

**EAGLECREST EXPLORATIONS LTD.**

Consolidated Financial Statements

For the Years ended September 30, 2006 and 2005

# **DE VISSER GRAY**

## **CHARTERED ACCOUNTANTS**

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### **AUDITORS' REPORT**

To the Shareholders of Eaglecrest Explorations Ltd.

We have audited the consolidated balance sheets and schedules of resource property costs of Eaglecrest Explorations Ltd. as at September 30, 2006 and 2005 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 September 30, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

"De Visser Gray"

### **CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
January 25, 2007

**EAGLECREST EXPLORATIONS LTD.**Consolidated Balance Sheets  
As at September 30, 2006 and 2005

|   | <u>2006</u>              | <u>2005</u>              |
|---|--------------------------|--------------------------|
|   | \$                       | \$                       |
| <b>Assets</b>                                   |                          |                          |
| Current   |                          |                          |
| Cash  | 2,308,657                | 762,771                  |
| Accounts receivable                             | 39,648                   | 136,202                  |
| Prepaid expenses and deposits                   | <u>112,538</u>           | <u>50,294</u>            |
|   | 2,460,843                | 949,267                  |
| Property, plant and equipment (note 3)          | 527,081                  | 699,014                  |
| Resource properties (schedule) (note 4)         | <u>32,579,485</u>        | <u>25,902,523</u>        |
|   | <u><u>35,567,409</u></u> | <u><u>27,550,804</u></u> |
| <b>Liabilities</b>                              |                          |                          |
| Current   |                          |                          |
| Accounts payable and accrued liabilities        | <u>825,262</u>           | <u>528,074</u>           |
| <b>Shareholders' Equity</b>                     |                          |                          |
| Share capital (note 6(b))                       | 51,668,343               | 42,772,462               |
| Share subscriptions (note 6(e))                 | 1,156,000                | 1,156,000                |
| Contributed surplus (note 6(g))                 | 1,844,846                | 1,428,731                |
| Deficit   | <u>(19,927,042)</u>      | <u>(18,334,463)</u>      |
|   | <u>34,742,147</u>        | <u>27,022,730</u>        |
|   | <u><u>35,567,409</u></u> | <u><u>27,550,804</u></u> |
| Nature of Operations and Going Concern (Note 1) |                          |                          |

Approved by the Board of Directors:

"Paul Zdebiak"

Paul Zdebiak

"Hans Rasmussen"

Hans Rasmussen

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Statements of Operations and Deficit  
For the Years Ended September 30, 2006 and 2005

|   | 2006                | 2005                |
|---|---------------------|---------------------|
|   | \$                  | \$                  |
| <b>Expenses:</b>  |                     |                     |
| Accounting and audit                                    | 25,388              | 12,000              |
| Administration  | 63,500              | 60,000              |
| Advertising   | 2,350               | 36,344              |
| Amortization  | 4,720               | 3,727               |
| Bank charges and interest                               | 7,970               | 6,935               |
| Consulting  | 80,175              | 58,188              |
| Filing fees   | 35,064              | 35,384              |
| Foreign exchange loss                                   | 32,254              | 25,631              |
| Insurance   | 48,046              | 31,923              |
| Corporate development                                   | 272,309             | 337,548             |
| Legal   | 64,288              | 64,903              |
| Management fees   | 191,566             | 169,590             |
| Office and printing                                     | 96,132              | 59,109              |
| Shareholders' information                               | 23,034              | 18,597              |
| Stock-based compensation (note 6 (f))                   | 465,765             | 430,380             |
| Transfer agent  | 17,285              | 17,075              |
| Travel and promotion                                    | 251,170             | 78,567              |
|   | <b>1,681,016</b>    | <b>1,445,901</b>    |
| <b>Other items:</b>                                     |                     |                     |
| Interest income   | (41,719)            | (12,062)            |
| Write-off of accounts payable & receivables<br>(Note 9) | (46,718)            | -                   |
|   | <b>(88,437)</b>     | <b>(12,062)</b>     |
| <b>Net loss for the year</b>                            | <b>(1,592,579)</b>  | <b>(1,433,839)</b>  |
| <b>Deficit - beginning of year</b>                      | <b>(18,334,463)</b> | <b>(16,900,624)</b> |
| <b>Deficit - end of year</b>                            | <b>(19,927,042)</b> | <b>(18,334,463)</b> |
| Loss per common share (note 2)                          | (\$0.01)            | (\$0.01)            |
| Weighted-average number of common<br>shares outstanding | 222,086,729         | 165,977,930         |

