

PITCHSTONE
EXPLORATION LTD.

An Exploration Stage Company

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the 3rd Quarter Ended September 30, 2011

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

ASSETS	Note	September 30, 2011		December 31, 2010
				(Note 13)
Non-current assets				
Exploration and evaluation assets	4	\$	7,159,497	\$ 6,201,299
Investments in associates	5		7,809,374	10,037,410
Property, plant and equipment	6		35,683	41,094
			15,004,554	16,279,803
Current assets				
Accounts receivable			77,721	77,056
Prepaid expenses			10,178	19,037
Restricted Cash			184,306	34,218
Cash and cash equivalents			1,969,747	3,637,566
			2,241,952	3,767,877
TOTAL ASSETS		\$	17,246,506	\$ 20,047,680
EQUITY				
Share capital	8	\$	22,003,906	\$ 21,438,196
Reserves	8		4,599,842	4,337,119
Deficit			(9,573,458)	(5,867,582)
			17,030,290	19,907,734
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$	27,430	\$ 93,028
Balance payable to related parties			4,480	12,700
Funds held for JV partners and optionees			184,306	34,218
			216,216	139,946
TOTAL EQUITY AND LIABILITIES		\$	17,246,506	\$ 20,047,680
Nature and Continuance of Operations	1			
Commitments	12			
Subsequent Event	14			

These consolidated financial statements are authorized for issue by the Board of Directors on November 25, 2011.

"Edward A.G. Trueman" , Director

"Paul Geyer" , Director

- See Accompanying Notes -

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2011	2010 (Note 13)	2011	2010 (Note 13)
Revenues					
Overhead recoveries		\$ -	\$ 44,161	\$ -	\$ 141,268
Interest income		6,119	10,844	23,291	32,451
Equipment rental revenue		2,563	-	2,563	2,088
		8,682	55,005	25,854	175,807
Expenses					
Accounting and audit		14,194	15,000	46,509	45,000
Administration expenses		12,682	12,290	40,168	40,865
Depreciation		3,029	1,777	9,088	7,345
Directors' fees	7	-	-	7,200	11,600
Filing and transfer agent fees		1,625	1,330	15,771	13,549
Insurance		9,992	9,986	26,056	24,855
Investor relations		2,975	3,478	18,717	21,799
Legal fees		9,807	5,311	22,891	11,062
Management fees		4,200	-	4,200	-
Mineral property write-down		562,587	-	562,587	-
Overhead recoveries adjustment		79,398	-	61,385	-
Salaries and wages		94,912	108,397	336,764	302,756
Share-based payments	8	36,150	38,452	112,774	55,071
Travel		4,560	3,685	18,812	10,777
		836,111	199,706	1,282,922	544,679
Loss before income taxes and other items		(827,429)	(144,701)	(1,257,068)	(368,872)
Gain on equity investments		111,988	2,847	85,023	2,847
Property write-downs in investments in associates		(2,533,831)	-	(2,533,831)	-
Income tax expenses		-	-	-	-
Net loss and comprehensive loss		\$ (3,249,272)	\$ (141,855)	\$ (3,705,876)	\$ (366,026)
Basic & fully diluted net loss per share		(\$0.08)	(\$0.00)	(\$0.09)	(\$0.01)
Weighted average number of shares outstanding		41,107,038	36,501,185	41,107,038	36,501,185
- Fully diluted		41,107,038	36,727,588	41,436,102	36,902,190

- See Accompanying Notes -

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Statement 3

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited - Expressed in Canadian Dollars)

	Note	Share Capital		Reserves				Total
		Number of Shares	Amount	Equity settled employee benefits	Warrants	Agent's warrants	Deficit	
Balance, January 1, 2010 (Note 13)		36,501,185	\$ 19,819,295	\$ 3,669,094	\$ 284,872	\$ -	\$ (4,908,293)	\$ 18,864,968
Share-based payments		-	-	21,254	-	-	-	21,254
Net loss and comprehensive loss for the period		-	-	-	-	-	(260,445)	(260,445)
Balance, September 30, 2010 (Note 13)		36,501,185	\$ 19,819,295	\$ 3,690,348	\$ 284,872	\$ -	\$ (5,168,738)	\$ 18,625,777
Share issue costs	8	-	(70,750)	-	-	-	-	(70,750)
Private placement - flow-through shares	8	3,260,000	1,630,000	-	-	-	-	1,630,000
Exercise of options	8	90,000	20,700	-	-	-	-	20,700
Fair value of options exercised	8	-	59,558	(59,558)	-	-	-	-
Fair Value of finder's warrants	8	-	(20,607)	-	-	20,607	-	-
Share-based payments		-	-	400,851	-	-	-	400,851
Net loss and comprehensive loss for nine months		-	-	-	-	-	(698,844)	(698,844)
Balance, December 31, 2010 (Note 13)		39,851,185	21,438,196	4,031,641	284,872	20,607	(5,867,582)	19,907,734
Share-based payments		-	-	112,774	-	-	-	112,774
Share issue costs	8	-	(34,322)	-	-	-	-	(34,322)
Private placement - common shares	8	5,357,000	614,197	-	135,783	-	-	749,980
Fair value of finder's warrants	8	-	(14,165)	-	-	14,165	-	-
Net loss and comprehensive loss for the period		-	-	-	-	-	(3,705,876)	(3,705,876)
Balance, September 30, 2011		45,208,185	\$ 22,003,906	\$ 4,144,415	\$ 420,655	\$ 34,772	\$ (9,573,458)	\$ 17,030,290

- See Accompanying Notes -

Pitchstone Exploration Ltd.

