accounts are subject to fluctuation against the Canadian dollar.

The Company had the following balances in foreign currency as at December 31, 2010:

	in USD	in DOP	in Euro
Cash and cash equivalents	17,983	141,885	-
Amounts receivable, excluding Harmonized Sales Tax receivable	-	-	36,335
Deposits	-	65,942	800
Accounts payable and accrued liabilities	(35,710)	(677,191)	(38,367)
	(17,727)	(469,364)	(1,232)
Rate to convert to \$1.00 Canadian Equivalent to Canadian dollars	0.9980	0.0265	1.3256
	\$ (17,691)	\$ (12,438)	\$ (1,633)

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of USD against the Canadian dollar would result in an increase/decrease of \$1,769 in the Company's net loss.

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of DOP against the Canadian dollar would result in an increase/decrease of \$1,244 in the Company's net loss.

Based on the above net exposures as at December 31, 2010, and assuming that all other variables remain constant, a 10% depreciation or appreciation of EURO against the Canadian dollar would result in an increase/decrease of \$269 in the Company's net loss.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or currency risk. The Company is not exposed to significant other price risk.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

6. FINANCIAL INSTRUMENTS (continued)

b) Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company's expected source of cash flow in the upcoming year will be through equity financings.

The Company maintained sufficient cash and cash equivalents at December 31, 2010 in the amount of \$2,055,664, in order to meet short-term business requirements. At December 31, 2010, the Company had accounts payable and accrued liabilities of \$249,770 and current portion of lease obligation of \$8,175, which will be repaid within three months.

7. EQUIPMENT

	December 31, 2010			December 31, 2009		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 39,211	\$ (30,404)	\$ 8,807	\$ 31,503	\$ (27,854)	\$ 3,649
Field equipment	90,850	(75,603)	15,247	64,801	(49,954)	14,847
Office equipment	25,077	(10,269)	14,808	16,380	(9,221)	7,159
Vehicles	137,849	(82,214)	55,635	298,538	(202,221)	96,317
	\$ 292,987	\$ (198,490)	\$ 94,497	\$ 411,222	\$ (289,250)	\$ 121,972

During the year ended December 31, 2010, \$2,200 (2009 - \$4,575) of amortization was charged to operations and \$13,917 (2009 - \$72,613) was capitalized to mineral exploration properties and deferred exploration expenditures.

During the year ended December 31, 2010, the Company disposed of office equipment and vehicle with a net book value of \$49,874 for proceeds of \$86,662. This amount was credited to operations as a gain on disposal.

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****8. MINERAL EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

A continuity of the Company's mineral exploration properties and deferred exploration expenditures is as follows:

	Dominican Republic (Note 8(a)(b))	Spain (Note 4)	Total
Balance as at December 31, 2008	\$ 6,911,262	\$ -	\$ 6,911,262
Acquisition costs:	1,247,000	-	1,247,000
Exploration expenditures:			
Assay	24,817	-	24,817
Geological	219,530	-	219,530
Field office administration	329,000	-	329,000
Future income tax effect	41,000	-	41,000
Impairments	(374,167)	-	(374,167)
	240,180	-	240,180
Balance as at December 31, 2009	\$ 8,398,442	\$ -	\$ 8,398,442
Acquisition costs:	-	158,989	158,989
Exploration expenditures:			
Access fees	8,122	-	8,122
Depreciation	13,917	-	13,917
Drilling	256,905	-	256,905
Equipment rental	-	2,068	2,068
Field office administration	168,492	32,815	201,307
Future income tax effect	119,300	68,100	187,400
Geological	109,990	135,826	245,816
Legal	-	22,090	22,090
Transportation	13,828	6,994	20,822
	690,554	267,893	958,447
Balance as at December 31, 2010	\$ 9,088,996	\$ 426,882	\$ 9,515,878

GoldQuest Mining Corp.

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Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

8. MINERAL EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

a) Dominican Republic – 100% owned

On August 5, 2009, the Company entered into a purchase agreement with Gold Fields Dominican Republic BVI Limited (“GFL”) to regain full ownership of its gold-focused portfolio in the Dominican Republic, thereby terminating the Agreement with Gold Fields. As consideration for Gold Fields’ 60% interest in the joint venture projects and subject to regulatory approval, The Company has agreed to issue GFL 8,600,000 million of the Company’s common shares and grant a NSR 1.5% royalty on the claims being purchased by the Company. The Purchase Agreement also terminated GFL’s right of first refusal on the Company’s projects excluded from the joint venture.