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Statements of Cash Flows  
For the Years Ended September 30, 2006 and 2005

|   | 2006        | 2005        |
|---|-------------|-------------|
|   | \$          | \$          |
| <b>Cash provided by (used in):</b>                  |             |             |
| <b>Operating activities</b>                         |             |             |
| Net loss for the year                               | (1,592,579) | (1,433,839) |
| Items not affecting cash:                           |             |             |
| Amortization  | 4,720       | 3,727       |
| Stock-based compensation                            | 465,765     | 430,380     |
|   | (1,122,094) | (999,732)   |
| Net change in non-cash working capital items:       |             |             |
| Accounts receivable                                 | 96,554      | (83,453)    |
| Prepaid expenses and deposits                       | (62,244)    | 13,495      |
| Accounts payable and accrued liabilities            | (40,724)    | (26,208)    |
|   | (1,128,508) | (1,095,898) |
| <b>Financing activities</b>                         |             |             |
| Cash received for capital stock issued              | 9,109,484   | 6,238,330   |
| Share issue costs                                   | (263,253)   | (369,329)   |
| Share subscriptions to capital stock                | -           | (384,886)   |
|   | 8,846,231   | 5,484,115   |
| <b>Investing activities</b>                         |             |             |
| Property, plant and equipment expenditures          | (40,787)    | (147,638)   |
| Resource property expenditures                      | (6,468,962) | (4,459,258) |
| Accounts payable for resource property expenditures | 337,912     | (191,350)   |
|   | (6,171,837) | (4,798,246) |
| <b>Increase (decrease) in cash</b>                  | 1,545,886   | (410,029)   |
| <b>Cash - beginning of year</b>                     | 762,771     | 1,172,800   |
| <b>Cash - end of year</b>                           | 2,308,657   | 762,771     |

**Supplemental disclosure of non-cash financing and investing activities:**

*During the year ended September 30, 2006, 43,750 (2005 – 122,400) common shares were issued at \$0.18 (2005 - \$0.13) for finders' fees. Equipment amortization of \$208,000 (2005 - \$200,008) was recorded in deferred mineral property costs.*

*Interest received during the year \$41,719 (2005 - \$12,062)*

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Schedule of Resource Property Costs

