

RIVERSTONE RESOURCES INC.

**#1125-595 Howe Street,
Vancouver, B.C. V6C 2T5
Tel: 604-801-5020
Fax: 604-801-6142**

CONSOLIDATED FINANCIAL STATEMENTS

31 OCTOBER 2009 and 2008

AUDITORS' REPORT

To the Shareholders of
Riverstone Resources Inc.

We have audited the consolidated balance sheet of Riverstone Resources Inc. as at October 31, 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at October 31, 2008 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated February 27, 2009.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

February 15, 2010



Consolidated Balance Sheets

As at 31 October

Canadian Funds

ASSETS	2009	2008
Current		
Cash	\$ 712,030	\$ 187,564
Accounts receivable	27,017	47,548
Prepaid expenses	30,680	108,807
	<u>769,727</u>	<u>343,919</u>
Resource Properties (Note 4)	11,514,659	12,021,464
Equipment (Note 5)	19,205	23,488
	<u>\$ 12,303,591</u>	<u>\$ 12,388,871</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities		
- trade and other	\$ 406,707	\$ 254,219
- related parties	2,637	-
	<u>409,344</u>	<u>254,219</u>
Non-Controlling Interest (Note 11)	<u>288,758</u>	<u>288,758</u>
SHAREHOLDERS' EQUITY		
Share Capital (Note 6a)	16,977,600	14,948,073
Contributed Surplus (Note 6b)	2,337,991	1,782,660
Deficit - Statement 2	(7,710,102)	(4,884,839)
	<u>11,605,489</u>	<u>11,845,894</u>
	<u>\$ 12,303,591</u>	<u>\$ 12,388,871</u>

Going Concern (Note 1)**Commitments** (Note 9)**Contingency** (Note 14)**Subsequent Events** (Note 15)

ON BEHALF OF THE BOARD:

"Michael D. McInnis"

_____, Director

"James Robertson"

_____, Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the Years Ended 31 October

Canadian Funds

	2009	2008
Expenses		
Administration and management fees	\$ 75,200	\$ 96,000
Amortization	7,410	9,322
Consulting fees	44,764	51,616
Interest and financing (Note 13)	43,637	-
Office and general	24,325	15,035
Professional	301,564	187,351
Promotion and public relations	57,937	221,330
Rent and office services	60,504	78,000
Salaries and wages	203,341	125,092
Shareholder information	7,024	12,982
Stock-based compensation (Note 6e)	450,580	348,777
Stock exchange and filing fees	11,617	15,987
Transfer agent	7,137	9,904
Travel and accommodation	26,657	83,847
Loss for the Year Before the Under-Noted	1,321,697	1,255,243
Interest income	(78)	(16,053)
Other income	-	(9,150)
Foreign exchange loss	6,967	589
Write-off of resource property costs (Note 4)	1,496,677	-
Loss for the Year before Income Taxes	2,825,263	1,230,629
Future income tax recovery (Note 8)	-	(138,288)
Loss and Comprehensive Loss for the Year	2,825,263	1,092,341
Deficit - beginning of year	4,884,839	3,792,498
Deficit - End of Year	\$ 7,710,102	\$ 4,884,839
Loss per Share - Basic and Diluted	\$ 0.05	\$ 0.02
Weighted-Average Number of Shares	54,355,642	44,025,774

- See Accompanying Notes -

Consolidated Statements of Cash Flows

For the Years Ended 31 October

Canadian Funds

Cash Resources Provided By (Used In)	2009	2008
Operating Activities		
Loss for the year	\$ (2,825,263)	\$ (1,092,341)
Items not affecting cash		
Amortization	7,410	9,322
Stock-based compensation	450,580	348,777
Shares issued for loan bonus	36,736	-
Write-off of resource property costs	1,496,677	-
Future income tax recovery	-	(138,288)
	(833,860)	(872,530)
Net change in non-cash working capital		
Accounts receivable	20,531	(5,146)
Prepaid expenses	78,127	8,899
Accounts payable and accrued liabilities		
- trade and other	104,851	2,820
- related parties	2,637	(8,240)
	(627,714)	(874,197)
Investing Activities		
Resource property costs	(779,799)	(3,557,477)
Equipment	(3,127)	(10,424)
	(782,926)	(3,567,901)
Financing Activities		
Shares issued for cash	2,100,536	3,450,718
Share issuance costs	(165,430)	(61,499)
Proceeds of loan payable	164,000	-
Repayment of loan payable	(164,000)	-
	1,935,106	3,389,219
Net Increase (Decrease) in Cash	524,466	(1,052,879)
Cash position - beginning of year	187,564	1,240,443
Cash Position - End of Year	\$ 712,030	\$ 187,564
Supplemental Schedule of Non-Cash Investing and Financing Transactions		
Shares issued for resource properties	\$ 85,500	\$ 135,000
Shares issued in settlement of accounts payable	\$ 76,936	\$ -
Future income taxes capitalized to resource properties	\$ -	\$ 138,288
Fair value of warrants issued for resource properties	\$ -	\$ 300,721
Fair value of compensation warrants	\$ 105,084	\$ 11,721
Non-controlling interest's share of resource properties acquired	\$ -	\$ 288,758
Fair value of warrants exercised	\$ 333	\$ -
Fair value of stock options exercised	\$ -	\$ 7,839
Increase (decrease) in resource property accounts payable	\$ 124,573	\$ (15,883)
Supplemental Cash Flow Information		
Interest paid	\$ 6,901	\$ -
Interest received	\$ 369	\$ 19,853

