

**GOLDQUEST MINING CORP.**  
*(A Development Stage Company)*

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008 and 2007**

*(Amounts are in US dollars unless otherwise stated)*



McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

## AUDITORS' REPORT

To the Shareholders of  
**Goldquest Mining Corp.**  
(A Development Stage Company)

We have audited the consolidated balance sheets of Goldquest Mining Corp. (a Development Stage Company) as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

A handwritten signature in black ink that reads 'McGovern, Hurley, Cunningham, LLP'.

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
March 19, 2009  
except for Note 15  
which is at April 2, 2009

**GOLDQUEST MINING CORP.**

(A Development Stage Company)

**Consolidated Balance Sheets**

As at December 31,

*(Amounts are in US dollars unless otherwise stated)*

	2008	2007
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	1,427,258	3,507,302
Amounts receivable	18,399	3,851
Prepaid expenses and deposits	83,455	19,071
Total Current Assets	1,529,112	3,530,224
Equipment (Note 8)	164,262	182,208
Mineral properties and deferred exploration expenditures (Note 9)	5,655,486	4,572,245
<b>TOTAL ASSETS</b>	<b>7,348,860</b>	<b>8,284,677</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	129,246	281,224
Future income tax liability (Note 14)	820,000	735,600
<b>TOTAL LIABILITIES</b>	<b>949,246</b>	<b>1,016,824</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 10(a))	9,104,970	8,361,860
Warrants (Note 10(c))	224,533	374,041
Contributed surplus (Note 10(e))	4,602,799	4,303,545
Deficit	(7,532,688)	(5,771,593)
<b>TOTAL EQUITY</b>	<b>6,399,614</b>	<b>7,267,853</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>7,348,860</b>	<b>8,284,677</b>

Commitments and contingencies (Notes 1, 9 and 12)

APPROVED ON BEHALF OF THE BOARD:

"signed"  
Neil MacDonald  
Director"signed"  
Anthony Warrender  
Director

**GOLDQUEST MINING CORP.**

(A Development Stage Company)

**Consolidated Statements of Operations and Deficit**

For the Years Ended December 31,

*(Amounts are in US dollars unless otherwise stated)*

	2008	2007
	\$	\$
<b>REVENUE</b>		
Interest	57,195	80,494
<b>EXPENSES</b>		
General and administrative	899,890	991,245
Foreign exchange loss (gain)	416,446	(442,479)
Amortization	9,473	25,662
	<b>1,325,809</b>	574,428
<b>Loss before the undernoted</b>	<b>(1,268,614)</b>	(493,934)
Write-down of equipment	-	(39,713)
Write-down of exploration properties and deferred exploration expenditures (Note 9)	<b>(678,684)</b>	-
<b>Loss before income taxes</b>	<b>(1,947,298)</b>	(533,647)
<b>Future income tax recovery</b> (Note 14)	<b>186,203</b>	-
<b>Net loss for the year</b>	<b>(1,761,095)</b>	(533,647)
<b>Deficit, beginning of year</b>	<b>(5,771,593)</b>	(5,237,946)
<b>Deficit, end of year</b>	<b>(7,532,688)</b>	(5,771,593)
<b>Basic and diluted net loss per share</b>	<b>0.03</b>	0.01
<b>Weighted average number of shares outstanding</b>	<b>61,359,436</b>	53,589,503

**GOLDQUEST MINING CORP.**

(A Development Stage Company)

**Consolidated Statements of Cash Flows**

For the Years Ended December 31,

*(Amounts are in US dollars unless otherwise stated)*

	2008	2007
	\$	\$
<b>Operating Activities</b>		
Net loss for the year	(1,761,095)	(533,647)
Operating items not involving cash and cash equivalents		
Stock-based compensation	321,796	291,695
Amortization	9,474	25,662
Future income tax recovery	(186,203)	-
Unrealized foreign exchange loss (gain)	69,951	(332,413)
Write-down of exploration properties and deferred exploration expenditures	678,684	-
Write-down of equipment	-	39,713
Net changes in non-cash working capital balances	(366,170)	(238,469)
Cash flows from operating activities	(1,233,563)	(747,459)
<b>Investing Activities</b>		
Additions to exploration properties, net of optionee contributions	(1,292,984)	(1,045,885)
Additions of equipment	(54,606)	(150,584)
Cash flows from investing activities	(1,347,590)	(1,196,469)
<b>Financing Activities</b>		
Options exercised	102,290	268,402
Warrants exercised	468,770	3,157,186
Private placements (net of issue costs)	-	908,656
Cash flows from financing activities	571,060	4,334,244
Foreign exchange effect on cash	(69,951)	332,413
Net (decrease) increase in cash and cash equivalents	(2,080,044)	2,722,729
<b>Cash and cash equivalents, beginning of year</b>	<b>3,507,302</b>	<b>784,573</b>
<b>Cash and cash equivalents, end of year</b>	<b>1,427,258</b>	<b>3,507,302</b>
Cash and cash equivalents are composed of the following:		
Cash	150,554	104,645
Cash equivalents	1,276,704	3,402,657
	1,427,258	3,507,302

