

PITCHSTONE EXPLORATION LTD.

(An Exploration Stage Company)

FINANCIAL STATEMENTS

For the Years Ended December 31, 2006 and 2005

DE VISSER GRAY LLP

CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Pitchstone Exploration Ltd.

We have audited the balance sheet of Pitchstone Exploration Ltd. as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"De Visser Gray LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
March 20, 2007

Pitchstone Exploration Ltd.*(An Exploration Stage Company)*Statement 1**Balance Sheets****As at December 31**

ASSETS	2006		2005	
Current				
Cash	\$	10,844,837	\$	4,655,246
Marketable securities (Note 4)		-		267,840
Accounts receivable		144,978		43,461
Income taxes receivable		190,179		-
Prepaid expenses		62,062		20,008
Due from sxr Uranium One		17,542		105,755
		<u>11,259,598</u>		<u>5,092,310</u>
Expenditures on resource properties (Note 5)		2,844,558		651,355
Equipment (Note 6)		53,385		7,289
	\$	<u>14,157,541</u>	\$	<u>5,750,954</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities	\$	71,717	\$	53,355
Income taxes payable		-		69,742
Due to related parties (Note 10)		24,328		32,786
Due to Triex joint venture		566,343		185,933
		<u>662,388</u>		<u>341,816</u>
Future income tax liability (Note 8)		898,270		232,126
		<u>1,560,658</u>		<u>573,942</u>
SHAREHOLDERS' EQUITY				
Share capital (Note 7)		10,531,591		4,616,271
Contributed surplus (Note 7)		562,963		436,771
Retained earnings - Statement 2		1,502,329		123,970
		<u>12,596,883</u>		<u>5,177,012</u>
	\$	<u>14,157,541</u>	\$	<u>5,750,954</u>

Continuance of operations (Note 1)

ON BEHALF OF THE BOARD:

"Edward A. G. Trueman"

_____, Director

"Paul Geyer"

_____, Director

Pitchstone Exploration Ltd.

Statement 2

(An Exploration Stage Company)

Statements of Income and Retained Earnings

For the Years Ended December 31

	2006	2005
Revenues		
Option proceeds received in excess of resource properties costs	\$ 87,500	\$ 791,093
Overhead recoveries	200,651	107,811
Interest income	155,822	30,110
Equipment rental revenue	1,820	2,010
Gain on sale of marketable securities (Note 4)	2,129,763	199,609
	<u>2,575,556</u>	<u>1,130,633</u>
Administrative expenses		
Accounting and audit (Note 10b)	104,250	64,746
Amortization	27,182	1,286
Community relations	8,554	11,157
Directors' fees (Note 10c)	13,000	5,700
Filing fees	13,859	59,809
Insurance	26,493	4,285
Interest and bank charges	4,908	(1,034)
Investor relations	64,560	11,528
Legal fees	28,227	21,565
Management fees (Note 10a)	20,000	20,968
Meals and entertainment	5,898	4,979
Property investigation	2,000	2,915
Office and sundry	50,073	2,994
Stock-based compensation	91,343	530,791
Telephone	4,021	1,952
Transfer agent fees	19,413	11,177
Travel	25,807	12,119
Salaries and wages	211,644	-
Unrealized loss on marketable securities	-	22,800
	<u>721,232</u>	<u>789,737</u>
Income before taxes	1,854,324	340,896
Income tax recovery (expense)	190,179	(70,906)
Future income tax (expenses)	(666,144)	(103,068)
	<u>1,378,359</u>	<u>166,922</u>
Net income for the year	1,378,359	166,922
Retained earnings (Deficit) – Beginning of year	123,970	(42,952)
Retained earnings – End of year	\$ 1,502,329	\$ 123,970
Income per share – Basic	\$ 0.05	\$ 0.01
Income per share - Diluted	\$ 0.05	\$ 0.01
Weighted average number of shares outstanding – Basic	25,161,637	15,637,667
Weighted average number of shares outstanding – Diluted	28,231,488	15,767,883

