

# **PITCHSTONE**

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## **EXPLORATION LTD.**

An Exploration Stage Company

### **Management's Discussion and Analysis**

(unaudited)

For the Six Months Ended June 30, 2011

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**Pitchstone Exploration Ltd.**  
**Management's Discussion and Analysis of Financial Results**  
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**Containing information up to and including August 23, 2011**

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Pitchstone Exploration Ltd. ("Pitchstone" or "the Company") is an exploration stage company engaged in the acquisition and exploration of mineral properties of merit with a focus on Canada and Africa. The Company's common stock is quoted on the TSX Venture exchange under the trading symbol PXP.

Management's Discussion and Analysis ("MD&A") of the consolidated operating results and financial condition of the Company for the six months ended June 30, 2011 is prepared as of August 23, 2011 in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2010 and 2009 which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts referred to in this MD&A are expressed in Canadian dollars. Additional information relating to Pitchstone is available on its website at [www.pitchstone.net](http://www.pitchstone.net) and on the Canadian Securities Administrator's website at [www.sedar.com](http://www.sedar.com).

### **OVERALL PERFORMANCE**

During the second quarter ended June 30, 2011, Pitchstone continued to focus on exploration for uranium, on projects both solely and jointly held. The sections in this document titled "Exploration – Canada" and "Exploration – Africa" fully describe the activities during the quarter. Exploration was carried out on several properties in July and August 2011.

In July 2011, the Company closed a private placement financing to raise gross proceed of \$749,980. The Company's cash position at August 23, 2011 was approximately \$2.3 million. With this financing and certain cost reductions recently put in place, the Company has adequate financial resources to continue its operations to the end of 2012 with the goal of continuing to advance its key uranium exploration projects. A portion of the planned exploration expenditures may be funded by third parties under earn-in agreements and joint ventures. Expenditures during the year are partially offset by a \$1,630,000 flow-through financing from 2010.

### **RESULTS OF OPERATIONS – Second Quarter**

For the three months ended June 30, 2011, the Company's revenue totaled \$13,567 compared to \$58,002 in the same period of 2010. Revenue decreased by \$44,435 as a result of a decrease in overhead recoveries and lower interest income. Administrative expenses in the three months ended June 30, 2011 were \$243,316 compared to \$231,958 in the same period in 2010. The increase was mainly due to salaries and wages which increased by \$22,071 as a result of one additional employee compared to the same period in 2010.

The Company recorded \$37,717 of non-cash share-based compensation in the second quarter of 2011 compared to \$53,272 in the same period in 2010. The Company has a net loss of \$249,076 in the three months ended June 30, 2011 compared to \$173,956 in the same period in 2010. There was a loss of \$19,327 on equity investments in associates in the second quarter of 2011 compared to \$nil in the same period in 2010.

The loss per share for the second quarter of 2011 was \$0.01 compared to \$nil in the same period in 2010.

### **RESULTS OF OPERATIONS – Year to date**

For the six months ended June 30, 2011, the Company's revenue totaled \$27,550 compared to \$120,799 in the same period of 2010. Revenue decreased by \$93,249 as a result of a decrease in overhead recoveries. Administrative expenses in the six months ended June 30, 2011 were \$464,826 compared to \$381,628 in the same period in 2010. The increase of \$83,198 was mainly due to salaries and wages which increased by \$47,492 as a result of one additional employee compared to the same period in 2010. Also, the non-cash share-based compensation was increased by \$23,352 due to the new method used under IFRS compared to the same period in 2010.

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The Company recorded \$76,625 of non-cash share-based compensation in the six months of 2011 compared to \$53,272 in the same period in 2010. The Company has a net loss of \$456,603 in the six months ended June 30, 2011 compared to \$260,445 in the same period in 2010.

The loss per share for the second quarter of 2011 was \$0.01 compared to a loss per share of \$0.01 in the same period in 2010.

**SUMMARY OF QUARTERLY RESULTS**

The following table shows selected results of operations for each of the eight most recently completed quarters:

	For the Quarter Ended							
	June 30 2011	Mar. 31 2011	Dec. 31 2010	Sept. 30 2010	June 30 2010	Mar. 31 2010	Dec. 31 2009	Sept. 30 2009
	(IFRS)				(GAAP)			
Total Revenues	<b>\$13,567</b>	\$13,983	\$133,312	\$55,195	<b>\$58,005</b>	\$62,795	\$21,758	\$60,507
Income (Loss) for the period	<b>(249,076)</b>	(207,526)	(4,814,588)	(144,701)	<b>(173,953)</b>	(121,989)	932,582	(2,044,014)
Income (loss) Per Share (Basic & diluted)	<b>(0.01)</b>	(0.01)	(0.12)	0.00	<b>0.00</b>	0.00	0.03	(0.06)

**LIQUIDITY AND CAPITAL RESOURCES**

As of June 30, 2011 the Company has \$1,910,017 in cash and cash equivalents and working capital of \$1,917,476 (December 31, 2010, \$3,637,566 and \$3,627,931, respectively). During the second quarter ended June 30, 2011, the Company spent \$1,048,166 on exploration compared to \$1,407,277 in the same period 2010.

In July 28, 2011, the Company closed a private placement to raise gross proceeds of \$749,980. A total of 5,357,000 units at \$0.14 per unit have been issued with each unit consists 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 Company's authorized share capital consists of an unlimited number of common shares without par value. After the financing, the Company has 45,208,185 shares issued and outstanding. As of the date of this MD&A the Company had 45,208,185 common shares issued and outstanding.

The Company has a share purchase option plan whereby the Board of Directors may, from time to time, grant options to directors, officers, employees or consultants. Options granted must be exercised no later than five years from the date of grant. Options vest on the grant date unless determined otherwise by the Board of Directors.

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. At the year ended December 31, 2010 the Company had 3,297,500 options outstanding at a weighted average price of \$0.38 per share. If all the remaining outstanding options were exercised, it would increase the Company's available cash by \$1,106,575.