**SUPPLEMENTAL INFORMATION**

Warrants issued for share issue costs	-	22,938
Interest paid	-	-
Income taxes paid	-	-
Amortization included in deferred exploration	63,078	-
Change in deferred exploration included in accounts payable	(135,260)	(92,440)

# **GOLDQUEST MINING CORP.**

(A Development Stage Company)

## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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### **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 Exploration and Discovery Latin America (Panama) Inc. ("EDLA"). 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 and non-compliance with regulatory requirements.

These consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in Canada ("GAAP") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements.

The Company has a need for equity capital and financing in order to explore and develop its properties and for working capital requirements. Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations, however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Company and its subsidiaries are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except as described in Note 3. Outlined below are those policies considered particularly significant.

#### **Principles of Consolidation**

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

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Continued...

# **GOLDQUEST MINING CORP.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting policies 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 reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants and tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

#### **Loss Per Share**

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, 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 excludes any potential conversion of options and warrants that would decrease loss per share. Total shares issuable from options and warrants excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended December 31, 2008 were 4,395,000 (2007 - 2,681,000) and 1,987,074 (2007 - 3,283,074), respectively.

#### **Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized 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.

#### **Stock-Based Compensation**

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital.

#### **Equipment and Amortization**

Equipment is recorded at cost and is amortized over its estimated useful life using the straight-line method over the following number of years:

Equipment located in Canada	
Office Furniture	5 years
Computer Equipment	3 years
Field Equipment	3 years
Equipment located in the Dominican Republic	4 years

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# **GOLDQUEST MINING CORP.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Asset Retirement Obligations**

The Company is required to record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its exploration properties. This amount is initially recorded at its discounted present value using a credit adjusted risk free rate with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is recorded as an increase to exploration properties and deferred exploration expenditures and is amortized over the useful life of the property. Management is not presently aware of any asset retirement obligations of the Company.

#### **Exploration Properties and Deferred Exploration Expenditures**

The cost of acquisition of an area of interest and exploration expenditures will be carried forward as an asset on the balance sheet where:

- a) it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest or by its sale; or
- b) exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence of economically recoverable reserves.

Should a project or an area of interest be abandoned, the expenditure will be written off in the year in which the decision to abandon the project is made. Where there has been a decision to proceed with development, accumulated expenditures will be amortized over the life of the associated resource once mining operations have commenced.

The Company reviews its exploration properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the exploration properties is dependant upon numerous factors including exploration results, environmental risks, commodity risks, political risks and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying amount of the mineral properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write-down.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of exploration properties and related deferred exploration expenditures. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

Receipts from property optionee's under option agreements in respect of exploration properties are applied to reduce cumulative expenditures on the relevant properties.

#### **Joint Ventures**

The Company accounts for its operating joint venture operations using the proportionate consolidation method whereby the Company's share of assets, liabilities, revenues and expenses of the joint venture is included with those of the Company. The Company does not currently have an interest in any operating joint ventures. Where the Company holds exploration properties subject to joint venture earn-in agreements, the exploration interests are carried at cost.

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Translation of Currencies**

These consolidated financial statements are expressed in United States dollars as the greater part of the Company's operations are transacted in United States dollars. As at December 31, 2008 the exchange rate was CAD\$1 = USD\$0.8183 (2007 – CAD\$1 = USD\$1.009).