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Statement 4

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(Note 13)			
Operating Activities				
Net loss	\$ (3,249,272)	\$ (141,855)	\$ (3,705,876)	\$ (366,026)
Items not affected by cash				
Depreciation	3,029	1,777	9,088	7,345
Mineral property write-downs	562,587	-	562,587	-
Mineral property write-downs in associates	2,533,831	-	2,533,831	-
Share-based payments	36,150	38,452	112,774	55,071
Gain (loss) on equity investments	111,988	(2,847)	85,023	(2,847)
	<u>(1,687)</u>	<u>(104,472)</u>	<u>(402,573)</u>	<u>(306,457)</u>
Changes in non-cash working capital items				
Accounts receivable	(35,377)	(19,911)	(665)	(22,892)
Prepaid expenses	5,329	5,725	8,859	9,653
Accounts payable and accrued liabilities	(28,523)	181,967	(89,558)	(32,613)
Due to/from related parties	(13,920)	(9,250)	(8,220)	350
Funds held for JV partners/options	165,755	(32,379)	150,088	(123,149)
	<u>91,577</u>	<u>21,680</u>	<u>(342,069)</u>	<u>(475,108)</u>
Investing Activities				
Exploration and evaluation of assets	(448,660)	(1,155,964)	(1,496,825)	(2,563,241)
Investment in associates	(133,089)	-	(390,818)	-
Purchase of property, plant and equipment	-	-	(3,677)	(4,475)
	<u>(581,749)</u>	<u>(1,155,964)</u>	<u>(1,891,320)</u>	<u>(2,567,716)</u>
Financing Activities				
Options proceeds received	-	17,825	-	-
Cash received for shares issued	749,980	69,750	749,980	-
Share issue costs	(34,322)	(12,020)	(34,322)	-
	<u>715,658</u>	<u>75,555</u>	<u>715,658</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	225,486	(1,140,229)	(1,517,731)	(3,048,770)
Cash and Cash Equivalents – Beginning of the period	1,928,567	3,728,779	3,671,784	5,637,320
Cash and Cash Equivalents – End of the period	\$ 2,154,053	\$ 2,588,550	\$ 2,154,053	\$ 2,588,550
Cash and Cash Equivalents comprised of:				
Cash	\$ 869,747	\$ 30,553	\$ 869,747	\$ 30,553
Guaranteed Investment Certificates	1,100,000	2,500,000	1,100,000	2,500,000
	<u>\$ 1,969,747</u>	<u>\$ 2,530,553</u>	<u>\$ 1,969,747</u>	<u>\$ 2,530,553</u>
Restricted Cash	\$ 184,306	\$ 63,942	\$ 184,306	\$ 63,942
Supplementary Information				
Interest income - cash received	\$ 8,828	\$ 32,641	\$ 21,304	\$ 32,641

- See Accompanying Notes -

Pitchstone Exploration Ltd.

(An Exploration Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited – Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

The Company was incorporated under the British Columbia Business Corporations Act on April 24, 2003. The address of the Company's registered office is 315 – 1100 Melville Street, Vancouver, BC, V6E 4A6. 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern, 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 continuation of the Company as a going concern is dependent on its ability to obtain necessary financing, to complete its property under development, general positive cash flows, and ultimately the achievement of profitable operations.

2. Basis of Preparation

(a) Statement of Compliance and Conversion to International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS has replaced Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011.

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's third set of consolidated interim financial statements presented in accordance with IFRS. The Company's consolidated financial statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 13 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, loss and comprehensive loss along with line-by-line reconciliations of the statements of financial position as at December 31, 2010 and January 1, 2010 and the statement of comprehensive loss for the year ended December 31, 2010.

(b) Basis of preparation

These condensed consolidated financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of these condensed consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, *First-Time Adoption of International Financial Reporting Standards* (IFRS 1). The impact of the transition from Canadian GAAP to IFRS is explained in Note 13.

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2. Basis of Preparation– *Continued*

(c) *Functional currency*

The presentation currency of the Company and the functional currency of the Company and each of its subsidiaries is the Canadian dollar.

(d) *Significant accounting judgments and estimates*

The preparation of these condensed consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. The condensed consolidated financial statements include judgements and estimates which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the condensed consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other judgements and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities. Actual results could differ from assumptions made and may be related to, but are not limited to, the following.

Critical Judgments

- An assessment that the Company has significant influence over its joint venture investments (Note 5), which results in the use of the equity accounting method for accounting for these investments. In making their judgement, management considered the participating interests in the equity investments in Uranium One Inc. (“Uranium One”), Canterra Minerals Corporation (“Canterra”, formerly Triex Minerals Corporation), JCU (Canada) Exploration Company, Limited (“JCU”), and Manica Mineral Ltd. (“Manica”). The directors and management of the Company concluded that significant influence exists.
- An analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the Company and its joint ventures, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. The Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

The following is a list of the estimates made in these financial statements:

- The recoverability of accounts receivables and prepayments.
- The carrying value of the investment, the estimated annual gains or losses recorded on the investment from income and dilution, and the recoverability of the carrying value.
- The estimated useful lives of property, plant and equipment and the related depreciation.
- The estimated value of the exploration and development costs.
- The inputs used in accounting for share purchase option expense.
- The provision for income taxes and composition of deferred income tax assets and liabilities.
- The inputs used in determining the net present value of the liability for asset retirement obligation.
- The inputs used in determining the various commitments and contingencies accrued.
- The indications of impairment of each mineral property and the related net realizable value and write-down of those properties.

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Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited – Expressed in Canadian Dollars)

3. Significant accounting policies

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Pitchstone Exploration Namibia (Pty) Ltd., and its participating interest in its joint ventures as follows:

	Participating Interest	
	The Company	The Joint Venture Partners
UOI (Darby, Lynx Lake, Moon Lake, Waterfound)	56.60%	43.40%
Canterra (Mountain Lake, Dismal Lake, & Kendall)	50.00%	50.00%
JCU (Candle)	42.50%	25.00%
UOI (Candle)	42.50%	32.50%
Manica (Dome & Kaoko)	71.00%	29.00%
JOGMEC (Marten & Wolverine)	50.00%	50.00%

The Company accounts for its joint venture participating interests above using the equity method. Under this method, the Company's share of the investee's earnings or losses is included in operations and its investments therein are adjusted by a like amount. Dividends received from these investments are credited to the investment.

Inter-company balances and transactions, including unrealised income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions.

(c) Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- Fair value through profit or loss comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment individually.

Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement.

