

EAGLECREST EXPLORATIONS LTD.

(A Development Stage Company)

Consolidated Financial Statements

For the Three Months Ended December 31, 2009

(Un-audited – Prepared by Management)



EAGLECREST EXPLORATIONS LTD.

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Tel. (604) 684-7160 Fax. (604) 684-7162

(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 three months ended, December 31, 2009, were prepared by management.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The interim consolidated financial statements of Eaglecrest Explorations Ltd. (a development stage company) are the responsibility of the Company's management. The interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control through an audit committee, which is comprised of a majority of non-management directors. The audit committee reviews the quarterly consolidated financial statements prior to their submission to the Board of Directors for approval.

EAGLECREST EXPLORATIONS LTD.

Consolidated Balance Sheets
December 31, 2009 and September 30, 2009
(Expressed in Canadian Dollars)

| | December 31 (Un-audited) | September 30 (Audited) |
|---|-----------------------------|---------------------------|
| Assets | \$ | \$ |
| Current | | |
| Cash | 895,301 | 655,721 |
| Receivables | 18,177 | 30,123 |
| Prepaid expenses and deposits | 79,058 | 35,136 |
| | <u>992,536</u> | <u>720,980</u> |
| Property, plant and equipment (note 4) | 45,897 | 38,998 |
| Other deferred property charges (note 5) | 31,681 | - |
| Resource properties (schedule 1 and note 6) | 45,324,180 | 44,918,869 |
| | <u>46,394,294</u> | <u>45,678,847</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued Liabilities | 355,317 | 483,547 |
| | <u>355,317</u> | <u>483,547</u> |
| Asset retirement obligation - Note 3 | 80,000 | 80,000 |
| | <u>435,317</u> | <u>563,547</u> |
| Shareholders' Equity | | |
| Share capital (note 9(a)) | 68,649,330 | 67,689,035 |
| Share subscriptions (note 9(f)) | 1,156,000 | 1,156,000 |
| Share subscriptions receivable (note 9(h)) | (80,000) | (276,178) |
| Contributed surplus (note 9(i)) | 3,364,416 | 3,352,521 |
| Deficit | (27,130,769) | (26,806,078) |
| | <u>45,958,977</u> | <u>45,115,300</u> |
| | <u>46,394,294</u> | <u>45,678,847</u> |

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments – Notes 5, 6 and 9
Subsequent Events – Notes 11

APPROVED BY THE BOARD OF DIRECTORS:

| | | | |
|-----------------------|----------|-------------------------|----------|
| <u>“Paul Zdebiak”</u> | Director | <u>“Hans Rasmussen”</u> | Director |
| Paul Zdebiak | | Hans Rasmussen | |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EAGLECREST EXPLORATIONS LTD.
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Three Months Ended December 31, 2009 and 2008
(Expressed in Canadian Dollars)
(Un-audited – Prepared by Management)

| | <u>2009</u> | <u>2008</u> |
|--|----------------------------|----------------------------|
| | \$ | \$ |
| Expenses: | | |
| Accounting and audit | 14,352 | 12,939 |
| Administration | 30,000 | 30,000 |
| Advertising | - | - |
| Amortization | 1,314 | 1,654 |
| Bank charges | 658 | 608 |
| Consulting fees | 22,146 | - |
| Corporate development | 86,449 | 43,531 |
| Filing fees | 14,240 | 895 |
| Foreign exchange loss (gain) | 11,656 | (39,031) |
| Insurance | 5,882 | 12,257 |
| Interest on convertible debenture | - | 38,330 |
| Legal | 20,248 | 10,622 |
| Management fees | 47,533 | 54,414 |
| Office and printing | 25,968 | 25,424 |
| Shareholders information | 3,876 | 2,969 |
| Transfer agent | 7,340 | 1,756 |
| Travel and promotion | 43,137 | 38,484 |
| Total expenses | <u>334,799</u> | <u>234,852</u> |
| Other items: | | |
| Gain on disposal of property, plant and equipment | (10,108) | - |
| Interest income | - | (286) |
| Net loss for the period | (324,691) | (234,566) |
| Deficit - beginning of period | <u>(26,806,078)</u> | <u>(24,738,017)</u> |
| Deficit - end of period | <u><u>(27,130,769)</u></u> | <u><u>(24,972,583)</u></u> |
| Loss per common share | <u>(\$0.01)</u> | <u>(\$0.01)</u> |
| Weighted-average number of common shares outstanding | <u>39,681,478</u> | <u>35,149,990</u> |