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As at June 30, 2011, the Company had 1,688,000 warrants outstanding, with a weighted average exercise price of \$0.77. There were no warrants exercised during the second quarter 2011. If all the outstanding warrants were exercised, it would increase the Company's available cash by \$1,301,500. Subsequent to the quarter end, 1,525,000 warrants issued in 2009 expired on July 3, 2011. After the financing, the Company has 3,041,400 warrants outstanding.

As of the date of this MD&A the Company had 51,547,175 common shares outstanding on a fully diluted basis.

**Outstanding share data**

The following table summarizes information about options outstanding at June 30, 2011:

Expiry date	Exercise price	December 31, 2010	Granted	Exercised	Expired/ cancelled	June 30, 2011
August 28, 2011	\$0.23	7,500	-	-	-	7,500
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
<b>Options outstanding and exercisable</b>		<b>3,297,500</b>	-	-	-	<b>3,297,500</b>
Weighted average exercise price		\$ 0.38	\$ -	\$ -	\$ -	\$ 0.38

The following table summarizes information about warrants outstanding at June 30, 2011:

Expiry date	Exercise price	December 31, 2010	Granted	Exercised	Expired/ cancelled	March 31, 2011
July 3, 2011	\$0.80	1,525,000	-	-	-	1,525,000
November 23, 2011	\$0.50	163,000	-	-	-	163,000
<b>Warrants outstanding and exercisable</b>		<b>1,688,000</b>	-	-	-	<b>1,688,000</b>
Weighted average exercise price		\$ 0.77	\$ -	\$ -	\$ -	\$ 0.77

Subsequent to the quarter ended June 30, 2011, 1,525,000 warrants expired on July 3, 2011.

**EXPLORATION PROJECTS**

**Canada**

The Company has five groups of mineral properties in Canada with the potential to host uranium mineralization. The first group is comprised of four 100% owned properties which are located in the Athabasca Basin region of Saskatchewan (**100% Owned Properties**). These include Gumboot, Fireweed, Fisher and Packrat. Packrat was recently acquired by way of staking. Two of the properties previously listed as 100% owned properties (Wolverine and Marten) were optioned to Japan Oil, Gas and Metals National

Corporation ("JOGMEC") in 2009. The Weasel property was added to the Uranium One Joint Venture on December 10, 2010.

The second group is the Johnston Lake property in the Athabasca Basin region of Saskatchewan. On March 18, 2009, the Company entered into a Letter Agreement with Denison Mines Corp. ("Denison") to acquire up to a 75% interest in Denison's Johnston Lake property in the Athabasca Basin, Saskatchewan (**Johnston Lake Property, Denison Option**).

The third group is comprised of the Wolverine and Marten properties in the Athabasca Basin, Saskatchewan which were optioned to JOGMEC in 2009 (**Wolverine & Marten Properties, JOGMEC Option**). JOGMEC can earn a 50% interest in the properties.

The fourth group is comprised of five properties in the Athabasca Basin region of Saskatchewan (**Uranium One Joint Venture**). These properties had been under an Option Agreement with Uranium One Inc. ("Uranium One") since September 3, 2004. In January 2007, Uranium One completed all earn-in requirements and acquired 50% of the Company's interest in these properties. The Company and Uranium One formed a joint venture to explore these Athabasca Basin properties. In 2008, Uranium One stopped funding their share of exploration expenditures and their interest is being diluted. On December 10, 2010 the contiguous Weasel property, comprised of one claim, was added to the Uranium One Joint Venture. Weasel had been 100% owned by Pitchstone since it was staked by Pitchstone in April, 2009.

The fifth group is comprised of four properties in the Hornby Bay Basin region of Nunavut (**Canterra Joint Venture**). These properties are held in a 50:50 Joint Venture with Canterra Minerals Corporation ("Canterra") formerly Triex Minerals Corporation. One of these properties, the Mountain Lake property, has an Inferred Mineral Resource of 8.2 million pounds of uranium oxide grading 0.23% U<sub>3</sub>O<sub>8</sub> contained in 1.6 million tonnes of rock (see Mountain Lake Property).

#### **Africa**

The Company has one group of mineral properties which are located in Namibia, Africa (**Namibia Joint Venture Properties**). In January 2007, the Company entered into an agreement with Manica Minerals Ltd. ("Manica") to explore three uranium properties in Namibia. The Company had options to earn up to an 80% interest in these properties. One of the three properties (Nakop) was intentionally allowed to lapse in 2008. The Company has exercised the initial option and earned a 51% interest in the two remaining properties (Dome and Kaoko). The Company elected not to exercise the second option of the Letter Agreement and is currently funding 100% of the exploration costs. As a result, the participating interests at June 30, 2011 are 71% for the Company and 29% for Manica.

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**EXPLORATION AND EVALUATION ASSETS**  
**Summary of Mineral Property Expenditures and Exploration Activities**

	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	3,239	(1,715)	1,524
Camp and general	119,021	105,805	224,826
Drilling	341,670	322,507	664,177
Geological/Geochemical	45,212	26,056	71,268
Mineral claims expenses	21,296	12,999	34,295
Sampling and analysis	15,127	22,850	37,977
Travel	7,447	6,652	14,099
Total expenditures for the period	553,012	495,154	1,048,166
<b>Balance at June 30, 2011</b>	<b>\$ 6,012,423</b>	<b>\$ 1,237,042</b>	<b>\$ 7,249,465</b>

**Cumulative Totals as of June 30, 2011:**

<b>Cumulative totals as of June 30, 2011:</b>	Athabasca Basin Properties, Saskatchewan 100% Owned Properties (Note 4a)	Athabasca Basin Properties, Saskatchewan Denison Option (Note 4b)	Total
Aircraft charter	516,657	105,819	622,476
Camp and general	978,418	209,228	1,187,646
Drilling	3,057,028	678,552	3,735,580
Geological	347,419	74,276	421,695
Geochemical	11,124	-	11,124
Geophysical	846,799	2,550	849,349
Linecutting and chaining	117,235	-	117,235
Mineral claims expenses	145,563	13,586	159,149
Overhead	-	62,572	62,572
Sampling and analysis	168,676	75,865	244,541
Travel	71,855	14,594	86,449
Community relations	619	-	619
Recovery from partners	(200,000)	-	(200,000)
Government assistance	(48,970)	-	(48,970)
<b>Balance at June 30, 2011</b>	<b>\$ 6,012,423</b>	<b>\$ 1,237,042</b>	<b>\$ 7,249,465</b>

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

The Company has four 100% owned exploration properties in the eastern Athabasca Basin, Saskatchewan, that are prospective for uranium. The four properties, Fireweed, Gumboot, Fisher, and Packrat total approximately 18,707 hectares, and were acquired by way of staking. Expenditures on the properties are summarized in the following table. Marten and Wolverine were optioned to JOGMEC in 2009 and the numbers listed below are the Company's portion of the expenditures only.

