

**EAGLECREST EXPLORATIONS LTD.**

Consolidated Financial Statements

For the Nine Months ended June 30, 2006

(Un-audited – Prepared by Management)



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(TSXV: Symbol EEL)

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102, Eaglecrest Explorations Ltd. (the "Company") discloses that the accompanying un-audited interim consolidated financial statements for the nine months ended, June 30, 2006, were prepared by management.

The Company's independent auditor has not performed a review of these un-audited interim consolidated financial statements.

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

	June 30 (Un-audited) \$	September 30 (Audited) \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	1,690,150	762,771
Accounts receivable	130,539	136,202
Prepays and deposits	46,700	50,294
	1,867,389	949,267
Property, plant and equipment (note 3)	585,916	699,014
Resource properties (schedule) (note 4)	30,581,497	25,902,523
	33,034,802	27,550,804
 <b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued Liabilities	899,177	528,074
 <b>Shareholders' Equity</b>		
Share capital (note 6)	48,652,438	42,772,462
Share subscriptions (note 6)	1,184,935	1,156,000
Contributed surplus (note 6)	1,836,868	1,428,731
Deficit	(19,538,616)	(18,334,463)
	32,135,625	27,022,730
	33,034,802	27,550,804

Nature of Operations and Going Concern (Note 1)

Approved by the Board of Directors:

"Paul Zdebiak"  
Paul Zdebiak

"Carl Erickson"  
Carl Erickson

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Statements of Operations and Deficit  
For the Periods Ended June 30, 2006 and 2005  
(Un-audited – Prepared by Management)

	<u>Three Months Ended June 30</u>		<u>Nine Months Ended June 30</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenue:				
Interest	14,334	6,516	24,890	8,799
<b>Expenses:</b>				
Accounting and audit	4,000	3,000	11,000	8,000
Administration	16,500	15,000	47,000	45,000
Amortization	743	802	2,228	2,408
Bank charges and interest	1,732	1,934	6,687	5,427
Consulting	20,738	43,748	63,694	43,748
Filing fees	6,721	15,150	35,064	34,164
Foreign exchange loss (gain)	45,863	(37,851)	37,325	(15,105)
Insurance	11,874	11,591	26,006	27,415
Investors relations	93,587	79,776	208,641	217,320
Legal	10,879	25,621	42,395	55,300
Management fees	48,162	44,086	141,015	125,064
Office and printing	30,975	10,261	55,532	32,529
Office rent	4,810	5,064	13,270	13,479
Shareholders information	6,879	10,063	17,586	12,919
Stock-based compensation (note 6 (e))	(7,200)	158,355	400,095	430,380
Transfer agent	3,308	5,654	15,348	13,790
Travel and promotion	27,581	54,498	106,157	79,042
Total expenses	<u>327,152</u>	<u>446,752</u>	<u>1,229,043</u>	<u>1,130,880</u>
<b>Net loss for the period</b>	(312,818)	(440,236)	(1,204,153)	(1,122,081)
<b>Deficit - beginning of period</b>	<u>(19,225,798)</u>	<u>(17,582,469)</u>	<u>(18,334,463)</u>	<u>(16,900,624)</u>
<b>Deficit - end of period</b>	<u><u>(19,538,616)</u></u>	<u><u>(18,022,705)</u></u>	<u><u>(19,538,616)</u></u>	<u><u>(18,022,705)</u></u>
Loss per common share (note 2)	<u>\$0.00</u>	<u>\$0.00</u>	<u>(\$0.01)</u>	<u>(\$0.01)</u>
Weighted-average number of common shares outstanding	<u>206,520,435</u>	<u>133,634,992</u>	<u>206,520,433</u>	<u>133,634,992</u>

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Consolidated Statements of Cash Flows  
For the Periods Ended June 30, 2006 and 2005  
(Un-audited – Prepared by Management)