The transaction completed November 18, 2009 with the issuance of the shares at an estimated fair value of \$1,247,000 and the issuance of the NSR.

b) Eastern Dominican Republic – 51% owned

The Company also has earned a majority interest from Energold Drilling Corp. in two additional properties that were formally part of the former joint venture with Gold Fields Ltd. These properties are also subject to a 1.5% NSR in favour of Gold Fields Ltd. and an additional 1% NSR in favour of Canyon Research Corp. and Battle Mountain (Dominican Republic) Inc. up to an aggregate maximum royalty of \$1,000,000.

c) Spain – 100% owned

The Company completed the acquisition of Iberica (formerly known as Lundin SL) in January 2010.

The shares of Iberica were purchased for an NSR of 1.25% and a contingent Production Commencement Payment (“PCP”) of \$5,000,000 payable thirty days after commencement of commercial production. Lundin holds a back-in right to acquire 51% of the Toral property following identification of not less than 1,000,000 contained lead zinc metal as confirmed by an independent NI 43-101 resource estimate. In order to exercise the back in right, Lundin must fund 250% of the total expenditures made by the Company on the Toral property.

If Lundin exercises this right, the NSR and the PCP are no longer exigible. Lundin may acquire a further 15% of the project by funding a bankable feasibility study to bring the property to production.

TORAL PROJECT

Iberica holds the exploration permit for the Toral Project.

LAGO PROJECT

In addition to the acquisition of the Toral Project and as part of the same transaction, GoldQuest acquired a second polymetallic project also located in northwest Spain. Further details of this second project will be announced after full title has been received from the Spanish authorities.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

9. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued and outstanding

A continuity of the number of common shares issued and outstanding and the balances of share capital and contributed surplus are as follow:

	Number of Common Shares	Amount	Shares Subscribed	Contributed Surplus
Balance, December 31, 2008	61,545,551	\$ 10,596,445	\$ -	\$ 5,991,141
Issue to Gold Field Limited for 60% interest (note 8(a))	8,600,000	1,247,000	-	-
Expired warrants	-	-	-	230,031
Stock-based compensation	-	-	-	421,051
Balance, December 31, 2009	70,145,551	\$ 11,843,445	\$ -	\$ 6,642,223
Private placements (i)(ii)(iii)	21,500,800	2,149,763	-	537,837
Share issuance costs (iv)	-	(409,530)	-	149,192
Share subscribed (Note 15(a))	-	-	16,000	-
Exercise of warrants for cash (v)	1,717,350	325,191	-	-
Exercise of options for cash (vi)	435,000	61,500	-	-
Reclassification of grant-date fair value on exercise of stock options (vi)	-	57,213	-	(57,213)
Reclassification of grant-date fair value on exercise of warrants (v)	-	95,077	-	(95,077)
Stock-based compensation	-	-	-	349,577
Balance, December 31, 2010	93,798,701	\$ 14,122,659	\$ 16,000	\$ 7,526,539

- i. On April 1, 2010, the Company completed a private placement and issued 7,605,000 units at \$0.125 per unit. Each unit consisted of one common share of the Company and one half of one share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of two years.

For accounting purposes, the Company estimated the fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.62%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$187,170, and recorded this value as contributed surplus. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of \$763,455 was recorded as common shares.

In connection with the private placement, the Company paid cash commissions of \$57,400 and issued 656,000 agent's and finder's warrants entitling the warrant holders to purchase one common share of the Company at a price of \$0.145 per share, on or before March 31, 2012. The Company estimated the fair value of agent's and finder's warrants using the Black-Scholes options pricing model, assuming a risk-free interest rate of 1.62%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$47,768, and recorded these values as share issuance costs.

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

9. SHARE CAPITAL (continued)

b) Issued and outstanding (continued)

- ii. On April 9, 2010, the Company completed a private placement and issued 6,644,800 units of which 480,000 units were subscribed for by certain of the Company's directors and officers at \$0.125 per unit. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of two years.

For accounting purposes, the Company estimated the fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.75%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$167,867, and recorded this value as contributed surplus. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of \$662,733 was recorded as common shares.

In connection with the private placement, the Company paid cash commissions of \$48,475 and issued 554,000 agent's and finder's warrants entitling the warrant holders to purchase one common share of the Company at a price of \$0.145 per share, on or before April 9, 2012. The Company estimated the fair value of agent's and finder's warrants using the Black-Scholes options pricing model, assuming a risk-free interest rate of 1.75%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$44,675, and recorded this value as share issuance costs.