<b>Athabasca Basin Properties, Saskatchewan - 100% Owned properties</b>			
	<b>June 30, 2011</b>		<b>December 31, 2010</b>
Fireweed	\$	<b>812,206</b>	\$ 812,206
Gumboot		<b>4,943,377</b>	4,421,573
Fisher		<b>156,359</b>	146,225
Packrat		<b>12,790</b>	-
Marten		<b>43,988</b>	35,705
Wolverine		<b>43,703</b>	43,703
	\$	<b>6,012,423</b>	\$ 5,459,412

**Fireweed Property**

The Fireweed property (10,921 hectares) is located 52 kilometers southwest of Points North and was acquired in October 2004. A total of 1,706 meters of diamond drilling was completed in two holes in 2007 to follow up on the results of airborne and ground geophysical surveys. No significant mineralization was observed in either hole.

**Fisher Property**

In November 2005, the Company acquired the two claim 3,349 hectare Fisher property by way of staking. Fisher is located 34 kilometers northwest of Points North. In September 2006, a 473 line kilometer airborne magnetic survey was completed over the property and a ground fixed-loop electromagnetic survey was completed in February 2007. This was followed by a program of soil geochemistry in 2009 and a follow up program in 2010. No drilling has ever been completed on the Fisher property.

During the first quarter of 2011, the westernmost Fisher claim (S-108178) was allowed to lapse, as the soil geochemistry and geophysical surveys indicated it was less prospective than the other. The area of the Fisher property has therefore been reduced to 1,969 hectares.

**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. It was staked to cover an area of interpreted intersecting faults that is coincident with a prominent magnetic low near the Collins Bay thrust fault.

**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. In 2007 and 2008, ground geophysical surveys and a total of five drill holes were completed on the property.

During February and March 2009, 2,981 meters of drilling was completed in four holes on the Gumboot property. Significant zones of strong fracturing and alteration in proximity to the unconformity were intersected in all holes. Uranium mineralization to 0.11% U<sub>3</sub>O<sub>8</sub> over 4.2 meters, including 2.06% U<sub>3</sub>O<sub>8</sub> over 0.1 meter, was intersected in hole GB07. High assays for other metals, including nickel to 10.8%, cobalt to

4.60%, and silver to 52 g/t, were also encountered. A gravity survey over the conductive zone was also completed.

During the period June to August, 2009, six drill holes totaling 4,550 meters were completed at Gumboot. Five of the holes were drilled near the mineralized area, and one was drilled 800 meters to the north. Five of the six, including the hole drilled 800 meters north, encountered significant intervals of moderate to strong sandstone alteration. Drill hole GB10, located 60 m south of GB07, intersected 1.2 meter averaging 0.17% U<sub>3</sub>O<sub>8</sub>, 2.84% Ni and 0.16% Co. One of the samples in the 1.2 meter interval contained 0.66% U<sub>3</sub>O<sub>8</sub> over 0.3 meter.

In 2010, six additional holes were completed in a January to March winter drilling campaign, totalled 4,792 meters. The highest uranium result from the winter drilling program was in hole GB13R, which intersected 0.07% U<sub>3</sub>O<sub>8</sub> and 0.11% Ni over 0.5 meter. The program extended the alteration zone along strike to the north and south; it now measures 500 meters long and is still open in both directions. This winter drilling was followed by one additional 806 meter hole completed during the summer drilling campaign. No significant alteration or mineralization was observed in the summer drill hole. A soil geochemistry survey was also completed at Gumboot during September.

Additional drilling was completed at Gumboot during the first Quarter of 2011, consisting of three holes totalling 2,140 meters. Significant alteration and/or anomalous radioactivity were observed at the unconformity in all three holes. Analytical results from GB23 are particularly significant as this hole intersected 0.3 meters of 0.53% U<sub>3</sub>O<sub>8</sub>, 1.92% Ni, 0.80% Co and 21.8 g/t Ag approximately 3 meters below the sub-Athabasca unconformity. The interval included 0.1 meters of 1.47% U<sub>3</sub>O<sub>8</sub>, 2.45% Ni, 1.61% Co and 49 g/t Ag. GB23 was drilled at the northern end of the Gumboot mineralized zone, which is open to the north. The second drill hole, GB24D1 intersected a long interval of sporadic uranium and base metal mineralization, most of which was associated with intense alteration in the basement, immediately beneath the sub-Athabasca unconformity. Results include 0.1 meter of 0.30% U<sub>3</sub>O<sub>8</sub>, and 0.1 meter of 2.78% Ni, within an 11.5 meter interval of 0.02% U<sub>3</sub>O<sub>8</sub>, 0.47% Ni and 0.06% Co.

No exploration was conducted on the property during the second quarter, primarily because of spring break-up. A drilling program totalling 2,300 meters of core drilling is planned to begin in July.

As of June 30, 2011 and December 31, 2010, the Company spent a total of \$6,012,423 and \$5,459,412, respectively, on its 100% owned properties. These totals include exploration completed on the Wolverine and Marten properties to March 12, 2009. The Wolverine and Marten properties have now been optioned to JOGMEC and are described in a subsequent section.