	<u>Three Months Ended June 30</u>		<u>Nine Months Ended June 30</u>	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net loss for the period	(312,818)	(440,237)	(1,204,153)	(1,122,081)
Items not affecting cash:				
Amortization	743	802	2,228	2,407
Stock-based compensations	(7,200)	158,355	400,095	430,380
	<u>(319,275)</u>	<u>(281,080)</u>	<u>(801,830)</u>	<u>(689,294)</u>
Net change in non-cash working capital items:				
Accounts receivable and prepaid	320,231	(114,797)	9,257	(227,021)
Accounts payable and accrued liabilities	281,014	15,181	371,103	(310,031)
	<u>281,970</u>	<u>(380,696)</u>	<u>(421,470)</u>	<u>(1,226,346)</u>
<b>Financing activities</b>				
Share capital issued for cash (net)	1,541,480	3,897,309	5,888,018	4,632,751
Share subscriptions (net)	(231,480)	(2,929,665)	28,935	(384,886)
	<u>1,310,000</u>	<u>967,644</u>	<u>5,916,953</u>	<u>4,247,865</u>
<b>Investing activities</b>				
Plant and equipment	(8,490)	(54,980)	(43,113)	(108,594)
Resource property expenditures	(1,740,905)	(1,610,378)	(4,524,991)	(3,197,352)
	<u>(1,749,395)</u>	<u>(1,665,358)</u>	<u>(4,568,104)</u>	<u>(3,305,946)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(157,425)	(1,078,410)	927,379	(284,427)
<b>Cash and cash equivalents - beginning of period</b>	<u>1,847,575</u>	<u>1,966,783</u>	<u>762,771</u>	<u>1,172,800</u>
<b>Cash and cash equivalents - end of period</b>	<u><u>1,690,150</u></u>	<u><u>888,373</u></u>	<u><u>1,690,150</u></u>	<u><u>888,373</u></u>

See notes to the consolidated financial statements

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

	September 30, 2004 (Audited)	Additions during the year	September 30, 2005 (Audited)	Additions during the period	June 30, 2006 (Un-audited)
<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	170,831	685,937
Amortization	109,895	200,008	309,903	153,983	463,886
Assays	280,709	156,983	437,692	121,623	559,315
Camp costs	293,326	123,669	416,995	206,839	623,834
Consulting fees	719,923	657,753	1,377,676	491,143	1,868,819
Drilling	2,757,300	898,068	3,655,368	1,365,320	5,020,688
Environmental	-	59,990	59,990	13,510	73,500
Mapping	12,806	-	12,806	-	12,806
Equipment rental	312,957	223,391	536,348	166,724	703,072
Field costs	621,630	675,012	1,296,642	400,818	1,697,460
Geophysical surveys	12,894	-	12,894	-	12,894
Travel/transportation	172,161	169,156	341,317	132,760	474,077
Underground development	-	744,104	744,104	1,023,276	1,767,380
Wages	491,749	336,370	828,119	380,166	1,208,285
	<u>6,113,356</u>	<u>4,522,080</u>	<u>10,635,436</u>	<u>4,640,728</u>	<u>15,276,164</u>

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

	September 30, 2004 (Audited)	Additions during the year	September 30, 2005 (Audited)	Additions during the period	March 31, 2006 (Un-audited)
<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 (Campo Nuevo) Zone</b>					
Acquisition costs	131,785	12,266	144,051	8,200	152,251
Professional fees	3,147	-	3,147	-	3,147
	<u>134,932</u>	<u>12,266</u>	<u>147,198</u>	<u>8,200</u>	<u>155,398</u>
<b>Total</b>	<u><u>21,243,257</u></u>	<u><u>4,659,266</u></u>	<u><u>25,902,523</u></u>	<u><u>4,678,974</u></u>	<u><u>30,581,497</u></u>

See notes to the consolidated financial statements

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
For the Nine Months Ended June 30, 2006 and 2005  
(Un-audited – Prepared by Management)

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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, Department of Beni, 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 period the Company experienced an operating loss of \$1,204,153 (2005 - \$1,122,081) and at June 30, 2006 has a cumulative operating deficit of \$19,538,616. The Company will require significant additional funding to maintain its working capital surplus and meet its planned resource expenditures in fiscal 2006. 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 Consolidation**

These financial statements include the accounts of the Company and its wholly-owned subsidiary located in Bolivia.

**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.

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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 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 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.

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

**Use of Estimates**

The preparation of financial statements in conformity with 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. Actual results could differ from those estimates.

