

**PITCHSTONE**  
**EXPLORATION LTD.**

**An Exploration Stage Company**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2010 and 2009**

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## Independent Auditors' Report

**To the Shareholders of Pitchstone Exploration Ltd.**

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Pitchstone Exploration Ltd and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations and comprehensive loss and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pitchstone Exploration Ltd. and its subsidiaries as at December 31, 2010 and 2009 and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company has no current sources of revenue and is dependent upon its ability to secure new sources of financing. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



**Consolidated Balance Sheets**

As at December 31

| <b>ASSETS</b>                      |         | <b>2010</b>          |    | 2009              |
|------------------------------------|---------|----------------------|----|-------------------|
| <b>Current</b>                     |         |                      |    |                   |
| Cash and cash equivalents          |         | \$ 3,644,558         | \$ | 5,458,978         |
| Restricted Cash                    | Note 3c | 34,218               |    | 178,342           |
| Accounts receivable                |         | 82,953               |    | 27,871            |
| Prepaid expenses                   |         | 19,037               |    | 20,590            |
| <b>Total Current Assets</b>        |         | <b>3,780,766</b>     |    | <b>5,685,781</b>  |
| Expenditures on mineral properties | Note 3  | 16,238,709           |    | 17,568,369        |
| Equipment                          | Note 4  | 41,094               |    | 37,689            |
| <b>Total Assets</b>                |         | <b>\$ 20,060,569</b> | \$ | <b>23,291,839</b> |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|   |         |                      |    |                   |
|---|---------|----------------------|----|-------------------|
| <b>Current</b>                                    |         |                      |    |                   |
| Accounts payable and accrued liabilities          |         | \$ 95,683            | \$ | 241,498           |
| Due to related parties                            | Note 6a | 12,700               |    | 5,250             |
| Funds held for JV partners and optionees          | Note 3c | 34,218               |    | 178,342           |
| <b>Total Current Liabilities</b>                  |         | <b>142,601</b>       |    | <b>425,090</b>    |
| Future income tax liability                       |         | 816,667              |    | 1,813,844         |
| Deferred gain on Uranium One Joint Venture        | Note 5  | -                    |    | 1,850,000         |
| <b>Total Liabilities</b>                          |         | <b>959,268</b>       |    | <b>4,088,934</b>  |
| <b>Shareholders' Equity</b>                       |         |                      |    |                   |
| Share capital                                     | Note 7  | \$ 18,608,020        | \$ | 17,152,683        |
| Contributed surplus                               | Note 7  | 4,187,318            |    | 3,939,721         |
| Deficit   |         | (3,694,037)          |    | (1,889,499)       |
| <b>Total Shareholders' Equity - Statement 3</b>   |         | <b>19,101,301</b>    |    | <b>19,202,905</b> |
| <b>Total Liabilities and Shareholders' Equity</b> |         | <b>\$ 20,060,569</b> | \$ | <b>23,291,839</b> |

Nature and Continuance of Operations Note 1  
 Commitments Note 12  
 Subsequent Events Note 13

ON BEHALF OF THE BOARD:

"Edward A.G. Trueman" , Director

"Paul Geyer" , Director

**Consolidated Statements of Operations  
and Comprehensive Loss**  
For the Years Ended at December 31

|  |         | 2010                  | 2009                  |
|--|---------|-----------------------|-----------------------|
| <b>Revenues</b>                                      |         |                       |                       |
| Overhead recoveries                                  |         | \$ 146,799            | \$ 4,927              |
| Interest income                                      |         | 39,873                | 131,476               |
| Equipment rental revenue                             |         | 2,088                 | 2,720                 |
| Gain on contributed joint venture assets             | Note 5  | -                     | 50,000                |
| <b>Total revenues</b>                                |         | <b>188,760</b>        | <b>189,123</b>        |
| <b>Administrative expenses</b>                       |         |                       |                       |
| Accounting and audit                                 | Note 6a | 83,000                | 84,795                |
| Amortization   |         | 11,070                | 19,946                |
| Directors' fees                                      | Note 6b | 16,100                | 9,200                 |
| Filing and transfer agent fees                       |         | 15,055                | 14,535                |
| Insurance  |         | 35,030                | 39,126                |
| Investor relations                                   |         | 26,738                | 37,835                |
| Legal fees   |         | 34,191                | 29,825                |
| Administration expenses                              |         | 58,628                | 65,854                |
| Salaries and wages                                   |         | 416,918               | 437,616               |
| Stock-based compensation                             | Note 7  | 286,548               | 323,509               |
| Travel   |         | 20,761                | 22,168                |
| <b>Total administrative expenses</b>                 |         | <b>1,004,039</b>      | <b>1,084,409</b>      |
| <b>Income (loss) before other item</b>               |         | <b>(815,279)</b>      | <b>(895,286)</b>      |
| Mineral property write-downs                         |         | (2,150,000)           | (1,922,405)           |
| <b>Income (loss) before taxes</b>                    |         | <b>(2,965,279)</b>    | <b>(2,817,691)</b>    |
| Future income tax recovery                           | Note 9  | 1,160,741             | 1,252,698             |
| <b>Net loss and comprehensive loss for the year</b>  |         | <b>\$ (1,804,538)</b> | <b>\$ (1,564,993)</b> |
| <b>Earning (loss) per share</b>                      |         |                       |                       |
| - Basic and diluted                                  |         | (\$0.05)              | (\$0.04)              |
| <b>Weighted average number of shares outstanding</b> |         | <b>36,850,007</b>     | <b>35,915,791</b>     |
| - Fully diluted                                      |         | 37,261,434            | 35,404,219            |

- See Accompanying Notes -

**Pitchstone Exploration Ltd.***(An Exploration Stage Company)*Statement 3**Consolidated Statements of Changes in Shareholders' Equity**