SEE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EAGLECREST EXPLORATIONS LTD.
Consolidated Statements of Cash Flows
For the Three Months Ended December 31, 2009 and 2008
(Expressed in Canadian Dollars)
(Un-audited – Prepared by Management)

| | 2009 | 2008 |
|---|-----------|-----------|
| | \$ | \$ |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net loss for the period | (324,691) | (234,566) |
| Items not affecting cash: | | |
| Accretion of convertible debenture | - | 23,634 |
| Amortization | 1,314 | 1,654 |
| Foreign exchange adjustments | - | 88,596 |
| Gain on disposition of property plant and equipment | (10,108) | - |
| | (333,485) | (120,682) |
| Net change in non-cash working capital items: | | |
| Receivables | 11,946 | 109,297 |
| Prepaid expenses and deposits | (43,922) | (23,804) |
| Accounts payable and accrued liabilities | (128,230) | (278,975) |
| | (493,691) | (314,164) |
| Financing activities | | |
| Subscription receivable | 112,938 | 280,595 |
| Cash received for capital stock issued (net) | 1,055,430 | - |
| | 1,168,368 | 280,595 |
| Investing activities | | |
| Property, plant and equipment expenditures | (18,490) | - |
| Disposition of property plant and equipment | 18,900 | - |
| Other deferred property expenditures | (31,681) | - |
| Resource property expenditures | (403,826) | (631,457) |
| | (435,097) | (631,457) |
| Increase (decrease) in cash | 239,580 | (665,026) |
| Cash - beginning of period | 655,721 | 765,445 |
| Cash - end of period | 895,301 | 100,419 |

Supplemental disclosure of non-cash financing and investing activities:

During the period, equipment amortization of \$1,485 (2008: \$47,548) was recorded in resources property expenditures.

During the period, the company issued 105,000 (2008: 1,923) common shares valued at \$55,356 (2008: \$2,500) and 50,000 (2008: Nil) agent warrants valued at \$11,895 (2008: \$Nil) for finders' fees in connection with private placements.

EAGLECREST EXPLORATIONS LTD.
Consolidated Schedule of Resource Property Costs
(Expressed in Canadian Dollars)

| | (Audited) September 30, 2008 \$ | Additions During the Year \$ | (Audited) September 30, 2009 \$ | Additions During the Period \$ | (Un-audited) December 31, 2009 \$ |
|------------------------------|--|---------------------------------------|--|---|--|
| Bolivia | | | | | |
| San Simon Zone | | | | | |
| Acquisition costs | 2,616,890 | 44,045 | 2,660,935 | - | 2,660,935 |
| Admin and office | 273,846 | 68,000 | 341,846 | 17,257 | 359,103 |
| Assays | 472,225 | 30,910 | 503,135 | 18,301 | 521,436 |
| Camp costs | 1,848,635 | 124,276 | 1,972,911 | 38,755 | 2,011,666 |
| Consulting fees | 2,348,058 | 259,052 | 2,607,110 | 41,749 | 2,648,859 |
| Drilling | 1,501,060 | - | 1,501,060 | - | 1,501,060 |
| Mapping | 122,400 | - | 122,400 | 375 | 122,775 |
| Equipment rental | 1,173,624 | 41,626 | 1,215,250 | 22,753 | 1,238,003 |
| Environmental | 11,957 | 9,673 | 21,630 | 1,890 | 23,520 |
| Field costs | 738,319 | - | 738,319 | - | 738,319 |
| Geophysical & surveys | 189,608 | 3,918 | 193,526 | - | 193,526 |
| Professional fees | 217,391 | - | 217,391 | - | 217,391 |
| Sampling and analysis | 132,529 | - | 132,529 | - | 132,529 |
| Wages | 750,769 | 279,272 | 1,030,041 | 92,760 | 1,122,801 |
| Travel/transportation | 521,788 | 59,774 | 581,562 | 15,694 | 597,256 |
| Underground development | 2,420,241 | - | 2,420,241 | - | 2,420,241 |
| Vehicle maintenance | 393,251 | - | 393,251 | - | 393,251 |
| | <u>15,732,591</u> | <u>920,546</u> | <u>16,653,137</u> | <u>249,534</u> | <u>16,902,671</u> |
| Dona Amelia Zone | | | | | |
| Acquisition costs | 156,142 | 21,146 | 177,288 | - | 177,288 |
| Admin and office | 1,053,624 | 76,571 | 1,130,195 | 17,769 | 1,147,964 |
| Amortization | 910,335 | 99,310 | 1,009,645 | 1,485 | 1,011,130 |
| Assays | 970,733 | 25,687 | 996,420 | - | 996,420 |
| Camp costs | 1,336,056 | 101,874 | 1,437,930 | 20,312 | 1,458,242 |
| Consulting fees | 2,733,542 | 114,471 | 2,848,013 | 26,479 | 2,874,492 |
| Drilling | 9,100,468 | 1,296 | 9,101,764 | - | 9,101,764 |
| Environmental | 309,215 | 16,336 | 325,551 | 1,890 | 327,441 |
| Mapping | 66,119 | 441 | 66,560 | 625 | 67,185 |
| Equipment rental | 1,182,943 | 38,146 | 1,221,089 | 13,745 | 1,234,834 |
| Field costs | 2,176,362 | - | 2,176,362 | - | 2,176,362 |
| Geophysical & surveys | 77,550 | 4,603 | 82,153 | - | 82,153 |
| Supplies | 159,349 | - | 159,349 | - | 159,349 |
| Travel/transportation | 788,364 | 37,579 | 825,943 | 6,289 | 832,232 |
| Underground development | 3,761,921 | - | 3,761,921 | - | 3,761,921 |
| Wages | 2,626,326 | 168,650 | 2,794,976 | 19,782 | 2,814,758 |
| Recovery - gold concentrates | (1,017,004) | 13,192 | (1,003,812) | - | (1,003,812) |
| | <u>26,392,045</u> | <u>719,302</u> | <u>27,111,347</u> | <u>108,376</u> | <u>27,219,723</u> |