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Statements of Cash Flows

For the Years Ended December 31

	2006	2005
Cash Resources Provided By (Used In)		
Operating activities		
Net income for the year	\$ 1,610,485	\$ 166,922
Items not affected by cash		
Amortization	27,182	1,286
Future income tax expenses	434,018	103,068
Gain on sale of marketable securities	(2,129,763)	(199,609)
Option proceeds received	(87,500)	(791,093)
Stock-based compensation	91,343	530,791
Unrealized loss on marketable securities	-	22,800
	<u>(54,235)</u>	<u>(165,835)</u>
Changes in non-cash working capital items		
Accounts receivable	(101,517)	(16,129)
Prepaid expenses	(42,054)	(20,008)
Accounts payable and accrued liabilities	18,361	12,494
Income taxes payable / receivable	(259,921)	(49,531)
Due to related parties	(8,458)	29,874
Due to/from joint venture partners	468,624	80,178
	<u>75,035</u>	<u>36,878</u>
	<u>20,800</u>	<u>(128,957)</u>
Investing activities		
Resource property costs	(2,193,203)	(616,396)
Purchase of equipment	(73,278)	(8,575)
	<u>(2,266,481)</u>	<u>(624,971)</u>
Financing activities		
Options proceeds received	87,500	156,093
Proceeds received from sale of marketable securities	2,397,603	848,969
Shares issued for cash	6,297,705	4,668,910
Financing costs	(347,536)	(340,432)
	<u>8,435,272</u>	<u>5,333,540</u>
Net increase in cash	6,189,591	4,579,612
Cash – Beginning of year	<u>4,655,246</u>	<u>75,634</u>
Cash – End of year	\$ <u>10,844,837</u>	\$ <u>4,655,246</u>
Supplementary Information		
Shares received for option payment	\$ -	\$ 635,000

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Notes to Financial Statements

December 31, 2006 and 2005

1. Nature and Continuance of Operations

The Company was incorporated under the British Columbia Company Act on April 24, 2003.

The Company is an exploration stage company and engaged principally in the acquisition and exploration of resource properties. The recovery of the Company's investment in its resource properties is dependent upon the discovery, development and sale of mineral products and the ability to raise sufficient capital to finance this activity. The ultimate outcome of this activity cannot presently be determined because they are contingent on future matters.

2. Significant Accounting Policies

a) 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 amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

b) Resource Properties and Deferred Exploration Expenditures

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

Mineral exploration costs are capitalized on an individual project basis until such time as an economic ore body is defined or the prospect is abandoned. Costs for a producing deposit are amortized on a unit-of-production method based on the estimated life of the ore reserves, while costs for the prospects abandoned are written-off.

The recoverability of the amount capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Title to mineral properties may involve inherent risks due to the difficulties of determining the validity of claims. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

c) Cash and cash equivalents

Cash and cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a maturity of 12 months or less at acquisition, that are readily convertible to contracted amounts of cash.

d) Environmental Expenditures and Assets Retirement Obligations

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 future reclamation and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

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Notes to Financial Statements

December 31, 2006 and 2005

2. Significant Accounting Policies - *Continued*

d) Environmental Expenditures and Assets Retirement Obligations - *Continued*

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

e) Marketable Securities

Marketable securities are recorded at the lower of cost and estimated market value.

f) Amortization

The Company provides for amortization on its fixed assets on a declining balance basis (one-half of the rate is taken in the year of acquisition).

Following are the amortization rates:

Computer equipment	30%
Office furniture	20%
Exploration equipment	30%
Computer software	100%

g) Income Taxes

The Company accounts for the future tax consequences of the differences in the carrying amounts of assets and liabilities and their tax bases using tax rates expected to apply when these temporary differences are settled. 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 assets are recognized. The Company has taken a valuation allowance against all potential tax assets.

h) Share Capital

- i) The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.
- iii) In 2005, the shareholders approved a share split of the Company's authorized and issued common shares on a four (4) new shares of one (1) old share basis. All references to the number of common shares and dollars per share amounts have been retroactively restated to reflect the share split.

i) Flow-through shares

The Company may issue securities referred to as flow-through shares, whereby the investor may claim the tax deductions arising from the expenditure of the proceeds. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced. Previously unrecognized tax assets may then offset this liability, which amount would then be included in income.

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Notes to Financial Statements

December 31, 2006 and 2005

2. Significant Accounting Policies - *Continued*

j) Stock-Based Compensation

The Company has a stock option plan as disclosed in Note 7. The Company has adopted the fair value method for stock-based compensation granted to employees, non-employees and for all direct awards of stock. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the Company's stock.

k) Earnings per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

3. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, income tax receivable, accounts payable and accrued liabilities, due to related parties, and due to/from joint venture partners. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

4. Marketable Securities

The Company received an aggregate of 1,000,000 common shares and 1,500,000 share purchase warrants of sxr Uranium One Inc. (formerly Southern Cross Resources Inc., "SXRU1") (500,000 common shares and 750,000 share purchase warrants were received on September 16, 2004 and the remaining 500,000 common shares and 750,000 share purchase warrants were received on January 4, 2005) as a part of the option payment for the Athabasca Properties (Note 5a).

During the year ended December 31, 2005, 712,000 of SXRU1 optioned shares were sold and a gain of \$199,609 was recorded by the Company. The balances of 288,000 SXRU1 shares and 1,500,000 share purchase warrants were converted into 57,600 shares and 300,000 share purchases warrants outstanding as of December 31, 2005, due to a five-to-one roll back performed by SXRU1 in December 2005.