Transactions in foreign currencies have been translated into United States dollars using the "temporal" method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate. Non-monetary assets, which comprise equipment and exploration properties and deferred exploration expenditures, have been translated at the historical rate of exchange prevailing at the date of the transaction. Charges for amortization and exploration expenditures written off have been translated at the same rate as the related assets. Expenses have been translated at the average rate of exchange during the year. Foreign exchange gains and losses are included in operations.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, balances with banks and term deposits with original maturities of three months or less. The Company invests cash in term deposits maintained in high credit quality institutions. The Company does not invest in asset-backed securities.

#### **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 income 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. 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 income (loss) for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

#### **Comprehensive income (loss)**

Comprehensive income (loss), composed of net income (loss) and other comprehensive income (loss), is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income (loss) ("OCI") 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 income (loss) are disclosed in the statement of operations and comprehensive income (loss). Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income (loss) ("AOCI") which is presented as a new category in shareholders' equity. The Company does not currently have any OCI items or AOCI. Therefore, comprehensive loss is equal to net loss for the years ended December 31, 2008 and 2007.

#### **Comparative figures**

Certain comparative amounts have been reclassified to conform to the current year's presentation.

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## **GOLDQUEST MINING CORP.**

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### **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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#### **3. CHANGES IN ACCOUNTING POLICIES**

On January 1, 2008, the Company adopted CICA section 1535, "Capital Disclosures", section 3862, "Financial Instruments - Disclosures" and section 3863, "Financial Instruments - Presentation".

##### **Capital Disclosures**

CICA Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new section in Note 5 to these consolidated financial statements.

##### **Financial Instruments - Disclosures and Presentation**

CICA Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in Note 6 to these consolidated financial statements.

#### **4. NEW ACCOUNTING PRONOUNCEMENTS**

##### **Goodwill and Intangible Assets**

On February 1, 2008, the CICA issued section 3064, "Goodwill and Intangible Assets". This Section establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The changes are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The changes are effective for the Company beginning January 1, 2009. The impact of this new standard is being assessed and cannot be determined at this time.

##### **International Financial Reporting Standards ("IFRS")**

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008 the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company is creating an implementation team, which will consist of internal resources and external consultants. A changeover plan is being established to convert to the new standards within the allotted timeline.

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## **GOLDQUEST MINING CORP.**

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### **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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#### **5. CAPITAL MANAGEMENT**

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Company's capital consists of common shares, warrants and contributed surplus. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out planned exploration, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008.

#### **6. FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### **a) Credit risk**

The Company's credit risk is primarily attributable to cash equivalents and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of guaranteed investment certificates and bankers acceptances, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist primarily of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is remote.

##### **b) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash and cash equivalents balance of \$1,427,258 (2007 - \$3,507,302) to settle current liabilities of \$129,246 (2007 - \$281,224).

##### **c) Interest rate risk**

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

##### **d) Foreign currency risk**

The Company is primarily exposed to currency fluctuations relative to the US dollar on expenditures that are denominated in Canadian dollars (CAD\$) and Dominican Republic Pesos (RD\$). These potential currency fluctuations could have a significant impact on exploration and operating costs. The Company is also exposed to the impact of currency fluctuations on its monetary assets and liabilities. The Company does not actively manage this exposure.

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## GOLDQUEST MINING CORP.

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### Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Amounts are in US dollars unless otherwise stated)

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#### 6. FINANCIAL RISK FACTORS (Continued)

The exposure of the Company's financial assets and liabilities to currency risk as at December 31, 2008 are as follows:

<i>(in US dollars)</i>	US Dollar	Canadian Dollar	RD Peso	Total
<b>Financial Assets</b>				
Cash and cash equivalents	142,014	1,277,209	8,035	1,427,258
Amounts receivable	-	7,602	10,797	18,399
	142,014	1,284,811	18,832	1,445,657
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	59,905	65,538	3,803	129,246

##### e) Price risk

The Company is exposed to price risk with respect to commodity prices, specifically precious and non-precious metals. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future mining operations will be significantly affected by changes in the market prices for metals, which fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for metals, the level of interest rates, the rate of inflation, investment decisions by large holders of metals including governmental reserves and stability of exchange rates can all cause significant fluctuations in metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

#### 7. FINANCIAL INSTRUMENTS

##### a) Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet dates, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the consolidated balance sheets approximate fair value because of the limited term of these instruments.

##### b) Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three-month period: Financial instruments include amounts held in currencies other than the US dollar. A 10% change in foreign exchange rates between the US dollar and these foreign currencies would affect net loss by approximately \$123,000 based on the foreign currency balances at December 31, 2008.