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

On March 18, 2009, the Company entered into a Letter Agreement with Denison to acquire an 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 an isolated parcel eight kilometers north of Gumboot. In June 2011, a fifth claim, which is contiguous with both Gumboot and Johnston Lake, was staked by both Pitchstone and Denison. Exploration on it will be carried out under the terms of the option/joint venture agreement with Denison.

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 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.

Exploration by the Company included a program of core review and re-sampling carried out in the summer of 2009, followed by the completion of one 710 meter drill hole during February 2010. While no significant mineralization or radioactivity was observed in this hole, oriented core data has allowed a re-interpretation of the geology in the area and indicated that the primary target may be untested. Two additional drill holes

totaling 1,428 meters were completed during the 2010 summer drilling season, one of which tested the new geological interpretation that arose from the oriented core data collected in February. This hole encountered significant alteration and anomalous geochemistry at the unconformity, along with structurally disrupted and graphitic basement rocks, validating the new geological interpretation. The second drill hole was completed as the first ever drill test of the 2.5 kilometer long Johnston North conductor. No significant alteration or mineralization was observed.

In conjunction with the Gumboot drilling completed in the first Quarter of 2011, three drill holes totaling 2,171 meters were completed at Johnston Lake to follow up on the results of drilling in 2010. Encouraging sandstone alteration, structure and graphitic basement rocks were intersected in all three holes. Intervals of elevated radioactivity in basement rocks near the sub-Athabasca unconformity were observed in two of the holes (JL-25R & JL-27). Analytical results for JL-25R and JL-27 include uranium values up to 0.13%  $U_3O_8$  over 0.1 meter and 0.38%  $U_3O_8$  over 0.1 meter, respectively. Mineralization in both holes was in the basement; 70 meters below the sub-Athabasca unconformity in JL-25R and within 3 meters of the unconformity in JL-27,

Upon completion of the first quarter 2011 drilling program, Pitchstone has surpassed the expenditure requirements to earn an initial 49% interest in the property from Denison. Notice has been given to Denison that Pitchstone intends to proceed with the second stage earn-in, which if completed will give Pitchstone a 75% interest in the property.

The Company acts as operator with respect to the work being carried out on the property. As of June 30, 2011 and December 31, 2010, the Company spent a total of \$1,237,042 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 and Wolverine properties in the Athabasca Basin, Saskatchewan by way of staking. Marten (2,768 hectares) is located 44 kilometers south of Points North. Wolverine (3,632 hectares) is located 61 kilometers southwest of Points North. In June 2011, the Company and JOGMEC acquired claim S-112161 by way of staking. The new claim adjoins the Marten property and covers two zones of alteration and uranium mineralization previously drilled by other operators. This claim will be subject to the terms of the Company's option agreement with JOGMEC.

A helicopter-borne electromagnetic and magnetic survey consisting of 1,097 line kilometers was completed on the Marten and Wolverine properties in September 2008.

On March 11, 2009, the Wolverine and Marten properties were optioned to JOGMEC. JOGMEC can acquire a 50% interest in the properties by paying the Company \$200,000 (received) as an initial contribution for prior expenditures and spending \$1,800,000 in exploration on the properties by March 31, 2012. The Company is the initial operator with respect to the work to be carried out on the properties.

Exploration in 2010 included several geophysical surveys including ground gravity, ground TDEM and DC-Resistivity at Wolverine and Marten during the winter exploration season. The surveys generated prospective targets on both properties. First phases of drilling were completed at both Marten and Wolverine. At Marten, an initial program consisting of six drill holes totaling 984 meters was completed during March 2010. While the drilling did not intersect significant radioactivity or mineralization, anomalous alteration and faulting are present in four of the holes. In June 2010, four drill holes totaling 1,409 meters were completed at Wolverine to explore two geophysical target areas. Anomalous radioactivity up to 10,400 cps (>100x background) was observed in down hole gamma probe data in one of the holes.

The two targets drilled at Wolverine are characterized by DC-resistivity lows and magnetic lineaments that have been interpreted as possible fault structures. Anomalous radioactivity in drill hole WL-01 is associated with faulted hematite and chlorite altered breccia in basement rocks 370 meters below surface and 70 meters below the sub-Athabasca unconformity. Assay results confirm that the radioactivity is due to uranium. The highest uranium value is 0.25%  $U_3O_8$  over a 10 centimeter interval within a 2.0 meter interval

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that averages 0.05% U<sub>3</sub>O<sub>8</sub>. The Company is encouraged by this new uranium discovery, particularly due to its association with brecciated and altered basement. Further drilling is scheduled to begin in August of 2011 to follow up on the results.

As of June 30, 2011, the expenditures made by JOGMEC were \$622,396 on Marten and \$709,936 on Wolverine.

**INVESTMENTS IN ASSOCIATES**  
**Summary of 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	8,599	-	-	8,599
Camp and general	21,140	-	43	21,183
Drilling	32,947	-	26,949	59,896
Geological/Geochemical	4,804	-	107,749	112,553
Geophysical	90,918	-	-	90,918
Mineral claims expenses	1,470	-	-	1,470
Sampling and analysis	1,700	-	-	1,700
Travel	859	-	4,475	5,334
Community relations	13	-	-	13
Recovery from partners	(16,973)	-	-	(16,973)
Total expenditures for the period	145,477	-	139,216	284,693
<b>Balance at June 30, 2011</b>	<b>\$ 5,044,291</b>	<b>\$ 3,501,873</b>	<b>\$ 1,775,939</b>	<b>\$ 10,322,103</b>

**Pitchstone Exploration Ltd.**  
**Management's Discussion and Analysis of Financial Results**  
**For the Six Months Ended June 30, 2011**  
**Containing information up to and including August 23, 2011**