During the year ended December 31, 2006, 57,600 common shares of SXRU1 and 300,000 share purchase warrants were sold and a gain of \$2,129,763 was recorded by the Company. As at December 31, 2006, there were no marketable securities remaining in the Company.

Pitchstone Exploration Ltd.

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Notes to Financial Statements

December 31, 2006 and 2005

5. Expenditures on Resource Properties

The Company capitalized a total of \$2,844,558 in expenditures on resource properties as follows:

	SXRU1 Optioned Properties, Saskatchewan (Note 5a)	Triex Joint Venture Properties, Nunavut/ Northwest Territories (Note 5b)	100% owned Properties, Saskatchewan (Note 5c)	Gabon Property, Africa (Note 5d)	Unallocated assistance received	Total
Balance at December 31, 2004	\$ -	\$ 248	\$ 32,535	\$ -	\$ (31,484)	\$ 1,299
Camp and general	-	5,402	428	-	-	5,830
Geological	100,000	265,623	4,781	-	-	370,404
Geophysical	125	237,706	31,147	-	-	268,978
Mineral claims expenses	-	28,051	28,288	-	-	56,339
Overhead	-	47,597	-	-	-	47,597
Sampling and analysis	-	1,033	-	-	-	1,033
Recovery from optionee	(125)	-	-	-	-	(125)
Expenses recovered from optionee	(100,000)	-	-	-	-	(100,000)
Total expenditures for the year	-	585,412	64,644	-	-	650,056
Balance at December 31, 2005	-	585,660	97,179	-	(31,484)	651,355
Aircraft charter	73,900	-	4,329	-	-	78,229
Camp and general	48,817	163	3,770	-	-	52,750
Drilling	107,129	768,279	-	-	-	875,408
Geological	117,189	196,574	625	-	-	314,388
Geophysical	11,558	181,851	418,952	-	-	612,361
Linecutting and chaining	-	-	85,711	-	-	85,711
Mineral claims expenses	369	37,099	226	-	-	37,694
Overhead	-	118,451	-	-	-	118,451
Sampling and analysis	1,175	132,484	-	-	-	133,659
Travel	2,804	5,135	767	13,031	-	21,737
Recovery from optionee	(91,667)	-	-	-	-	(91,667)
Government assistance	-	-	(45,518)	-	-	(45,518)
Total expenditures for the year	271,274	1,440,036	468,862	13,031	-	2,193,203
Balance at December 31, 2006	\$ 271,274	\$ 2,025,696	\$ 566,041	\$ 13,031	\$ (31,484)	\$ 2,844,558

Cumulative totals as at December 31, 2006:

	SXRU1 Optioned Properties, Saskatchewan (Note 5a)	Triex Joint Venture Properties, Nunavut/ Northwest Territories (Note 5b)	100% owned Properties, Saskatchewan (Note 5c)	Gabon Property, Africa (Note 5d)	Unallocated assistance received	Total
Aircraft charter	\$ 74,385	\$ -	\$ 4,329	\$ -	\$ -	\$ 78,714
Camp and general	49,967	5,575	4,198	-	-	59,740
Drilling	107,129	768,279	-	-	-	875,408
Geological	263,625	462,197	5,406	-	-	731,228
Geophysical	147,937	419,557	450,099	-	-	1,017,593
Linecutting and chaining	-	-	85,711	-	-	85,711
Mineral claims expenses	108,913	65,150	61,049	-	-	235,112
Overhead	-	166,048	-	-	-	166,048
Sampling and analysis	1,175	133,517	-	-	-	134,692
Travel and accommodation	4,066	5,373	767	13,031	-	23,237
Recovery from optionee	(485,923)	-	-	-	-	(485,923)
Government assistance	-	-	(45,518)	-	(31,484)	(77,002)
Balance at December 31, 2006	\$ 271,274	\$ 2,025,696	\$ 566,041	\$ 13,031	\$ (31,484)	\$ 2,844,558

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**

December 31, 2006 and 2005

5. Expenditures on Resource Properties - Continued**a. SXRU1 Optioned Properties, Saskatchewan**

On September 3, 2004 the Company signed an Option Agreement for the Athabasca Properties ("the Option Agreement") with SXRU1, a TSX listed company, whereby SXRU1 could earn a 50% interest in the Company's 100% interests in each of the Darby, Waterfound, Moon Lake and Lynx Lake properties, and a 50% interest in the Company's option to earn up to 75% interest in the Candle property. As consideration, SXRU1 fulfilled the following:

i) Made the following cash payments:

	Amount	
Upon execution of the agreement	87,500	(Received in Sep. 2004)
On or before September 3, 2005	87,500	(Received in Sep. 2005)
On or before September 3, 2006	87,500	(Received in Sep. 2006)
On or before September 3, 2007	87,500	(Received in Jan. 2007)
	350,000	

ii) Paid \$262,500 (\$87,500 subsequently) and issued 1,000,000 common shares and 1,500,000 share purchase warrants and spent \$4,000,000 on exploration.

iii) Incurred \$4,000,000 in aggregate exploration expenditures on the Athabasca Properties to November 2006. Subsequent to SXRU1 completing this earn-in, the Company is required to fund 50% of all expenditures incurred on the properties.