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**GOLDQUEST MINING CORP.**

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**Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)***8. EQUIPMENT**

	2008		
	Cost \$	Accumulated Amortization \$	Net \$
Equipment located in Canada:			
Office Furniture	4,868	1,299	3,569
Computer Equipment	21,200	18,714	2,486
Field Equipment	1,627	908	719
Equipment located in the Dominican Republic	310,662	153,174	157,488
	<b>338,357</b>	<b>174,095</b>	<b>164,262</b>

  

	2007		
	Cost \$	Accumulated Amortization \$	Net \$
Equipment located in Canada:			
Office furniture	4,868	325	4,543
Computer equipment	21,200	10,757	10,443
Field equipment	1,627	366	1,261
Equipment located in the Dominican Republic	244,713	78,752	165,961
	<b>272,408</b>	<b>90,200</b>	<b>182,208</b>

**9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

	Balance December 31, 2007 \$	Additions \$	Optionee contributions \$	Write offs \$	Balance December 31, 2008 \$
Gold Fields (a)	1,984,024	1,020,352	(1,123,959)	(492,481)	<b>1,387,936</b>
Other (a)	1,852,621	1,594,929	-	-	<b>3,447,550</b>
Future Income Tax Effect	735,600	270,603	-	(186,203)	<b>820,000</b>
<b>Total Exploration Properties and Deferred Exploration Expenditures</b>	<b>4,572,245</b>	<b>2,885,884</b>	<b>(1,123,959)</b>	<b>(678,684)</b>	<b>5,655,486</b>

	Balance December 31, 2006 \$	Additions \$	Optionee contributions \$	Write offs \$	Balance December 31, 2007 \$
Gold Fields (a)	2,238,461	802,492	(1,056,929)	-	<b>1,984,024</b>
Other (a)	459,859	1,392,762	-	-	<b>1,852,621</b>
Future Income Tax Effect	418,800	316,800	-	-	<b>735,600</b>
<b>Total Exploration Properties and Deferred Exploration Expenditures</b>	<b>3,117,120</b>	<b>2,512,054</b>	<b>(1,056,929)</b>	<b>-</b>	<b>4,572,245</b>

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## **GOLDQUEST MINING CORP.**

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### **Notes to the Consolidated Financial Statements**

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*(Amounts are in US dollars unless otherwise stated)*

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#### **9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)**

##### **a) Gold Fields**

On January 31, 2006 the Company entered into a Joint-Venture Letter of Intent ("LOI") with Gold Fields Exploration Inc. ("Gold Fields") to explore certain project areas owned by the Company located in the Dominican Republic. The LOI superseded all prior agreements with Gold Fields, and its terms were formalized in a mining venture agreement (the "Agreement") which was signed in March 2007 with an effective date of January 31, 2006.

Under the terms of the Agreement, Gold Fields has the right to earn an initial 60% interest in selected properties held by the Company in the Dominican Republic, which are not restricted by existing third party agreements, by spending \$5,000,000 on exploration over 3 years including a minimum of \$1,000,000 in the first year (completed). In addition, Gold Fields paid the Company a 7% operating fee on all project costs from the commencement of the LOI until May 31, 2007, at which time Gold Fields assumed direct project management.

On November 26, 2008, Gold Fields advised that they had completed their \$5,000,000 expenditure requirement. The Company has received verification of this and accepts that Gold Fields now holds a 60% interest in these projects.

The Energold properties described in Notes 9(b) and 9(c) are included in the projects in which Gold Fields may earn an interest.

The Celestina, Las Animas, El Toro, Santa Ana and El Tuerto projects are excluded from the new agreement and have reverted 100% back to the Company. Gold Fields shall maintain a right of first offer on these properties. These properties are described as "Other" in the table above.

Under the terms of the Agreement, Gold Fields may select up to four specific projects whereby it can earn an additional 15% by expending \$5,000,000 on each project. The Company maintains the right to remain at 40% on one designated project by fully funding its share of exploration expenditures up to commencement of a bankable feasibility study. At the Company's election, upon completion of the additional 15% earn-in, Gold Fields will arrange funding of the Company's proportionate share of subsequent development and construction expenditures. In return, Gold Fields will be granted an additional 5% interest in the project (to 80%) and the funding will be deemed a loan, repayable out of 90% of the Company's profits from production.

The Company and Gold Fields are in current negotiations relating to ongoing work, project management and administration of the concessions and, at present Gold Fields, is the manager of record under the Agreement.