|                         | September<br>30, 2004 | Additions<br>during the<br>year | September<br>30, 2005 | Additions<br>during the<br>year | September<br>30, 2006 |
|-------------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
|                         | \$                    | \$                              | \$                    | \$                              | \$                    |
| <b>Bolivia</b>          |                       |                                 |                       |                                 |                       |
| <b>San Simon Zone</b>   |                       |                                 |                       |                                 |                       |
| Acquisition costs       | 2,395,843             | 124,920                         | 2,520,763             | 7,696                           | 2,528,459             |
| Administration          | 193,576               | -                               | 193,576               | -                               | 193,576               |
| Assays                  | 398,745               | -                               | 398,745               | -                               | 398,745               |
| Camp costs              | 1,768,017             | -                               | 1,768,017             | -                               | 1,768,017             |
| Consulting fees         | 2,185,445             | -                               | 2,185,445             | -                               | 2,185,445             |
| Drilling                | 1,501,060             | -                               | 1,501,060             | -                               | 1,501,060             |
| Mapping                 | 120,058               | -                               | 120,058               | -                               | 120,058               |
| Equipment rental        | 1,150,002             | -                               | 1,150,002             | -                               | 1,150,002             |
| Field costs             | 625,183               | -                               | 625,183               | -                               | 625,183               |
| Geophysical surveys     | 171,867               | -                               | 171,867               | -                               | 171,867               |
| Professional fees       | 217,391               | -                               | 217,391               | -                               | 217,391               |
| Sampling and analysis   | 132,529               | -                               | 132,529               | -                               | 132,529               |
| Wages                   | 589,341               | -                               | 589,341               | -                               | 589,341               |
| Travel                  | 482,661               | -                               | 482,661               | -                               | 482,661               |
| Underground development | 2,420,241             | -                               | 2,420,241             | -                               | 2,420,241             |
| Vehicle maintenance     | 393,251               | -                               | 393,251               | -                               | 393,251               |
|                         | <u>14,745,210</u>     | <u>124,920</u>                  | <u>14,870,130</u>     | <u>7,696</u>                    | <u>14,877,826</u>     |
| <b>Dona Amelia Zone</b> |                       |                                 |                       |                                 |                       |
| Acquisition costs       | 78,210                | 12,266                          | 90,476                | 13,735                          | 104,211               |
| Admin and office        | 249,796               | 265,310                         | 515,106               | 267,345                         | 782,451               |
| Amortization            | 109,895               | 200,008                         | 309,903               | 208,000                         | 517,903               |
| Assays                  | 280,709               | 156,983                         | 437,692               | 179,324                         | 617,016               |
| Camp costs              | 293,326               | 123,669                         | 416,995               | 368,325                         | 785,320               |
| Consulting fees         | 719,923               | 657,753                         | 1,377,676             | 531,647                         | 1,909,323             |
| Drilling                | 2,757,300             | 898,068                         | 3,655,368             | 1,876,440                       | 5,531,808             |
| Environmental           | -                     | 59,990                          | 59,990                | 110,663                         | 170,653               |
| Mapping                 | 12,806                | -                               | 12,806                | -                               | 12,806                |
| Equipment rental        | 312,957               | 223,391                         | 536,348               | 242,014                         | 778,362               |
| Field costs             | 621,630               | 675,012                         | 1,296,642             | 474,757                         | 1,771,399             |
| Geophysical surveys     | 12,894                | -                               | 12,894                | -                               | 12,894                |
| Supplies                | -                     | -                               | -                     | 70,063                          | 70,063                |
| Travel/transportation   | 172,161               | 169,156                         | 341,317               | 194,475                         | 535,792               |
| Underground development | -                     | 744,104                         | 744,104               | 1,496,805                       | 2,240,909             |
| Wages                   | 491,749               | 336,370                         | 828,119               | 582,778                         | 1,410,897             |
|                         | <u>6,113,356</u>      | <u>4,522,080</u>                | <u>10,635,436</u>     | <u>6,616,371</u>                | <u>17,251,807</u>     |

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Schedule of Resource Property Costs

|   | September<br>30, 2004 | Additions<br>during the<br>year | September<br>30, 2005 | Additions<br>during the<br>year | September<br>30, 2006 |
|---|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
|   | \$                    | \$                              | \$                    | \$                              | \$                    |
| <b>Marco Maria Zone</b>                   |                       |                                 |                       |                                 |                       |
| Acquisition costs                         | 239,058               | -                               | 239,058               | 22,350                          | 261,408               |
| Professional fees                         | 10,701                | -                               | 10,701                | -                               | 10,701                |
|   | <u>249,759</u>        | <u>-</u>                        | <u>249,759</u>        | <u>22,350</u>                   | <u>272,109</u>        |
| <b>Dona Angela<br/>(Campo Nuevo) Zone</b> |                       |                                 |                       |                                 |                       |
| Acquisition costs                         | 131,785               | 12,266                          | 144,051               | 30,545                          | 174,596               |
| Professional fees                         | 3,147                 | -                               | 3,147                 | -                               | 3,147                 |
|   | <u>134,932</u>        | <u>12,266</u>                   | <u>147,198</u>        | <u>30,545</u>                   | <u>177,743</u>        |
| <b>Total</b>                              | <u>21,243,257</u>     | <u>4,659,266</u>                | <u>25,902,523</u>     | <u>6,676,962</u>                | <u>32,579,485</u>     |

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

The Company is incorporated in British Columbia and is currently involved in the acquisition, exploration and development of resource properties located in Itenez Province, Bolivia. At the date of these consolidated financial statements, the Company does not have a known body of commercial grade ore on any of its properties, and the ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company being able to sell the properties or to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the properties.