- See Accompanying Notes -

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

1. Going Concern

Riverstone Resources Inc. (the "Company") is in the process of acquiring and exploring several mineral properties located in Burkina Faso and is considered to be in the exploration stage. The Company has not yet determined whether these properties contain economically recoverable reserves.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

Several adverse conditions cast significant doubt upon the validity of this assumption. The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. Consistent with other companies in the mineral exploration industry, the Company has incurred operating losses since inception, has no source of revenue, is unable to self-finance operations, and has significant cash requirements to meet its overhead and maintain its mineral interests. The Company's ability to continue as a going concern is dependent upon its ability to continue to obtain additional financing to maintain operations. While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future.

If the going concern assumption were not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used, and such adjustments would be material.

2. Significant Accounting Policies

a) Consolidation

These consolidated financial statements include the accounts of the Company, its two wholly owned Burkina Faso subsidiaries, Riverstone Resources Burkina sarl and West African Energy sarl, and its 80%-owned subsidiary, Liquidi Malguem Joint Venture-Sarl ("LM-Sarl"), a Burkina Faso corporation formed pursuant to the Company earning its 80% interest in the Liquidi Malguem property (*Note 4b*). LM-Sarl has been accounted for under the purchase method from 15 February 2008, the date that the Company gained control of LM-Sarl. All significant inter-company transactions and balances have been eliminated.

b) Management's Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. The Company's key estimates relate to the recoverability of its resource property costs, the valuation allowance for future income tax assets and liabilities, and the measurement of stock-based compensation. Actual results could differ from these estimates.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

2. Significant Accounting Policies - *Continued*

c) **Loss per Share**

Basic earnings (loss) per share is computed using the weighted-average number of common shares outstanding during the period. The Company uses the treasury stock method to calculate diluted earnings per share, which assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The effect on loss per share of the Company's outstanding options and warrants is anti-dilutive and, therefore, basic and diluted loss per share amounts are the same.

d) **Share Capital**

Share capital issued for non-monetary consideration is recorded at an amount based on the quoted market value of the Company's shares at the time of issuance.

e) **Stock-Based Compensation**

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options and recognizes stock-based compensation in accordance with CICA Handbook Section 3870 – *Stock-Based Compensation and Other Stock-Based Payments*. Employee options are measured at the date of grant and the related compensation expense is recognized over the vesting period. Non-employee options are measured at the earlier of the vesting date and the date that performance is completed; the related compensation expense is recognized over the vesting period.

f) **Resource Properties**

The Company follows the method of accounting for its resource properties whereby all costs related to acquisition, exploration and development are capitalized by project. These costs will be amortized against earnings from future production or written off if the interest is abandoned or sold.

The amounts shown for mineral interests represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values. The recoverability of amounts shown for mineral interests is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects, and on future profitable production or proceeds from the disposition thereof.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining and obtaining clear title to the claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests.

The Company does not accrue the estimated costs of maintaining its mineral interests in good standing.

Management of the Company regularly reviews the net carrying value of each mineral property. Where information and conditions suggest that there has been impairment, a write-down to the estimated fair value is recorded in the statement of operations.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

2. Significant Accounting Policies - *Continued*

g) **Property Option Agreements**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

h) **Equipment**

The Company's equipment consists of computer equipment; amortization is calculated at 30% using the declining balance method.

i) **Asset Retirement Obligations**

The Company has adopted the recommendations of CICA Handbook Section 3110 – *Asset Retirement Obligations*, which requires recognition of a liability for legal obligations relating to the retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. The liability for asset retirement obligations must be recognized at fair value in the period in which it is incurred when a reasonable estimate of fair value can be made. Such retirement costs are added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. The Company has determined that it has no asset retirement obligations at 31 October 2009.

j) **Environmental**

The operations of the Company may, in the future, be affected 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.

k) **Future Income Taxes**

The Company uses the asset and liability method of accounting for income taxes whereby the income tax effects of temporary differences in the time when income and expenses are recognized in accordance with Company accounting practices, and the time they are recognized for income tax purposes, are reflected as future income tax assets or liabilities. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The change in the net future tax asset or liability is included in income in the current year. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

2. Significant Accounting Policies - *Continued*

l) **Foreign Exchange**

Transactions denominated in foreign currencies are recorded during the year at the prevailing exchange rate. Year-end monetary balances denominated in foreign currencies are translated into Canadian dollars at year-end rates. Translation gains and losses are recorded as income or expense in the current year.