**Cumulative Totals in Investments in Associates as of June 30, 2011:**

<b>Cumulative totals as of June 30, 2011:</b>	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	715,733	-	-	715,733
Camp and general	1,275,404	160,226	721	1,436,351
Drilling	2,742,197	2,972,848	341,885	6,056,930
Geological	421,997	382,191	1,133,950	1,938,138
Geochemical	6,413	-	58,280	64,693
Geophysical	249,885	482,838	185,879	918,602
Linecutting and chaining	89,903	-	-	89,903
Mineral claims expenses	3,732	276,491	153,095	433,318
Overhead	-	395,299	-	395,299
Sampling and analysis	141,463	436,412	27,948	605,823
Travel	71,527	11,765	58,213	141,505
Community relations	1,107	5,996	-	7,103
Recovery from partners	(643,586)	-	-	(643,586)
Government assistance	(31,484)	-	-	(31,484)
Deemed value in joint venture	4,000,000	-	-	4,000,000
<b>Total expenditures before write-downs</b>	<b>9,044,291</b>	<b>5,124,066</b>	<b>1,959,971</b>	<b>16,128,328</b>
Deemed value in joint venture	(1,850,000)	-	-	(1,850,000)
Mineral property write-downs	(2,150,000)	(1,622,193)	(184,032)	(3,956,225)
<b>Balance at June 30, 2011</b>	<b>\$ 5,044,291</b>	<b>\$ 3,501,873</b>	<b>\$ 1,775,939</b>	<b>\$ 10,322,103</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; Darby, Candle, Waterfound, Lynx Lake and Moon Lake. To exercise its 50% option and earn a 50% interest, Uranium One made total cash payments of \$350,000 and 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 for its 50% interest.

In October 2008, Uranium One's participating interest was diluted when Uranium One stopped funding their share of exploration expenditures. As a result, the Company has funded 100% of the Uranium One Joint Venture exploration expenditures since that date, except for the Candle property where JCU has funded its 25% share. As of June 30, 2011, participating interests in Darby, Waterfound, Moon Lake, 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.

The Company is the operator of these five joint venture properties. As of June 30, 2011 and December 31, 2010, the Company's share of exploration expenditures on these six properties totalled \$5,044,291 and \$4,898,814, respectively.

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

	June 30, 2011	December 31, 2010
Darby Property	2,788,528	2,693,241
Waterfound Property	327,497	323,562
Lynx Lake Property	41,611	41,100
Moon Lake Property	329,375	325,409
Candle Property	1,588,764	1,546,986
Unallocated assistance received	(31,484)	(31,484)
	<b>\$ 5,044,291</b>	<b>\$ 4,898,814</b>

**Darby & Candle Properties**

The Darby property, located 43 kilometers southwest of Points North in the Close Lake area of the Athabasca Basin, was acquired between 2003 and 2005. 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% undivided interest in the property. In March 2007, the Company and Uranium One jointly earned a 75% interest in the property. The remaining 25% interest is held by JCU. The Darby and Candle properties are contiguous and comprise 19,316 hectares.

A total of 55 kilometers of conductive zones have been outlined on the Darby-Candle properties by Pitchstone and previous operators. Pitchstone has completed surficial geochemical surveys, several types of ground and airborne geophysical surveys, and several winter and summer diamond drilling campaigns. Total drilling on Darby and Candle by Pitchstone to date consists of 28,351 meters in 50 drill holes during the period 2006-2010.

The Company discovered the 97G zone uranium mineralization on the Candle claim during 2007. Drill hole CD14 intersected a 3.2 meter interval of uranium mineralization immediately below the sub-Athabasca unconformity from 647.1 to 650.3 meters that assayed 0.31% U<sub>3</sub>O<sub>8</sub>, including 0.9 meter that contained 0.76% U<sub>3</sub>O<sub>8</sub>. This was followed up in 2008 with Drill hole CD25, 100 meters north of CD14, which intersected strong alteration in the Athabasca Group sandstone and a narrow, strongly radioactive zone in basement rocks. This radioactive interval has a 0.5 meter core length in altered pelitic gneiss, from 655.3 to 655.8 meters, that averaged 1.91% U<sub>3</sub>O<sub>8</sub>, including a 0.2 meter core length from 655.5 to 655.7 meters that averaged 4.18% U<sub>3</sub>O<sub>8</sub>. Follow up drilling to CD25 did not intersect significant radioactivity.

Diamond drilling at Darby in 2008 was successful in advancing two other target areas; the 95B conductor, and the east end of the 95D conductor. At 95B in the central part of the Darby property, drill hole DB30R contributed to the interpretation of structure and stratigraphy. Also, the prospectivity of the east end of the 95D conductor, in the northeast part of the Darby property, has been upgraded by drill hole DB27, which intersected anomalous geochemistry in basal sandstone above graphitic pelitic gneiss in the basement, and a 0.3 meter interval in the basement that assayed 0.12% U<sub>3</sub>O<sub>8</sub>.

A total of 2,726 meters of drilling was completed on Darby and Candle in four drill holes during 2009. No significant mineralization was observed in the core, however, weakly anomalous radioactivity and graphitic pelitic gneisses in the basement were intersected and require follow-up exploration. One 734 meter drill hole was completed on the Candle property during the summer of 2010. No significant alteration or mineralization was observed in the core.

Exploration to date at Darby and Candle in 2011 consisted of two moving loop electromagnetic surveys, one at the 97G zone at Candle, and the other at the northeast corner of the Darby property. The surveys have aided the interpretation of pre-existing anomalies at both locations, resulting in additional drill targets.

Waterfound Property

In 2003 and 2005 the Company staked the 4,124 hectare Waterfound Property. This property is located 35 kilometers northwest of Points North. During the period 2005 to 2007, several airborne and ground geophysical surveys were completed and a total of 7,675 meters was drilled in fourteen diamond drill holes during three different drilling campaigns. The most significant intersections included 1.6 meters (450.6-452.2 meters) of 100 ppm U, including 0.1 meters (451.5-451.6 meters) of 598 ppm U, in drill hole WF12, and 1.2 meters (435.6-436.8 meters) of 173 ppm U<sub>3</sub>O<sub>8</sub> in drill hole WF13. One hole (WF10R) intersected significant sandstone alteration, consistent with the position of a DC-resistivity anomaly. Additional drilling is required.

Lynx Lake Property

In 2004, the Company acquired the Lynx Lake mineral claim totaling approximately 1,274 hectares by way of staking. The property is located 35 kilometers southwest of the Company's Darby-Candle properties.