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Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited – Expressed in Canadian Dollars)

3. Significant accounting policies– *Continued*

Available-for-sale assets are non-derivative financial assets not included in the above categories. They are carried at fair value with changes in fair value recognized directly in equity.

Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

- Fair value through profit or loss category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.
- Other financial liabilities category includes promissory notes, amounts due to related parties, accounts payables and accrued liabilities, all of which are recognized at amortized cost.

(d) *Cash, cash equivalents and short-term investments*

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) *Property, plant and equipment*

Property, plant and equipment are stated at cost and are depreciated annually on a declining-balance basis at the following rates:

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

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

(f) *Exploration and evaluation*

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all proceeds received for farm-out arrangements or recovery of costs against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production may commence, these costs will be charged to operations on a unit-of-production method based on Proven and Probable Mineral Reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable

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Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited – Expressed in Canadian Dollars)

3. Significant accounting policies— *Continued*

amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable Mineral Reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Upon transfer of “Exploration and evaluation costs” into “Mine Development”, all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within “Mine Development”. After production starts, all assets included in “Mine Development” are transferred to “Producing Mines”.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they are charged to the results of operations. Exploration areas where Mineral Reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of Mineral Reserves exist or to ensure that additional exploration work is underway as planned.

(g) *Share-based payments*

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. The board of directors grants such options for periods of up to five years, with vesting periods determined at the sole discretion of the board and at prices reflecting the share price on the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

(h) *Loss per share*

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(i) *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

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(Unaudited – Expressed in Canadian Dollars)

3. Significant accounting policies— *Continued*

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.

(j) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purpose of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(k) Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(l) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognized:

- Interest income is recognized as interest accrues (using the effective interest rate that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(m) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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Notes to Condensed Consolidated Interim Financial Statements

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3. Significant accounting policies— *Continued*

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill is not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is created.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(n) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2011 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IAS 24, Related Party Disclosure: effective for accounting periods commencing on or after January 1, 2011;
- IFRS 9, Financial Instruments: effective for accounting periods commencing on or after January 1, 2013; and
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments: effective for accounting periods commencing on or after July 1, 2010.

Pitchstone Exploration Ltd.

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4. Exploration and Evaluation Assets

	Athabasca Basin Properties, Saskatchewan 100% Owned Properties (Note 4a)	Athabasca Basin Properties, Saskatchewan Denison Option (Note 4b)	Total
Balance at December 31, 2009	\$ 4,109,074	\$ 57,494	\$ 4,166,568
Aircraft charter	55,312	105,913	161,225
Camp and general	238,464	97,409	335,873
Drilling	878,439	356,045	1,234,484
Geological/Geochemical	96,274	32,133	128,407
Geophysical	63	2,550	2,613
Mineral claims expenses	1,599	560	2,159
Overhead	-	62,572	62,572
Sampling and analysis	59,690	20,618	80,308
Travel	20,496	6,594	27,090
Total expenditures for the year	1,350,337	684,394	2,034,731
Balance at December 31, 2010	\$ 5,459,411	\$ 741,888	\$ 6,201,299
Aircraft charter	64,004	(1,715)	62,289
Camp and general	185,363	105,936	291,299
Drilling	645,014	322,507	967,521
Geological/Geochemical	62,976	27,452	90,428
Mineral claims expenses	40,446	6,829	47,275
Sampling and analysis	18,498	22,850	41,348
Travel	13,138	7,487	20,625
Total expenditures for the period	1,029,439	491,346	1,520,785
Mineral property write-downs	(562,587)	-	(562,587)
Balance at September 30, 2011	\$ 5,926,263	\$ 1,233,234	\$ 7,159,497

Pitchstone Exploration Ltd.

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4. Exploration and Evaluation Assets – Continued

Cumulative summary as at September 30, 2011:

Cumulative totals as of September 30, 2011:	Athabasca Basin Properties, Saskatchewan 100% Owned Properties (Note 4a)	Athabasca Basin Properties, Saskatchewan Denison Option (Note 4b)	Total
Aircraft charter	577,422	105,819	683,241
Camp and general	1,044,760	209,360	1,254,120
Drilling	3,360,371	678,550	4,038,921
Geological	365,183	75,672	440,855
Geochemical	11,124	-	11,124
Geophysical	846,799	2,550	849,349
Linecutting and chaining	117,235	-	117,235
Mineral claims expenses	164,714	7,416	172,130
Overhead	-	62,572	62,572
Sampling and analysis	172,047	75,865	247,912
Travel	77,546	15,430	92,976
Community relations	619	-	619
Recovery from partners	(200,000)	-	(200,000)
Government assistance	(48,970)	-	(48,970)
Total expenditures for the period	6,488,850	1,233,234	7,722,084
Mineral property write-downs	(562,587)	-	(562,587)
Balance at September 30, 2011	\$ 5,926,263	\$ 1,233,234	\$ 7,159,497

a. Athabasca Basin Properties, Saskatchewan - 100% Owned Properties

As of September 30, 2011 and December 31, 2010, the Company had spent a total of \$6,488,850 and \$5,459,412, respectively, on exploration on its 100% owned properties. These totals 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. In the third quarter of 2011, the Company wrote-down some property values totalling \$562,587.

Athabasca Basin Properties, Saskatchewan - 100% Owned properties

	September 30, 2011	December 31, 2010
Black Bear	\$ 19,101	\$ -
Fireweed	812,206	812,206
Gumboot	5,400,703	4,421,573
Fisher	156,359	146,225
Packrat	12,790	-
Marten	43,988	35,705
Wolverine	43,703	43,703
	6,488,850	5,459,412
Mineral property write-downs	(562,587)	-
	\$ 5,926,263	\$ 5,459,412

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4. Exploration and Evaluation Assets – *Continued*

a. Athabasca Basin Properties, Saskatchewan - 100% Owned Properties – *Continued*

Fireweed Property

The Fireweed property (10,921 hectares) is located 52 kilometers southwest of Points North and was acquired in October 2004 by way of staking.

Gumboot Property

The Gumboot property (4,196 hectares) is located 44 kilometers west of Points North and was acquired in November 2004 by way of staking.