During the current year the Company experienced an operating loss of \$1,592,579 (2005 - \$1,433,839) and at September 30, 2006 has a cumulative operating deficit of \$19,927,042. The Company will require significant additional funding to maintain its working capital surplus and meet its planned resource expenditures in fiscal 2007. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available in the future. Management is actively pursuing such additional sources of financing, however, in the event that additional funding cannot be obtained, there is substantial doubt about the ability of the Company to continue as a going concern.

The consolidated financial statements have been prepared assuming the Company will be able to realize its assets and discharge its liabilities in the normal course of business as a going concern. In the event the Company is not able to obtain adequate funding, there is uncertainty as to whether the Company will be able to maintain or complete the acquisition of its mineral property interests. The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to achieve profitable mining operations or obtain adequate financing.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation and Principles of Consolidation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly-owned subsidiary located in Bolivia. All material intercompany balances and transactions have been eliminated.

**Resource Properties**

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Resource Properties** *(continued)*

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

These costs are depleted over the useful lives of the properties upon the commencement of commercial production, or written off if the properties are abandoned or the claims are allowed to lapse.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

Management's estimates of mineral prices, recoverable proven and probable reserves and operating capital and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of mineral property costs. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its properties.

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has taken every precaution to ensure that legal title to its properties is properly recorded in the name of the company, there can be no assurance that such title will ultimately be secured.

Administrative costs, along with costs related to the determination of the feasibility of a project, are expensed as incurred.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost and amortized over their estimated useful economic lives using the declining balance method at annual rates of 30% for office equipment, automotive and field equipment. The Company has also constructed a rock crusher plant and recovery mill that are recorded at cost and amortized on a straight-line basis over five years.

Property, plant and equipment acquired in a fiscal year are amortized at one-half of the annual rate.

**Foreign Currency Translation**

The Company's foreign operations are considered integrated with those of the Company's domestic operations.

The Company translates its accounts denominated in foreign currencies as follows: monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non-monetary assets and liabilities at their applicable historical rates. Revenues and expenses are translated at rates prevailing at the date of the transaction except for amortization which is translated at historical rates.

Exchange gains and losses from the translation of foreign currencies are recognized in the period in which they occur.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to impairment of resource properties, determination of stock based compensation and determination of valuation allowances for future income tax assets. Actual results could differ from those estimates.

**Financial Instruments**

The Company's financial instruments consist of cash, accounts receivable, and accounts payable and accrued liabilities. The fair values of the instruments approximate their carrying values due to their short-term nature. Financial risk is the risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative or hedging instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

**Share Issue Costs**

Costs incurred for the issue of common shares are deducted from share capital or the balance of share subscriptions prior to the issuance of the shares. Shares issued for consideration other than cash are valued at the quoted market price on the date the agreement to issue the shares was reached.

**Stock-Based Compensation**

The Company records all stock-based payments using the fair value method.

Under the fair value method, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable and are charged to operations over the vesting period. The offset is credited to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

**Loss Per Share**

Loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts have not been presented as the effect of outstanding options and warrants are anti-dilutive.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Future Income Taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability 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. Such an allowance applies fully to all potential income tax assets of the Company.

**Asset Retirement Obligations**

The fair value of a liability for an asset retirement obligation is recognized on an undiscounted cash flow basis when a reasonable estimate of the fair value of the obligation can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and from revisions to either expected payment dates or the amounts comprising the original estimate of the obligation. As at September 30, 2006, the Company does not have any asset retirement obligations.

**Impairment of Long-Lived Assets**

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

**Environmental Expenditures**

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. The Company's policy is to meet or, if possible, surpass environmental standards set by relevant legislation by the application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs are recognized when the ultimate liability is reasonably determinable and are charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