m) **Financial Instruments**

The Company has adopted the recommendations of CICA Handbook Section 3855 – *Financial Instruments – Recognition and Measurement*, Section 1530 – *Comprehensive Income* and Section 3865 – *Hedges*. These sections provide guidance on the classification, recognition and measurement of financial instruments and hedges in the financial statements and the inclusion of other comprehensive income.

n) **Non-Controlling Interest**

A non-controlling interest exists in a subsidiary of the Company and represents the outside interest's share of the carrying value of the subsidiary.

o) **Recent accounting pronouncements**

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011, but has not yet determined the impact the transition to IFRS will have on the Company's financial statements.

Business Combinations; Consolidated Financial Statements and Non-Controlling Interests

In January 2008, the CICA issued Handbook Sections 1582 – *Business Combinations*; 1601 – *Consolidated Financial Statements*; and 1602 – *Non-Controlling Interests*. These sections replace the former CICA Handbook Section 1581 – *Business Combinations* and CICA 1600 – *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. These sections also provide the Canadian equivalent to IFRS 3 – *Business Combinations* and IAS 27 – *Consolidated and Separate Financial Statements*.

CICA 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. CICA 1601 and CICA 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Management has not yet evaluated the impact of these standards on the Company's financial statements.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

3. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, and accounts payable and accrued liabilities. Cash is classified as Assets Held-For-Trading and carried at fair value. All of the Company's other financial instruments are carried at amortized cost. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

The Company's Canadian cash is held in an interest bearing account at a major Canadian bank and such balances earn interest at market rates. The Company also maintains cash in the currency of West Africa ("CFA"), which it uses to fund its foreign projects. The cash balances and payables that are denominated in CFA are subject to currency risk due to fluctuations in the exchange rate between the Canadian dollar and the CFA. To manage this currency risk, the Company maintains only the minimum amount of foreign cash necessary to fund its ongoing exploration expenditures. As at October 31, 2009, the Company had the equivalent of \$11,554 in CFA; accounts payable denominated in CFA totalled \$305,934. In most cases, accounts payable are settled in a timely manner.

Considering the magnitude of and the timing of changes in the Company's financial instruments, it is management's opinion that the Company is not exposed to any significant credit, interest rate, liquidity or market risks in respect of these financial instruments. The Company's policies and processes of managing all risks associated with its financial instruments have not changed during the current year.

4. Resource Properties

a) Rambo Property, Burkina Faso, West Africa

During fiscal 2008, the Company acquired a 100% interest in the Rambo property located in Burkina Faso, West Africa. The property is subject to a 3% net smelter return royalty ("NSR"). The Company acquired its interest by completing cash payments of US\$240,000, issuing 250,000 shares to the optionors, and incurring minimum exploration expenditures of US\$500,000.

b) Liguidi Malguem Property, Burkina Faso, West Africa

During fiscal 2007, the Company acquired an 80% interest in the Liguidi Malguem property located in Burkina Faso, West Africa by completing cash payments of US\$95,000 to the optionor and incurring minimum exploration expenditures of US\$210,000. During fiscal 2008, the Company and the optionor executed a joint venture agreement, with dilution provisions, as provided for in the option agreement, and will continue to develop the property through LM-Sarl, a Burkinabé subsidiary controlled by the Company (*Note 11*). As at 31 October 2009, LM-Sarl had no significant operations or liabilities, and its only significant asset is the Liguidi Malguem property (*Note 14*).

During fiscal 2008, the Company entered into a Memorandum of Understanding with Teck Cominco Limited ("Teck") in respect of the Liguidi Malguem property. As a result, Teck subscribed for 1.75 million units of the Company on a private placement basis at a price of \$0.60 per unit (*Note 6a*), representing the first tranche of a total 3.5 million unit private placement. The agreement required that the Company cause the optionor to transfer the Liguidi Malguem permit into the name of LM-Sarl by the 7 December 2008. The optionor did not effect the transfer by the deadline (*Note 14*), therefore, Teck is no longer obligated to fund the second tranche of 1.75 million units at a price of \$0.60 per unit or continue with the option agreement.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

4. Resource Properties – Continued

c) Bissa Area Properties, Burkina Faso, West Africa

Bissa East: The Company has entered into an option agreement to acquire a 90% interest in the Tangapella and Sebila properties in the Bissa area of Burkina Faso. The agreement calls for cash payments and exploration expenditures as follows:

	Cash Payment U.S. Funds	Exploration Expenditures
Upon signing of the agreement <i>(paid)</i>	\$ 50,000	\$ -
On or before 5 June 2007 <i>(completed)</i>	-	290,000
On or before 9 March 2007 <i>(paid)</i>	30,000	-
On or before 9 March 2008 <i>(paid)</i>	30,000	-
On or before 9 March 2009 <i>(i)</i>	30,000	-
	\$ 140,000	\$ 290,000

(i) During the year, the Company paid the US\$15,000 payment due on the Tangapella property and earned its 90% interest. On 9 March 2009, the Company abandoned the Sebila project and consequently did not make the remaining US\$15,000 payment due on this property.