Fisher Property

In November 2005, the Company acquired the 1,969 hectare Fisher property by way of staking. Fisher is located 34 kilometers northwest of Points North. Fisher originally consisted of two claims, but one was allowed to lapse in the first quarter.

Packrat Property

In June 2011, the Company acquired the 1,621 hectare Packrat property by way of staking. Packrat is located 27 kilometers due east of Cigar Lake mine.

Black Bear Property

In September 2011, the Company acquired the 2,002 hectare Black Bear property by way of staking. Black Bear is located 18 kilometers south of the Cigar Lake uranium mine and 33 kilometers northeast of the McArthur River uranium mine.

b. 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. At that time Johnston Lake comprised 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. In June, 2011, the Company staked a fifth claim (1,994 hectares), which is contiguous to the west with both the Gumboot and Johnston Lake properties. In November 2011, a sixth claim (approximately 2,700 hectares) was staked contiguous to the west with Johnston Lake. The Johnston Lake property now has an area of approximately 20,360 hectares.

Terms of the Letter Agreement provided 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 (completed). In addition, the Company has 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 September 30, 2011 and December 31, 2010, the Company spent a total of \$1,233,234 and \$741,888, respectively, on the Johnston Lake property.

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

In June 2007, the Company acquired the Marten (2,768 hectares) and Wolverine (3,632 hectares) properties in the Athabasca Basin, Saskatchewan by way of staking. Marten is located 44 kilometers south of Points North. Wolverine is located 61 kilometers southwest of Points North.

On March 11, 2009, the 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.

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4. Exploration and Evaluation Assets – *Continued*

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

In June, 2011, the Company staked another claim (2,240 hectares), which adjoins the Marten property and has been included under the terms of the option agreement with JOGMEC.

As of September 30, 2011, the expenditures made by JOGMEC were \$1,829,756 (\$623,224 on Marten and \$1,206,531 on Wolverine); therefore JOGMEC has now earned a 50% interest in the properties. A 50/50 joint venture has been formed.

5. Investments in Associates

	Athabasca Basin Properties, Saskatchewan Uranium One Joint Venture (Note 5a)	Hornby Bay Basin Properties, Nunavut Canterra Joint Venture (Note 5b)	Namibia Properties, Africa Manica Joint Venture (Note 5c)	Total
Balance at December 31, 2009	\$ 4,717,333	\$ 3,501,873	\$ 1,182,595	\$ 9,401,801
Aircraft charter	41,321	-	-	41,321
Camp and general	39,228	-	-	39,228
Drilling	102,396	-	84,083	186,479
Geological/Geochemical	12,366	-	298,354	310,720
Geophysical	2,750	-	59,208	61,958
Mineral claims expenses	1,845	-	-	1,845
Sampling and analysis	14,910	-	3,857	18,767
Travel	2,686	-	8,626	11,312
Community relations	19	-	-	19
Recovery from partners	(36,040)	-	-	(36,040)
Total expenditures for the year	181,481	-	454,128	635,609
Balance at December 31, 2010	\$ 4,898,814	\$ 3,501,873	\$ 1,636,723	\$ 10,037,410
Aircraft charter	10,349	-	-	10,349
Camp and general	21,946	-	43	21,989
Drilling	33,117	-	26,949	60,066
Geological/Geochemical	6,553	-	124,010	130,563
Geophysical	90,934	-	-	90,934
Mineral claims expenses	1,476	-	-	1,476
Sampling and analysis	1,708	-	-	1,708
Travel	1,230	-	4,475	5,705
Community relations	13	-	-	13
Recovery from partners	(17,007)	-	-	(17,007)
Total expenditures for the period	150,319	-	155,477	305,796
Mineral property write-downs	(1,417,841)	(1,006,082)	(109,909)	(2,533,832)
Balance at September 30, 2011	\$ 3,631,292	\$ 2,495,791	\$ 1,682,291	\$ 7,809,374

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5. Investments in Associates – Continued

Cumulative totals as of September 30, 2011:	Athabasca Basin Properties, Saskatchewan Uranium One Joint Venture (Note 5a)	Hornby Bay Basin Properties, Nunavut Canterra Joint Venture (Note 5b)	Namibia Properties, Africa Manica Joint Venture (Note 5c)	Total
Aircraft charter	717,483	-	-	717,483
Camp and general	1,276,209	160,226	721	1,437,156
Drilling	2,742,367	2,972,848	341,885	6,057,100
Geological	423,746	382,191	1,150,211	1,956,148
Geochemical	6,414	-	58,280	64,694
Geophysical	249,901	482,838	185,879	918,618
Linecutting and chaining	89,908	-	-	89,908
Mineral claims expenses	3,732	276,491	153,095	433,318
Overhead	-	395,299	-	395,299
Sampling and analysis	141,472	436,412	27,948	605,832
Travel	71,898	11,765	58,213	141,876
Community relations	1,107	5,996	-	7,103
Recovery from partners	(643,620)	-	-	(643,620)
Government assistance	(31,484)	-	-	(31,484)
Deemed value in joint venture	4,000,000	-	-	4,000,000
Total expenditures before write-downs	9,049,133	5,124,066	1,976,232	16,149,431
Deemed value in joint venture	(1,850,000)	-	-	(1,850,000)
Mineral property write-downs	(3,567,841)	(2,628,275)	(293,941)	(6,490,057)
Balance at September 30, 2011	\$ 3,631,292	\$ 2,495,791	\$ 1,682,291	\$ 7,809,374

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 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 the exploration programs in early 2009, Uranium One's participating interest has been further diluted. On December 10, 2010 the contiguous Weasel property, comprised of one claim, was added to the Uranium One Joint Venture property. Weasel, had been 100% owned by Pitchstone since it was staked by Pitchstone in April, 2009. As of September 30, 2011, the participating interests in the Darby, Waterfound, Moon Lake, Weasel and Lynx Lake properties for the Company and Uranium One are 56.6% and 43.4%, respectively. Participating interests in the Candle property for the Company, Uranium One, and JCU are 42.5%, 32.5%, and 25%, respectively.