- iii. On April 27, 2010, the Company completed a private placement and issued 7,251,000 units of which 112,000 units were subscribed for by a director of the Company at \$0.125 per unit. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of two years.

For accounting purposes, the Company estimated the fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 1.82%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$182,800, and recorded this value as contributed surplus. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of \$723,575 was recorded as common shares.

In connection with the private placement, the Company paid cash commissions of \$62,696 and issued 705,100 agent's and finder's warrants entitling the warrant holders to purchase one common share of the Company at a price of \$0.145 per share, on or before April 26, 2012. The Company estimated the fair value of agent's and finder's warrants using the Black-Scholes options pricing model, assuming a risk-free interest rate of 1.82%, an expected life of 2 years, an expected volatility of 113% and an expected dividend yield of 0%, which totaled \$56,749, and recorded this value as share issuance costs.

- iv. In addition to the above noted cash commissions paid on each of the private placements, the Company incurred an additional \$91,767 in share issuance costs.
- v. The Company received various warrant exercises during the year ended December 31, 2010 resulting in the issuance of 1,717,350 common shares for proceeds of \$325,191. In addition, the Company has reclassified \$95,077 that was previously recorded as share purchase warrants in contributed surplus. The amount represents the original value of warrants that was classified separately from share capital when the warrants were issued.

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****9. SHARE CAPITAL (continued)****b) Issued and outstanding (continued)**

vi. The Company received various options exercises during the year resulting in the issuance of 435,000 common shares for proceeds of \$61,500. In addition, the Company has reclassified the fair value of the exercised options of \$57,213 from contributed surplus to share capital.

c) Warrants

A summary of the status of warrants as of December 31, 2010 and 2009, and the changes for the years then ended are as follows:

	2010		2009	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, beginning of year	-	\$ -	1,987,074	\$ 0.40
Issued	12,665,500	0.19	-	0.40
Expired	-	-	(1,987,074)	-
Exercised	(1,717,350)	0.19	-	-
Outstanding, end of year	10,948,150	\$ 0.19	-	\$ -

The following summarizes the share purchase warrants outstanding at December 31, 2010:

Expiry Date	Warrants Outstanding	Exercise Price	Weighted Average Remaining Contractual Life (in Years)
March 31, 2012	3,157,500	\$ 0.200	1.25
March 31, 2012	551,150	\$ 0.145	1.25
April 9, 2012	2,962,400	\$ 0.200	1.27
April 9, 2012	326,500	\$ 0.145	1.27
April 26, 2012	3,245,500	\$ 0.200	1.32
April 26, 2012	705,100	\$ 0.145	1.32
	10,948,150		1.28

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****9. SHARE CAPITAL (continued)****d) Options**

Options to purchase common shares have been granted to directors, employees and consultants at exercise prices determined by reference to the market value of the Company's common shares on the date of the grant. Under the Company's stock option plan, the board of directors may grant options for the purchase of up to a total of 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan may vest over a period of time at the discretion of the board of directors.

A summary of the status of options granted under the option plan as of December 31, 2010 and 2009, and the years then ended are as follows:

	2010		2009	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, beginning of year	5,470,000	\$ 0.29	4,395,000	\$ 0.38
Granted	2,900,000	0.14	1,750,000	0.10
Expired	(1,415,000)	0.40	(675,000)	0.50
Forfeited	(425,000)	0.18	-	-
Exercised	(435,000)	0.14	-	-
Outstanding, end of year	6,095,000	\$ 0.22	5,470,000	\$ 0.29

During the year ended December 31, 2010

- i. On June 1, 2010, the Company issued 900,000 stock options expiring June 1, 2015, exercisable at \$0.14 per share and vesting as to 50% six months after the grant date and 50% on the first anniversary to employees of the Company.
- ii. On July 16, 2010, the Company issued 1,150,000 stock options expiring July 16, 2015, exercisable at \$0.14 per share and vesting as to 50% six months after the grant date and 50% on the first anniversary to directors and officers of the Company.
- iii. On July 16, 2010, the Company issued 400,000 stock options expiring July 16, 2015, exercisable at \$0.14 per share and vesting as to 50% the grant date and 50% on the first anniversary to director of the Company.
- iv. On July 16, 2010, the Company issued 150,000 stock options expiring July 16, 2015, exercisable at \$0.14 per share and vesting as to 25% three months after the grant date, 25% six months after the grant date, 25% nine months after the grant date and 25% on the first anniversary to consultant of the Company.
- v. On September 24, 2010, the Company issued 300,000 stock options expiring September 24, 2015, exercisable at \$0.145 per share and vesting as to 100% on the first anniversary of the grant date to officers of the Company.