##### **b) Western Dominican Republic - Energold**

In January 2004 the Company entered into an agreement with Energold Drilling Corp. ("Energold") in which the Company had the right earn a 60% interest in Energold's Centenario property. Under the terms of the agreement the Company is required to expend at least \$1,000,000 in exploration expenditures by October 27, 2008. The agreement also allows the Company to earn an additional 20% interest in the property by carrying the project to a bankable feasibility study. GoldQuest and Gold Fields jointly determined there was no benefit in continuing with this project and the Option from Energold was abandoned in late 2008.

See Note 9(a).

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Continued...

## GOLDQUEST MINING CORP.

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### Notes to the Consolidated Financial Statements

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(Amounts are in US dollars unless otherwise stated)

#### 9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

##### c) Eastern Dominican Republic - Energold

In January 2002 the Company entered into an agreement with Energold in which the Company has earned a 51% interest in Energold's Bacco y Ofir and Josefina properties.

The above properties are subject to a 1% total net smelter return royalty payable to Canyon and Battle Mountain up to an aggregate maximum royalty of \$1,000,000.

See Note 9(a).

#### 10. SHARE CAPITAL

##### a) Common Shares

Authorized:

An unlimited number of common shares

Issued:

61,545,551 common shares

Transactions during the year are as follows:

	Number of Shares	Amount \$
Balance, December 31, 2006	44,174,000	3,726,102
Shares issued pursuant to private placement (b)	3,947,340	1,017,433
Warrants valuation	-	(449,997)
Share issue cost – Broker and compensation warrants	-	(22,938)
Share issue costs	-	(108,777)
Options exercised - cash	969,000	268,402
Options exercised - valuation allocation	-	132,576
Warrants exercised - cash	10,879,211	3,157,186
Warrants exercised - valuation allocation	-	641,873
<b>Balance, December 31, 2007</b>	<b>59,969,551</b>	<b>8,361,860</b>
Options exercised - cash	406,000	102,290
Options exercised - valuation allocation	-	38,670
Warrants exercised - cash	1,170,000	468,770
Warrants exercised - valuation allocation	-	133,380
<b>Balance, December 31, 2008</b>	<b>61,545,551</b>	<b>9,104,970</b>

##### b) Financing in 2007

In February 2007, the Company completed a non-brokered private placement of 3,947,340 units at a price of CAD\$0.30 per unit for gross proceeds of \$1,017,433. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for a period of 2 years for CAD\$0.40 per share in the first year and CAD\$0.50 per share in the second year. The gross proceeds have been prorated to common shares and warrants based on the relative fair value of each component, as follows: shares - \$567,436; warrants - \$449,997 (Note 10(c)). 185,734 broker and compensation warrants, valued at \$22,938 were granted in connection with this private placement. A Company controlled by a director of the Company subscribed for 670,000 units of this private placement for gross proceeds of \$172,694.

Continued...

# GOLDQUEST MINING CORP.

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## Notes to the Consolidated Financial Statements

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### 10. SHARE CAPITAL (Continued)

#### c) Warrants

	Warrants	Weighted- average exercise price	Estimated Grant Date Fair Value
	#	CAD\$	\$
Balance, December 31, 2006	9,991,000	0.30	542,979
Granted	4,171,285	0.40	472,935
Exercised	(10,879,211)	0.31	(641,873)
Balance, December 31, 2007	3,283,074	0.39	374,041
Exercised	(1,170,000)	0.40	(133,380)
Expired	(126,000)	0.40	(16,128)
<b>Balance, December 31, 2008</b>	<b>1,987,074</b>	<b>0.50</b>	<b>224,533</b>

As at December 31, 2008, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	Estimated Grant Date Fair Value	No. of Warrants
	CAD\$	\$	#
February 19, 2009 (i), (ii)	0.30	2,454	21,523
February 19, 2009 (ii)	0.50	222,079	1,965,551
		<b>224,533</b>	<b>1,987,074</b>

- i) Warrants to purchase units of the Company. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share of the Company for a period of 2 years for CAD \$0.40 per share in the first year and CAD\$0.50 per share in the second year.
- ii) Subsequent to year end, these warrants expired.

The grant date fair value of warrants issued during the year ended December 31, 2007 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2007
Expected dividend yield	0%
Expected volatility	100%
Risk-free interest rate	3.50%
Expected average life	1 or 2 years

Continued...