**Comparative figures**

Certain of the prior years' figures have been restated to conform with the presentation adopted in the current year.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**3. PROPERTY, PLANT AND EQUIPMENT**

|                  | September 30, 2006 |                             |                   | Sept. 30/05       |
|------------------|--------------------|-----------------------------|-------------------|-------------------|
|                  | Cost               | Accumulated<br>Amortization | Net Book<br>Value | Net Book<br>Value |
|                  | \$                 | \$                          | \$                | \$                |
| Office Equipment | 94,128             | 60,051                      | 34,077            | 35,774            |
| Field Equipment  | 40,964             | 36,509                      | 4,455             | 6,364             |
| Automotive       | 86,265             | 52,714                      | 33,551            | 11,310            |
| Crusher Plant    | 128,531            | 128,531                     | -                 | 8,569             |
| Recovery Mill    | 872,863            | 417,865                     | 454,998           | 636,997           |
|                  | <u>1,222,751</u>   | <u>695,670</u>              | <u>527,081</u>    | <u>699,014</u>    |

**4. RESOURCE PROPERTIES**

The Company's mineral properties are located in Bolivia, South America and its interest in these mineral properties is maintained pursuant to agreements with the titleholders. The Company is satisfied that evidence of title to each of its mineral properties is adequate and acceptable by prevailing Bolivian standards with respect to the current stage of exploration on these properties.

**San Simon and Dona Amelia Zones**

Pursuant to a formal joint venture agreement (the San Simon Agreement) executed in fiscal 1999 and subsequently amended, the Company owns the right to acquire 100% of all production from eleven mineral concessions. Total consideration paid to acquire this right was US\$600,000.

These eleven mineral concessions are subject to a 3% net smelter returns royalty, of which the Company can purchase 1% for U.S.\$500,000 and a second 1% for U.S.\$750,000.

Agreement with San Simon Resources LLC ("SSR")

On April 15, 2003 SSR and the Company entered into an agreement by which the Company acquired from SSR an 80% interest in production from seven non-core concessions and the right to acquire one additional concession (known as the California concession) by incurring U.S.\$500,000 in mineral exploration expenditures over two years (incurred) and reimbursing SSR certain costs aggregating U.S.\$10,000 (paid).

The Company also entered into a separate agreement on June 9, 2003 with the underlying owner of the California concession whereby it paid U.S. \$48,000 and issued 200,000 common shares to obtain a 100% interest in this concession.

These concessions are subject to a 3% net smelter returns royalty of which the Company can purchase 1% for U.S.\$500,000 and a second 1% for U.S.\$1,000,000.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2006 and 2005

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**4. RESOURCE PROPERTIES (continued)**

**Marco Maria Zone**

Pursuant to an agreement (the Marco Maria Agreement) signed during fiscal 1999, the Company acquired the right to 100% of all production from seven (subsequently increased to eight) mineral concessions located contiguous to the existing San Simon mineral concessions. Total consideration paid to acquire this right was US\$50,000 plus the issuances of 650,000 common shares.

These concessions are subject to a 3% net smelter royalty of which the Company can purchase 1% for U.S.\$500,000 and a second 1% for U.S.\$1,000,000.

**Dona Angela (Campo Nuevo) Zone**

Pursuant to an agreement signed March 2, 2001, the Company has acquired the right to 100% of all production from 13 concessions covering 19,215 hectares located to the north, east and west of the Company's existing holdings at the San Simon property. The Company had originally agreed to pay U.S.\$95,000 (U.S.\$20,000 paid) to the optionor prior to July 31, 2003.

Pursuant to an amending agreement signed in August, 2003, the Company has agreed to pay the optionor the remaining U.S.\$75,000 (U.S.\$37,500 paid) and incur annual exploration expenditures until production of U.S.\$100,000. The optionor agreed to accept 375,000 common shares (issued by the Company) at a price of U.S.\$0.10 for the remaining U.S.\$37,500. The agreement also calls for annual payments until production of US\$20,000, commencing in fiscal 2005, to the optionor. Payments totaling \$40,000 have been paid to date and commencing in fiscal 2007, the annual payment has been renegotiated and lowered to US\$10,000.

These concessions are subject to a 3% net smelter royalty of which the Company can purchase 1% for U.S.\$1,000,000 and a second 1% for U.S.\$2,000,000.

**5. RELATED PARTY TRANSACTIONS**

All transactions with related parties have 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. The unpaid year end balances referred to below are non interest bearing, payable on demand and have arisen from the provision of services described.