The Company has also acquired government exploration permits for the Biliga and Malgtaba properties located adjacent to the Tangapella and Sebila properties. During the year ended 31 October 2009, the Company abandoned the Sebila and Malgtaba properties and wrote off \$679,454 in cumulative costs.

Bissa West: The Company has acquired government exploration permits for the Bissiga and Pella properties and has entered into an option agreement to acquire a 90% interest in the Bouboulou property, which is located adjacent to the Bissiga property. The Bouboulou agreement calls for the Company to incur exploration expenditures of \$125,000 by 28 July 2009 (incurred). During the year ended 31 October 2009, the Company abandoned the Bissiga and Pella properties and wrote off \$378,761 in cumulative costs.

d) Goulagou and Rounga Properties, Burkina Faso, West Africa

During fiscal 2007, the Company entered into an agreement with Golden Star Resources Ltd. ("Golden Star"), which grants the Company the option to acquire a 90% interest in the Goulagou and Rounga properties located adjacent to the Company's Rambo and Kao properties. To maintain and exercise its option, the Company must issue 2,000,000 warrants, 2,000,000 shares, incur \$4,000,000 in exploration expenditures, and pay US\$18,600,000 in cash, shares, or a combination thereof, at the Company's option, on or before 10 January 2012.

The 2,000,000 warrants were issued on 10 January 2008 and are exercisable at any time for up to four years at a price of \$0.30 in the first year, \$0.35 in the second year, \$0.40 in the third year, and \$0.45 in the fourth year. The warrants were assigned a fair value of \$300,721 using the Black-Scholes Option-Pricing Model with the following assumptions: risk-free interest rate of 3.34%, expected dividend yield of 0.00%, estimated stock price volatility of 78.9%, and expected option life of 3.00 years. In addition, the Company has capitalized the estimated future income tax related to the warrants of \$138,288 (Note 8).

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

4. Resource Properties – Continued

d) Goulagou and Rounga Properties, Burkina Faso, West Africa - Continued

The share issuances and exploration expenditures required to maintain the option are as follows:

	Shares		Exploration Expenditures
Upon signing of the agreement (<i>issued</i>)	300,000	\$	-
On or before 10 January 2009 (<i>issued, completed</i>)	400,000		500,000
On or before 10 January 2010 (<i>Note 15</i>)	600,000		750,000
On or before 10 January 2011	700,000		1,250,000
On or before 10 January 2012	-		1,500,000
	2,000,000	\$	4,000,000

Golden Star retains an NSR of between 0% and 2% depending on the quantity of gold produced. The Company can increase its interest to 100% by paying a third party US\$1,000,000 on or before 12 months after the first production of gold from the properties. Thereafter, the third party will retain a 5% net profits interest, which can be purchased by the Company for US\$500,000. A finder's fee of \$45,000 and 150,000 shares was due to an arm's length party in respect of the transaction. Accordingly, during the year, the Company issued 150,000 shares and settled the \$45,000 cash payment with the issuance of 236,842 shares at a price of \$0.19 per share (*Note 6a*).

e) Other Properties, Burkina Faso, West Africa

The Company has acquired government exploration permits granting the Company a 100% interest in the Solna, Kao, Yaramoko, Yantara, and Teyango properties located in Burkina Faso.

In addition, the Company has signed an option agreement to acquire a 90% interest in the Tao property. The agreement calls for cash payments and exploration expenditures as follows:

	Cash Payment U.S. Funds		Exploration Expenditures
Upon signing of the agreement (<i>paid</i>)	\$ 42,000	\$	-
On or before 19 October 2007 (<i>completed</i>)	-		110,000
On or before 9 April 2007 (<i>paid</i>)	30,000		-
On or before 9 April 2008 (<i>paid</i>)	30,000		-
On or before 9 April 2009 (<i>i</i>)	30,000		-
	\$ 132,000	\$	110,000

(i) On 9 April 2009, the Company abandoned the Tao property and consequently did not make the remaining payment of US\$30,000. The Company wrote off \$438,462 in cumulative costs relating to the Tao property during the year ended 31 October 2009.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

4. Resource Properties – Continued

f) Additions for the year and cumulative expenditures as at 31 October are as follows:

2009	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Rambo	\$ -	\$ 107,259	\$ 107,259	\$ 2,713,495
Liguidi Malguem (Note 11)	-	29,461	29,461	1,876,665
Solna	-	17,055	17,055	390,329
Kao	-	272,520	272,520	2,663,345
Yaramoko	-	18,052	18,052	525,052
Tao	-	10,394	10,394	438,462
Yantara	-	12,603	12,603	68,582
Teyango	-	12,579	12,579	77,269
Bissa East	18,209	78,648	96,857	1,833,121
Bissa West	-	32,643	32,643	546,385
Goulagou	85,500	278,106	363,606	1,785,003
Rounga	-	16,843	16,843	93,628
Accumulated write-downs (i)	-	-	-	(1,496,677)
	\$ 103,709	\$ 886,163	\$ 989,872	\$ 11,514,659