As of December 31, 2006, SXRU1 incurred a total of \$4,349,116 (2005: \$1,734,114) in exploration expenditures on the five optioned properties as follows:

	December 31, 2006	December 31, 2005
Darby Property	\$ 1,672,485	\$ 563,382
Waterfound Property	1,571,268	815,291
Lynx Lake Property	34,745	25,145
Moon Lake Property	293,638	145,587
Candle Property	776,980	184,709
	\$ 4,349,116	\$ 1,734,114

As of December 31, 2006, the Company incurred a total of \$271,274 (2005: \$Nil) of exploration expenditures on these five properties.

	December 31, 2006	December 31, 2005
Darby Property	\$ 260,203	-
Waterfound Property	1,168	-
Lynx Lake Property	5,963	-
Moon Lake Property	20	-
Candle Property	3,920	-
	\$ 271,274	-

Pitchstone Exploration Ltd.

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Notes to Financial Statements

December 31, 2006 and 2005

5. Expenditures on Resource Properties – Continued

a. SXRU1 Optioned Properties, Saskatchewan – Continued

On January 11, 2007, the final option payment was received from SXRU1 and SXRU1's earn-in requirements for 50% of the Company's Athabasca properties were met. The Company is the operator of the five optioned properties.

Darby Property

In 2003, the Company acquired from the President of the Company mineral claims totalling approximately 11,015 hectares in the Close Lake area of the Athabasca Basin, Saskatchewan by issuing 1,166,657 (4,666,628 after stock split) common shares at a deemed pre-split price of \$0.04 per share. In 2004 and 2005, the Company acquired additional 2,383 and 3,323 hectare claims in the same area by way of staking.

Waterfound Property

In 2003, the Company acquired a mineral claim totalling approximately 1,694 hectares in the Athabasca Basin, Saskatchewan by way of staking. In April 2005, the Company staked an additional 2,430 hectares contiguous with the original claim. The property is located 55km north of the Company's Darby and Candle properties.

Lynx Lake Property

In 2004, the Company acquired a mineral claim totalling approximately 1,274 hectares in the Athabasca Basin, Saskatchewan by way of staking. The property is located 35km southwest of the Company's Darby and Candle properties.

Moon Lake Property

In 2003, the Company acquired a mineral claim totalling approximately 1,637 hectares in the Athabasca Basin, Saskatchewan by way of staking. In March 2004, the Company staked an additional 2,953 hectares contiguous with the original claim. The property is located 55km southwest of the Company's Darby and Candle properties.

Candle Property

On April 3, 2004 the Company signed an option agreement with JCU (Canada) Exploration Company, Limited ("JCU") in respect of the Candle property whereby the Company can acquire a 75% undivided interest in the property.

In July 2006, the Company acquired an undivided 50% interest in the property by spending an aggregate of \$450,000 in exploration expenditures and informed JCU of its intention to acquire an additional 25% interest.

In order to exercise the additional 25% option and increase its interest to a total of 75%, the Company is required to expend an additional \$550,000 in exploration on the property by July 28, 2008, bringing the total earn-in expenditures to \$1,000,000. As of December 31, 2006, the Company spent a total of \$780,900 in exploration expenditures.

The Candle property mineral claim totals approximately 2,595 hectares in the Close Lake area of the Athabasca Basin, Saskatchewan and is contiguous with the Company's Darby property.

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**December 31, 2006 and 2005

5. Expenditures on Resource Properties – Continued**b. Triex Joint Venture Properties, Nunavut/Northwest Territories**

On May 9, 2005, the Company entered into a 50-50 joint venture to explore and develop the Mountain Lake, Dismal Lake, and Leith properties, located in the Hornby Bay Basin of Nunavut and Northwest Territories, with Triex Minerals Corporation (“Triex”), a TSX Venture Exchange listed company, which holds the remaining 50% interest in the properties.

In April 2006, two claim blocks totalling 59,760 hectares were optioned by the Company and Triex – the Dismal Lake property and part of the Mountain Lake property. The Company and Triex have paid a total of \$35,000 in cash to the property vendors, Ur-Energy Inc. (“URE”) and Patrician Diamonds Inc. (“Patrician”), and in addition a cumulative \$1,225,000 must be spent on the two properties by September 30, 2007. The property vendors will each retain a 5% net smelter return royalty on these claims, with the Company and Triex having the right to purchase one half of the retained royalty for \$5,000,000 for each property.