# GOLDQUEST MINING CORP.

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## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Amounts are in US dollars unless otherwise stated)

### 10. SHARE CAPITAL (Continued)

#### d) Stock Options

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing ongoing services to the Company. The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed ten percent of the total number of common shares outstanding immediately prior to such an issuance. The exercise price of options equals the market price of the Company's stock on the date of grant. Under the plan, the Board of Directors has the choice of either vesting or allowing options issued to be exercisable upon issuance. Options are normally issued for a five-year term.

During the year ended December 31, 2008, options totalling 2,120,000 (2007 - 1,325,000) exercisable at CAD\$0.40 (2007 - CAD\$0.40) per share vesting over one to two years and expiring June 11, 2013 were granted to directors, officers, consultants and employees of the company.

The following is a summary of stock option activity for the year ended December 31, 2008:

	Options #	2008 Weighted- average exercise price CAD\$	Options #	2007 Weighted- average exercise price CAD\$
Balance, beginning of year	2,681,000	0.38	2,325,000	0.32
Granted	2,120,000	0.40	1,325,000	0.40
Exercised	(406,000)	0.25	(969,000)	0.28
<b>Balance, end of year</b>	<b>4,395,000</b>	<b>0.40</b>	<b>2,681,000</b>	<b>0.38</b>

As at December 31, 2008, the following stock options were outstanding:

Expiry Date	Exercise Price CAD\$	Options \$	Vested %	Estimated Grant Date Fair Value \$
July 6, 2009	0.50	675,000	100%	252,742
April 28, 2010	0.25	400,000	100%	54,000
March 4, 2011	0.25	75,000	100%	13,026
May 8, 2012	0.40	1,125,000	100%	353,570
June 11, 2013	0.40	2,120,000	0.24%	279,016
<b>Total</b>		<b>4,395,000</b>		<b>952,354</b>

The weighted average grant date fair value of stock options issued during the year ended December 31, 2008 is \$0.295 (2007 - \$0.271). The fair value of options granted for the year ended December 31, 2008 and 2007 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions:

	2008	2007
Expected dividend yield	0%	0%
Expected volatility	119%	96%
Risk-free interest rate	3.6%	3.9%
Expected average life	5 years	5 years

Continued...

## GOLDQUEST MINING CORP.

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### Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Amounts are in US dollars unless otherwise stated)

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#### 10. SHARE CAPITAL (Continued)

##### e) Contributed Surplus

The following is a summary of contributed surplus activity:

Balance, December 31, 2006	\$ 4,144,426
Options exercised - valuation allocation	(132,576)
Employee stock-based compensation	291,695
Balance, December 31, 2007	\$ 4,303,545
Options exercised - valuation allocation	(38,670)
Expired warrants	16,128
Non-employee stock-based compensation	49,267
Employee stock-based compensation	272,529
<b>Balance, December 31, 2008</b>	<b>\$ 4,602,799</b>

#### 11. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008, legal fees in the amount of \$Nil (2007 – \$47,957) were paid or accrued to a law firm of which a former director was an associate.

During the year ended December 31, 2008, share issue costs in the amount of \$Nil (2007 – \$20,680) were paid or accrued to a corporation controlled by a director of the Company.

See Note 10(b).

The above transactions occurred in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

#### 12. COMMITMENTS AND CONTINGENCIES

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

<u>Year</u>	<u>Amount</u>
2009	\$ 14,000
2010	14,000
2011	15,000
2012	15,000
2013	<u>7,000</u>
	<u>65,000</u>

The Company is party to certain management contracts. These contracts require that additional payments of up to \$221,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these consolidated financial statements. Minimum management contract commitments remaining under the agreements are approximately \$76,500, all due within one year.

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Continued...

## GOLDQUEST MINING CORP.

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### Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Amounts are in US dollars unless otherwise stated)

#### 13. SEGMENTED INFORMATION

The Company operates in the mining industry.

All of the Company's operating and exploration activities relate to the Dominican Republic exploration properties referred to in Note 9.

Geographic breakdown of total assets as at December 31, 2008 is as follows: Canada - \$1,402,521 (2007 - \$3,461,710), Dominican Republic - \$5,946,339 (2006 - \$4,822,967).