2008	Acquisition	Exploration	Total Additions	Cumulative Expenditures
Rambo	\$ 65,470	\$ 202,394	\$ 267,864	\$ 2,606,236
Liguidi Malguem (Note 11)	288,758	561,813	850,571	1,847,204
Solna	-	51,663	51,663	373,274
Kao	-	1,165,416	1,165,416	2,390,825
Yaramoko	-	214,903	214,903	507,000
Tao	30,000	54,032	84,032	428,068
Yantara	-	9,653	9,653	55,979
Teyango	-	16,149	16,149	64,690
Bissa East	30,916	201,442	232,358	1,736,264
Bissa West	-	42,222	42,222	513,742
Goulagou	692,307	700,438	1,392,745	1,421,397
Rounga	-	76,785	76,785	76,785
	\$ 1,107,451	\$ 3,296,910	\$ 4,404,361	\$ 12,021,464

(i) During the year, management reduced the Company's inventory of properties and recorded a write-down on the abandonment of non-core properties as follows:

	31 October 2009	Cumulative
Tao	\$ 438,462	\$ 438,462
Bissa East	679,454	679,454
Bissa West	378,761	378,761
	\$ 1,496,677	\$ 1,496,677

All Burkina Faso properties are subject to a standard government 10% carried interest upon commencing production. To the best of the Company's knowledge, ownership of its mineral interests is in good standing as at 31 October 2009.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

5. Equipment

Details as at 31 October are as follows:

2009	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 45,493	\$ 26,288	\$ 19,205
2008	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 42,366	\$ 18,878	\$ 23,488

6. Share Capital and Contributed Surplus

The authorized share capital of the company consists of an unlimited number of common shares without par value.

a) Details are as follows:

	Shares	Amount
Balance – 31 October 2007	40,243,030	\$ 11,427,736
Private placement (i)	4,165,311	1,582,818
Private placement (ii)	1,750,000	1,050,000
Share issuance costs	-	(73,220)
Shares issued for property (Note 4a)	50,000	15,000
Shares issued for property (Note 4d)	300,000	120,000
Shares issued on exercise of warrants	1,570,000	750,000
Shares issued on exercise of options	485,000	67,900
Fair value of options exercised (Note 6b)	-	7,839
Balance – 31 October 2008	48,563,341	14,948,073
Private placement (iii)	14,000,000	2,100,000
Share issuance costs	-	(270,514)
Shares issued for property (Note 4d)	400,000	48,000
Shares issued for property finder's fee (Note 4d)	150,000	37,500
Shares issued for loan bonus (Note 13)	262,400	36,736
Shares issued in settlement of accounts payable (iv)	404,929	76,936
Shares issued on exercise of warrants	2,680	536
Fair value of warrants exercised (Note 6b)	-	333
Balance – 31 October 2009	63,783,350	\$ 16,977,600

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

6. Share Capital and Contributed Surplus – *Continued*

a) Details are as follows:

- (i) During fiscal 2008, the Company completed a private placement of 4,165,311 units at a price of \$0.38 per unit for gross proceeds of \$1,582,818. Each Unit consisted of one common share and one-half of one warrant, each whole warrant entitling the holder to purchase one additional common share at a price of \$0.60 per share until 12 December 2009. The Company paid finders' fees of \$33,330 and issued 87,701 compensation options exercisable to acquire a unit at \$0.38 per unit with each unit having the same terms and conditions as the private placement units. The fair value of the 87,701 compensation options was estimated at \$11,721 using the Black-Scholes Option-Pricing Model with the following assumptions: risk-free interest rate of 3.40%, expected dividend yield of 0.00%, estimated stock price volatility of 66.43%, and expected option life of 1.50 years.
- (ii) During fiscal 2008, the Company completed the first tranche of a private placement with Teck in respect of its option agreement on the Liguidi property (*Note 4b*). The Company issued 1.75 million units at a price of \$0.60 per unit for cash proceeds of \$1,050,000 in accordance with the agreement. Each unit consisted of one common share and one warrant entitling Teck to purchase one additional common share at a price of \$1.20 per share until 16 June 2010.
- (iii) During fiscal 2009, the Company completed a private placement of 14,000,000 units ("Units") at a price of \$0.15 per Unit for gross proceeds of \$2,100,000. Each Unit consisted of one common share and one-half of one warrant, each whole warrant entitling the holder to purchase one additional common share at a price of \$0.20 per share until 17 June 2011. The Company paid finders' fees of approximately \$126,000 and issued 845,976 compensation warrants having the same terms and conditions as the warrants issued under the private placement. The value of the compensation warrants was estimated at \$105,084 using the Black-Scholes Option-Pricing Model with the following assumptions: risk-free interest rate of 1.36%, expected dividend yield of 0.00%, estimated stock price volatility of 123.1%, and expected option life of 2.00 years.
- (iv) During fiscal 2009, the Company issued 404,929 shares at a price of \$0.19 in settlement of accounts payable totalling \$ 76,936.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