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For the Years Ended December 31, 2010 and 2009

9. SHARE CAPITAL (continued)

d) Options (continued)

During the year ended December 31, 2009

- i. On April 2, 2009, the Company issued 1,450,000 stock options expiring April 1, 2014, exercisable at \$0.10 per share and vesting as to 50% on the first anniversary of the grant date and 50% on the second anniversary to directors and employees of the Company.
- ii. On July 14, 2009, the Company issued 300,000 stock options expiring July 14, 2014, exercisable at \$0.10 per share and vesting as to 1/3rd immediately, 1/3rd on the first anniversary of the grant date and 1/3rd on the second anniversary to a director of the Company.

The following summarizes information about stock options outstanding and exercisable at December 31, 2010:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted Average Remaining Contractual Life (in Years)
March 4, 2011	75,000	75,000	\$ 0.25	0.17
May 8, 2012	650,000	650,000	\$ 0.40	1.35
June 11, 2013	1,520,000	1,520,000	\$ 0.40	2.45
April 1, 2014	800,000	350,000	\$ 0.10	3.25
July 14, 2014	300,000	200,000	\$ 0.10	3.54
June 1, 2015	900,000	450,000	\$ 0.14	4.42
July 16, 2015	1,550,000	237,500	\$ 0.14	4.54
September 24, 2015	300,000	-	\$ 0.15	4.73
	6,095,000	3,482,500		3.39

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Notes to the Consolidated Financial Statements For the Years Ended December 31, 2010 and 2009

9. SHARE CAPITAL (continued)

e) Stock-based compensation

The fair value of stock options is determined using the Black-Scholes option pricing model. There were 2,900,000 options granted to the Company's directors, officers, employees and consultants during the year ended December 31, 2010 (2009 – 1,750,000). The Company recognized \$349,577 of stock-based compensation expense on options vested during the year ended December 31, 2010 (2009 - \$421,051), of which \$nil (2009 - \$6,746) has been capitalized to mineral properties and deferred exploration expenditures and \$349,577 (2009 - \$414,305) has been expensed.

The fair value of employee and non-employee options granted during the years ended December 31, 2010 and 2009 was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	December 31, 2010	December 31, 2009
Risk-free interest rate	2.32%	1.90%
Expected annual volatility	121%	113%
Expected life (in years)	5.00	5.00
Expected dividend yield	0%	0%
Fair value at grant date	\$ 0.128	\$ 0.050

10. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company paid management and directors' fees of \$150,639 (2009 - \$79,417) to companies owned by officers, to a partnership owned by an officer, and to a director of the Company. This amount is included in general and administrative expenses on the statement of loss. The Company also paid or accrued directors' fees of \$61,250 (2009 - \$nil).

The balance in accounts payable and accrued liabilities as at December 31, 2010 was \$68,303 (2009 - \$nil) to these related parties. This amount is unsecured and non-interest-bearing.

During the year ended December 31, 2010, the Company issued 592,000 units to certain of the Company's directors and officers at \$0.125 per unit as part of the private placement financings (refer to Note 9(b)(ii) and (iii)). Each unit consisted of one common share of the Company and one half of one common share purchase warrant entitling the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of two years at the same price as arm's length transactions.

The foregoing related party transactions are recorded at the exchange amount, which is the amount of consideration paid or received as established and agreed to between the parties. The exchange amount was negotiated and established and agreed to by the related parties.

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****11. SEGMENTED INFORMATION**

The Company has one operating segment, being the exploration and development of mineral exploration properties in two geographic regions: Dominican Republic and Spain. The Company's assets and liabilities are as follows:

	Canada	Dominican Republic	Spain	Total
As at December 31, 2010				
Cash and cash equivalents	\$ 2,042,465	\$ 13,203	\$ (4)	\$ 2,055,664
Amounts receivable	19,951	60,551	48,166	128,668
Prepaid expenses	18,818	709	-	19,527
Deposits	19,381	1,747	1,060	22,188
Equipment	5,296	54,512	34,689	94,497
Mineral exploration properties and deferred exploration expenditures	-	9,088,995	426,881	9,515,876
	2,105,911	9,219,717	510,792	11,836,420
Accounts payable and accrued liabilities	(180,965)	(17,946)	(50,859)	(249,770)
Current portion of lease obligations	-	-	(8,175)	(8,175)
Future income tax liability	-	(783,448)	(68,100)	(851,548)
Lease obligations	-	-	(9,463)	(9,463)
	\$ 1,924,946	\$ 8,418,323	\$ 374,195	\$ 10,717,464

