

# **RIVERSTONE RESOURCES INC.**

**#906-595 Howe Street,  
Vancouver, B.C. V6C 2T5  
Tel: 604-801-5020  
Fax: 604-801-6075**

**FINANCIAL STATEMENTS**

**31 OCTOBER 2006 and 2005**

## Auditor's Report

To the Shareholders of Riverstone Resources Inc.:

We have audited the balance sheet of Riverstone Resources Inc. (the "Company") as at October 31, 2006 and the statements of 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 audits.

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

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

The financial statements as at October 31, 2005, and for the year then ended, were audited by predecessor auditors who expressed an opinion without reservation on those statements in their report dated February 13, 2006.

*(Signed) PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Vancouver, British Columbia  
February 23, 2007

**Balance Sheets**

As at 31 October

Canadian Funds

<b>ASSETS</b>	<b>2006</b>	<b>2005</b>
<b>Current</b>		
Cash	\$ 1,379,694	\$ 97,036
Accounts receivable	48,666	37,734
Prepaid expenses	31,145	11,932
	<u>1,459,505</u>	<u>146,702</u>
<b>Resource Property Costs - Schedule (Note 4)</b>	<b>5,219,403</b>	<b>3,304,973</b>
<b>Plant and Equipment (Note 5)</b>	<b>10,437</b>	<b>8,959</b>
	<u>\$ 6,689,345</u>	<u>\$ 3,460,634</u>
 <b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities		
- trade and other	\$ 229,818	\$ 230,533
- related parties	1,445	53,898
	<u>231,263</u>	<u>284,431</u>
<b>Going Concern (Note 1)</b>		
<b>Commitments (Note 9)</b>		
 <b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital (Note 6a)</b>	<b>8,413,817</b>	<b>4,660,254</b>
<b>Contributed Surplus (Note 6b)</b>	<b>856,143</b>	<b>654,300</b>
<b>Deficit - Statement 2</b>	<b>(2,811,878)</b>	<b>(2,138,351)</b>
	<u>6,458,082</u>	<u>3,176,203</u>
	<u>\$ 6,689,345</u>	<u>\$ 3,460,634</u>

ON BEHALF OF THE BOARD:

"Michael D. McInnis"

\_\_\_\_\_, Director

"James Robertson"

\_\_\_\_\_, Director

- See Accompanying Notes -

**Statements of Loss and Deficit**

For the Years Ended 31 October

Canadian Funds

	2006	2005
<b>Indirect and Administrative</b>		
Administration and management fees (Note 7a)	\$ 96,000	\$ 123,500
Amortization	3,381	825
Consulting fees	39,875	36,504
Foreign exchange gain	(5,488)	(1,805)
General exploration	16,785	335
Interest and financing (Note 7d)	20,293	-
Office and general	11,657	9,676
Professional	87,493	65,380
Promotion and public relations	65,123	30,684
Rent and office services (Note 7b)	48,000	48,000
Salaries and wages	55,515	-
Shareholder information	12,537	10,734
Stock-based compensation (Note 6f)	201,667	192,509
Stock exchange and filing fees	15,943	6,782
Transfer agent	10,039	7,948
Travel and promotion	33,590	17,917
<b>Loss for the Year Before the Under-Noted</b>	<b>712,410</b>	<b>548,989</b>
Interest income	(38,883)	(3,365)
<b>Loss for the Year</b>	<b>673,527</b>	<b>545,624</b>
Deficit - beginning of year	2,138,351	1,592,727
<b>Deficit - End of Year</b>	<b>\$ 2,811,878</b>	<b>\$ 2,138,351</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ 0.03</b>	<b>\$ 0.04</b>
<b>Weighted-Average Number of Shares</b>	<b>23,307,725</b>	<b>13,565,111</b>

- See Accompanying Notes -

**Statements of Cash Flows**

For the Years Ended 31 October

Canadian Funds

<b>Cash Resources Provided By (Used In)</b>	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Loss for the year	\$ (673,527)	\$ (545,624)
Items not affecting cash		
Amortization	3,381	825
Stock-based compensation	201,667	192,509
Shares issued for loan bonus	18,000	-
	<u>(450,479)</u>	<u>(352,290)</u>
Net change in non-cash working capital		
Accounts receivable	(10,932)	(10,225)
Prepaid expenses	(19,213)	61
Accounts payable and accrued liabilities		
- trade and other	(40,994)	40,739
- related parties	(52,453)	53,898
	<u>(574,071)</u>	<u>(267,817)</u>
<b>Investing Activities</b>		
Resource property costs	(1,846,475)	(1,851,453)
Plant and equipment	(4,859)	(9,784)
	<u>(1,851,334)</u>	<u>(1,861,237)</u>
<b>Financing Activities</b>		
Shares issued for cash	4,042,097	1,456,701
Share issuance costs	(334,034)	(115,945)
	<u>3,708,063</u>	<u>1,340,756</u>
<b>Net Increase (Decrease) in Cash</b>	<b>1,282,658</b>	<b>(788,298)</b>
Cash position - beginning of year	97,036	885,334
<b>Cash Position - End of Year</b>	<b>\$ 1,379,694</b>	<b>\$ 97,036</b>