6. Share Capital and Contributed Surplus – Continued

b) Contributed Surplus

Details are as follows:

Balance – 31 October 2007	\$ 1,129,280
Stock-based compensation (Note 6e)	348,777
Fair value of warrants issued for property (Note 4d)	300,721
Fair value of compensation options (Note 6a)	11,721
Fair value relating to 485,000 stock options exercised (Note 6a)	<u>(7,839)</u>
Balance – 31 October 2008	1,782,660
Stock-based compensation (Note 6e)	450,580
Fair value of compensation warrants (Note 6a)	105,084
Fair value relating to 2,680 compensation warrants exercised (Note 6a)	<u>(333)</u>
Balance – 31 October 2009	<u>\$ 2,337,991</u>

c) Details of share purchase warrant activities are as follows:

Balance – 31 October 2007	10,421,125
Issued	5,964,205
Exercised	(1,570,000)
Expired	<u>(8,851,125)</u>
Balance – 31 October 2008	5,964,205
Issued	7,845,976
Exercised	<u>(2,680)</u>
Balance – 31 October 2009	<u>13,807,501</u>

As at 31 October 2009, the Company had share purchase warrants outstanding entitling the holder to purchase common shares of the Company as follows:

	Exercise Price	Expiry Date
2,000,000	\$ 0.30*	10 January 2012
2,082,654	\$ 0.60	12 December 2009
131,551	\$ 0.60	12 December 2009
1,750,000	\$ 1.20	16 June 2010
7,000,000	\$ 0.20	17 June 2011
<u>843,296</u>	\$ 0.20	17 June 2011
<u>13,807,501</u>		

* Warrants are exercisable at \$0.35 to 10 January 2010, \$0.40 to 10 January 2011, and \$0.45 to 10 January 2012.

Notes to Consolidated Financial Statements

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Canadian Funds

6. Share Capital and Contributed Surplus – Continued

- d) The Company has a fixed stock option plan that provides for the issuance of up to 20% of the issued and outstanding shares of the Company. The board of directors is authorized to set the exercise price, expiry date, and vesting provisions for each grant, subject to the policies of the TSX Venture Exchange. The plan provides for a maximum grant period of five years, and minimum vesting provisions which extend over 18 months. The Company's stock options vest as to 25% on the date of the grant and 12.5% each quarter thereafter. Details of are as follows:

	Number	Weighted Average Exercise Price
Balance – 31 October 2007	4,785,000	\$ 0.29
Granted	1,340,000	\$ 0.33
Exercised	(485,000)	\$ 0.14
Balance – 31 October 2008	5,640,000	\$ 0.30
Granted	3,190,000	\$ 0.24
Expired	(1,175,000)	\$ 0.22
Balance – 31 October 2009	7,655,000	\$ 0.22

As at 31 October 2009, the Company had stock options outstanding entitling the holder to purchase common shares of the Company as follows:

Grant Date		Exercise Price	Expiry Date
13 April 2005 (i)	75,000	\$ 0.205	13 April 2010
28 September 2005 (i)	60,000	\$ 0.205	28 September 2010
26 January 2006 (i)	500,000	\$ 0.205	26 January 2011
27 February 2006 (i)	250,000	\$ 0.205	27 February 2011
18 April 2006 (i)	200,000	\$ 0.205	18 April 2011
13 October 2006 (i)	885,000	\$ 0.205	13 October 2011
9 July 2007 (i)	1,185,000	\$ 0.205	8 July 2012
18 October 2007 (i)	150,000	\$ 0.205	18 October 2012
3 December 2007 (i)	180,000	\$ 0.205	3 December 2009
6 February 2008 (i)	980,000	\$ 0.205	6 February 2013
28 January 2009	730,000	\$ 0.205	28 January 2014
9 September 2009	2,460,000	\$ 0.25	9 September 2014
	<u>7,655,000</u>		

The outstanding options have a weighted average remaining life of 3.26 years (2008 – 2.67 years). As at 31 October 2009, 5,536,250 (2008 – 4,860,625) of these options have vested and are exercisable and have a weighted-average exercise price of \$0.21 (2008 - \$0.30).