	Canada	Dominican Republic	Spain	Total
As at December 31, 2009				
Cash and cash equivalents	\$ 752,994	\$ 13,416	\$ -	\$ 766,410
Short-term investments	4,855	865	-	5,720
Amounts receivable	185,783	559	-	186,342
Property and equipment	4,774	117,198	-	121,972
Resource properties	-	8,398,442	-	8,398,442
	948,406	8,530,480	-	9,478,886
Accounts payable and accrued liabilities	(83,904)	(36,565)	-	(120,469)
Future income tax liability	-	(846,000)	-	(846,000)
	\$ 864,502	\$ 7,647,915	\$ -	\$ 8,512,417

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12. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information for the years ended December 31, 2010 and 2009 are as follows:

	For the years ended	
	December 31, 2010	December 31, 2009
Amortization of property and equipment capitalized to resources properties	\$ 13,917	\$ 72,613
Change in accounts payable and accrued liabilities related to resource properties	\$ 98,828	\$ (24,056)
Future income tax related to resource properties	\$ 187,400	\$ 41,000
Shares issued for property	\$ -	\$ 1,247,000
Stock-based compensation capitalized to resource properties	\$ -	\$ 6,746
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

13. COMMITMENTS AND CONTINGENCIES

The Company has entered into a lease for its office premises in Vancouver. The entire lease is for a five year period ending May 31, 2013. The amounts due to the termination of the lease are approximately as follows:

Year	
2011	18,500
2012	18,800
2013	3,100
	\$ 40,400

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****14. INCOME TAXES**

The reconciliation of income tax recovery (provision) computed at statutory rates (2010: 28% and 2009: 30%) to the reported income tax recovery (provision) is as follows:

	2010	2009
Canadian statutory rate	28.50%	30.00%
Income tax recovery computed at Canadian statutory rate	\$ (277,700)	\$ (352,000)
Difference in tax rate	(5,700)	71,600
Change in tax rate	-	165,700
Loss carry-forwards expired	10,500	11,000
Stock-based compensation	99,600	104,000
Other	124,734	(76,377)
Change in valuation allowance	48,566	(121,000)
	\$ -	\$ (197,077)

Significant components of the Corporation's future tax assets and liabilities, after applying substantively enacted corporate income tax rates, are as follows:

	2010	2009
Future income tax assets		
Income tax loss carry forwards, Canada	\$ 1,221,451	\$ 1,222,100
Equipment, Canada	4,918	1,900
Equipment, Dominican Republic	21,828	21,828
Exploration properties, Canada	60,300	60,300
Share issue costs, Canada	57,911	11,700
Total future tax assets	1,366,408	1,317,828
Valuation allowance	(1,344,566)	(1,296,000)
Net future income tax assets	21,842	21,828
Future income tax liabilities		
Exploration properties, Dominican Republic	(805,252)	(867,800)
Exploration properties, Spain	(68,138)	-
Total future tax liabilities	(873,390)	(867,800)
Net future income tax liabilities	\$ (851,548)	\$ (845,972)

GoldQuest Mining Corp.*(a Development Stage Enterprise)***Notes to the Consolidated Financial Statements****For the Years Ended December 31, 2010 and 2009****14. INCOME TAXES (continued)**

As at December 31, 2010, the Company has approximately \$4,885,000 of non-capital losses in Canada, which can be used to reduce taxable income of future years and expire as follows:

2014	607,000
2015	667,000
2026	641,000
2027	848,000
2028	779,000
2029	530,000
2030	813,000
	\$ 4,885,000

The Company has approximately \$197,000 (2009 - \$197,000) of Canadian exploration and development expenditures which, under certain circumstances, may be utilized to reduce taxable income of future years. The Company also has tax losses in the Dominican Republic that, under certain circumstances, may be carried forward to offset future taxable income in that country.

15. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2010, the Company issued 9,365,400 shares for cash proceeds of \$1,873,080, of which \$16,000 was received during the year ended December 31, 2010, from the exercise of warrants.
- b) Subsequent to December 31, 2010, the Company issued 144,500 shares for cash proceeds of \$20,953 from the exercise of agent's warrants.
- c) Subsequent to December 31, 2010, the Company granted 1,300,000 options to certain directors and officers of the Company.