During the year ended September 30, 2006, the Company:

- incurred administration fees of \$63,500 (2005 - \$60,000) with an officer of the Company.
- incurred corporate development costs of \$162,978 (2005 - \$122,067) with a private company related by a director-in-common pursuant to a three year consulting agreement that calls for a monthly fee of U.S.\$8,000 for the first six months with a 5% increase each quarter thereafter expiring in February, 2007.
- incurred management fees of \$191,566 (2005 - \$169,590) with a private company related by a director-in-common pursuant to a three year management agreement that calls for a monthly management fee of U.S.\$10,000 for the first six months with a 5% increase each quarter thereafter expiring in February, 2007.

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**5. RELATED PARTY TRANSACTIONS (continued)**

- incurred legal fees of \$64,288 (2005 - \$64,903) with a law firm in which an officer of the Company is a partner.

As at September 30, 2006, accounts payable and accrued liabilities is inclusive of \$38,047 (2005 – \$27,545) due to a director and a private company related by an officer.

As at September 30, 2006, accounts receivable and prepaid is inclusive of \$8,536 (2005 - \$8,832) in travel advances to directors.

**6. SHARE CAPITAL**

**a) Authorized share capital:**

The Company's authorized share capital consists of 500,000,000 common shares without par value.

**b) Issued and outstanding share capital:**

|                                 | <u>September 30, 2006</u>   |                          | <u>September 30, 2005</u>   |                          |
|---------------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
|                                 | <u>Number<br/>of Shares</u> | <u>\$</u>                | <u>Number<br/>of Shares</u> | <u>\$</u>                |
| Issued - Beginning of year      | <u>197,699,161</u>          | <u>42,772,462</u>        | <u>146,624,761</u>          | <u>36,903,461</u>        |
| Private placements              | 14,860,875                  | 2,495,368 <sup>(1)</sup> | 38,453,000                  | 4,350,881 <sup>(2)</sup> |
| Shares issued for finders' fees | 43,750                      | -                        | 122,400                     | -                        |
| Exercise of options             | 500,000                     | 75,000                   | 215,000                     | 32,250                   |
| Exercise of option compensation | -                           | 49,650                   | -                           | -                        |
| Exercise of warrants            | <u>54,783,535</u>           | <u>6,275,863</u>         | <u>12,284,000</u>           | <u>1,485,870</u>         |
|                                 | <u>70,188,160</u>           | <u>8,895,881</u>         | <u>51,074,400</u>           | <u>5,869,001</u>         |
| Issued - End of year            | <u><u>267,887,321</u></u>   | <u><u>51,668,343</u></u> | <u><u>197,699,161</u></u>   | <u><u>42,772,462</u></u> |

(1) Net of \$271,564 in share issue costs

(2) Net of \$385,241 in share issue costs

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**6. SHARE CAPITAL (continued)**

**c) Directors' and employees' stock options outstanding**

i) The Company has a share option plan approved by the shareholders that allows it to grant options, subject to regulatory terms and approval, to its directors, employees, officers, and consultants. All options issued to date have vested immediately, effective the grant date.

ii) The continuity of stock options outstanding is as follows:

|   | September<br>30, 2006 | Weighted<br>Average<br>Exercise<br>Price \$ | September<br>30, 2005 | Weighted<br>Average<br>Exercise<br>Price \$ |
|---|-----------------------|---|-----------------------|---|
| Balance outstanding - beginning of year | 14,485,000            | 0.15  | 9,050,000             | 0.15  |
| Activity during the period:             |                       |   |                       |   |
| Options granted                         | 2,250,000             | 0.28  | 5,650,000             | 0.15  |
| Options cancelled/expired               | (1,885,000)           | 0.19  | -                     | -   |
| Options exercised                       | (500,000)             | 0.15  | (215,000)             | 0.15  |
| Balance outstanding - end of year       | <u>14,350,000</u>     | <u>0.17</u>                                 | <u>14,485,000</u>     | <u>0.15</u>                                 |

iii) Details of stock options outstanding at September 30, 2006:

| Number of<br>Shares | Option<br>Price | Expiry Date        |
|---------------------|-----------------|--------------------|
| 750,000             | \$ 0.160        | April 22, 2007     |
| 1,500,000           | \$ 0.150        | November 19, 2007  |
| 2,000,000           | \$ 0.150        | February 4, 2008   |
| 1,000,000           | \$ 0.150        | June 10, 2008      |
| 500,000             | \$ 0.150        | October 10, 2008   |
| 2,850,000           | \$ 0.150        | April 6, 2009      |
| 3,250,000           | \$ 0.150        | December 24, 2009  |
| 750,000             | \$ 0.160        | April 22, 2010     |
| 450,000             | \$ 0.195        | February 6, 2008   |
| 500,000             | \$ 0.270        | March 3, 2008      |
| 500,000             | \$ 0.270        | March 17, 2008     |
| 300,000             | \$ 0.455        | September 13, 2011 |
| <u>14,350,000</u>   |                 |                    |

As at September 30, 2006, the contractual weighted average remaining life is 2.2 years (2005 - 3.2 years).

**EAGLECREST EXPLORATIONS LTD.**  
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**6. SHARE CAPITAL (continued)**

**d) Share purchase warrants outstanding**

i) The continuity of share purchase warrants outstanding is as follows:

|   | September<br>30, 2006 | Weighted<br>Average<br>Exercise<br>Price \$US | September<br>30, 2005 | Weighted<br>Average<br>Exercise<br>Price \$US |
|---|-----------------------|---|-----------------------|---|
| Balance outstanding - beginning of year | 94,851,535            | 0.10  | 85,525,035            | 0.16  |
| Activity during year:                   |                       |   |                       |   |
| Warrants issued                         | 14,860,875            | 0.16  | 38,453,000            | 0.12  |
| Warrants exercised                      | (54,783,535)          | 0.10  | (12,284,000)          | 0.12  |
| Warrants expired                        | (3,840,000)           | 0.10  | (16,842,500)          | 0.23  |
| Balance outstanding - end of year       | <u>51,088,875</u>     | <u>0.12</u>                                   | <u>94,851,535</u>     | <u>0.12</u>                                   |

ii) Details of share purchase warrants outstanding at September 30, 2006:

| Number of shares  | Exercise price<br>\$US | Expiry date      |
|-------------------|------------------------|------------------|
| 5,446,000         | \$0.10                 | January 12, 2007 |
| 4,165,000         | \$0.10                 | January 19, 2007 |
| 26,617,000        | \$0.10                 | May 5, 2007      |
| 14,860,875        | \$0.16                 | February 2, 2008 |
| <u>51,088,875</u> |                        |                  |

**e) Share subscriptions**

- During the year ended September 30, 2001, the Company proposed to issue a private placement of 2.0 million units at \$0.50 per unit to raise \$1.0 million less a 7.5% finder's fee. Each unit is to consist of a common share and a two-year warrant to purchase an additional share for \$0.50 in the first year and \$0.60 in the second year. The Company has received subscriptions for 1,983,171 units (proceeds of \$925,000, net of related issue costs). This private placement has regulatory consent; however, the units cannot be issued until the completion of certain regulatory filings.

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**6. SHARE CAPITAL (continued)**

**e) Share subscriptions (continued)**

- During the year ended September 30, 2001, the Company entered into an agreement with a purchaser for a private placement of 770,000 units at \$0.30 per unit to raise \$231,000. Each unit is comprised of one common share and one warrant to purchase one common share at a price of \$0.30 per share in the first year and \$0.40 per share in the second year. This private placement has regulatory consent; however, the units cannot be issued until the completion of certain regulatory filings.

**f) Stock-based compensation**

At September 30, 2006, \$465,765 (2005 - \$430,380) in stock-based compensation was recorded as a result of stock options granted during the year. The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions; risk-free interest rate 3.00% (2005 - 3.07% -3.29%); expected dividend yield - Nil; expected stock price volatility 70.6% - 111.1% (2005 - 70% - 109%); and expected option life of 2.0 – 5.0 years (2005 - 1.5 – 5.0 years).

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimate, and therefore it is management's view that the existing models do not necessarily provide a single reliable measure of the fair value of the Company's stock option grants.