- (i) On 28 January 2009, the Company re-priced these options, at prices ranging from \$0.40 to \$0.26 per share, to a new exercise price of \$0.205 per share. All other terms of the grants remain unchanged.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

6. Share Capital and Contributed Surplus – Continued**e) Stock-Based Compensation**

For the years ended 31 October, the Company granted stock options to its directors, officers and employees and estimated stock-based compensation as follows:

	2009	2008
Total options granted	3,190,000	1,340,000
Average exercise price	\$ 0.24	\$ 0.33
Estimated fair value of compensation	\$ 590,398	\$ 273,350
Estimated fair value per option	\$ 0.18	\$ 0.20

For new grants of options made during the year, the fair value of the stock-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2009	2008
Risk-free interest rate	2.48%	3.47%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	99.03%	87.22%
Expected option life in years	5.00	4.26

During the year, the Company re-priced 5,295,000 stock options and has estimated incremental stock-based compensation of \$87,429 in respect of the re-priced options, which, based on the vesting of these options, has been recognized in the current year. The incremental stock-based compensation was estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2009	2008
Risk-free interest rate	1.48%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	124.46%	-
Expected option life in years	2.59	-

The Company's stock options vest as to 25% on the date of the grant and 12.5% each quarter thereafter. The Company has recorded stock-based compensation for options that vested during the year as follows:

	2009	2008
Number of options vested in the year	1,850,625	1,628,750
Stock-based compensation expense	\$ 363,151	\$ 348,777
Stock-based compensation expense – re-pricings	87,429	-
	\$ 450,580	\$ 348,777

Option pricing models require the input of highly subjective assumptions, particularly as to the expected price volatility of the stock. Changes in these assumptions can materially affect the fair value estimated, and therefore it is management's view that the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock option grants.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

7. Related Party Transactions

Related party transactions not disclosed elsewhere in these financial statements are as follows:

- a) Administration and management fees and salaries paid to directors and companies controlled by directors - \$111,200 (2008 - \$96,000);
- b) Rent and office services fees paid to a company with directors in common - \$40,000 (2008 - \$78,000);
- c) Graphic design and drafting fees paid to parties related to directors \$1,295 (2008 - \$3,930);
- d) Investor relations fees paid to a director - \$36,000 (2008 - \$36,000).

The above transactions were conducted in the normal course of operations and were measured at the exchange amount, which is the amount of consideration agreed upon between the Company and the related parties.

8. Income Taxes

The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended October 31 are as follows:

	2009	2008
Loss before income taxes for accounting purposes	\$ (2,825,263)	\$ (1,230,629)
Statutory tax rate	30.08%	31.00%
Expected tax recovery for the year	(849,924)	(381,495)
Tax effect of differences in deductibility of expenses for accounting and tax purposes:		
Amortization	2,229	2,890
Stock-based compensation	135,548	108,121
Write-off of resource property costs	450,245	-
Share issuance costs	(43,762)	(39,762)
Non-deductible and other items	573	2,070
Current income tax recovery	(305,091)	(308,176)
Future income taxes relating to temporary differences	20,522	178,286
Future income taxes relating to change in tax rates	53,962	72,652
Change in valuation allowance	230,607	(81,050)
Future income tax expense	305,091	169,888
Tax expense (recovery) for the year	\$ -	\$ (138,288)

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

8. Income Taxes – continued

Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets and liabilities as at October 31 are as follows:

	2009	2008
Future Income Tax Assets		
Non-capital loss carry-forwards	\$ 1,001,374	\$ 824,371
Mineral property expenditures	-	-
Equipment	5,791	5,852
Share issuance costs	63,898	72,128
	<u>1,071,063</u>	<u>902,351</u>
Valuation allowance	(961,311)	(764,063)
Net future income tax assets	<u>109,752</u>	<u>138,288</u>
Future Income Tax Liabilities		
Mineral property expenditures	(109,752)	(142,187)
Valuation allowance	-	3,899
Net future income tax liabilities	<u>(109,752)</u>	<u>(138,288)</u>
Net future income tax assets (liabilities)	<u>\$ -</u>	<u>\$ -</u>

During fiscal 2008, the Company recognized non-capital tax loss carry-forwards, which had previously been subject to a full valuation allowance, producing a future income tax recovery and future income tax asset of \$138,288. This future income tax asset has been offset against the future income tax liability created upon the capitalization of 2,000,000 warrants issued in the period pursuant to the Goulagou property agreement (*Note 4d*).

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

Year of Expiry	Amount
2010	\$ 116,000
2014	239,000
2015	381,000
2026	549,000
2027	740,000
2028	989,000
2029	<u>992,000</u>
	<u>\$ 4,006,000</u>

The Company has approximately \$11,076,000 of resource related expenditures that may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

9. Commitments

The Company has a management services agreement with one of its directors that calls for payment of \$4,000 per month. The contract is for a rolling two-year term that renews automatically each year, unless otherwise terminated or altered by mutual consent. Should the Company terminate this contract without cause, it would become liable for the total amount payable under the contract for the remaining term. Subject to certain conditions, the monthly payment has been reduced to \$2,400 for the period from 1 July 2009 to 31 March 2010.