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EAGLECREST EXPLORATIONS LTD.
Consolidated Schedule of Resource Property Costs
(Expressed in Canadian Dollars)

| | (Audited) September 30, 2008 \$ | Additions During the Year \$ | (Audited) September 30, 2009 \$ | Additions During the Period \$ | (Un-audited) December 31, 2009 \$ |
|---|--|---------------------------------------|--|---|--|
| Marco Maria Zone | | | | | |
| Acquisition costs | 323,960 | 32,557 | 356,517 | - | 356,517 |
| Admin and office | 13,033 | 11,763 | 24,796 | 2,341 | 27,137 |
| Camp costs | 7,476 | 8,505 | 15,981 | 2,230 | 18,211 |
| Consulting | 11,159 | 11,892 | 23,051 | 3,352 | 26,403 |
| Equipment rental | 7,131 | 1,991 | 9,122 | - | 9,122 |
| Mapping | - | - | - | 125 | 125 |
| Professional fees | 10,701 | - | 10,701 | - | 10,701 |
| Field costs | 1,723 | 174 | 1,897 | - | 1,897 |
| Travel/transportation | 1,367 | 2,733 | 4,100 | 960 | 5,060 |
| Wages | - | 27,769 | 27,769 | 8,234 | 36,003 |
| | <u>376,550</u> | <u>97,384</u> | <u>473,934</u> | <u>17,242</u> | <u>491,176</u> |
| Dona Angela (Campo Nuevo) Zone | | | | | |
| Acquisition costs | 220,497 | 49,528 | 270,025 | 10,750 | 280,775 |
| Admin and office | 30,043 | 18,451 | 48,494 | 2,342 | 50,836 |
| Assays | 13,730 | 6,141 | 19,871 | - | 19,871 |
| Camp costs | 51,893 | 21,914 | 73,807 | 2,230 | 76,037 |
| Consulting | 35,550 | 26,154 | 61,704 | 2,087 | 63,791 |
| Equipment rental | 40,274 | 11,943 | 52,217 | 129 | 52,346 |
| Environmental | 632 | - | 632 | - | 632 |
| Field costs | 27,552 | 688 | 28,240 | - | 28,240 |
| Mapping | 2,777 | - | 2,777 | 125 | 2,902 |
| Professional fees | 3,147 | - | 3,147 | - | 3,147 |
| Travel/transportation | 12,180 | 11,938 | 24,118 | 948 | 25,066 |
| Wages | 28,567 | 66,852 | 95,419 | 11,548 | 106,967 |
| | <u>466,842</u> | <u>213,609</u> | <u>680,451</u> | <u>30,159</u> | <u>710,610</u> |
| Total | <u>42,968,028</u> | <u>1,950,841</u> | <u>44,918,869</u> | <u>405,311</u> | <u>45,324,180</u> |

EAGLECREST EXPLORATIONS LTD.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008
(Expressed in Canadian Dollars unless otherwise indicated)
(Un-audited – Prepared by Management)

Note 1 Nature of Operations and Ability to Continue as a Going Concern

The Company was incorporated under the laws of the Province of British Columbia on January 20, 1981 and its shares are listed for trading on the TSX Venture Exchange (“Exchange”).