**Financial Instruments**

The Company's financial instruments consist of current assets and current 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.

**Stock-Based Compensation**

The Company follows the Recommendations of the Canadian Institute of Chartered Accountants in connection with accounting for stock option-based compensation. These Recommendations were first applied on a prospective basis to all awards granted on or after October 1, 2003, and established standards for the recognition, measurement and disclosure of stock option-based compensation and other stock based payments made in exchange for goods and services.

**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.

**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.

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 March 31, 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.

**3. PROPERTY, PLANT AND EQUIPMENT**

	June 30, 2006			Sept. 30/05
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Office equipment	107,122	54,891	52,231	35,774
Crusher plant	128,531	128,531	-	8,569
Automotive	56,108	47,343	8,765	11,310
Field equipment	40,964	36,032	4,932	6,364
Recovery mill	892,353	372,365	519,988	636,997
	1,225,078	639,162	585,916	699,014

**EAGLECREST EXPLORATIONS LTD.**  
Notes to the Consolidated Financial Statements  
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**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 Joint Venture 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 holds the right to acquire 100% of all production from eleven mineral concessions in consideration for the payment of U.S.\$600,000 in stages as follows:

- U.S.\$30,000 (paid) on execution of the formal agreement;
- U.S.\$30,000 (paid) on the later of nine months after execution of the formal agreement and confirmation by the Bolivian regulatory authorities of the optionors' clear title to the concessions;
- U.S.\$100,000 (paid) one year after execution of the formal agreement;
- U.S.\$190,000 two years after execution of the formal agreement (subsequently amended December 15, 2002); and
- U.S.\$250,000 three years after execution of the formal agreement (subsequently amended December 15, 2002).

On December 15, 2002, the Company completed an amended agreement to reschedule the final U.S.\$440,000 in outstanding payments due pursuant to the San Simon Agreement. The Company agreed to pay U.S. \$15,000 prior to December 15, 2002 (paid), U.S. \$15,000 prior to January 15, 2003 (paid), U.S.\$14,000 prior to March 20, 2003 (paid), U.S.\$146,000 prior to June 15, 2003 (paid) and U.S.\$250,000 prior to September 20, 2004 (U.S.\$150,000 paid). An amending agreement was signed to extend the remaining U.S.\$100,000 payment to March 31, 2005 (paid – April, 2005).

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, which is 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.

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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. The Company was originally required to pay U.S.\$100,000 prior to October 15, 2001 and issue 150,000 common shares (issued) to the optionor.

The optionor and the Company have subsequently agreed to reschedule the aggregate U.S. \$100,000 due pursuant to the Marco Maria Agreement. The Company agreed to issue 500,000 common shares (issued) and pay U.S.\$25,000 upon signing of the amending agreement (paid), U.S.\$12,500 prior to June 2, 2004 (paid) and U.S.\$12,500 prior to June 2, 2005 (paid).

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. Following the completion of cash option payments and issuance of shares, the agreement calls for annual payments until production of US\$20,000, commencing in fiscal 2005 to the optionor. Payment pertaining to fiscal 2006 has not yet been paid.

These concessions are subject to a 3% net smelter royalty of which the Company can purchase 1% for U.S.\$1,000,000, and 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 period ending balances referred to below are payable on demand and have arisen from the provision of services described.

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

During the period ended June 30, 2006, the Company:

- incurred administration fees of \$47,000 (2005 - \$45,000) with an officer.
- incurred investor relations costs of \$123,174 (2005 - \$92,116) with a private company related by a director-in-common pursuant to a three year consulting agreement, commencing March 1, 2004 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 \$141,015 (2005 - \$125,064) with a private company related by a director-in-common pursuant to a three year management agreement, commencing March 1, 2004 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.
- incurred legal fees of \$42,394 (2005 - \$55,300) with a law firm in which an officer of the Company is a partner.

As at June 30, 2006, accounts payable and accrued liabilities is inclusive of \$22,064 (2005 – \$30,241) due to a private company related by an officer.