The Company has an employment agreement with one of its directors that calls for payment of \$15,000 per month. The contract provides for severance of 12 months should the contract be terminated without cause. The contract also contains additional severance provisions in the event of a change of control or take-over of the Company. Subject to certain conditions, the monthly payment has been reduced to \$9,000 for the period from 1 July 2009 to 31 March 2010.

The Company has leased office premises until 31 March 2012 that require future minimum lease payments (based on 2009 operating costs) as follows:

Fiscal year	Amount
2010	\$ 42,725
2011	51,743
2012	22,842
	<hr/>
	\$ 117,310

The lease contains early termination provisions in the event of a take-over of the Company.

10. Capital Disclosures

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account until such time as it is required to pay operating expenses or resource property costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the year.

11. Non-Controlling Interest

On 15 February 2008, by virtue of its 80% voting interest, the Company gained control of LM-Sarl (*Note 4b*). LM-Sarl's only function is to hold title to and explore the Liguidi Malguem property (*Note 14*). The non-controlling interest is recorded at the carrying value and adjusted by the non-controlling interest's portion of any subsequent income or loss. The non-controlling interest's share of the carrying value of the Liguidi Malguem property is \$288,758. LM-Sarl has no other significant assets or liabilities and had no results of operations for the period from inception to 31 October 2009.

Notes to Consolidated Financial Statements

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12. Segmented Information

The company currently operates in only one operating segment, that being the mining exploration industry. The Company operates in the following geographical segments:

2009	Canada		West Africa		Total
Resource properties	\$	-	\$	11,514,659	\$ 11,514,659
Equipment	\$	19,205	\$	-	\$ 19,205

2008	Canada		West Africa		Total
Resource properties	\$	-	\$	12,021,464	\$ 12,021,464
Equipment	\$	23,488	\$	-	\$ 23,488

13. Loan Payable

In March 2009, the Company received cash proceeds of \$164,000 through a loan from directors, officers, and consultants of the company. The loan had a term of one year with interest at the rate of 12% per annum and was repaid during the year. The Company issued 262,400 shares from treasury to the lenders at a price of \$0.14 per share as a bonus for advancing the loan (*Note 6a*). Directors and parties related to the directors of the Company advanced a total of \$125,000 under the loan and received 200,000 shares and interest totalling \$5,260.

14. Contingency

During fiscal 2007, the Company acquired an 80% interest in the Liguidi Malguem property through an earn-in option agreement. In February 2008 the Company formed an incorporated joint venture (LM-Sarl) with the intention to hold the Liguidi Malguem permit following transfer from the joint venture partner ("JV Partner") (*Note 4b*). The JV Partner has not complied with the terms of the joint venture agreement and has not effected the transfer of the Liguidi Malguem permit to LM-Sarl. In October 2008, the JV Partner began legal proceedings to withdraw from the joint venture and to block the Company's efforts to have the permit transferred. The Burkina Faso court heard the dispute in January 2009 and a decision was rendered in favour of the Company. The JV Partner filed an appeal of the decision and in June 2009, the appeal court reversed the January 2009 decision.

In late 2009, the Company filed a suit with the court requesting that the court determine that the permit belongs to LM-Sarl, and to order the JV Partner to immediately transfer the permit to LM-Sarl. The case was heard by the court in December 2009 and in January 2010, the court ruled in favour of the Company, that the permit belongs to LM-Sarl, that the JV Partner had no grounds to withdraw from LM-Sarl, and ordered the JV Partner to immediately transfer the permit to LM-Sarl and to pay a fine of CFA 100,000 for each day that the transfer of the permit was delayed. To date, the permit has not been transferred to LM-Sarl and the JV Partner has filed a further appeal.

Notes to Consolidated Financial Statements

31 October 2009 and 2008

Canadian Funds

15. Subsequent Events

Subsequent to 31 October 2009, the Company:

- a) issued 150,000 special warrants to the president of the Company, as a bonus. Subject to shareholder approval, the special warrants are convertible into 150,000 shares of the Company for no cash consideration;
 - b) granted 150,000 five-year incentive stock options at an exercise price of \$0.205 per share to a consultant of the Company;
 - c) issued 600,000 shares to Golden Star under the Goulagou/Rounga option agreement (*Note 4d*);
 - d) issued 2,018,560 shares upon the exercise of warrants for cash proceeds of \$403,712;
 - e) completed a private placement of 6,000,000 units ("Units") at a price of \$0.30 per Unit for gross proceeds of \$1,800,000. Each Unit consisted of one common share and one warrant with each warrant entitling the holder to purchase one additional common share at a price of \$0.40 per share until 8 February 2011 and thereafter at a price of \$0.60 per share until 8 February 2012. The Company issued 400,000 Units and 400,000 warrants as a finder's fee; each Unit has the same terms and conditions as the Units issued under the private placement and each warrant entitles the holder to purchase one additional share at a price of \$0.40 per share until 8 February 2011 and thereafter at a price of \$0.60 per share until 8 February 2012.
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