For the Years Ended December 31

|  | Number of<br>Shares | Amount               | Contributed<br>Surplus | Earnings/<br>Deficit  | Total<br>Shareholders'<br>Equity |
|--|---------------------|----------------------|------------------------|-----------------------|----------------------------------|
| <b>Ending Balance at December 31, 2008</b>   | <b>33,444,785</b>   | <b>\$ 16,453,191</b> | <b>\$ 3,447,315</b>    | <b>\$ (324,506)</b>   | <b>\$ 19,576,000</b>             |
| Share issues:                                |                     |                      |                        |                       |                                  |
| Flow-through Share Tax Recovery              | -                   | (375,150)            | -                      | -                     | (375,150)                        |
| Stock-based Compensation                     | -                   | -                    | 323,509                | -                     | 323,509                          |
| Share Issue Costs                            | Note 7a,b           | (38,540)             | -                      | -                     | (38,540)                         |
| Private Placement - Common Shares            | Note 7a             | 1,525,000            | 284,871                | -                     | 610,000                          |
| Private Placement - Flow-through Shares      | Note 7b             | 1,453,900            | -                      | -                     | 654,255                          |
| Exercise of Options                          | Note 7              | 77,500               | -                      | -                     | 17,825                           |
| Fair Value of Option Exercised               | Note 7              | -                    | (115,973)              | -                     | -                                |
| Net loss and comprehensive loss for the year | -                   | -                    | -                      | (1,564,993)           | (1,564,993)                      |
| <b>Ending Balance at December 31, 2009</b>   | <b>36,501,185</b>   | <b>\$ 17,152,683</b> | <b>\$ 3,939,721</b>    | <b>\$ (1,889,499)</b> | <b>\$ 19,202,905</b>             |
| Flow-through Share Tax Recovery              | -                   | (163,564)            | -                      | -                     | (163,564)                        |
| Stock-based Compensation                     | -                   | -                    | 286,548                | -                     | 286,548                          |
| Share Issue Costs                            | Note 7c             | (70,750)             | -                      | -                     | (70,750)                         |
| Private Placement - Flow-through Shares      | Note 7c             | 3,260,000            | -                      | -                     | 1,630,000                        |
| Exercise of Options                          | Note 7              | 90,000               | -                      | -                     | 20,700                           |
| Fair Value of Options Exercised              | Note 7              | -                    | (59,558)               | -                     | -                                |
| Fair Value of Finder's Warrants              | Note 7              | -                    | 20,607                 | -                     | -                                |
| Net loss and comprehensive loss for the year | -                   | -                    | -                      | (1,804,538)           | (1,804,538)                      |
| <b>Ending Balance at December 31, 2010</b>   | <b>39,851,185</b>   | <b>\$ 18,608,020</b> | <b>\$ 4,187,318</b>    | <b>\$ (3,694,037)</b> | <b>\$ 19,101,301</b>             |

- See Accompanying Notes -

**Pitchstone Exploration Ltd.***(An Exploration Stage Company)*

Statement 4

**Consolidated Statements of Cash Flows**

For the Years Ended December 31

|  | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| <b>Cash Flows from Operating Activities</b>              |                     |                     |
| Net loss for the year                                    | \$ (1,804,538)      | \$ (1,564,993)      |
| Items not affected by cash                               |                     |                     |
| Amortization   | 11,070              | 19,946              |
| Future income tax recovery                               | (1,160,741)         | (1,252,698)         |
| Mineral property write-downs                             | 2,150,000           | 1,922,405           |
| Stock-based compensation                                 | 286,548             | 323,509             |
| Gain on contributed JV assets                            | -                   | (50,000)            |
|  | <u>(517,661)</u>    | <u>(601,831)</u>    |
| Changes in non-cash working capital items                |                     |                     |
| Accounts receivable                                      | (41,909)            | 75,681              |
| Prepaid expenses   | 1,553               | 1,303               |
| Accounts payable and accrued liabilities                 | 15,887              | (233,430)           |
| Due to/from related parties                              | 7,450               | (2,741)             |
| Funds held for JV partners/options                       | (157,297)           | 161,457             |
| <b>Net Cash Used In Operating Activities</b>             | <u>(691,977)</u>    | <u>(599,561)</u>    |
| <b>Cash Flows from Investing Activities</b>              |                     |                     |
| Resource properties                                      | (2,832,042)         | (3,150,178)         |
| Initial contribution from optionees                      | -                   | 200,000             |
| Purchase of equipment                                    | (14,475)            | (12,599)            |
| <b>Net Cash Used In Investing Activities</b>             | <u>(2,846,517)</u>  | <u>(2,962,777)</u>  |
| <b>Cash Flows from Financing Activities</b>              |                     |                     |
| Options proceeds received                                | 20,700              | 17,825              |
| Cash received for shares issued                          | 1,630,000           | 1,264,255           |
| Share issue costs  | (70,750)            | (38,540)            |
| <b>Net Cash Provided by Financing Activities</b>         | <u>1,579,950</u>    | <u>1,243,540</u>    |
| <b>Net Decrease in Cash and Cash Equivalents</b>         | <u>(1,958,544)</u>  | <u>(2,318,798)</u>  |
| <b>Cash and Cash Equivalents – Beginning of the year</b> | <u>5,637,320</u>    | <u>7,956,118</u>    |
| <b>Cash and Cash Equivalents – End of the year</b>       | <u>\$ 3,678,776</u> | <u>\$ 5,637,320</u> |
| <b>Cash and Cash Equivalents comprised of:</b>           |                     |                     |
| Cash   | \$ 144,558          | \$ 710,885          |
| Guaranteed Investment Certificates                       | \$ 3,500,000        | 4,748,093           |
|  | <u>\$ 3,644,558</u> | <u>\$ 5,458,978</u> |
| Restricted Cash  | \$ 34,218           | \$ 178,342          |
| <b>Supplementary Information</b>                         |                     |                     |
| Interest income - cash received                          | \$ 32,641           | \$ 202,791          |

- See Accompanying Notes -

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 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 engaged principally in the acquisition and exploration of mineral properties. The recovery of the Company's investment in its mineral 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 it is contingent on future matters.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

### 2. Significant Accounting Policies

#### a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company, a 54.8% interest in the joint venture with Uranium One Inc. ("Uranium One"), a 50% interest in the joint venture with Canterra Minerals Corporation ("Canterra"), formerly Triex Minerals Corporation, a 41.1% interest in the Candle claim jointly held with JCU (Canada) Exploration Company, Limited ("JCU") and Uranium One, and a 69.44% interest in the joint venture with Manica Mineral Ltd. ("Manica"). The Company's uses the proportional consolidation method of accounting for its joint venture interests, whereby its proportionate interests in a joint venture's assets, liabilities, revenues, expenses and cash flows are combined on a line-by-line basis with the Company's own assets, liabilities, revenues, expenses and cash flows. Inter-company balances and transactions have been eliminated upon consolidation.