The Company is in the development stage and is in the process of exploring and developing its resource properties in Itenez Province, Bolivia and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource properties and upon future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2009, the Company had not yet achieved profitable operations, has accumulated losses of \$27,130,769 (2008: \$24,972,583) since its inception, has working capital (deficit) of \$637,219 (2008: (\$888,151)) and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Interim Reporting

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian GAAP for annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three ended December 31, 2009 may not necessarily be indicative of the results that may be expected for the year ending September 30, 2010.

While the information presented in the accompanying interim consolidated financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. These interim financial statements follow the same accounting policies and methods of their application as the Company’s September 30, 2009 audited financial statements. It is suggested that these interim consolidated financial statements be read in conjunction with the Company’s audited September 30, 2009 consolidated financial statements.

Note 3 Asset Retirement Obligations

The Company records a liability for the fair value of the statutory, contractual or legal asset retirement obligations (“ARO”) associated with the retirement and reclamation of tangible long-lived assets when the related assets are put into use, with a corresponding increase to the carrying amount of the related assets. This corresponding increase to capitalized costs is amortized to earnings on a basis consistent with depreciation, depletion, and amortization of the underlying assets. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheet at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in depreciation, depletion and amortization.

As at December, 2009, the Company has recorded \$80,000 (2009: \$80,000) as an estimated asset retirement obligation.

Note 4 Property, Plant and Equipment

| | December 31, 2009 | | | Sept. 30/09 |
|------------------|-------------------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| | \$ | \$ | \$ | \$ |
| Office Equipment | 106,032 | 81,039 | 24,993 | 25,962 |
| Field Equipment | 40,964 | 39,551 | 1,413 | 1,528 |
| Automotive | 73,748 | 54,257 | 19,491 | 11,508 |
| | 220,744 | 174,847 | 45,897 | 38,998 |

Note 5 Other Deferred Property Charges

On December 6, 2009, the Company signed a Letter Of Intent to purchase up to a 75% interest in the mineral rights of the Fredonia area (the “Fredonia Property”), located in Antioquia, Colombia. Management is in the process of performing its due diligence prior to committing to the purchase. Meanwhile, all preliminary expenditures relating to the Fredonia Property are deferred until such time management is able to render its final decision. In the event the Company decides not to proceed with the acquisition, all expenditures deferred will be expensed at that time.

Eaglecrest Explorations Ltd.
Notes to the Consolidated Financial Statements
December 31, 2009 and 2008
(Un-audited – Prepared by Management)

Note 5 Other Deferred Property Charges – (cont'd)

The Company can acquire a 75% interest in the Fredonia Property as follows:

| Date | Expenditures (US\$) | Shares or Warrants Issuance | Cash (US\$) | Interest Earned (%) |
|---|------------------------|--|----------------------|---------------------------|
| Upon signature of Letter of Intent | \$ - | - | \$ 10,000 52,500* | - |
| Upon signature of Definitive Agreement (the “Signature Date”) | - | 1,000,000 shares and 1,000,000 warrants** | - | - |
| During 6 months after the Signature Date | 100,000 | - | 50,000 | 12.5% |
| At the end of the 12 months after the Signature Date | 1,000,000 | - | 60,000 | 25.0% |
| During 24 months after the Signature Date | 1,100,000 | - | - | 50.0% |
| During 36 months after the Signature Date | <u>600,000</u> | <u>-</u> | <u>-</u> | <u>50.0%</u> |
| Total | <u>\$ 2,800,000</u> | | <u>\$ 120,000</u> | <u>50.0%</u> |
| Upon completion of a positive feasibility study | | | | <u>75.0%</u> |

* Refundable if no Definitive Agreement is reached. The Definitive Agreement must be reached no later than 90 days after the signature of letter of intent.

** Subject to regulatory approval each warrant will have an exercise price equal to the closing price of the Company’s common shares on the Signature Date plus a 25% premium. The warrants will have an expiry date of 2 years

In the event that any of the above-noted expenditures are not made within the timeframe specified above, the Company will be required to pay the portion of expenditures unspent directly to the optionor in cash.

At the end of thirty six months after the Signature Date, the Company must fund all additional expenditures required to reach the completion of a detailed feasibility study in respect of the Fredonia Property. After completion of a detailed feasibility study (National Instrument 43-101 compliant), each party will be required to fund its pro-rata share of development costs. During the duration of the Definitive Agreement, the Company will be responsible for all expenditures related to concessions’ maintenance, including canon payments and insurance policies.