In July 2006, the Company and Triex acquired 100% of the Kendall River Property from Aramis Ventures Inc. (“Aramis”). The purchase terms included a cash payment of \$25,000 (paid) and completion of \$50,000 (requirement met) of assessment work on the property. The vendor will retain a 5% net smelter return royalty of which the Company and Triex have the right to purchase half of the retained royalty for \$2.5 million.

Triex is the operator of these properties.

As of December 31, 2006, Triex and the Company incurred a total of \$4,063,430 exploration expenditures on the Hornby Bay Basin properties.

As of December 31, 2006 and December 31, 2005, the Company spent a total of \$2,025,696 and \$585,660, respectively, on the joint venture properties.

	2006	2005
Mountain Lake Property	\$ 1,278,500	\$ 328,108
Mountain Lake – URE	187,871	-
West Dismal Property	115,620	-
Leith Property	62,558	3,938
Dismal Lake Property	269,793	253,614
Kendall River Property	111,354	-
	<u>\$ 2,025,696</u>	<u>\$ 585,660</u>

Mountain Lake Property

In 2004, the Company acquired a 50% interest in the Mountain Lake uranium property located in the Hornby Bay Basin, Nunavut. The property is situated approximately 550 kilometres north of Yellowknife, 100 kilometres south of Kugluktuk (formerly Coppermine), Nunavut, and comprises 8 mineral claims totalling 6,647 hectares.

In 2006, the Company and Triex acquired from URE an additional 41 claims (38,544 hectares) contiguous with the original Mountain Lake property.

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Notes to Financial Statements

December 31, 2006 and 2005

5. Expenditures on Resource Properties – Continued

b. Triex Joint Venture Properties, Nunavut/Northwest Territories

West Dismal Property

In 2005, Triex was granted seven prospecting permits comprising 105,097 hectares in the Northwest Territories and Nunavut for uranium exploration where Triex holds these permits in a 50-50 joint venture with the Company. These permits are situated approximately 70 kilometres west of the Mountain Lake property, 570 kilometres north of Yellowknife, Northwest Territories and 150 kilometres southwest of Kugluktuk, Nunavut. Five of the seven permits are located partly or totally in the Northwest Territories.

In May 2005, Triex staked two strategic areas contiguous to the Dismal Lake permits, designated as the Sandy Creek claims (10,451 hectares) and Dease River claims (2,090 hectares). These claims are also jointly owned by Triex and the Company and comprise part of the West Dismal Lake property.

Leith Property

In 2005, Triex was granted two prospecting permits comprising 32,722 hectares in the Northwest Territories for uranium exploration where the Company has a 50-50 joint venture with Triex in these permits. These permits are situated approximately 400 kilometres northwest of Yellowknife.

Dismal Lake Property

In 2006, the Company and Triex acquired 17 claims (13,921 hectares) from URE and 10 claims (7,295 hectares) from Patrician. These contiguous claims are prospective for uranium and are situated 40 kilometers northwest of the Mountain Lake property in the Hornby Bay Basin, Nunavut.

Kendall River Property

In 2006, the Company and Triex acquired 4 claims (4,180 hectares) from Aramis. The Kendall River Property is prospective for uranium and is situated 15 kilometres southeast of the Mountain Lake property in the Hornby Bay Basin, Nunavut.

c. 100% owned Properties, Saskatchewan

As of December 31, 2006 and 2005, the Company spent a total of \$566,041 and \$97,179, respectively, on its 100% owned properties.

	2006		2005	
Fireweed	\$	361,982	\$	22,357
Gumboot		148,059		46,534
Fisher		56,000		28,288
	\$	566,041	\$	97,179

Fireweed Property

In October 2004, the Company acquired mineral claims totalling approximately 10,921 hectares in the Athabasca Basin, Saskatchewan by way of staking. The property is located 10km northwest of the Company's Darby and Candle properties.

Gumboot Property

In November 2004, the Company acquired a mineral claim totalling approximately 4,196 hectares in the Athabasca Basin, Saskatchewan by way of staking. The property is located 6km north of the Company's Darby and Candle properties.

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Notes to Financial Statements

December 31, 2006 and 2005

5. Expenditures on Resource Properties – Continued

c. 100% owned Properties, Saskatchewan – Continued

Fisher Property

In December 2005, the Company acquired mineral claims totalling approximately 3,349 hectares in the Athabasca Basin, Saskatchewan by way of staking. The property is located 34km north of the Company's Darby and Candle properties.

d. Gabon Optioned Properties, Africa

On February 26, 2006, the Company together with Cameco Corporation ("Cameco") signed a Letter Agreement, subject to the satisfactory completion of a due diligence review, with Motapa Diamonds Inc. ("Motapa") to jointly explore Motapa's uranium-gold-manganese exploration licenses in Gabon, Africa. Motapa holds the exclusive rights to explore for uranium, gold and manganese on approximately 600,000 hectares of the Franceville Basin in central Gabon. The Company, Cameco and Motapa removed all subjects and finalized the Letter Agreement on June 12, 2006.