#### b) Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amount of revenues and expenses during the period. Significant estimates include the determination at stock based compensation, future income tax balances, and value of mineral properties. Actual results could differ from these estimates.

#### c) Mineral 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 Mineral Reserves.

Mineral exploration costs are capitalized on an individual project basis until such time as mineral reserves are defined or the project is abandoned. Costs for a producing deposit would be amortized on a unit-of-production method based on the estimated life of the mineral reserves, while costs for the projects abandoned are written-off. These long lived assets are assessed for impairment when events and circumstances warrant an assessment.

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

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 2. Significant Accounting Policies - *Continued*

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, titles to all of its properties are in good standing.

#### d) Cash and Cash Equivalents

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

#### e) Environmental Expenditures and Asset 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.

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.

The Company currently has no asset retirement obligations.

#### f) Amortization

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

Following are the amortization rates:

|                       |     |
|-----------------------|-----|
| Computer equipment    | 30% |
| Office furniture      | 20% |
| Exploration equipment | 30% |

#### 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 net tax assets.

#### h) Share Capital

- i) The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option and warrant enabled the holder to purchase a share in the Company. The related contributed surplus originally recognized when the options or warrants were earned is transferred to share capital.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair market value.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 2. Significant Accounting Policies – *Continued*

#### 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 exploration 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, with the corresponding charge to income.

#### 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 using 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. The Company uses the straight line method for recognizing stock based compensation.

#### k) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) 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.

#### l) Financial instruments

The Company's financial instruments are comprised of cash and cash equivalents, amounts receivable and accounts payable. Cash and cash equivalents have been designated as "held for trading" receivables have been designated as "loans and receivables" and have been measured at cost. Accounts payable and due to related parties have been designated as "other liabilities" and have been measured at cost.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 2. Significant Accounting Policies – Continued

#### m) Future Accounting Pronouncements

##### (i) Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests”, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with International Financial Reporting Standards (“IFRS”).

Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in the parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in 2011 in connection with the conversion to IFRS.

##### (ii) Business Combinations

In January 2009, the CICA issued Section 1582, “Business Combinations” effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. The Company is considering the impact of adopting this pronouncement on the consolidated financial statements for the fiscal 2011.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 3. Expenditures on Mineral Properties

|                                 | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>Uranium One<br>Joint Venture<br>(Note 3a) | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>100% Owned<br>Properties<br>(Note 3b) | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>Denison Option<br>(Note 3d) | Hornby Bay<br>Basin<br>Properties,<br>Nunavut<br>Canterra Joint<br>Venture (Note<br>3e) | Gabon<br>Optioned<br>Properties,<br>Africa<br>(Note 3f) | Namibia<br>Properties,<br>Africa Manica<br>Joint Venture<br>(Note 3g) | Total         |
|---------------------------------|--|--|--|---|---|---|---------------|
| Balance at December 31, 2008    | \$ 8,051,784   | \$ 2,347,073   | \$ -   | \$ 4,642,108  | \$ 661,056  | \$ 636,288  | \$ 16,338,309 |
| Aircraft charter                | 53,639   | 98,849   | 1,622  | -   | -   | -   | 154,110       |
| Camp and general                | 191,192  | 366,518  | 6,014  | 101,414   | -   | -   | 665,138       |
| Drilling                        | 403,791  | 1,100,541  | -  | -   | -   | 133,374   | 1,637,706     |
| Geological                      | 48,696   | 144,112  | 16,087   | -   | 16,199  | 346,995   | 572,089       |
| Geochemical                     | 417  | -  | -  | -   | -   | -   | 417           |
| Geophysical                     | 36,268   | 159,900  | -  | -   | -   | -   | 196,168       |
| Linecutting and chaining        | 5,960  | -  | -  | -   | -   | -   | 5,960         |
| Mineral claims expenses         | 1,148  | 1,779  | 27   | -   | -   | 39,261  | 42,215        |
| Overhead                        | -  | -  | -  | 3,500   | -   | -   | 3,500         |
| Sampling and analysis           | 21,025   | 64,795   | 32,396   | -   | -   | 21,022  | 139,238       |
| Travel                          | 7,788  | 25,507   | 1,348  | -   | -   | 5,655   | 40,298        |
| Community relations             | 73   | -  | -  | -   | -   | -   | 73            |
| Recovery from partners          | (104,448)  | (200,000)  | -  | -   | -   | -   | (304,448)     |
| Total expenditures for the year | 665,549  | 1,762,001  | 57,494   | 104,914   | 16,199  | 546,307   | 3,152,464     |
| Mineral property write-downs    | -  | -  | -  | (1,245,149)   | (677,255)   | -   | (1,922,404)   |
| Balance at December 31, 2009    | \$ 8,717,333   | \$ 4,109,074   | \$ 57,494  | \$ 3,501,873  | \$ -  | \$ 1,182,595  | \$ 17,568,369 |
| Aircraft charter                | 41,321   | 55,312   | 105,913  | -   | -   | -   | 202,546       |
| Camp and general                | 39,228   | 238,464  | 97,409   | -   | -   | -   | 375,101       |
| Drilling                        | 102,396  | 878,439  | 356,045  | -   | -   | 84,083  | 1,420,963     |
| Geological/Geochemical          | 12,366   | 96,274   | 32,133   | -   | -   | 298,354   | 439,127       |
| Geophysical                     | 2,750  | 63   | 2,550  | -   | -   | 59,208  | 64,571        |
| Mineral claims expenses         | 1,845  | 1,599  | 560  | -   | -   | -   | 4,004         |
| Overhead                        | -  | -  | 62,572   | -   | -   | -   | 62,572        |
| Sampling and analysis           | 14,910   | 59,690   | 20,618   | -   | -   | 3,857   | 99,075        |
| Travel                          | 2,686  | 20,496   | 6,594  | -   | -   | 8,626   | 38,402        |
| Community relations             | 19   | -  | -  | -   | -   | -   | 19            |
| Recovery from partners          | (36,040)   | -  | -  | -   | -   | -   | (36,040)      |
| Total expenditures for the year | 181,481  | 1,350,337  | 684,394  | -   | -   | 454,128   | 2,670,340     |
| Deemed value write down         | (1,850,000)  | -  | -  | -   | -   | -   | (1,850,000)   |
| Mineral property write-downs    | (2,150,000)  | -  | -  | -   | -   | -   | (2,150,000)   |
| Balance at December 31, 2010    | \$ 4,898,814   | \$ 5,459,411   | \$ 741,888   | \$ 3,501,873  | \$ -  | \$ 1,636,723  | \$ 16,238,709 |