Note 5 Other Deferred Property Charges – (cont'd)

Upon acquisition of 75% interest in the Fredonia Property, the parties will form a 75/25 joint venture and funding of further exploration and development of the project will be based on the parties' percentage interest. If the optionor chooses not to contribute to funding such work its interest will be diluted based on an industry standard dilution formulae to a minimum 2.5% net smelter royalty.

The agreement is subject to approval by the regulatory authorities.

Note 6 Resource Properties

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

San Simon and Dona Amelia Zones

Pursuant to a formal 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 US\$500,000 and a second 1% for US\$750,000.

On April 15, 2003 San Simon Resources Ltd. ("SSR") and the Company entered into an agreement by which the Company acquired from SSR an 80% interest in production from seven non-core mineral concessions and the right to acquire one additional mineral concession (known as the California concession) by incurring US\$500,000 in mineral exploration expenditures over two years (incurred) and reimbursing SSR certain costs aggregating US\$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 US\$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 US\$500,000 and a second 1% for US\$1,000,000.

The Company advanced US\$250,000 during the year ended September 30, 2007 as security for payment of exploration services to be provided. This amount was fully expensed during the year ended September 30, 2008.

By an agreement dated November 16, 2007, the Company had a 50 year option to acquire an additional mineral concession in the San Simon zone in Bolivia, South America for US\$25,000 (paid) and US\$25,000 within six months of delivery of samples by the optionor. The option was terminated by the Company during the year ended September 30, 2008. As a result, US \$25,000 was not paid and initial US \$25,000 paid was recorded as a part of general exploration costs.

Note 6 Resource Properties – (cont'd)

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 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 US\$500,000 and a second 1% for US\$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 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 US\$95,000 (US\$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 US\$75,000 (US\$37,500 paid) and incur annual exploration expenditures until production of US\$100,000. The optionor agreed to accept 375,000 common shares (issued by the Company) at a price of US\$0.10 for the remaining US\$37,500. The agreement also calls for annual payments until production of US\$20,000, commencing in fiscal 2005, to the optionor. In 2007, the payment was renegotiated down to US\$10,000 per annum. Payments totaling US\$70,000 have been paid to date and the next payment of US\$10,000 is due October, 2010.

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

Note 7 Convertible Debenture

In August 2007, the Company completed a non-secured convertible debenture financing in the amount of \$632,580 (US\$600,000). The term of the debenture was two years and matured on August 8, 2009 bearing an interest rate of 12% per annum. The lender had the option to convert any or all of the principal balance into conversion units at a deemed price of US\$0.165 per unit. A conversion unit consisted of one common share of the Company and one warrant. Each warrant had a term expiring on August 8, 2009 and was exercisable to purchase one common share of the Company at US\$0.165 per share, which would total 3,636,364 shares.

The Company used the fair value method and recorded \$436,662 (US\$414,172) to the liability component and \$195,918 (US\$185,828) to the equity component as determined by the Black-Scholes Option Valuation Model with the following assumptions:

| | <u>Conversion Option</u> |
|-------------------------|--------------------------|
| Expected dividend yield | 0% |
| Expected volatility | 76.02% |
| Risk-free interest rate | 4.67% |
| Expected term in years | 2 years |

Note 7 Convertible Debenture – (cont'd)

On June 25, 2009, a debt settlement agreement was reached to repay the principal amount of US\$600,000 through the issuance by the Company to the debtor 12,000,000 units at the fair value of US\$0.05 per unit (issued). Each unit consisted of one common share of the Company and one share purchase warrant exercisable at US\$0.10 per share to purchase an additional share of the Company until October 19, 2010. The 8,363,636 incremental shares were valued at \$480,156 (US\$418,182) and allocated \$461,452 (US\$401,892) to the equity component and \$18,704 (US\$16,290) to debt settlement expense. The incremental value of the warrants was calculated as \$460,000 using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 1.50%; expected dividend yield – Nil; expected stock price volatility 199% - 236%; and expected warrant life of 0.1 – 2.0 years. This amount has been included in debt settlement expense.

Also, pursuant to the debt settlement agreement, a cash payment of US\$90,038 was made to satisfy the accrued interest up to the date of the agreed settlement.

Over the term of the debenture, the liability was accreted to its face value. During the year ended September 30, 2009, total interest recorded amounted to \$138,806 (US\$130,228) (2008: \$128,580 (US\$128,068)); \$42,753 (US\$35,068) was paid as part of US\$90,038 above ((2008: \$49,135 (US\$48,000)) was included in accounts payable), and \$73,051 (US\$71,370) (2008: \$79,445 (US\$80,068)) was accreted.