#### 14. INCOME TAXES

##### Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the Canadian statutory rate of approximately 31.5% (2007 - 36.1%) were as follows:

	2008 \$	2007 \$
<b>Loss before income taxes</b>	<b>(1,947,298)</b>	<b>(533,647)</b>
Expected income tax benefit based on statutory rate	(613,400)	(192,100)
Adjustments to benefit resulting from:		
Difference in tax rate	49,000	-
Change in tax rate	-	146,000
Expiring non-capital losses	16,000	12,000
Stock-based compensation	93,000	85,000
Share issue costs	-	(31,000)
Other	(180,503)	92,700
Change in valuation allowance	449,700	(112,600)
<b>Future income tax recovery</b>	<b>(186,203)</b>	<b>-</b>

##### Future Income Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and liabilities as at December 31 approximate the following:

	2008 \$	2007 \$
Future income tax assets (liabilities)		
Non-capital losses	1,075,800	594,500
Equipment	4,300	(600)
Exploration properties	(765,300)	(676,800)
Share issue costs	24,800	57,200
	339,600	(25,700)
Valuation allowance	(1,159,600)	(709,900)
	<b>(820,000)</b>	<b>(735,600)</b>

Continued...

# GOLDQUEST MINING CORP.

(A Development Stage Company)

## Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

(Amounts are in US dollars unless otherwise stated)

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### 14. INCOME TAXES (Continued)

#### Tax Loss Carry-Forwards

The Company has approximately CAD\$197,000 (approximately \$161,000) 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.

As at December 31, 2008, the Company has approximately CAD\$4,142,000 (approximately \$3,385,000) of non-capital losses in Canada, which can be used to reduce taxable income of future years and expire as follows:

	CAD\$
2009	45,000
2013	42,000
2014	607,000
2015	667,000
2026	641,000
2027	332,000
2028	1,808,000
	<hr/>
	<b>4,142,000</b>

The Company believes it has tax losses and exploration expenditures in the Dominican Republic, which under certain circumstances may be used to offset future taxable income. At this time, the Company cannot reasonably estimate the allocation of such tax assets; however, the Company can estimate the total future tax assets the Company holds in the Dominican Republic.

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# **GOLDQUEST MINING CORP.**

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## **Notes to the Consolidated Financial Statements**

December 31, 2008 and 2007

*(Amounts are in US dollars unless otherwise stated)*

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### **15. SUBSEQUENT EVENTS**

- a) See Note 10 (c) (ii)
- b) On March 29, 2009, the Company signed an Agreement with Lundin Mining Corporation ("Lundin") whereby the Company will acquire, subject to regulatory approval, 100% of the issued and outstanding shares of a wholly owned subsidiary of Lundin's, referred to as Lundin SL, domiciled in Spain.

Lundin SL holds a 100% interest in the Toral Lead-Zinc-Silver project located in northwest Spain and a second polymetallic project currently under application (collectively the "Projects"). In exchange for 100% of the issued and outstanding shares of Lundin SL, GoldQuest has agreed to issue Lundin the lower of five million common shares of the Company or that number of common shares of the Company having a value of CAD\$5,000,000 on the day regulatory approval of the purchase is received.

Lundin will retain a 1.5% royalty on the Net Smelter Return (NSR) from the Projects. Lundin also retains a one-time back-in right to reacquire a fifty-one (51%) percent interest in the Toral Project once GoldQuest provides written notice to Lundin within 10 days of the following events occurring: delineation of an inferred resource on the Toral Project of greater than 1 Million tonnes of lead and zinc (contained), as demonstrated in a NI 43-101 compliant report, and completion of not less than 5,000 meters of drilling.

To exercise the back-in right, Lundin must (1) spend an amount equal to 2.5 times the aggregate expenditures made by GoldQuest on the Toral Project and (2) pay an amount in cash equal to 51% of the value of the shares issued by GoldQuest under the agreement. If Lundin elects to exercise the back-in right, the right of Lundin to receive the 1.5% NSR will be terminated.

Upon payment of the back-in right consideration, a joint venture would be formed pursuant to which Lundin will have 51% interest and GoldQuest will have a 49% interest in the Toral Project. Upon formation, each party will either fund its proportional share of the expenditures or Lundin may elect to increase its participating interest in the Joint Venture from 51% to 65% by completing a full feasibility study on the Toral Project.

- c) On April 2, 2009, the Company granted 1,450,000 stock options exercisable at CAD\$0.10 to certain directors and employees of the Company. The stock options are exercisable for 5 years and vest over 1 and 2 years.
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