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 3. Expenditures on Mineral Properties – Continued

|   | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>Uranium One<br>Joint Venture<br>(Note 3a) | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>100% Owned<br>Properties<br>(Note 3b) | Athabasca<br>Basin<br>Properties,<br>Saskatchewan<br>Denison Option<br>(Note 3d) | Hornby Bay<br>Basin<br>Properties,<br>Nunavut<br>Canterra Joint<br>Venture (Note<br>3e) | Gabon<br>Optioned<br>Properties,<br>Africa<br>(Note 3f) | Namibia<br>Properties,<br>Africa Manica<br>Joint Venture<br>(Note 3g) | Total                |
|---|--|--|--|---|---|---|----------------------|
| <b>Cumulative totals as of<br/>December 31, 2010:</b> |  |  |  |   |   |   |                      |
| Aircraft charter                                      | 707,133  | 513,417  | 107,534  | -   | -   | -   | 1,328,084            |
| Camp and general                                      | 1,254,263  | 859,397  | 103,423  | 160,226   | 52,464  | 678   | 2,430,451            |
| Drilling  | 2,709,250  | 2,715,359  | 356,045  | 2,972,848   | -   | 314,936   | 9,068,438            |
| Geological  | 417,270  | 302,207  | 48,220   | 382,191   | 188,285   | 1,026,201   | 2,364,374            |
| Geochemical   | 6,336  | 11,124   | -  | -   | 98,020  | 58,280  | 173,760              |
| Geophysical   | 158,971  | 846,799  | 2,550  | 482,838   | 266,932   | 185,879   | 1,943,969            |
| Linecutting and chaining                              | 88,822   | 117,235  | -  | -   | -   | -   | 206,057              |
| Mineral claims expenses                               | 3,342  | 124,267  | 587  | 276,491   | 3,254   | 153,095   | 561,036              |
| Overhead  | -  | -  | 62,572   | 395,299   | 903   | -   | 458,774              |
| Sampling and analysis                                 | 139,763  | 153,549  | 53,015   | 436,412   | 264   | 27,948  | 810,951              |
| Travel  | 70,668   | 64,408   | 7,942  | 11,765  | 67,133  | 53,738  | 275,654              |
| Community relations                                   | 1,094  | 619  | -  | 5,996   | -   | -   | 7,709                |
| Recovery from partners                                | (626,614)  | (200,000)  | -  | -   | -   | -   | (826,614)            |
| Government assistance                                 | (31,484)   | (48,970)   | -  | -   | -   | -   | (80,454)             |
| Deemed value in joint venture                         | 4,000,000  | -  | -  | -   | -   | -   | 4,000,000            |
| Total expenditures before write-downs                 | 8,898,814  | 5,459,411  | 741,888  | 5,124,066   | 677,255   | 1,820,755   | 22,722,189           |
| Deemed value in joint venture                         | (1,850,000)  | -  | -  | (1,622,193)   | (677,255)   | (184,032)   | (1,850,000)          |
| Mineral property write-downs                          | (2,150,000)  | -  | -  | -   | -   | -   | (4,633,480)          |
| <b>Balance at December 31, 2010</b>                   | <b>\$ 4,898,814</b>  | <b>\$ 5,459,411</b>  | <b>\$ 741,888</b>  | <b>\$ 3,501,873</b>   | <b>\$ -</b>   | <b>\$ 1,636,723</b>   | <b>\$ 16,238,709</b> |

#### a. Athabasca Basin Properties, Saskatchewan - Uranium One Joint Venture

In January 2007, the Company and Uranium One, entered into a 50:50 joint venture to explore five Athabasca Basin properties. To exercise its 50% option and to earn a 50% interest, Uranium One made total cash payments of \$350,000, issued an aggregate of 200,000 common shares and 300,000 share purchase warrants to the Company. In addition, Uranium One funded \$4,000,000 of exploration expenditures on the five Athabasca Basin properties.

The Company recognized its 50% interest in the joint venture at a deemed value of \$4,000,000, equivalent to the \$4,000,000 spent by Uranium One (Note 5).

The Company is the operator of the joint venture properties. During 2008, Uranium One's participating interest was diluted when Uranium One stopped funding their share of exploration expenditures. Since 2009, Uranium One's participating interest has been further diluted. On December 10, 2010 the Weasel property, comprised of one claim, was added to the contiguous Darby property of the Uranium One Joint Venture. Weasel had been 100% owned by Pitchstone since it was staked by Pitchstone in April, 2009. As of December 31, 2010, the participating interests in the Darby, Waterfound, Moon Lake, and Lynx Lake properties for the Company and Uranium One are 54.8% and 45.2%, respectively. Participating interests in the Candle property for the Company, Uranium One, and JCU are 41.1%, 33.9%, and 25%, respectively.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 3. Expenditures on Mineral Properties – *Continued*

#### a. Athabasca Basin Properties, Saskatchewan - Uranium One Joint Venture – *Continued*

The Company is the operator of these five joint venture properties. As of December 31, 2010 and 2009, the Company's share of net exploration expenditures on these six properties totalled \$4,898,814 and \$8,717,333, respectively. The Company wrote off the previously recorded deemed value of \$4,000,000 in 2010.