Darby Property

The Darby property (16,721 hectares) is located 43 kilometers southwest of Points North 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.

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5. Investments in Associates – *Continued*

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

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 42.5%, 32.5%, and 25%, respectively.

Waterfound Property

The Waterfound property (4,124 hectares) is located 35 kilometers northwest of Points North. 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.

As of September 30, 2011 and December 31, 2010, the Company's equity interests in this joint venture totalled \$5,049,133 and \$4,898,814, respectively. In the third quarter of 2011, the Company wrote-down some property values totalling \$1,417,841.

Athabasca Basin Properties, Saskatchewan - Uranium One Joint Venture

	September 30, 2011	December 31, 2010
Darby Property	2,788,712	2,693,241
Waterfound Property	327,518	323,562
Lynx Lake Property	46,117	41,100
Moon Lake Property	329,396	325,409
Candle Property	1,588,874	1,546,986
Unallocated assistance received	(31,484)	(31,484)
	5,049,133	4,898,814
Mineral property write-downs	(1,417,841)	-
	\$ 3,631,292	\$ 4,898,814

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5. Investments in Associates – Continued

b. 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. As of September 30, 2011 and December 31, 2010, the Company’s equity interest in this joint venture totalled \$2,495,791 and \$3,501,873, respectively after some property write-downs, on the joint venture.

Hornby Bay Basin Properties, Nunavut - Canterra Joint Venture

	September 30, 2011	December 31, 2010
Mountain Lake Property	\$ 2,005,841	\$ 2,005,841
Mountain Lake – URE	675,672	675,672
Dismal Lake - Patrician	510,150	510,150
Dismal Lake - URE	853,823	853,823
Kendall River Property	574,593	574,593
	<u>4,620,079</u>	<u>4,620,079</u>
Mineral property write-downs	<u>(2,124,288)</u>	<u>(1,118,206)</u>
	<u>\$ 2,495,791</u>	<u>\$ 3,501,873</u>

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 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 \$300,000 of mineral property costs on the Kendall River property.

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5. Investments in Associates – *Continued*

c. 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.

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. On September 24, 2008, the Company and Manica signed an amendment to the Letter Agreement dated January 18, 2007 to extend the Initial Option Date by one year to November 9, 2009. 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 are currently 71% for the Company and 29% for Manica.

In April 2011, the Company established a Namibian subsidiary. The private company is called Pitchstone Exploration Namibia (Pty) Ltd. and is 100% owned by Pitchstone Exploration Ltd. In June 2011, an application was made to the Ministry of Mines and Energy to transfer the title of the Dome licences from Manica to the Namibia subsidiary.

As of September 30, 2011 and December 31, 2010, the Company's equity interest in this joint venture totalled \$1,976,232 and \$1,636,723, respectively. In the third quarter of 2011, the Company wrote-down \$109,909 on the Kaoko property.

On September 29, 2011, the Company entered into an agreement to option an interest in its share of the Dome property to Rio Tinto Mining and Exploration Limited (Rio Tinto). The agreement allows Rio Tinto to earn an interest in bedrock uranium at Dome as follows:

- an initial 49% interest by making exploration expenditures of US\$5 million.
- an additional 15% interest (total 64%) by spending an additional US\$5 million (total US\$10 million) in exploration expenditures,
- an additional 11% interest (total 75%) by funding a Bankable Feasibility Study.

Rio Tinto will not acquire any rights to surficial uranium deposits or deposits of other commodities. As with all new option and joint venture arrangements in Namibia, the agreement is subject to the approval of the Minister of Mines and Energy.

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6. Property, Plant and Equipment

Details are as follows:

	Exploration equipment	Office furniture	Computer equipment	Computer software	Total
Cost					
Balance as at January 1, 2010	\$ 60,697	\$ 7,487	\$ 18,475	\$ 52,712	\$ 139,371
Additions					
Assets acquired	14,475	-	-	-	14,475
Balance as at December 31, 2010	75,172	7,487	18,475	52,712	153,846
Additions					
Assets acquired	2,627	-	1,050	-	3,677
Balance as at June 30, 2011	\$ 77,799	\$ 7,487	\$ 19,525	\$ 52,712	\$ 157,523
Accumulated depreciation					
Balance as at January 1, 2010	\$ 34,326	\$ 3,828	\$ 13,258	\$ 52,712	\$ 104,124
Depreciation for the period	8,593	732	(697)	-	8,628
Balance as at December 31, 2010	42,919	4,560	12,561	52,712	112,752
Depreciation for the period	7,552	439	1,097	-	9,088
Balance as at September 30, 2011	\$ 50,471	\$ 4,999	\$ 13,658	\$ 52,712	\$ 121,840
Carrying amounts					
At January 1, 2010	\$ 26,372	\$ 3,658	\$ 7,659	\$ -	\$ 37,689
At December 31, 2010	\$ 32,253	\$ 2,927	\$ 5,914	\$ -	\$ 41,094
At September 30, 2011	\$ 27,328	\$ 2,488	\$ 5,868	\$ -	\$ 35,683

7. Related Party Transactions

As at September 30, 2011, the aggregate total value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence was \$88,034 (September 30, 2010: \$97,750).

As at September 30, 2011, \$4,480 (2010, \$5,600) was owed to Pacific Opportunity Capital Ltd. a company controlled by the Chief Financial Officer of the Company. During the nine months ended September 30, 2011, \$7,200 directors' fees were paid (September 30, 2010: \$11,600). Subsequently, fees would no longer be paid.

As at September 30, 2011, \$4,200 (2010, Nil) was paid to Trueman Consulting Ltd, a company owned by the Executive Chairman of the Company.

8. Share Capital and Reserves

At September 30, 2011, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

Common Shares

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.