During the year ended September 30, 2009, as a result of the early conversion of the loan, \$1,349,388 was credited to share capital as follows: \$673,314 (US\$576,210) from the liability component of the loan; \$264,802 (US\$214,799) to contributed surplus; \$461,452 (US\$401,892) from deficit; and \$478,704 (US\$416,917) of debt settlement expense.

Note 8 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 transacting 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 three month period ended December 31, 2009:

- A director of the Company was paid or accrued \$30,000 (2008: \$43,531) for corporate development fees and one officer of the Company was paid or accrued \$30,000 (2008: \$30,000) for accounting and administration services. At December 31, 2009, the related parties were owed \$69,025 (2008: \$29,774) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.
- A Private company owned by a director of the Company was paid or accrued \$47,534 (2008: \$54,414) in management fees. At December 31, 2009, the related party was owed \$nil (2008: \$18,369) for the unpaid portions of these amounts and reimbursement of expenditures made on behalf of the Company, which is included in accounts payable.
- A law firm of which an officer of the Company is a partner charged the Company or accrued by the Company \$2,758 (2008: \$10,622) for legal services. At December 31, 2009, this related party was owed \$644 (2008: \$43,039) for the unpaid portion of this amount, which is included in accounts payable.

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Note 8 Related Party Transactions – (cont'd)

- An officer of the Company and a private company controlled by a director of the Company were paid or accrued \$6,358 (2008: \$32,982) for geological consulting services. At December 31, 2009, the related parties were owed \$Nil (2008: \$19,090) for the unpaid portion of the amount, which is included in accounts payable.

As at December 31, 2009, accounts payable are inclusive of \$69,669 (2008: \$100,272) due to related parties.

Note 9 Share Capital

a) Authorized:

The Company's authorized share capital consists of an unlimited number of common shares without par values.

b) Issued:

| | December 31, 2009 | | September 30, 2009 | |
|--------------------------------------|--------------------------|-------------------------|---------------------|--------------------------|
| | Number of Shares | \$ | Number of Shares | \$ |
| Issued - Beginning of period | 433,812,034 | 67,689,035 | 374,993,034 | 63,779,147 |
| Shares consolidation 10:1 Issued: | (390,430,800) * | - | - | - |
| Private placements | 2,260,000 | 1,160,430 | 44,819,000 | 2,570,294 |
| Shares issued for finder's fees | 105,000 | 55,356 | 2,000,000 | 108,820 |
| Settlement of debt | | - | 12,000,000 | 1,349,388 |
| Returned to treasury/cancelled | (154,000) ⁽¹⁾ | (163,240) | - | - |
| Issue costs | - | (92,251) ⁽²⁾ | - | (118,614) ⁽³⁾ |
| Issued - End of end period | 45,592,234 | 68,649,330 | 433,812,034 | 67,689,035 |

* On December 10, 2009, the Company consolidated its issued common shares on a 10:1 basis.

⁽¹⁾ Shares returned to treasury and cancelled due to the non-payment of shares subscribed for.

⁽²⁾ \$25,000 in cash was paid and 105,000 common shares valued at \$55,356 and 50,000 agent's warrants valued at \$11,895 were issued as finders' fees.

⁽³⁾ \$9,794 in cash was paid and 2,000,000 common shares valued at \$108,820 were issued as finders' fees.

Note 9 b) Issued: – (cont'd)

During the period ended December 31, 2009, the Company issued common shares pursuant to the following non-brokered private placements:

11,000,000 pre-consolidation units pursuant to a non-brokered private placement at a price of US\$0.05 per unit for gross proceeds of US\$550,000. Each unit consists of one pre-consolidation common share of the Company and one pre-consolidation non-transferable share purchase warrant exercisable to purchase one additional common share of the Company for US\$0.10 until December 4, 2010. Finders' fees of 1,050,000 pre-consolidation shares have been issued. As a result of the share capital consolidation on December 10, 2009, the private placement units and finder's fee shares issued were reduced to 1,100,000 units and 105,000 shares respectively.

1,160,000 post-consolidation units pursuant to a non-brokered private placement at a unit price of \$0.50 raising a total of \$580,000. Each post-consolidation unit consists of one common share of the Company and one warrant exercisable to purchase an additional common share of the Company at a price of \$0.75 expiring December 24, 2011. A finder's fee of \$25,000 cash have been paid and 50,000 warrants each exercisable to purchase one common share of the Company at \$0.50 expiring December 24, 2011 have been issued in connection to the private placement.

All of the proceeds from the above private placements were allocated to share capital with none allocated to warrants.