#### **Athabasca Basin Properties, Saskatchewan - Uranium One Joint Venture**

|                                 | December 31, 2010   | December 31, 2009   |
|---------------------------------|---------------------|---------------------|
| 50% interest in joint venture   | \$0                 | \$4,000,000         |
| Darby Property                  | 2,693,241           | 2,638,767           |
| Waterfound Property             | 323,562             | 317,966             |
| Lynx Lake Property              | 41,100              | 40,389              |
| Moon Lake Property              | 325,409             | 314,689             |
| Candle Property                 | 1,546,986           | 1,437,006           |
| Unallocated assistance received | (31,484)            | (31,484)            |
|                                 | <b>\$ 4,898,814</b> | <b>\$ 8,717,333</b> |

#### Darby Property

The Darby property (16,721 hectares) is located in the Close Lake area of the Athabasca Basin. The majority of the property (11,015 hectares) was acquired in 2003 from a Director of the Company and the remainder was acquired in 2004 and 2005 by way of staking.

#### Candle Property

On April 3, 2004 the Company signed an option agreement with JCU in respect of the Candle property whereby the Company could acquire a 75% interest in the property. 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.

In March 2007, the Company and Uranium One jointly earned a 75% interest in the property by incurring \$1 million in exploration expenditures. The remaining 25% interest is held by JCU. The current ownership in the Candle claim, after the dilution of Uranium One's interest, between the Company, Uranium One, and JCU is 41.1%, 33.9%, and 25%, respectively.

#### Waterfound Property

The Waterfound property (4,124 hectares) is located 55 kilometers north of the Company's Darby and Candle properties. It was acquired in 2003 and 2005 by way of staking.

#### Lynx Lake Property

The Lynx Lake property (1,274 hectares) is located 35 kilometers southwest of the Company's Darby and Candle properties. It was acquired in 2004 by way of staking.

#### Moon Lake Property

The Moon Lake property (4,590 hectares) is located 55 kilometers southwest of the Company's Darby and Candle properties. It was acquired in 2003 and 2004 by way of staking.

#### Weasel Property

On April 1, 2009, the Company acquired the 843 hectare Weasel property by way of staking. Weasel is adjacent to the southwest part of the Darby property. As described above, the Weasel property was added to the Uranium One Joint Venture on December 10, 2010.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 3. Expenditures on Mineral Properties – Continued

#### b. Athabasca Basin Properties, Saskatchewan - 100% Owned Properties

As of December 31, 2010 and 2009, the Company had spent a total of \$5,380,004 and \$4,029,666, respectively, on exploration on its 100% owned properties. These totals do not include exploration completed on the Wolverine and Marten properties to March 12, 2009. Wolverine and Marten were optioned to Japan Oil, Gas and Metals National Corporation (“JOGMEC”) as described in the following section.

##### Fireweed Property

The Fireweed property (10,921 hectares) is located 15 kilometers northwest of the Company’s Darby-Candle properties and was acquired in October 2004 by way of staking.

##### Gumboot Property

The Gumboot property (4,196 hectares) is located 20 kilometers north of the Company’s Darby-Candle properties and was acquired in November 2004 by way of staking.

##### Fisher Property

In November 2005, the Company acquired the 3,349 hectare Fisher property by way of staking. Fisher is located 40 kilometers north of the Company’s Darby-Candle properties.

#### **Athabasca Basin Properties, Saskatchewan - 100% Owned properties**

|                         | December 31, 2010 |           | December 31, 2009 |
|-------------------------|-------------------|-----------|-------------------|
| Fireweed                | \$                | 812,206   | \$ 812,206        |
| Gumboot                 |                   | 4,421,572 | 3,082,398         |
| Fisher                  |                   | 146,225   | 135,062           |
| Marten before JOGMEC    |                   | 35,705    | 35,705            |
| Wolverine before JOGMEC |                   | 43,703    | 43,703            |
|                         | \$                | 5,459,411 | \$ 4,109,074      |

#### c. Athabasca Basin Properties, Saskatchewan – Marten & Wolverine Properties, JOGMEC Option

In June 2007, the Company acquired the Marten and Wolverine properties in the Athabasca Basin, Saskatchewan by way of staking. Marten (2,768 hectares) is located 40 kilometers east-southeast of the Company’s Darby-Candle properties. Wolverine (3,632 hectares) is located 30 kilometers southeast of the Company’s Darby-Candle properties.

On March 11, 2009, Marten and Wolverine properties were optioned to JOGMEC. JOGMEC can acquire a 50% interest in the properties by paying the Company \$200,000 (paid) as an initial contribution for prior expenditures and spending \$1,800,000 on exploration on the properties by March 31, 2012. As of December 31, 2010 and 2009, the expenditures made by JOGMEC were \$603,454 and \$10,658 on Marten, \$694,731 and \$12,724 on Wolverine, respectively.

The Company has a bank account for the optionee JOGMEC which remits cash contributions as per the Company’s request. The cash in this account is strictly used for exploration expenditures on the Marten and Wolverine properties. As of December 31, 2010, there was \$34,218 (Dec. 31, 2009: \$178,342) in this bank account.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 3. Expenditures on Mineral Properties – Continued

#### d. Athabasca Basin Properties, Saskatchewan - Johnston Lake Property, Denison Option

On March 18, 2009, the Company entered into a Letter Agreement with Denison Mines Corp. ("Denison") to acquire up to a 75% interest in the Johnston Lake property in the Athabasca Basin, Saskatchewan. Johnston Lake comprises 15,666 hectares in four claims. Three of the claims are contiguous to the east and north with the Company's Gumboot property, and the fourth claim is eight kilometers north of Gumboot.

Terms of the Letter Agreement provide the Company with the option to earn an initial 49% interest in the licenses by incurring exploration expenditures of \$1,000,000 by February 28, 2012. In addition, the Company will have a second option to acquire a further 26% interest, for a total interest of 75%, by spending an additional \$1,000,000 on exploration by February 28, 2014.