An airborne magnetic-electromagnetic MEGATEM survey that totalled 102 line-kilometers was completed over the property in 2005. A 26 line-kilometer fixed-loop electromagnetic survey was completed at Lynx Lake in March 2007.

A program of soil geochemical surveying is planned for the summer of 2011.

Moon Lake Property

In 2003 and 2004 the Company acquired the 4,590 hectare Moon Lake property by way of staking. The property is 55 kilometers southwest of the Darby-Candle properties and one kilometer east of Cameco's Millennium deposit.

A 1,323 meter program of diamond drilling in two drill holes was completed at Moon Lake in August 2008. No significant radioactivity or alteration were intersected in either of the two drill holes. Other work on the property has included surficial geochemical surveys and both ground and airborne geophysical surveys.

The Company also holds a 3% net smelter royalty on two claims, S-107557 and S-107558, adjacent to the Moon Lake property. CanAlaska Ventures Ltd., the owner of the claims, can purchase 1% of the net smelter royalty for \$1,500,000. Uranium One has a 45.2% interest in the NSR on that portion of the two claims within one kilometer of the Moon Lake Property.

Weasel Property

In April 2009, the Company acquired the 843 hectare Weasel property by way of staking. Weasel is contiguous with the southwest part of the Company's Darby property. No exploration has been completed on the Weasel property to date. On December 10, 2010 Weasel was transferred to the Uranium One Joint Venture.

**b. Hornby Bay Basin Properties, Nunavut and – Canterra Joint Venture**

On May 9, 2005, the Company entered into a 50:50 joint venture with Canterra to explore the Mountain Lake, West Dismal, and Leith properties located in the Hornby Bay Basin of Nunavut and Northwest Territories. The Mountain Lake uranium deposit contains a N.I. 43-101 compliant Inferred Mineral Resource of 8.2 million pounds of U<sub>3</sub>O<sub>8</sub> with an average grade of 0.23% U<sub>3</sub>O<sub>8</sub>, contained in 1.6 million tonnes of rock.

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 half of which the Company and Canterra have the right to purchase for \$2.5 million.

Canterra is the operator of these properties. During 2009, the Company spent \$104,914 on camp clean up on the Hornby Bay Basin properties. No work was completed on any of the Hornby Bay Basin properties since 2010. As of June 30, 2011, the Company spent a total of \$4,620,079 on the joint venture properties and wrote down \$1,118,206 of the mineral property costs, partly as a result of the expiration of permits and the intentional lapse of some claims. To date in 2011 there have not been any exploration activities on the Hornby Bay Basin properties.

#### Mountain Lake Property

In 2004, the Company acquired a 50% interest in the Mountain Lake uranium property located in the Hornby Bay Basin, Nunavut. The property is situated approximately 550 kilometers north of Yellowknife, 100 kilometers south of Kugluktuk (formerly Coppermine), and initially comprised eight mineral claims totaling 6,647 hectares. In 2006, the Company and Canterra acquired an additional 41 claims (38,544 hectares) contiguous with the original Mountain Lake property from URE.

On the Mountain Lake property, the Mountain Lake deposit contains an estimated Inferred Mineral Resource of 8.2 million pounds  $U_3O_8$ , with an average grade of 0.23%  $U_3O_8$ , contained in 1.6 million tonnes of rock, at depths between 28 and 136 meters (see the NI 43-101 compliant Mineral Resource estimate report filed on [www.sedar.com](http://www.sedar.com) for more details). Two types of mineralization have been recognized to date; dominantly stratabound sandstone-hosted and minor discordant fracture controlled mineralization. Fracture controlled mineralization included an intersection of 5.19%  $U_3O_8$  over a 0.9 meter core interval.

Diamond drill holes completed in 2006 on the Mountain Lake property confirmed the mineralization within the main deposit and extended it at shallow depth to the southwest under Fran Lake. In 2007, three additional holes were drilled at Mountain Lake. Seven holes totaling 1,654 meters were drilled in 2008 at the Mountain Lake property. Four of these were drilled at the Helmut Lake target north of the Mountain Lake deposit, three of which were completed to designed depths. The other three were drilled at the Jenny Lake target area northwest of the Mountain Lake deposit. No significant radioactivity was observed.

During 2009, the Company wrote down \$500,000 of mineral exploration expenditures on the Mountain Lake property.

#### West Dismal Property

In 2005, Canterra was granted seven prospecting permits comprising 105,097 hectares (West Dismal property) in the Northwest Territories and Nunavut for uranium exploration. These permits were situated approximately 70 kilometers west of the Mountain Lake property, 570 kilometers north of Yellowknife, Northwest Territories and 150 kilometers southwest of Kugluktuk, Nunavut. These permits expired early in 2008.

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

In early 2008, as a result of the expiration of prospecting permits and intentional lapse of some claims, a large portion of the West Dismal lands was no longer held by the Joint Venture. The only portion of the West Dismal property that remains is located in Nunavut and is called the Sandy Creek property. During 2008, the Company wrote down \$307,616 on West Dismal properties. In 2009, the Company wrote down the remaining balance of \$45,149.

Dismal Lake Property

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

During 2007 and 2008, 3,094 meters were drilled in 11 holes at the Dismal Lake Property; no significant radioactivity was encountered. Ohm Mapper surveying and additional soil sampling were also completed. During 2009, the Company wrote down \$400,000 of mineral property costs on the Dismal Lake property.

Kendall River Property

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

During 2007 exploration on the Kendall River property included Ohm Mapper surveying and soil sampling. A total of 762.3 meters of drilling was completed in three holes on the property in 2008. No significant radioactivity was observed in the drill holes.

During 2009, the Company wrote down \$300,000 on the Kendall River property.

**Hornby Bay Basin Properties, Nunavut - Canterra Joint Venture**

	June 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
	<b>4,620,079</b>	4,620,079
Mineral property write-downs	<b>(1,118,206)</b>	(1,118,206)
	<b>\$ 3,501,873</b>	\$ 3,501,873

**c. Namibia Joint Venture Properties, Africa**

The Company entered into a Letter Agreement on January 18, 2007 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, 2009 and making the following cash payments to Manica:

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

Once the initial option had been exercised, the Company would have additional options to earn further interests in the properties, to a total of 80%. In addition, on April 20, 2007, the Company issued 15,000 common shares to Manica, for a right of first refusal on any new uranium licenses acquired in Namibia by Manica.