**Supplemental Schedule of Non-Cash Investing and Financing Transactions**

Shares issued for resource properties	\$ 27,500	\$ 27,500
Stock-based compensation recorded for resource properties	\$ 176	\$ 20,270
Increase (decrease) in accounts payable – resource property costs	\$ 40,279	\$ (119,524)

**Supplemental Cash Flow Information**

Interest paid	\$ 2,293	\$ -
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- See Accompanying Notes -

**Schedules of Resource Property Costs**

For the Years Ended 31 October

Canadian Funds

	2006	2005
<b>Burkina Faso, West Africa</b>		
<b>Rambo Property</b>		
Acquisition and option payments	\$ 84,082	\$ 89,159
Camp and general	37,305	114,600
Consulting	1,946	6,367
Drilling	-	89,434
Geochemical and assay	78	4,721
Geological	75,756	123,528
Lease, licenses and taxes	8,305	2,150
Local labour	110	10,663
Project management	14,147	12,951
Report preparation	-	1,139
Stock-based compensation (Note 6f)	176	20,270
Transportation	5,894	27,942
	<b>227,799</b>	<b>502,924</b>
<b>Liguidi Malguem Property</b>		
Acquisition and option payments	-	78,772
Camp and general	53,571	177,267
Consulting	2,053	13,964
Drilling	-	62,968
Geochemical and assay	9,911	134,076
Geological	91,711	144,710
Lease, licenses and taxes	7,277	3,061
Local labour	626	33,371
Project management	9,468	23,927
Report preparation	-	786
Transportation	22,941	55,360
	<b>197,558</b>	<b>728,262</b>
<b>Solna Property</b>		
Camp and general	18,798	62,191
Consulting	1,196	6,092
Geochemical and assay	78	17,887
Geological	48,961	77,822
Lease, licenses and taxes	5,911	3,564
Local labour	-	16,983
Project management	7,064	13,464
Report preparation	-	133
Transportation	890	23,002
	<b>82,898</b>	<b>221,138</b>
<b>Balances Carried Forward</b>	<b>\$ 508,255</b>	<b>\$ 1,452,324</b>

- See Accompanying Notes -

**Schedules of Resource Property Costs**

For the Years Ended 31 October

Canadian Funds

	2006	2005
<b>Balances Brought Forward</b>	<b>\$ 508,255</b>	<b>\$ 1,452,324</b>
<b>Burkina Faso, West Africa - Continued</b>		
<b>Kao Property</b>		
Camp and general	74,469	41,051
Consulting	3,319	-
Drilling	124,435	-
Geochemical and assay	32,159	49,639
Geological	53,456	54,110
Lease, licenses and taxes	8,002	3,457
Local labour	4,423	2,384
Project management	7,429	8,375
Transportation	9,962	16,175
	<b>317,654</b>	<b>175,191</b>
<b>Yaramoko Property</b>		
Camp and general	11,085	40,531
Consulting	1,196	755
Geochemical and assay	77	42,593
Geological	25,198	38,576
Lease, licenses and taxes	6,737	2,062
Local labour	-	2,304
Project management	5,351	7,578
Transportation	1,031	10,542
	<b>50,675</b>	<b>144,941</b>
<b>Tao Property</b>		
Acquisition and option payments	48,223	-
Camp and general	64,357	-
Consulting	2,123	-
Drilling	79,364	-
Geochemical and assay	20,277	-
Geological	33,796	-
Local labour	2,753	-
Project management	1,616	-
Transportation	19,450	-
	<b>271,959</b>	<b>-</b>
<b>Balances Carried Forward</b>	<b>\$ 1,148,543</b>	<b>\$ 1,772,456</b>