The Company acts as operator with respect to the work being carried out on the property. As of December 31, 2010 and 2009, the Company spent a total of \$684,394 and \$57,494, respectively, on the Johnston Lake property (see note 13).

#### e. Hornby Bay Basin Properties, Nunavut – Canterra Joint Venture

On May 9, 2005, the Company entered into a 50:50 joint venture with Canterra to explore the Mountain Lake, Dismal Lake, and Leith properties, located in the Hornby Bay Basin of Nunavut and Northwest Territories. Currently, Canterra holds the remaining 50% interest in the properties. The Leith property has been relinquished.

In April 2006, two claim blocks totalling 59,760 hectares, the Dismal Lake property and part of the Mountain Lake property, were optioned by the Company and Canterra from Ur-Energy Inc. ("URE") and Patrician Diamonds Inc. ("Patrician"). Earn-in requirements were met during 2007 and the Company and Canterra have completed the purchase of these properties subject to a 5% net smelter return royalty retained by the property vendors. The Company and Canterra have the right to purchase one half of the retained royalty for \$5,000,000 for each property.

In July 2006, the Company and Canterra acquired 100% of the Kendall River property from Aramis Ventures Inc. ("Aramis"). The vendor will retain a 5% net smelter return royalty of which the Company and Canterra have the right to purchase half of the retained royalty for \$2.5 million.

Canterra is the operator of these properties. In 2009, the Company spent \$104,914 on camp clean up on the Hornby Bay Basin properties and \$nil was spent in 2010.

|                              | December 31, 2010   | December 31, 2009   |
|------------------------------|---------------------|---------------------|
| Mountain Lake Property       | \$ 2,005,841        | \$ 2,005,841        |
| Mountain Lake – URE          | 675,672             | 675,672             |
| West Dismal Property         | 433,500             | 433,500             |
| Leith Property               | 70,487              | 70,487              |
| Dismal Lake - Patrician      | 510,150             | 510,150             |
| Dismal Lake - URE            | 853,823             | 853,823             |
| Kendall River Property       | 574,593             | 574,593             |
|                              | <u>5,124,066</u>    | <u>5,124,066</u>    |
| Mineral property write-downs | (1,622,193)         | (1,622,193)         |
|                              | <u>\$ 3,501,873</u> | <u>\$ 3,501,873</u> |

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 3. Expenditures on Mineral Properties – *Continued*

#### e. Hornby Bay Basin Properties, Nunavut – **Canterra Joint Venture** – *Continued*

##### Mountain Lake Property

The Mountain Lake property (45,191 hectares) is located approximately 550 kilometers north of Yellowknife and 100 kilometers south of Kugluktuk (formerly Coppermine) in the Hornby Bay Basin, Nunavut. During the year of 2009, the Company wrote down \$500,000 on the Mountain Lake property.

##### Dismal Lake Property

The Dismal Lake contiguous claims are situated 40 kilometers northwest of the Mountain Lake property in the Hornby Bay Basin, Nunavut. In 2009, the Company wrote down \$400,000 of mineral property costs on the Dismal Lake property.

##### Kendall River Property

The Kendall River Property is situated 15 kilometers southeast of the Mountain Lake property in the Hornby Bay Basin, Nunavut. During 2009, the Company wrote down \$345,149 of mineral property costs on the Kendall River property.

#### f. **Gabon Optioned Properties, Africa**

On June 12, 2006, the Company together with Cameco Corporation (“Cameco”) finalized a Letter Agreement with Motapa Diamonds Inc. (“Motapa”) to jointly explore Motapa’s uranium-gold-manganese exploration licenses in Gabon, Africa. In 2009, the Company elected not to participate in further exploration in Gabon and the Company wrote off all \$677,255 of its expenditures in Gabon.

#### g. **Namibia Properties, Africa**

The Company entered into a Letter Agreement on January 18, 2007, amended on March 21, 2007 and September 24, 2008, with Manica to acquire a 51% interest in three uranium exploration properties in Namibia, Africa. The initial option was exercised by spending \$900,000 in exploration work on the properties by November 9, 2008 (the “Initial Option Date”) and making \$75,000 in cash payments to Manica.

The Company had 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 properties by January 18, 2011 and then completing a positive feasibility study.

In addition, on April 20, 2007, the Company issued 15,000 common shares to Manica, for a right of first refusal on new uranium exploration properties acquired by Manica in Namibia. During 2008, the Company wrote off \$184,032 on the Namibia properties as a result of the planned expiration of the Nakop licenses.

On March 11, 2009, the Company exercised the initial option and earned a 51% interest in the two properties (Dome and Kaoko) in Namibia. The Company elected not to exercise the second option of the Letter Agreement and a joint venture has been formed. The Company is funding 100% of the exploration costs and, as a result, the participating interests at December 31, 2010 are 69.44% for the Company and 30.56% for Manica.

As of December 31, 2010 and 2009, the Company had spent \$1,636,723 and \$1,182,595 (inclusive of the \$184,032 write-off), respectively, on the Namibia joint venture properties.

# Pitchstone Exploration Ltd.

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## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 4. Equipment

Details are as follows:

|                       | Cost as of<br>Jan 1, 2010 | Additions        | Accumulated<br>Amortization | Net Book Value as<br>at Dec 31, 2010 | Net Book Value as at<br>Dec 31, 2009 |
|-----------------------|---------------------------|------------------|-----------------------------|--------------------------------------|--------------------------------------|
| Computer equipment    | \$ 18,475                 | \$ -             | \$ 12,561                   | \$ 5,914                             | \$ 7,659                             |
| Office furniture      | 7,487                     | -                | 4,560                       | 2,927                                | 3,658                                |
| Exploration equipment | 60,697                    | 14,475           | 42,919                      | 32,253                               | 26,372                               |
| Computer software     | 52,712                    | -                | 52,712                      | -                                    | -                                    |
|                       | <u>\$ 139,371</u>         | <u>\$ 14,475</u> | <u>\$ 112,752</u>           | <u>\$ 41,094</u>                     | <u>\$ 37,689</u>                     |

### 5. Deferred Gain on Uranium One Joint Venture

In January 2007, the Company and Uranium One formed a 50:50 joint venture (Note 3a). With Uranium One having funded \$4,000,000 to earn 50% interest in the Athabasca Basin joint ventured properties, the Company's 50% interest in the joint venture was deemed to have a value of \$4,000,000 and the Company recorded a net gain of \$4,000,000. The Company recognized \$2,000,000 income (50% of Uranium One's \$4,000,000 contribution to exploration expenses) and the remaining 50% gain was deferred and was amortized on a straight line basis over the life of the joint venture, which was estimated to be 40 years.