In 2008, a program of geological mapping, prospecting and lithogeochemistry was completed at Kaoko, and a program of radon sampling was completed at the Dome property. During the period November, 2008 to February, 2009, an initial drill test of a Rössing style, granite-hosted uranium target on the Dome property, was completed. The program totalled 1,294 meters in eight drill holes.

The anniversary date for the Nakop licenses was July 18, 2008 and the licenses were not renewed. In 2008, the Company wrote off \$184,032 on the Namibia properties as a result of the expiration of the Nakop licenses.

A program of scintillometer prospecting was completed on the northern part of the Dome property (Dome North) in the first quarter of 2009. The program was successful in locating uranium mineralization exposed intermittently on surface along a 2.5 kilometer long dry drainage channel. A 128 line kilometer program of ground electromagnetic geophysics (EM34) was completed to help locate paleochannels and define drilling targets.

During September, 2009, a total of 734 meters of reverse circulation (RC) drilling was completed in 37 holes at Dome North to follow up on the uranium mineralization discovered with scintillometer prospecting, and to test other targets. Uranium mineralization was encountered in two drill holes, DN11 and DN23, with the best result being 1.0 meter averaging 352 ppm  $U_3O_8$  and 66 ppm vanadium in DN23. A subsequent program of geophysical surveying and geological mapping in December 2009 identified additional areas considered to be prospective for calcrete style mineralization, and also located a new occurrence of granite-hosted mineralization. Two grab samples from the new granite-hosted occurrence contain 149 and 152 ppm  $U_3O_8$ .

Work in 2010 to date consisted of detailed geological mapping and sampling in March at the granite-hosted occurrence discovered in December 2009. This program outlined leucogranite outcrop or subcrop totalling about 50 hectares in three distinct areas; the North Hinge, South Hinge and Ridge zones. Significant radioactivity in outcrop has been identified at the North Hinge and South Hinge zones. A high definition helicopter-borne magnetic and radiometric geophysical survey was completed on the Dome property in June.

In September, 2010, the Company completed a program of reverse circulation drilling on the Dome property. Eighteen of 31 drill holes tested calcrete targets. Intersections of radioactive calcrete similar to that intersected in 2009 drill hole DN09-23 (352 ppm  $U_3O_8$  over 1.0 meter) was observed in six of the 10 holes drilled in the Marble Ridge zone. Geochemical analyses confirm that the radioactivity is due to a horizontal layer of uranium mineralization in calcrete within 15 meters of surface. The layer is continuous over an area measuring at least 400 meters by 200 meters and is open in several directions. Results included 365 ppm  $U_3O_8$  and 205 ppm  $V_2O_5$  over one meter, including 699 ppm  $U_3O_8$  and 321 ppm  $V_2O_5$  over 0.5 meter. As the calcrete target drill holes were drilled vertically into a horizontal layer of mineralization, the lengths of the intersections are approximately equal to the true thickness.

The other thirteen drill holes in 2010 were completed at a six kilometer by two kilometer leucogranite target area. Eleven of these drill holes intersected leucogranite. Two of the drill holes intersected particularly thick sections of leucogranite (up to 98.5 m) that included sporadic intervals of elevated radioactivity. Geochemical analyses have confirmed that the radioactivity is due to Rössing style uranium mineralization within 80 meters of surface. Results include 192 ppm  $U_3O_8$  over four meters including 274 ppm  $U_3O_8$  over one meter.

A follow up calcrete drilling program was completed in February, 2011 at the Marble Ridge zone. Twelve of twenty eight drill holes intersected mineralization, bringing the total number of mineralized intersections to date at Marble Ridge to 20. The results confirm that uranium and vanadium mineralization at Marble Ridge occurs within a calcrete paleochannel that is now estimated to be at least 1,900 meters long and up to 200 meters wide. The mineralization is open along strike. Pitchstone is also encouraged by the potential to find additional mineralized paleochannels within the 500 square kilometer Dome North area. More drilling at Marble Ridge and at other uranium targets (including leucogranite targets) at Dome North is planned for later in 2011.

On March 11, 2009, the Company exercised the initial option and earned a 51% interest in the Dome and Kaoko properties 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 70.9% for the Company and 29.1% for Manica. 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 Pitchstone.

As of June 30, 2011 and December 31, 2010, the Company had spent \$1,775,939 and \$1,636,723, respectively, on the Namibia joint venture properties.

## **ADDITIONAL DISCLOSURES**

### **Disclosure controls and procedures**

Based on continual evaluations of the Company's disclosure controls and procedures, the Company's chief executive officer and chief financial officer have concluded that, as of June 30, 2011, the design and operation of these disclosure controls and procedures are effective at the reasonable assurance level to ensure that material information relating to the Company and its joint ventures would be known to them and others within those entities, particularly during the period in which the MD&A and the condensed consolidated financial statements contained in this report were being prepared.

### **Internal controls over financial reporting**

The Company's chief executive officer and chief financial officer have designed, or have caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The chief executive officer and chief financial officer concluded that there has been no change in the Company's internal control over financial reporting during the six month period ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Steve Blower, P.Geo., President and CEO of Pitchstone, is the Qualified Person for the purposes of NI 43-101 with respect to the geological information in this document. Sample preparation and analyses on rock samples from Pitchstone operated properties in Saskatchewan were completed by SRC Geoanalytical Laboratories, (SRC) Saskatoon. A partial digestion with fluorimetric analysis was used for SRC's uranium determinations. All samples containing greater than 100 ppm U were re-analyzed with ICP. Sample preparation and analyses on rock samples collected in Namibia were completed by ALS-Chemex Laboratories in Johannesburg, RSA and Bureau Veritas in Swakopmund, Namibia. The analytical technique at both laboratories is ICP-AES/MS. Pitchstone utilizes internally and externally submitted standard reference materials for quality assurance and quality control in the preparation and analyses of samples from Saskatchewan properties.