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8. Share Capital and Reserves – *Continued*

On July 28, 2011, the Company closed a private placement to raise gross proceeds of \$749,980. 5,357,000 units at \$0.14 per unit have been issued with each unit consisting of a common share plus one-half of a non-transferable share purchase warrant. Each whole warrant enables the holder to purchase one additional common share at a price of \$0.25 for a period of eighteen months. A cash finder's fee of \$27,989 plus an aggregate of 199,990 finder's warrants have been issued in connection with the private placement. The finder's warrants will be exercisable at \$0.14 for a period of eighteen months. After the financing, the Company has 45,208,185 shares issued and outstanding.

Share Purchase Option Compensation Plan

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 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 September 30, 2011:

Expiry date	Exercise price	December 31, 2010	Granted	Exercised	Expired/ cancelled	September 30, 2011
October 5, 2012	\$0.23	780,000	-	-	-	780,000
December 20, 2012	\$0.23	25,000	-	-	-	25,000
February 21, 2013	\$0.23	30,000	-	-	-	30,000
June 24, 2013	\$0.23	100,000	-	-	-	100,000
November 7, 2013	\$0.23	400,000	-	-	-	400,000
May 26, 2014	\$0.42	15,000	-	-	-	15,000
November 25, 2014	\$0.40	900,000	-	-	-	900,000
April 12, 2015	\$0.34	30,000	-	-	-	30,000
June 3, 2015	\$0.30	100,000	-	-	-	100,000
December 1, 2015	\$0.43	910,000	-	-	-	910,000
Options outstanding and exercisable		3,290,000	-	-	-	3,290,000
Weighted average exercise price		\$ 0.38	\$ -	\$ -	\$ -	\$ 0.38

Subsequent to the quarter ended September 30, 2011, the Company granted 1,025,000 options at an exercise price of \$0.15. After the new grant, the Company has 4,315,000 options outstanding with an average exercise price of \$0.34.

Share-based payments

The Company recognizes share-based payment expense for all stock options granted using the fair value method of accounting. Share-based payment expense for options vested during the nine months ended September 30, 2011 is \$112,774 (2010: \$55,071).

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.

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8. Share Capital and Reserves – Continued

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

Grant date	Number of options	Weighted average grant date fair value	Risk free interest rate	Expected life (years)	Expected volatility	Expected dividends
10/7/2007	780,000	\$ 0.21	2.44%	5	106.90%	0%
12/22/2007	25,000	\$ 0.21	2.44%	5	106.90%	0%
2/23/2008	30,000	\$ 0.21	2.44%	5	106.90%	0%
6/25/2008	100,000	\$ 0.21	2.44%	5	106.90%	0%
11/8/2008	400,000	\$ 0.21	2.44%	5	106.90%	0%
5/27/2009	15,000	\$ 0.42	2.44%	5	106.90%	0%
11/26/2009	900,000	\$ 0.39	2.47%	5	106.45%	0%
4/13/2010	30,000	\$ 0.34	2.55%	5	103.10%	0%
6/4/2010	100,000	\$ 0.30	2.55%	5	103.10%	0%
12/2/2010	910,000	\$ 0.44	2.90%	5	102.24%	0%
Total	3,290,000					

Warrants

The summary of warrants for the period ended September 30, 2011 is as follows:

Expiry date	Exercise price	December 31, 2010	Granted	Exercised	Expired/ cancelled	September 30, 2011
November 23, 2011	\$0.50	163,000	-	-	-	163,000
January 27, 2013	\$0.25	-	2,678,500	-	-	2,678,500
January 27, 2013	\$0.14	-	199,990	-	-	199,990
Warrants outstanding and exercisable		163,000	2,878,490	-	-	3,041,490
Weighted average exercise price		\$ 0.77	\$ 0.20	\$ -	\$ -	\$ 0.30

The fair value of the warrants on November 23, 2011 was estimated at \$20,607 using the Black Scholes option pricing model based on the following weighted average assumptions: risk free interest rate of 2.55%; expected life of one year; dividend rate of 0%; and volatility of 102.24%. The fair value of the warrants on January 27, 2013 was estimated at \$149,947.90 using the Black Scholes option pricing model based on the following weighted average assumptions: risk free interest rate of 1.26%; expected life of one and a half years; dividend rate of 0%; and volatility of 110.46%.

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9. 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:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>
Canada	\$ 13,322,263	\$	14,643,080
Africa	1,682,291		1,636,723
Total capital assets	<u>\$ 15,004,554</u>	\$	<u>16,279,803</u>

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 functional 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 2011 in Namibia, the Company's costs would change by approximately \$2,500.

(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 short-term investments 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 revenue would change by approximately \$20,000 over a full year.

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10. Financial instruments— *Continued*

(e) Classification of Financial instruments

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments consist principally of cash, short term investments, HST receivable, accounts payable and accrued liabilities, and due to related parties. Fair value of assets and liabilities measured on a recurring basis include cash and short term investments 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. 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 and, acquire or dispose of assets.

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 short term maturities, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects its current capital resources will be sufficient to carry its exploration plans and operations through the current fiscal period and the following year.

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.

Also, the Company has committed to spend the total amount of \$1,630,000 under flow through share agreements by December 31, 2011. As of September 30, 2011, the commitment has been fulfilled.

13. Transition to International Financial Reporting Standards

As stated in Note 2, these are the Company's third set of condensed consolidated interim financial statements prepared in accordance with IFRS.

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13. Transition to International Financial Reporting Standards – *Continued*

The Company adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”). The first date at which IFRS was applied was January 1, 2010 (“Transition Date”). IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS.

IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements and that those policies comply with IFRSs in effect as at the end of the first IFRS annual reporting period. Accordingly, the opening IFRS statement of financial position, 2010 comparatives and current year financial statements have been prepared using the same policies. The previously presented 2010 Canadian GAAP financial information has been reconciled to the IFRS information as part of this transition note in accordance with the requirements of IFRS 1.

Further, the policies applied have been done so on a full retrospective basis unless an alternative treatment is permitted or required by an IFRS 1 election or exception. These are discussed below.

Elections upon first-time adoption of IFRS

The IFRS 1 exemptions applied by the Company in the conversion from Canadian GAAP to IFRS are as follows:

(i) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 (2008) *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 (2008) to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company’s statement of financial position as at the Transition Date.