- See Accompanying Notes -

**Schedules of Resource Property Costs**

For the Years Ended 31 October

Canadian Funds

	2006	2005
<b>Balances Brought Forward</b>	<b>\$ 1,148,543</b>	<b>\$ 1,772,456</b>
<b>Burkina Faso, West Africa - Continued</b>		
<b>Bissa East Properties</b>		
Acquisition and option payments	57,142	-
Camp and general	163,383	-
Consulting	3,149	-
Drilling	56,666	-
Geochemical and assay	183,046	-
Geological	106,781	-
Lease, licenses and taxes	9,577	-
Local labour	14,409	-
Project management	3,099	-
Transportation	60,404	-
	<b>657,656</b>	<b>-</b>
<b>Bissa West Properties</b>		
Camp and general	23,239	-
Geochemical and assay	14,808	-
Geological	22,181	-
Lease, licenses and taxes	10,565	-
Local labour	404	-
Project management	550	-
Transportation	24,018	-
	<b>95,765</b>	<b>-</b>
<b>Other Properties</b>		
Acquisition and option payments	9,096	-
Camp and general	1,083	1,350
Geochemical and assay	-	341
Geological	753	-
Lease, licenses and taxes	1,378	5,552
Project management	69	-
Transportation	87	-
	<b>12,466</b>	<b>7,243</b>
<b>Costs for the Year</b>	<b>1,914,430</b>	<b>1,779,699</b>
Balance - beginning of year	<b>3,304,973</b>	<b>1,525,274</b>
<b>Balance - End of Year</b>	<b>\$ 5,219,403</b>	<b>\$ 3,304,973</b>

- See Accompanying Notes -

## Notes to Financial Statements

31 October 2006 and 2005

Canadian Funds

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### 1. Going Concern

These 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 doubt upon the validity of this assumption. Consistent with other companies in the mining exploration industry, the Company 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 ability to continue as a going concern is dependent upon its ability to generate profitable operations in the future and/or obtain additional financing (*Note 11*). 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 in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

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### 2. Significant Accounting Policies

#### a) 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. Actual results could differ from these estimates.

#### b) 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.

#### c) 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 for a reasonable period prior to the share issuance.

#### d) Stock-Based Compensation

The Company has adopted the recommendations of CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, which requires that all stock-based awards made to employees and non-employees be measured and recognized using a fair-value based method. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options at the time of the grant and recognizes the related compensation expense over the vesting period.

## Notes to Financial Statements

31 October 2006 and 2005

Canadian Funds

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### 2. Significant Accounting Policies - Continued

#### e) Mineral Interests

The Company follows the method of accounting for its mineral interests whereby all costs related to acquisition, exploration and development are capitalized by project. These costs will be amortized against revenue 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 has investigated ownership of its mineral interests and, to the best of its knowledge, ownership of its interests are in good standing.

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

#### f) 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.

#### g) Plant and Equipment

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

#### h) 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 2006.

## Notes to Financial Statements

31 October 2006 and 2005

Canadian Funds

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

#### i) 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. The Company's philosophy and resultant policy is to conduct its exploration and development activities in an environmentally responsible manner. Specifically, the Company's policy is to meet or surpass the environmental requirements established to satisfy international standards and guidelines, by application of technically proven and economically feasible mitigation and reclamation procedures.

#### j) 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 statutory 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.

#### k) 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.

#### l) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

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### 3. Financial Instruments

The fair value of the Company's cash, accounts receivable, and accounts payable is estimated to approximate their carrying value. The Company maintains only small balances of cash in foreign currencies, which it uses to fund its foreign projects. It is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

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**Notes to Financial Statements**

31 October 2006 and 2005

Canadian Funds

**4. Resource Properties****a) Rambo Property, Burkina Faso, West Africa**

The Company has signed an agreement to acquire a 100% interest in the Rambo property located in Burkina Faso, West Africa. The property is subject to a 3% net smelter return royalty. At its option, the Company may acquire its interest by completing cash payments and share issuances to the optionors and minimum exploration expenditures as follows:

	Cash Payment U.S. Funds	Shares	Exploration Expenditures U.S. Funds
Upon signing of the formal agreement ( <i>paid</i> )	\$ 5,000	-	\$ -
Upon regulatory approval ( <i>paid, issued</i> )	35,000	50,000	-
On or before 15 December 2004 ( <i>paid, issued</i> )	50,000	50,000	150,000
On or before 15 December 2005 ( <i>paid, issued</i> )	50,000	50,000	150,000
On or before 15 December 2006 ( <i>Note 11a</i> )	50,000	50,000	200,000
On or before 15 December 2007	50,000	50,000	-
	\$ 240,000	250,000	\$ 500,000

The Company has made all share issuances and cash payments required to date and has satisfied all exploration expenditure requirements under the agreement.

**b) Liguidi Malguem Property, Burkina Faso, West Africa**

The Company has signed an agreement to acquire an 80% interest in the Liguidi Malguem property located in Burkina Faso, West Africa. At its option, the Company may earn its interest by completing cash payments to the optionors and incurring approximate minimum exploration expenditures as follows:

	Cash Payment U.S. Funds	Exploration Expenditures U.S. Funds
Upon signing of the agreement ( <i>paid</i> )	\$ 45,000	\$ -
On or before 31 December 2004 ( <i>completed</i> )	-	85,000
On or before 1 November 2005 ( <i>paid</i> )	20,000	-
On or before 31 December 2005 ( <i>completed</i> )	-	125,000
On or before 1 November 2006 ( <i>Note 11b</i> )	30,000	-
	\$ 95,000	\$ 210,000

Subsequent to 31 October 2006, the Company completed its obligations under the option agreement and earned its 80% interest in the property. The Company and the optionor are currently negotiating the terms of a joint venture.