**g) Contributed Surplus**

Continuity of contributed surplus is as follows:

|                                  |                  |
|----------------------------------|------------------|
| Balance – September 30, 2005     | 1,428,731        |
| Stock based compensation expense | 465,765          |
| 2006 option exercises            | (49,650)         |
|                                  | <hr/>            |
| Balance – September 30 2006      | <u>1,844,846</u> |

**7. INCOME TAXES**

A reconciliation of income taxes at statutory rates is as follows:

|  | 2006           | 2005           |
|--|----------------|----------------|
| Loss for the year  | \$ (1,592,579) | \$ (1,433,839) |
| Expected income tax (recovery)                           | (543,388)      | (510,733)      |
| Net adjustment for amortization & non-deductible amounts | 78,958         | 88,817         |
| Unrecognized benefit of non-capital losses               | 464,430        | 421,916        |
| Total income taxes                                       | <u>\$ -</u>    | <u>\$ -</u>    |

**EAGLECREST EXPLORATIONS LTD.**  
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**7. INCOME TAXES** *(continued)*

The significant components of the Company's future income tax assets are as follows:

|                                | 2006               | 2005               |
|--------------------------------|--------------------|--------------------|
| Future income tax assets:      |                    |                    |
| Mineral properties             | \$ 364,295         | \$ 380,310         |
| Non-capital loss carryforwards | 1,931,068          | 1,762,736          |
| Capital losses                 | 285,032            | 297,563            |
| Equipment                      | 20,077             | 20,960             |
|                                | <u>2,600,472</u>   | <u>2,461,569</u>   |
| Valuation allowance            | <u>(2,600,472)</u> | <u>(2,461,569)</u> |
| Net future tax assets          | <u>\$ -</u>        | <u>\$ -</u>        |

The Company has estimated non-capital losses of approximately \$5.6 million (2005 - \$4.9 million) which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through to 2026. The Company also has capital losses of approximately \$830,000, which may be carried forward and applied against capital gains in future years. Subject to certain restrictions, the Company also has mineral property expenditures of approximately \$1 million available to reduce taxable income in future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

**8. SEGMENTED INFORMATION**

The Company operates in a single reportable operating segment, the exploration and development of mineral properties. Geographic information is as follows:

| Assets                                       | 2006                 | 2005                 |
|--|----------------------|----------------------|
| <b>Canada</b>                                |                      |                      |
| Assets other than mineral property interests | \$ 2,251,143         | \$ 787,454           |
| Mineral property interests                   | -                    | -                    |
| <b>Bolivia</b>                               |                      |                      |
| Assets other than mineral property interests | 736,781              | 860,827              |
| Mineral property interests                   | <u>32,579,485</u>    | <u>25,902,523</u>    |
| <b>Total Assets</b>                          | <u>\$ 35,567,409</u> | <u>\$ 27,550,804</u> |

**EAGLECREST EXPLORATIONS LTD.**  
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**9. WRITEOFF OF PREVIOUS ACCRUALS**

At September 30, 2006, the Company has recorded a net gain of \$46,718 from the adjustment of prior period accounts payable and receivable balances which had remained unpaid for several years without any claims being made by the creditors against the Company. Current management does not consider that these amounts are valid or currently payable, although there is no assurance that formal claims will not be made against the Company for some or all of these accounts in the future.

**10. SUBSEQUENT EVENTS**

In addition to information disclosed elsewhere in these notes, the following occurred during the period subsequent to September 30, 2006:

- The Company issued 600,000 shares pursuant to the exercise of warrants.
- US\$105,000 was received by the Company pursuant to the exercising of warrants, of which share certificates have not been issued.
- \$114,500 was received as an advance on receipt of two shipments of gold flotation concentrate from the Company. The gold flotation concentrate was produced by processing bulk samples taken as part of the underground bulk sampling program in the Company's on-site gold recovery plant on the San Simon project in northeast Bolivia. The final payment figure has yet to be determined, but will be calculated based on 96% of the 30-day average gold price commencing on the arrival date of the gold concentrate in Mexico.
- Options were granted to purchase up to an aggregate of 4,000,000 shares of the capital of the Company exercisable at \$0.27 per share until the close of business January 4, 2012 (3,700,000 shares) and January 9, 2012 (300,000 shares).