In 2010, given Uranium One's subsequent non-participation and dilution in the joint venture as described in note 3(a), the Company has decided to recognize an impairment on this property by writing off the \$4.0 million asset previously recorded on the formation of the joint venture, together with the \$1.85 million residual balance of the related deferred gain. The remaining \$2,150,000 balance was charged to operations.

### 6. Related Party Transactions

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

- For the year ended December 31, 2010, the Company paid fees of \$60,000 (2009: \$63,795) to a company of which the Chief Financial Officer is the president and a director. As of December 31, 2010, \$11,200 (December 31, 2009: \$5,250) was owed to that company.
- For the year ended December 31, 2010, the Company incurred directors' fees of \$16,100 and (2009: \$9,200) to non-executive directors. As of December 31, 2010, \$1,500 (December 31, 2009: \$Nil) was owed to directors.

Related party transactions occurred in the normal course of business operations and are measured at the fair value amount as determined by management. The amounts owed bear no interest and are unsecured with no repayment terms.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 7. Share Capital

The Company has authorized share capital on an unlimited number of common shares without par value.

#### Common Shares

- a) On July 3, 2009, the Company closed a non-brokered private placement of 1,525,000 authorized common shares at \$0.40 per unit to raise gross proceeds of \$610,000. Each unit consists of one common share and a share purchase warrant, with each warrant exercisable into a common share for a period of two years after closing at an exercise price of \$0.60 in the first twelve months and at an exercise price of \$0.80 until July 3, 2011. A fair value of \$284,871 was recognized on the warrants. The Company paid cash finder's fees and filing fees in the amounts of \$8,000 and \$4,020, respectively, in connection with the private placement.
- b) On December 22, 2009, the Company closed a non-brokered private placement of 1,453,900 flow-through common shares at \$0.45 per share to raise gross proceeds of \$654,255. There were no warrants issued in the private placement. The Company paid cash finder's fees and filing fees in the amounts of \$22,500 and \$4,020, respectively, in connection with the private placement.
- c) On November 23, 2010, the Company closed a non-brokered private placement of 3,260,000 flow-through common shares at \$0.50 per share to raise gross proceeds of \$1,630,000. A cash finder's fee and filing fee of \$70,750 plus 163,000 finder's warrants (5% of the common shares subscribed for) has been paid in connection with the private placement. The finder's warrants will be exercisable at \$0.50 for a period of one year.

#### 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.

In 2009, the Company granted 900,000 stock options to directors and employees at an exercise price of \$0.40 and donated 15,000 stock options at an exercise price of \$0.42. In addition, 92,500 stock options with a weighted average exercise price of \$0.96 expired and 77,500 stock options with an exercise price of \$0.23 were exercised.

During 2010, the Company granted 1,040,000 stock options at an exercise price ranging between \$0.30 and \$0.43. In addition, 950,000 stock options with a weighted average exercise price of \$0.57 expired and 90,000 stock options with an exercise price of \$0.23 were exercised.

The following options were outstanding as of December 31, 2010:

| Expiry Date       | Exercise Price | Number of Options |
|-------------------|----------------|-------------------|
| August 28, 2011   | \$0.23         | 7,500             |
| October 5, 2012   | \$0.23         | 780,000           |
| December 20, 2012 | \$0.23         | 25,000            |
| February 21, 2013 | \$0.23         | 30,000            |
| June 24, 2013     | \$0.23         | 100,000           |
| November 7, 2013  | \$0.23         | 400,000           |
| May 26, 2014      | \$0.42         | 15,000            |
| November 25, 2014 | \$0.40         | 900,000           |
| April 12, 2015    | \$0.34         | 30,000            |
| June 3, 2015      | \$0.30         | 100,000           |
| December 1, 2015  | \$0.43         | 910,000           |
|                   |                | 3,297,500         |

# Pitchstone Exploration Ltd.

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## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 7. Share Capital – Continued

#### Stock Options – Continued

The following table summarizes the stock option activity for the years ended December 31, 2010 and 2009:

|                                    | December 31, 2010 |                                 |   |  | December 31, 2009 |                                 |   |  |
|------------------------------------|-------------------|---------------------------------|---|--|-------------------|---------------------------------|---|--|
|                                    | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Weighted Average Grant Date Fair Value | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Weighted Average Grant Date Fair Value |
| Outstanding, beginning of the year | 3,297,500         | \$0.38                          | 2.90  | \$ 0.47                                | 2,552,500         | \$1.27                          | 1.67  | \$ 0.58                                |
| Granted                            | 1,040,000         | 0.41                            | 2.65  | 0.29                                   | 915,000           | 0.40                            | 4.89  | 0.42                                   |
| Exercised                          | (90,000)          | 0.65                            | -   | 0.64                                   | (77,500)          | 0.23                            | 2.73  | 0.36                                   |
| Cancelled                          | -                 | -                               | -   | -                                      | -                 | -                               | -   | -                                      |
| Expired                            | (950,000)         | 0.57                            | -   | 0.75                                   | (92,500)          | 0.96                            | 3.56  | 1.10                                   |
| Outstanding, end of the year       | 3,297,500         | \$ 0.38                         | 2.65  | \$ 0.29                                | 3,297,500         | \$0.38                          | 2.90  | \$ 0.47                                |

#### Warrants

As a result of the July 3, 2009 common share financing (see Note 7 b), the Company has 1,525,000 warrants outstanding with each warrant exercisable into a common share for a period of two years at an exercise price of \$0.80 until July 3, 2011. There were no warrants exercised during 2010.