**6. SHARE CAPITAL**

**a) Authorized share capital consists of 500,000,000 common shares without par value.**

	<u>June 30, 2006</u>		<u>September 30, 2005</u>	
	<u># of Shares</u>	<u>Amount \$</u>	<u># of Shares</u>	<u>Amount \$</u>
Issued - Beginning of Period	197,699,161	42,772,462	146,624,761	36,903,461
Private placements	14,860,875	2,487,326	38,453,000	4,350,881
Shares issued for finder's fees	43,750	-	122,400	-
Exercise of options	-	-	215,000	32,250
Exercise of warrants	29,019,597	3,392,650	12,284,000	1,485,870
	<u>43,924,222</u>	<u>5,879,976</u>	<u>51,074,400</u>	<u>5,869,001</u>
Issued - End of Period	<u>241,623,383</u>	<u>48,652,438</u>	<u>197,699,161</u>	<u>42,772,462</u>

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**6. SHARE CAPITAL (continued)**

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

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

	June 30, 2006	Weighted Average Exercise Price \$	September 30, 2005	Weighted Average Exercise Price \$
Balance outstanding - beginning of period	14,485,000	0.15	9,050,000	0.15
Activity during period:				
Options granted	1,950,000	0.25	5,650,000	0.15
Options cancelled/expired	(1,885,000)	0.18	-	-
Options exercised	-	-	(215,000)	0.15
Balance outstanding - end of period	<u>14,550,000</u>	<u>0.16</u>	<u>14,485,000</u>	<u>0.15</u>

ii) Details of stock options outstanding at June 30, 2006:

Number of Shares	Option price	Expiry date
750,000	\$0.16	April 22, 2007
1,500,000	\$0.15	November 19, 2007
2,000,000	\$0.15	February 4, 2008
450,000	\$0.195	February 6, 2008
500,000	\$0.27	March 3, 2008
500,000	\$0.27	March 17, 2008
1,000,000	\$0.15	June 10, 2008
500,000	\$0.15	October 10, 2008
3,350,000	\$0.15	April 6, 2009
3,250,000	\$0.15	December 24, 2009
750,000	\$0.16	April 22, 2010
<u>14,550,000</u>		

As at June 30, 2006, the weighted average remaining contractual life is 2.39 years (2005 - 4.76 years).

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**6. SHARE CAPITAL (continued)**

**c) Share purchase warrants outstanding**

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

	June 30, 2006	Weighted Average Exercise Price \$	September 30, 2005	Weighted Average Exercise Price \$
Balance outstanding - beginning of period	94,851,535	0.13	85,525,035	0.16
Activity during period:				
Warrants issued	14,860,875	0.18	38,453,000	0.12
Warrants exercised	(29,019,597)	0.12	(12,284,000)	0.12
Warrants expired	(3,840,000)	0.12	(16,842,500)	0.23
Balance outstanding - end of period	<u>76,852,813</u>	<u>0.13</u>	<u>94,851,535</u>	<u>0.13</u>

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

Number of shares	Exercise price \$	Expiry date
25,313,938	0.12	August 23, 2006
5,446,000	0.12	January 12, 2007
4,265,000	0.12	January 19, 2007
26,967,000	0.12	May 5, 2007
14,860,875	0.18	February 2, 2008
<u>76,852,813</u>		

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**6. SHARE CAPITAL**

**d) 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.
- 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.
- As at the period ended June 30, 2006, the Company received subscriptions for the exercise of 25,000 warrants at US\$0.10 each for gross proceeds of US\$25,000 (CAD\$28,935).

**e) Stock-based compensation**

The company recorded stock-based compensation in the current period of \$400,095. The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions; risk-free interest rate – 3.0%; expected dividend yield - Nil; expected stock price volatility - 71% to 111%; and expected option life of 2 years.

At September 30, 2005, \$430,380 in stock-based compensation was recorded as a result of stock options granted during the period. The fair value of stock options granted was estimated using the Black-Scholes Option Pricing Model with the following assumptions; risk-free interest rates 3.07% -3.29%; expected dividend yield - Nil; expected stock price volatility 70% - 109%; and expected option life of 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.

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**7. SUBSEQUENT EVENTS**

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

- The Company issued 350,000 shares pursuant to the exercise of warrants.
- 500,000 options for the purchase of 500,000 common shares of the Company at a price of \$0.15 per share were exercised.