Terms of the Letter Agreement provide Cameco and the Company with the option to earn a 56% (28% each) interest in the licences by incurring exploration expenditures of \$3,500,000 (\$1,750,000 each) over a four year period. In addition the parties will have a second option to acquire an additional 24% interest (12% each) by expending a further \$8,500,000 (\$4,250,000 each) within three years following the completion of initial vesting. The Company's commitment is \$200,000 during the first year of exploration, which began June 1, 2006.

As at December 31, 2006 and 2005, the Company had spent \$13,031 and \$Nil, respectively, on the Gabon Project.

6. Equipment

Details are as follows:

	Cost as of January 1, 2006	Additions	Accumulated Amortization	Net Book Value as at December 31, 2006	Net Book Value as at December 31, 2005
Computer equipment	\$ 4,229	\$ 8,023	\$ 2,916	\$ 9,336	\$ 3,595
Office furniture	-	5,677	568	5,109	-
Exploration equipment	4,346	18,755	4,573	18,528	3,694
Computer software	-	40,823	20,411	20,412	-
	<u>\$ 8,575</u>	<u>\$ 73,278</u>	<u>\$ 28,468</u>	<u>\$ 53,385</u>	<u>\$ 7,289</u>

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**

December 31, 2006 and 2005

7. Share Capital

Authorized:

Unlimited number of common shares without
par value*

	Number	Amount	Contributed Surplus
Issued and fully paid:			
Balance as at December 31, 2004	2,971,667	\$ 286,667	\$ 36,164
Private Placement (Note 7a)	758,805	862,325	-
Exercise of Stock Options (Note 7b)	460,000	269,800	-
	4,190,472	1,418,792	36,164
Stock Split (Note 7c)	12,571,416	-	-
Private Placement (Note 7d)	6,000,000	3,300,000	-
Share Issue Costs	-	(418,310)	77,878
Exercise of Warrants (Note 7d)	283,600	198,520	-
Exercise of Brokers' Warrants (Note 7d)	69,572	38,265	-
Fair value of Brokers' Warrants and Stock Options exercised (Notes 7b & d)	-	208,062	(208,062)
Stock based compensation	-	-	530,791
Tax benefit renounced to flow-through shares	-	(129,058)	-
Balance as at December 31, 2005	23,115,060	4,616,271	436,771
Private Placement (Note 7e)	2,200,000	4,180,000	-
Share Issue Costs (Note 7e)	-	(455,061)	107,524
Exercise of Warrants (Note 7d)	2,711,117	1,897,781	-
Exercise of Brokers' Warrants (Note 7d)	374,908	206,200	-
Exercise of Options (Note 7f)	12,500	13,725	-
Fair value of Brokers' Warrants and Options Exercised (Notes 7d & f)	-	72,675	(72,675)
Stock based compensation	-	-	91,343
Balance as at December 31, 2006	28,413,585	\$ 10,531,591	\$ 562,963

* *By resolution dated September 30, 2005, the Company changed its authorized share capital from 30,000,000 common shares to an unlimited number of common shares.*

- a) During the year ended December 31, 2005, the Company completed a private placement of 500,005 common shares at \$1.00 per share and 258,800 flow-through common shares at \$1.40 per share for total proceeds of \$862,325.
- b) During the year ended December 31, 2005, a total of 460,000 stock options were exercised for gross proceeds of \$269,800. 60,000 stock options were exercised at \$0.08 per share, 180,000 stock options were exercised at \$0.25 per share, and 220,000 stock options were exercised at \$1.00 per share. A fair value of \$195,873 was recognized on these exercised options.
- c) Effective August 8, 2005, the Company subdivided its common shares on the basis of one old for four new shares.

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**December 31, 2006 and 2005

7. Share Capital, Continued

- d) During the year ended December 31, 2005, the Company completed its initial public offering (Note 9) for 6,000,000 units at \$0.55 per unit, each consisting of one common share and one half of one common share purchase warrant of the Company. Each whole warrant entitled the holder to acquire one additional common share at a price of \$0.70 per share. In addition, the Company issued 444,480 brokers' warrants in connection with this offering. Each brokers' warrant was exercisable into one common share of the Company at a price of \$0.55. A fair value of \$77,878 on brokers' warrants was recognized.

283,600 warrants of the initial public offering were exercised for total proceeds of \$198,520 in fiscal year 2005; 2,711,117 warrants were exercised for total proceeds of \$1,897,781 in fiscal year 2006, and 5,283 warrants expired.