The Company issued 163,000 finder's warrants in connection with the November 23, 2010 flow-through financing (see note 7c). The warrants will be exercisable at \$0.50 for a period of one year. At December 31, 2010, the Company had 1,688,000 warrants outstanding with a weighted average exercise price of \$0.77.

#### Stock-based Compensation

The Company recognizes compensation expense for all stock options granted using the fair value method of accounting. Stock-based compensation expense for options vested during 2010 was \$286,548 (2009: \$323,509).

The following assumptions were used in the Black-Scholes weighted average calculation of the value of stock options granted:

|                                 | 2010           | 2009           |
|---------------------------------|----------------|----------------|
| Risk-free interest              | 1.33 - 2.90%   | 1.69 - 2.47%   |
| Expected dividend yield         | -              | -              |
| Expected stock price volatility | 106.5 – 106.9% | 106.5 – 106.9% |
| Expected option life in years   | 1- 4           | 1- 4           |

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.

# Pitchstone Exploration Ltd.

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## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

### 8. Segmented Financial Information

The Company operates in one industry segment, that being the acquisition and exploration of mineral properties. Geographic distribution of mineral property and capital assets is as follows:

|              | December 31, 2010    |           | December 31, 2009 |
|--------------|----------------------|-----------|-------------------|
| Canada       | \$ 18,423,846        | \$        | 22,109,244        |
| Africa       | 1,636,723            |           | 1,182,595         |
| Total assets | <u>\$ 20,060,569</u> | <u>\$</u> | <u>23,291,839</u> |

### 9. Income Taxes

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

|  | 2010                | 2009                |
|--|---------------------|---------------------|
| Net loss before taxes                                      | \$ (2,965,279)      | \$ (2,817,691)      |
| Expected income tax recovery (expense)                     | 845,105             | 845,307             |
| Net adjustment for non-deductible or taxable amounts       | (649,727)           | (766,017)           |
| Recovery of FIT recorded as flow-through share issue costs | 163,564             | 375,150             |
| Net change in valuation allowance                          | (195,378)           | (79,290)            |
| Decrease in FIT liability                                  | 997,177             | 877,548             |
| Future income tax recovery (expense)                       | <u>\$ 1,160,741</u> | <u>\$ 1,252,698</u> |

The Company's future income tax liabilities are as follows:

|                                    | 2010                | 2009                  |
|------------------------------------|---------------------|-----------------------|
| Non-capital loss carry forwards    | \$ 2,692,645        | \$ 2,007,109          |
| Deferred mineral property expenses | (6,221,227)         | (9,614,286)           |
| Equipment                          | 85,410              | 74,340                |
| Share issue costs                  | 176,498             | 277,458               |
|                                    | <u>(3,266,674)</u>  | <u>(7,255,379)</u>    |
| Expected statutory rates           | 25%                 | 25%                   |
| Future income tax liabilities      | <u>\$ (816,667)</u> | <u>\$ (1,813,844)</u> |

The Company's non-capital loss carry forwards are as follows:

| Year of Origin | Year of Expiry | Amount              |
|----------------|----------------|---------------------|
| 2007           | 2027           | \$ 547,650          |
| 2008           | 2028           | 1,195,157           |
| 2009           | 2029           | 264,302             |
| 2010           | 2030           | 685,536             |
|                |                | <u>\$ 2,692,645</u> |

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 10. Financial instruments

The fair values of the Company's cash and cash equivalents, short-term investments and accounts receivable, prepaid expenses and deposits, accounts payables and accrued liabilities, and due to related parties/joint venture parties approximate their carrying values.

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, and interest risk.

#### (a) Currency risk

The Company's property interests in Africa make it subject to foreign currency fluctuations and inflationary pressures which may adversely affect the Company's financial position, results of operations and cash flows. The Company is affected by changes in exchange rates between the Canadian Dollar and foreign currencies. The Company does not invest in foreign currency contracts to mitigate the risks. For every \$0.01 change in the exchange rate between the Canadian dollar and the South African Rand, based on the Company's estimated expenditures for 2010 in Namibia, the Company's costs would change by approximately \$4,000.

#### (b) Credit risk

The Company's cash and short-term investments are held in large Canadian financial institutions. Short-term investments are composed of financial instruments issued by Canadian banks. These investments mature at various dates over the current operating period. The Company does not have any asset-backed commercial paper in its short-term investments. The Company's accounts receivable consists primarily of goods and services tax/harmonized sales tax due from the federal government of Canada.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

#### (d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the term deposits is limited because these investments, although available for sale, are withdrawn with interest as needed. For every 1% change in the interest rate on the Company's short term investments, the Company's net loss would change by approximately \$25,000 over a full year.

CICA Handbook Section 3862 "Financial Instruments – Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independence, objective evidence surrounding the inputs used to measure fair value. A financial statement's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

- a) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

# Pitchstone Exploration Ltd.

(An Exploration Stage Company)

## Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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### 10. Financial instruments – *Continued*

- b) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- c) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, GST receivable, accounts payable and accrued liabilities, and due to related parties. Pursuant to CICA Handbook 3862, fair value of assets and liabilities measured on a recurring basis include cash, which is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

### 11. Management of capital risk

The Company manages its cash and cash equivalents, common shares, stock options and warrants as capital (see Note 7). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares an annual expenditure budget that is updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget is approved by the Board of Directors.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with maturities 365 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources to be sufficient to carry its exploration plans and operations through 2011.

### 12. Commitments

The Company has a lease commitment for its offices in Vancouver, British Columbia, for approximately \$2,500 monthly rent from May 1, 2010 until April 30, 2013.

At December 31, 2010, the Company is committed to incur \$1,630,000 (2009 - \$606,942) in eligible exploration expenditures prior to December 31, 2011 in order to complete obligations entered into pursuant to flow-through share purchase agreements.

### 13. Subsequent Events

In April 2011, the Company earned an initial 49% interest in the Johnston Lake property from Denison upon completion of \$1 million of exploration expenditures on the property. The Company also gave Denison notice that it intends to proceed with the second stage earn-in of a further 26% interest by spending an additional \$1 million before February 28, 2014.