During the year ended September 30, 2009, the Company issued 44,819,000 common shares pursuant to the following non-brokered private placement:

44,819,000 units at \$0.057 (US\$0.05) per unit for total proceeds of \$2,570,294 (US\$2,240,950). Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for US\$0.10 per share until August 13, 2010. Finders' fees relating to this offering were 2,000,000 common shares valued at \$108,820 (US\$100,000) and cash of \$9,794 (US\$9,000).

All of the proceeds from the above private placement were allocated to share capital with none allocated to warrants.

During the year ended September 30, 2009, the Company reached an agreement to settle convertible debt of \$632,580 (US\$600,000) through the issuance of 12,000,000 units at the fair value of US\$0.05 per unit. Each unit consists of one common share of the Company and one share purchase warrant exercisable at US\$0.10 per share to purchase an additional share of the Company until October 19, 2010. The equity component \$195,918 (US\$185,828) was reclassified from contributed surplus to share capital. Refer to Note 7.

c) Escrow Shares:

In accordance with an Escrow Agreement dated September 30, 1999, 187,500 common shares of the Company were subject to escrow and may not be transferred, assigned or otherwise dealt with without the consent of the Exchange. These shares may not be released from escrow unless the escrow agent receives a letter consenting to release from the Exchange. Any shares not released will expire in ten years from the date of the agreement. As at September 30, 2009, the Company had a balance of 187,500 in escrow shares.

Note 9 Share Capital – (cont'd)

d) Directors' and Employees' Stock Options Outstanding:

i) The Company has a stock option plan whereby, the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. Options vest at the date of grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire within one year thereafter. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option.

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

| | December 31, 2009 | Weighted Average Exercise Price \$ | September 30, 2009 | Weighted Average Exercise Price \$ |
|---|-----------------------|---|--------------------------|---|
| Balance outstanding - beginning of period | 11,150,000 | 0.20 | 15,950,000 | 0.18 |
| Activities during period: | | | | |
| Consolidation 10:1 | <u>(10,035,000)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | 1,115,000 | 1.96 | 15,950,000 | 0.18 |
| Options cancelled/expired | <u>(200,000)</u> | <u>1.43</u> | <u>(4,800,000)</u> | <u>0.15</u> |
| Balance outstanding - end of period | <u><u>915,000</u></u> | <u><u>2.08</u></u> | <u><u>11,150,000</u></u> | <u><u>0.20</u></u> |

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Note 9 d) Directors' and Employees' Stock Options Outstanding: – (cont'd)

iii) Details of stock options outstanding at December 31, 2009:

| Number of Shares | Option Price | Expiry Date |
|------------------|--------------|--------------------|
| 40,000 * | \$1.60 | January 31, 2010 |
| 10,000 | \$1.60 | April 22, 2010 |
| 100,000 | \$1.20 | May 29, 2010 |
| 30,000 | \$4.550 | September 13, 2011 |
| 370,000 | \$2.70 | January 4, 2012 |
| 30,000 | \$2.70 | January 9, 2012 |
| 135,000 | \$1.80 | January 8, 2013 |
| 200,000 | \$1.20 | May 29, 2013 |
| 915,000 | | |

* These options expired unexercised subsequent to year end.

As at December 31, 2009, the contractual weighted average remaining life is 2.18 years (2008 – 2.12 years).

e) Share Purchase Warrants Outstanding:

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

Warrants with exercise price in US\$:

| | December 31, 2009 | Weighted Average Exercise Price US\$ | September 30, 2009 | Weighted Average Exercise Price US\$ |
|---|----------------------|---|-----------------------|---|
| Balance outstanding - beginning of period | 81,402,283 | 0.19 | 55,099,633 | 0.27 |
| Activities during period: | | | | |
| Consolidation 10:1 | (73,262,055) | - | - | - |
| | 8,140,228 | 1.90 | | |
| Warrants issued | 1,100,000 | 1.00 | 44,819,000 | 0.10 |
| Warrants expired | (3,658,328) | 3.00 | (18,516,350) | 0.22 |
| Balance outstanding - end of period | <u>5,581,900</u> | <u>1.00</u> | <u>81,402,283</u> | <u>0.19</u> |

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Note 9 e) Share Purchase Warrants Outstanding: – (cont'd)