69,572 brokers' warrants issued in connection with the initial public offering were exercised for total proceeds of \$38,265 in fiscal year 2005. A fair value of \$12,189 was recognized on these exercised brokers' warrants. 374,908 brokers' warrants issued in connection with the initial public offering were exercised for total proceeds of \$206,200 in fiscal 2006. A fair value of \$65,689 was recognized on these exercised brokers' warrants.

- e) On November 22, 2006, the Company completed a private placement for total proceeds of \$4,180,000. The offering was comprised of 2,200,000 flow-through common shares issued at a price of \$1.90 per share.

The Company paid a commission of \$301,336 in cash and issued brokers' warrants to acquire 132,000 common shares at an exercise price of \$1.90 expiring on November 22, 2007. A fair value expense of \$107,524 was recognized on the brokers' warrants. \$24,800 for legal expenses and \$21,401 for filing fees were also included in share issue costs.

- f) During the year ended December 31, 2006, a total of 12,500 stock options were exercised for gross proceeds of \$13,725. A fair value expense of \$6,986 was recognized on the exercise of these options.

Stock Options

On September 1, 2005, the Company adopted a new stock option plan. Under this plan, the Company may grant up to a rolling 10% of its outstanding common shares at the time options are granted to directors, employees and consultants of the Company.

During the year ended December 31, 2006, a total of 275,000 options at prices ranging from \$1.06 to \$2.43 were granted.

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	1,210,000	\$ 0.58	240,000	\$ 0.21
Exercised	(12,500)	1.10	(460,000)	0.59
Granted	275,000	1.30	1,430,000	0.73
Outstanding, end of year	1,472,500	\$ 0.71	1,210,000	\$ 0.58

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**

December 31, 2006 and 2005

7. Share Capital, Continued**Stock Options, Continued**

The following options were outstanding as of December 31, 2006:

Expiry Date	Exercise Price	Number of Options
June 12, 2009	\$1.38	60,000*
October 14, 2010	\$0.55	960,000**
November 8, 2010	\$0.68	250,000***
January 11, 2011	\$1.06	140,000
April 18, 2011	\$1.77	20,000
August 28, 2011	\$1.25	22,500
December 15, 2011	\$2.43	20,000
		1,472,500

*Subsequently, 20,000 of these options were exercised.

** Subsequently, 80,000 of these options were exercised.

***Subsequently, 100,000 of these options were exercised.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. Total fair value of stock options vested during the year ended December 31, 2006 was \$91,343 (2005: \$530,791).

The following weighted average assumptions were used for the Black-Scholes method of valuation of stock options granted during the periods:

	2006	2005
Risk-free interest	3.83 - 4.50%	3.37%
Expected dividend yield	-	-
Expected stock price volatility	78 - 94%	93%
Expected option life in years	1 - 4	5

Option pricing models require the input of highly subjective assumptions including expected stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2004	-	\$ -
Granted	3,444,480	0.68
Exercised	(353,172)	0.67
Outstanding, December 31, 2005	3,091,308	0.68
Granted	132,000	1.90
Exercised	(3,086,025)	0.68
Expired	(5,283)	0.70
Outstanding, December 31, 2006	132,000	\$ 1.90

Pitchstone Exploration Ltd.*(An Exploration Stage Company)***Notes to Financial Statements**December 31, 2006 and 2005

7. Share Capital, Continued**Warrants, Continued**

At December 31, 2006, the following warrants were outstanding:

Number Of Warrants	Exercise Price	Expiry Date
132,000	\$1.90	November 22, 2007

Escrow Shares

On October 5, 2005, in accordance with escrow agreements with Pacific Corporate Trust Company, 12,920,464 common shares were placed in escrow, of which 9,690,348 common shares were released leaving a balance of 3,230,116 common shares held in escrow as at December 31, 2006.

8. Income taxes

A reconciliation of expected and actual income tax expense at statutory rates is as follows:

	2006	2005
	\$	\$
Net income for accounting purposes	1,378,359	166,922
Expected income tax expense (recovery)	470,296	64,871
Net adjustment for additions and non-deductible amounts	(660,475)	6,035
Income tax expense (recovery)	(190,179)	70,906

The Company aggregated income tax liability as follows:

	2006	2005
	\$	\$
Deferred development costs in excess of tax pool	(2,631,363)	(651,355)
Property and equipment carrying value in excess of tax pool	(1,315)	(318)
Total	(2,632,678)	(651,673)
Expected statutory rates	34.12%	35.62%
Potential future income tax liability	(898,270)	(232,126)

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Notes to Financial Statements

December 31, 2006 and 2005

9. Initial Public Offering

On October 12, 2005, the Company completed the filing of a final prospectus with the British Columbia Securities Commission and its initial public offering on the TSX Venture Exchange. The initial public offering ("IPO") was for 6,000,000 units at \$0.55 per unit, each consisting of one common share of the Company and one half of one common share purchase warrant of the Company. Each whole warrant entitled the holder to acquire one additional common share at a price of \$0.70 per share until October 12, 2006, subject to a forced exercise provision. In the event that the Company's common shares trade at a closing price on the TSX Venture Exchange of greater than \$0.90 per share for a period of 20 consecutive trading days at any time after four months and one day after the closing date, the Company may accelerate the expiry date of the warrants by giving notice to the holders and in such case the warrants will expire on the 30th day after the date on which such notice is given by the Company.