Mandatory exceptions under IFRS

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

(ii) Estimates

In accordance with IFRS 1, an entity’s estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company’s IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRSs as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follows represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

(iii) Share-based payment transactions

IFRS 2 *Share-based Payment* has not been applied to equity instruments that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010.

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13. Transition to International Financial Reporting Standards – *Continued*

(iii) Share-based payment transactions - *Continued*

IFRS 2, similar to Canadian GAAP, requires the Company to measure share-based compensation related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, under IFRS 2, the recognition of such expense must be done with a “graded vesting” methodology as opposed to the straight-line vesting method allowed under Canadian GAAP. In addition, under IFRS, forfeitures estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods; while under Canadian GAAP, forfeitures of awards are recognized as they occur.

Under IFRS graded vesting methodology, during the nine months ended September 30, 2010, the Company would have recorded \$55,071 as share-based payment versus \$16,619 stock-based compensation under Canadian GAAP. As a result, \$38,452 would be adjusted in the share-based payment expense in the statement of operations and the same amount would be adjusted in the equity settled employee benefit reserve in the statement of equity.

During the year ended December 31, 2010, the Company would have recorded \$422,105 as share-based payment versus \$286,548 stock-based compensation under Canadian GAAP. As a result, \$135,557 would be adjusted in the share-based payment expense in the statement of operations and the same amount would be adjusted in the equity settled employee benefit reserve in the statement of equity.

(iv) Reclassification within equity section

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of warrants and equity-settled employee benefits. Upon adoption of IFRS, the balances in these accounts have been reclassified to “Reserves – Equity-settled employee benefits”, “Reserves – Broker’s Warrants”, and “Reserves – Warrants”.

(v) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146, *Flow-Through Shares*. At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders’ equity. Also under Canadian GAAP the Company recorded any deferred tax recovery eligible to be recognized to offset the deferred tax charge to equity as a tax recovery in the statement of operations. During fiscal 2010, the Company renounced qualifying expenditures and as a result recorded a charge to equity and corresponding income tax recovery in income in the amount of \$1,160,741.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is credited to other liabilities and recognized in income at the time the qualifying expenditures are made (there was no premium on the flow-through shares issued in 2010). The recognition of the future income tax liability upon renunciation of the flow through expenditures is recorded as income tax expense in the period of renunciation.

Consequently, the Company reversed all the deferred income tax liability, the charges directly to shareholders’ equity, along with the deferred tax recovery in the statement of comprehensive loss. As a result of these reversals, the Company had a “deferred income tax asset” on the statement of financial position as of the Transition Date. Since the Company has not had profits historically and does not expect to record any profits in the foreseeable future, the Company reversed the deferred income tax asset.

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13. Transition to International Financial Reporting Standards – Continued

(vi) Joint ventures

Under Canadian GAAP, the Company accounted for its joint venture interests using proportionate consolidation. Upon the adoption of IFRS, the Company accounts for such interests using the equity method and discloses all the joint venture interest in the account “Investments in associates”.

Reconciliation of Statements of Financial Position

	Notes	January 1, 2010			September 30, 2010			December 31, 2010		
		Cdn GAAP	Effect of transition to IFRS	IFRS	Cdn GAAP	Effect of transition to IFRS	IFRS	Cdn GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Non-current assets										
Exploration and evaluation assets	13 vi	\$ 17,568,369	\$ (13,401,801)	\$ 4,166,568	\$ 20,131,610	\$ (14,011,300)	\$ 6,120,310	\$ 16,238,709	\$ (10,037,410)	\$ 6,201,299
Investments in associates	13 vi	-	9,401,801	9,401,801	-	10,011,301	10,011,301	-	10,037,410	10,037,410
Property, plant and equipment		37,689	-	37,689	34,819	-	34,819	41,094	-	41,094
Total non-current assets		17,606,058	(4,000,000)	13,606,058	20,166,429	(3,999,999)	16,166,430	16,279,803	-	16,279,803
Current assets										
Prepaid expenses		20,590	-	20,590	10,937	-	10,937	19,037	-	19,037
Accounts receivable	13 vi	27,871	-	27,871	59,512	(5,762)	53,750	82,953	(5,897)	77,056
Restricted cash		178,342	-	178,342	63,942	-	63,942	34,218	-	34,218
Cash and cash equivalents	13 vi	5,458,978	(1,781)	5,457,197	2,530,553	(5,945)	2,524,608	3,644,558	(6,992)	3,637,566
Total current assets		5,685,781	(1,781)	5,684,000	2,664,944	(11,707)	2,653,237	3,780,766	(12,889)	3,767,877
TOTAL ASSETS		\$ 23,291,839	\$ (4,001,781)	\$ 19,290,058	\$ 22,831,373	\$ (4,011,706)	\$ 18,819,667	\$ 20,060,569	\$ (12,889)	\$ 20,047,680
EQUITY AND LIABILITIES										
Capital and reserves										
Share capital	13 iv	\$ 17,152,683	\$ 2,666,612	\$ 19,819,295	\$ 16,989,119	\$ 2,830,176	\$ 19,819,295	\$ 18,608,020	\$ 2,830,176	\$ 21,438,196
Reserve - Warrants	13 iii	-	284,872	284,872	-	284,872	284,872	-	284,872	284,872
Reserve- Equity settled employee benefits	13 iii	3,939,721	(270,627)	3,669,094	3,956,340	(232,175)	3,724,165	4,187,318	(155,677)	4,031,641
Reserve- Agents' warrants	13 iii	-	-	-	-	-	-	-	20,607	20,607
Accumulated deficit	13 iii, iv, v	(1,889,499)	(3,018,794)	(4,908,293)	(2,182,421)	(3,091,898)	(5,274,319)	(3,694,037)	(2,173,545)	(5,867,582)
Total equity		19,202,905	(337,937)	18,864,968	18,763,038	(209,025)	18,554,013	19,101,301	806,433	19,907,734
Future income tax liabilities	13 v	1,813,844	(1,813,844)	-	1,977,408	(1,977,408)	-	816,667	(816,667)	-
Deferred gain	13 vi	1,850,000	(1,850,000)	-	1,812,500	(1,812,500)	-	-	-	-
		3,663,844	(3,663,844)	-	3,789,908	(3,789,908)	-	816,667	(816,667)	-
Current liabilities										
Accounts payable and accrued liab	13 vi	241,498	-	241,498	208,885	(12,773)	196,112	95,683	(2,655)	93,028
Funds held for JV partners and optionees		178,342	-	178,342	63,942	-	63,942	34,218	-	34,218
Balance payable to related parties		5,250	-	5,250	5,600	-	5,600	12,700	-	12,700
		425,090	-	425,090	278,427	(12,773)	265,654	142,601	(2,655)	139,946
TOTAL EQUITY AND LIABILITIES		\$ 23,291,839	\$ (4,001,781)	\$ 19,290,058	\$ 22,831,373	\$ (4,011,706)	\$ 18,819,667	\$ 20,060,569	\$ (12,889)	\$ 20,047,680