### **Contractual 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, of which \$1,561,793 has been spent to date.

### **Off balance sheet arrangements**

There are no off balance sheet arrangements at this time.

### **Critical accounting judgements 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.

## **CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

### **Conversion to International Financial Reporting Standards**

The Canadian Accounting Standards Board ("AcSB") confirmed in February 2008 that IFRS will replace Canadian generally accepted accounting principles ("GAAP") for publicly accountable enterprises for financial periods beginning on or after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities.

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 second IFRS condensed consolidated interim financial statements for part of the period covered by the IFRS consolidated interim financial statements to be presented in accordance with IFRS for the second quarter ended June 30, 2011. Before 2011, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with GAAP.

### **Transition to International Financial Reporting Standards**

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

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 IFRS 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.

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 six months ended June 30, 2010, the Company would have recorded \$53,272 as share-based payment versus \$16,619 stock-based compensation under Canadian GAAP. As a result, \$36,653 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 resulted in 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.

**(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".

**Future accounting pronouncements**

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2010 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.

**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.

(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.

## **RELATED PARTY TRANSACTIONS**

As at June 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 \$95,000 (June 30, 2010: \$97,750).

As at June 30, 2011, \$11,200 (2010, \$5,250) was owed to Pacific Opportunity Capital Ltd. a company controlled by the Chief Financial Officer of the Company. During the six months ended June 30, 2011, \$7,200 directors' fees were paid (June 30, 2010: \$12,700).

## **PROPOSED TRANSACTIONS**

The Company has no proposed transactions at this time.

## **RISKS AND UNCERTAINTIES**

The Company's financial success will be dependent upon the discovery or acquisition of Mineral Resources, and the economic viability of developing its properties. The market price of minerals and/or metals is volatile

and cannot be controlled. There is no assurance that the Company's mineral exploration activities will be successful. The exploration of mineral properties involves many risks which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The Company has no source of financing other than those identified in the previous sections.

The following are some of the key risks and uncertainties identified; however, there may be other risks and uncertainties that have not been listed:

- the high degree of volatility in the price of uranium;
- the demand for uranium can be dependent on the public's acceptance of the use of nuclear power;
- natural disasters could affect the Company's ability to do business;
- nuclear accidents could have an impact on the demand for and price of uranium;
- the Company has a limited operating history and must be considered a start-up company;
- the performance of the Company will largely depend on the performance of certain key officers, consultants and employees;
- title to properties can be cancelled, challenged or impugned;
- the Company is required to consult with First Nations Peoples in order to obtain necessary land use rights; there is no guarantee land use permits will be forthcoming;
- certain officers and directors of the Company are associated with other natural resource companies which may give rise to conflicts of interest;
- the Company's exploration plans will require substantial additional financing and such financing may not be available on a timely and reasonable basis;
- the exploration business is highly speculative;
- the Company's ability to conduct exploration may be restricted by the unavailability of equipment and qualified personnel;
- geology is an inexact science subject to differing interpretations that could affect the success of any exploration or development program;
- access to the Company's properties may be restricted by weather conditions, forest fires, blockades, the inability to obtain land use permits on a timely basis, or other factors beyond the Company's control;
- substantial additional expenditures will be required to establish Mineral Resources or Mineral Reserves on mineral properties, if any Mineral Resources or Mineral Reserves exist;
- there are many potential barriers in developing a property prior to it becoming a commercial producing operation;
- the rights to the Company's mineral properties must be maintained in accordance with many regulations and agreements;
- there is increasing competition to acquire mineral properties throughout the world;
- the Company's joint venture or option agreements are subject to decisions made by its partners;
- exploration programs and budgets may be subject to the concurrence of joint venture partners;
- various factors could impede the Company's ability to expend flow-through funding;
- the Company can not insure against all potential risks;
- there are many varied governmental and other regulations that must be followed which are constantly changing;
- there are many environmental regulations to comply with and such regulations are changing frequently;
- various regulations and interest groups may limit the Company's ability to conduct exploration and development activities;
- expensive and time consuming governmental and public reviews may be required to advance projects; and
- the directors and officers own a control position of the shares that may allow them to affect certain corporate actions

## **OUTLOOK**

The Company's long term focus continues to be the discovery of economic uranium deposits and with its cash position of approximately \$2.65 million at August 23, 2011; it is well positioned to continue to work

towards this goal. The Company's expenditures will be focused on the Gumboot, Johnston Lake and Wolverine properties in the Athabasca Basin and on the Dome property in Namibia. Minor work will also be done to advance other properties. The Company continues to benefit from exploration funding contributions from JCU on the Candle property and from JOGMEC on the Marten and Wolverine properties. Exploration expenditures in the near future on the properties in the Hornby Bay Basin are expected to be relatively minor.

Additional drilling has been completed on Gumboot and Wolverine properties during July and August 2011. A soil geochemical survey at Lynx Lake planned for the summer of 2011 has been completed.

### **FORWARD LOOKING STATEMENTS**

Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. Forward looking statements are usually identified by our use of certain terminology, including "will", "believes", "may", "expects", "should", "seeks", "anticipates", "plans" or "intends" or by discussions of strategy or intentions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results or achievements to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the effectiveness of the Company's business model; future operations, products and services; the impact of regulatory initiatives on the Company's operations; the size of and opportunities related to the markets for the Company's products; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance.

Forward-looking statements used in this discussion are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond the control of the Company. If risks or uncertainties materialize, or if underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Forward looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements.

Forward-looking statements included or incorporated by reference in this document include statements with respect to:

- Discussions on the potential to upgrade mineral exploration projects by way of early stage exploration;
- That cash resources are adequate to meet working capital and mineral exploration needs for at least the next year;
- Estimates of the possible effect of changes in interest rates and exchange rates on its future operations;
- Summaries of future activities in the outlook section, and
- The potential of certain mineral exploration properties to host a uranium deposit.