The Company entered into an agency agreement with Dundee Securities Corp., Haywood Securities Inc., and Pacific International Securities (collectively, the "Agents"). The Agents were paid cash fees equal to 8% of the gross proceeds of the units sold pursuant to the IPO, and 6% commission for the funds raised by the Company. In addition, the agents received 444,480 brokers' warrants. Each brokers' warrant was exercisable into one common share of the Company at a price of \$0.55 until October 12, 2006. A fair value of \$77,878 on brokers' warrants was recognized.

On October 14, 2005, the common shares of the Company began trading on the TSX Venture Exchange under the symbol "PXP".

On August 2, 2006, the Company accelerated the expiry date of the outstanding warrants issued in conjunction with the Company's IPO to August 31, 2006.

10. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are as follows:

- a) During the year ended December 31, 2006, the Company paid geological consulting fees of \$91,667 (2005: \$100,000) to a company controlled by the President of the Company according to the Option agreement with SXRU1 until November 2006. Under this agreement, the Company is the operator of the exploration programs. The programs were managed by a company controlled by the President of the Company, which was paid \$8,333 per month by the Company. This amount was then reimbursed by SXRU1. As at December 31, 2006, \$Nil (2005: \$17,833) was owed to this company.

During the year ended December 31, 2005, the President entered into a contract with the Company for management consulting services. The President was paid a management fee of \$5,000 per month until April 2006, for total payments of \$20,000 in 2006 (2005: \$20,968). As at December 31, 2006, \$Nil was owed to the President (2005: \$3,882).

- b) During the year ended December 31, 2006, the Company incurred \$83,500 for accounting and administrative fees and \$1,125 of rent (2005: \$31,821) from Pacific Opportunity Capital Ltd., a company of which the Chief Financial Officer is the President and a director. As at December 31, 2006, \$17,490 (2005: \$5,350) was owed to Pacific Opportunity Capital Ltd.
- c) During the year ended December 31, 2006, the Company incurred directors' fees of \$13,000 (2005: \$5,700), to non-executive directors. As at December 31, 2006, \$6,837 (2005: \$5,721) was owed to these directors.

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Notes to Financial Statements

December 31, 2006 and 2005

11. Commitments

On June 28, 2006, the Company retained Blueprint Investor Relations Consulting ("Blueprint") to develop and execute an investor relations campaign. Blueprint has been engaged for a two-year term. In consideration for the services to be provided, Blueprint was paid \$20,000 for the first six-month period and granted an option to purchase 60,000 shares of the Company at an exercise price of \$1.38 per share expiring June 12, 2009. Subsequent to the initial six months, the Company will pay Blueprint a monthly retainer of \$3,000 per month. The relationship may be terminated by either party with two months notice.

12. Subsequent Events

- a. The Company received the final option payment from SXRU1, and the terms of the Letter Agreement for SXRU1 to earn an interest in five of the Company's Athabasca properties were met. In January 2007, the Company and SXRU1 entered into a 50:50 joint venture to explore and develop the Athabasca properties. SXRU1 now holds the remaining 50% interest in the Darby, Waterfound, Moon Lake and Lynx Lake properties and 50% of the Company's 50% interest in the Candle property (Note 5a).
- b. A total of 200,000 stock options were exercised. 20,000 stock options were exercised at \$1.38 per share, 80,000 stock options were exercised at \$0.55 per share, and 100,000 stock options were exercised at \$0.68 per share.
- c. On January 2, 2007, the Company granted 790,000 stock options to its directors and officers at a price of \$2.90 per share for a period of five years.
- d. The Company entered into a Letter Agreement on January 18, 2007 with Manica Minerals Ltd. ("Manica") to acquire a 51% interest in three uranium exploration properties in Namibia, Africa. The initial option may be exercised by spending \$900,000 in exploration work on the properties by November 9, 2008 and making the following cash payments to Manica:

\$15,000 on signing the Letter Agreement (subsequently paid)
\$25,000 by the first anniversary of the date of the Letter Agreement
\$35,000 by the second anniversary of the date of the Letter Agreement.

Once the initial option has been exercised, the Company will have a second and a third option to earn a further 20% and 9% interest in the properties, respectively, for a total interest of up to 80%, by expending an additional \$1,400,000 in exploration on the property by January 18, 2011 and then completing a positive feasibility study by an independent mutually acceptable qualified party.