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13. Transition to International Financial Reporting Standards – Continued

Reconciliation of Statements of Comprehensive Loss

	Notes	Nine months ended September 30, 2010			Year ended December 31, 2010		
		Cdn GAAP	Effect of transition to IFRS	IFRS	Cdn GAAP	Effect of transition to IFRS	IFRS
Revenues							
Overhead recoveries		\$ 141,268	\$ -	\$ 141,268	\$ 146,799	\$ -	\$ 146,799
Interest income	13 vi	32,641	(190)	32,451	39,873	(253)	39,620
Equipment rental revenue		2,088	-	2,088	2,088	-	2,088
Gain on contributed joint venture assets	13 vi	37,500	(37,500)	-	-	-	-
		213,497	(37,690)	175,807	188,760	(253)	188,507
Expenses							
Accounting and audit		45,000	-	45,000	83,000	-	83,000
Administration expenses	13 vi	41,057	(192)	40,865	58,628	(253)	58,375
Depreciation		7,345	-	7,345	11,070	-	11,070
Directors' fees		11,600	-	11,600	16,100	-	16,100
Filing and transfer agent fees		13,549	-	13,549	15,055	-	15,055
Insurance		24,855	-	24,855	35,030	-	35,030
Investor relations		21,799	-	21,799	26,738	-	26,738
Legal fees		11,062	-	11,062	34,191	-	34,191
Mineral property write-downs	13 vi	-	-	-	2,150,000	1,850,000	4,000,000
Salaries and wages		302,756	-	302,756	416,918	-	416,918
Share-based payments	13 iii	16,619	38,452	55,071	286,548	135,557	422,105
Travel		10,777	-	10,777	20,761	-	20,761
		506,419	38,260	544,679	3,154,039	1,985,304	5,139,343
Loss before income taxes and other items		(292,922)	(75,950)	(368,872)	(2,965,279)	(1,985,558)	(4,950,837)
Gain (loss) on equity investment	13 vi	-	2,847	2,847	-	(8,453)	(8,453)
Income tax expenses	13 v	-	-	-	1,160,741	(1,160,741)	-
Net loss and comprehensive loss		\$ (292,922)	\$ (73,104)	\$ (366,026)	\$ (1,804,538)	\$ (3,154,752)	\$ (4,959,290)

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13. Transition to International Financial Reporting Standards – Continued

Reconciliation of Statement of Cash Flow

	Notes	Nine months ended September 30, 2010			Year ended December 31, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Cash provided by (used in) Operations:							
Net loss		\$ (292,922)	\$ (73,104)	\$ (366,026)	\$ (1,804,538)	\$ (3,154,752)	\$ (4,959,290)
Adjustments to reconcile to net cash flows from operating activities							
Depreciation		7,345	-	7,345	11,070	-	11,070
Share-based payments	13 iii	16,619	38,452	55,071	286,548	135,557	422,105
Gain on contributed JV assets		(37,500)	37,500	-	-	-	-
Gain (loss) on equity investments	13 vi	-	(2,847)	(2,847)	-	8,453	8,453
Mineral property write-downs	13 vi	-	-	-	2,150,000	1,850,000	4,000,000
Income tax recovery	13 vi	-	-	-	(1,160,741)	1,160,741	-
		(306,458)	0	(306,458)	(517,661)	(0)	(517,661)
Changes in non-cash working-capital items:				-			
Accounts receivable		(22,892)	-	(22,892)	(41,909)	-	(41,909)
Prepaid expenses		9,653	-	9,653	1,553	-	1,553
Accounts payable and accrued liabilities		(32,613)	-	(32,613)	15,887	-	15,887
Due to related parties		350	-	350	7,450	-	7,450
Funds held for JV partners/options		(123,149)	-	(123,149)	(157,297)	-	(157,297)
		(475,109)	0	(475,109)	(691,977)	(0)	(691,977)
Investing activities							
Exploration and evaluation of assets		(2,563,241)	-	(2,563,241)	(2,832,042)	-	(2,832,042)
Purchase of property, plant and equipment		(4,475)	-	(4,475)	(14,475)	-	(14,475)
Option payments received		-	-	-	20,700	-	20,700
		(2,567,716)	-	(2,567,716)	(2,825,817)	-	(2,825,817)
Financing activities							
Cash received for shares issued		-	-	-	1,630,000	-	1,630,000
Share issue costs		-	-	-	(70,750)	-	(70,750)
		-	-	-	1,559,250	-	1,559,250
Net cash (outflow) inflow	13 vi	(3,042,825)	(5,945)	(3,048,770)	(1,958,544)	(6,992)	(1,965,536)
Cash and cash equivalents, beginning of the period		5,637,320	-	5,637,320	5,637,320	-	5,637,320
Cash and cash equivalents, end of the period		\$ 2,594,495	\$ (5,945)	\$ 2,588,550	\$ 3,678,776	\$ (6,992)	\$ 3,671,784

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14. Subsequent Event

Subsequent to the quarter end, the Company granted 1,025,000 stock options to directors and employees at an exercise price of \$0.15. After the new grant, the Company has 4,315,000 options outstanding at an average price of \$0.34.