Warrants with exercise price in CAD\$:

| | December 31, 2009 | Weighted Average Exercise Price CAD\$ | September 30, 2009 | Weighted Average Exercise Price CAD\$ |
|---|-------------------------|---|-----------------------|---|
| Balance outstanding - beginning of period | - | - | - | - |
| Activity during year: | | | | |
| Warrants issued | <u>1,210,000</u> | <u>0.74</u> | <u>-</u> | <u>-</u> |
| Balance outstanding - end of period | <u><u>1,210,000</u></u> | <u><u>0.74</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |

ii) Details of share purchase warrants outstanding at December 31, 2009:

| Number of shares | Exercise Price US\$ | Expiry Date |
|------------------|------------------------|------------------|
| 4,481,900 | 1.00 | August 13, 2010 |
| 1,100,000 | 1.00 | December 4, 2010 |
| <u>5,581,900</u> | <u>1.00</u> | |

As at December 31, 2009, the weighted average remaining contractual life of warrants exercisable in US\$ is 0.68 year (2008: 0.82 year).

| Number of shares | Exercise Price CAD\$ | Expiry Date |
|------------------|-------------------------|-------------------|
| 1,160,000 | 0.75 | December 24, 2010 |
| 50,000 | 0.50 | December 24, 2010 |
| <u>1,210,000</u> | <u>0.74</u> | |

As at December 31, 2009, the weighted average remaining contractual life of warrants exercisable in CAD\$ is 1.98 years (2008: nil years).

Note 9 Share Capital – (cont'd)

f) Share Subscriptions:

- During the year ended September 30, 2001, the Company proposed to enter into a private placement for the issuance of 2,000,000 units at \$0.50 per unit for proceeds of \$1,000,000, less a 7.5% finder's fee. Each unit is to consist of a common share and a two-year share purchase warrant to purchase an additional common share at \$0.50 per share in the first year and at \$0.60 per share in the second year. The Company has received subscriptions for 1,983,171 units (proceeds of \$925,000, net of related issue costs).
- 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 was to be comprised of one common share and one share purchase warrant to purchase one common share at \$0.30 per share in the first year and at \$0.40 per share in the second year. The Company subsequently amended the terms of that private placement to 1,500,000 units at \$0.154 (US\$0.10) per unit, with each unit comprised of one common share and one share purchase warrant exercisable for two years to purchase one additional share for \$0.154 (US\$0.10). The Company has received subscriptions for 1,500,000 units for proceeds of \$231,000.

g) Stock-based Compensation:

During the 2010 fiscal period, no options were granted and as a result \$nil stock-based compensation was recorded.

During the 2009 fiscal year, no options were granted and as a result \$nil stock-based compensation was recorded.

The Company recorded stock-based compensation during the year ended September 30, 2009 of \$nil (2008: \$419,245). The fair value of stock options granted was estimated using the Black-Scholes option valuation model with the following assumptions; risk-free interest rate 2.50% - 3.50%; expected dividend yield – Nil; expected stock price volatility 31.56% - 85.78%; and expected option life of 2.5 – 5.0 years.

h) Subscriptions Receivable:

During the period ended December 31, 2009, the Company received \$112,938 (US\$104,750) of subscriptions receivable and issued shares for which \$80,000 were receivable at the end of the period. During the period ended December 31, 2009, \$163,240 (US\$154,000) in subscriptions receivable were nullified which were included in the 2008 private placement of 33,057,700 shares. The corresponding 1,540,000 share certificates were cancelled and returned to treasury due to non-payment.

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Note 9 Share Capital – (cont'd)

i) Contributed Surplus:

Continuity of contributed surplus is as follows:

| | \$ |
|---------------------------------|-------------------------|
| Balance - September 30, 2008 | 3,088,439 |
| Convertible debenture exercised | 264,082 |
| Balance - September 30, 2009 | <u>3,352,521</u> |
| Agent's warrants issued | 11,895 |
| Balance - December 31, 2009 | <u><u>3,364,416</u></u> |

Note 10 Segmented Information

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

| Assets | December 31, | |
|--|-------------------|-------------------|
| | 2009 | 2008 |
| Canada | \$ | \$ |
| Assets other than mineral property interests | 978,114 | 252,220 |
| Bolivia | | |
| Assets other than mineral property interests | 92,000 | 113,226 |
| Mineral property interests | <u>45,324,180</u> | <u>43,647,033</u> |
| Total Assets | <u>46,394,294</u> | <u>44,012,479</u> |

Note 11 Subsequent Events

In addition to information disclosed elsewhere in these notes, the following occurred during the period subsequent to December 31, 2009:

- Options were granted to insiders and consultants of the Company to purchase up to an aggregate of 1,735,000 shares of the capital of the Company exercisable at \$0.60 per share. 100,000 of the options granted expire January 19, 2012 and the 1,635,000 remaining options expire on January 19, 2015.

The options granted are subject to acceptance by the TSX Venture Exchange.