**Notes to Financial Statements**

31 October 2006 and 2005

Canadian Funds

**4. Resource Properties - Continued****c) Bissa Area Properties, Burkina Faso, West Africa**

Bissa East: During the year, the Company 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 totalling US\$140,000 (US\$40,000 paid) over three years and requires the Company to incur exploration expenditures of approximately \$290,000 in the first year. The Company has also acquired government exploration permits for the Biliga and Malgaba properties located adjacent to the Tangapella and Sebila properties.

Bissa West: During the year, the Company acquired government exploration permits for the Bissiga and Pella properties. Subsequent to 31 October 2006, the Company entered into an option agreement to acquire the Bouboulou property, which is located adjacent to the Bissiga property (Note 11e).

**d) Other Properties, Burkina Faso, West Africa**

The Company has acquired government exploration permits granting the Company a 100% interest in the Solna, Kao, and Yaramoko properties located in Burkina Faso. The Company has also incurred costs on exploring additional properties in West Africa including the Yantara and Teyango permits, the costs for which are being carried as Other Properties until such time as significant costs are expended on a specific property and definitive acquisition agreements are established.

In addition, the Company has signed an option agreement to acquire a 90% interest in the Tao property in Burkina Faso. The agreement calls for cash payments totalling US\$132,000 (US\$42,000 paid) over three years and requires the Company to incur exploration expenditures of approximately \$110,000 in the first year.

**e) Details of cumulative expenditures are as follows:**

	Acquisition	Exploration	2006	2005
Rambo	\$ 267,258	\$ 1,982,510	\$ 2,249,768	\$ 2,021,969
Liguidi Malguem	79,989	847,048	927,037	729,479
Solna	-	309,048	309,048	226,150
Kao	-	492,845	492,845	175,191
Yaramoko	-	195,616	195,616	144,941
Tao	48,223	223,736	271,959	-
Bissa East	57,142	600,514	657,656	-
Bissa West	-	95,765	95,765	-
Other properties	9,096	10,613	19,709	7,243
	\$ 461,708	\$ 4,757,695	\$ 5,219,403	\$ 3,304,973

All Burkina Faso properties are subject to a standard government 10% carried production interest.

**5. Plant and Equipment**

Details are as follows:

	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Computer equipment	\$ 14,643	\$ 4,206	\$ 10,437	\$ 8,959

## Notes to Financial Statements

31 October 2006 and 2005

Canadian Funds

## 6. Share Capital

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

## a) Share issuance details are as follows:

	2006		2005	
	Shares	Amount	Shares	Amount
Balance - beginning of year	16,991,270	\$ 4,660,254	10,679,601	\$ 3,291,998
Private placement (i)	2,325,000	465,000	-	-
Private placement (ii)	8,212,500	3,285,000	-	-
Private placement (iii)	-	-	3,356,669	1,007,001
Private placement (iv)	-	-	500,000	150,000
Share issuance costs	-	(334,034)	-	(115,945)
Shares issued for property (Note 4a)	50,000	27,500	50,000	27,500
Shares issued for loan bonus (Note 7d)	90,000	18,000	-	-
Shares issued on exercise of warrants	856,135	292,097	2,300,000	285,000
Shares issued on exercise of options	-	-	105,000	14,700
Balance - end of year	28,524,905	\$ 8,413,817	16,991,270	\$ 4,660,254

(i) During the year, the Company completed a non-brokered private placement of 2,325,000 units at a price of \$0.20 for gross proceeds of \$465,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.30 until 2 February 2007.

(ii) During the year, the Company completed a brokered private placement of 8,212,500 units at a price of \$0.40 per unit for gross proceeds of \$3,285,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.55 per share until November 4, 2007. The agent received a cash commission of 6.5% and 574,875 compensation warrants. Each compensation warrant entitles the agent to purchase one common share of the Company at a price of \$0.40 until November 4, 2007.

(iii) During the prior year, the Company completed a brokered private placement of 3,356,669 units at a price of \$0.30 per unit for gross proceeds of \$1,007,001. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional share of the Company for \$0.36 until 9 June 2006. The Company paid the agent a cash commission of 6.5% and issued broker warrants entitling the agent to purchase up to 268,534 units at a price of \$0.30 per unit until 9 June 2006. Each unit consists of one common share and one-half of one warrant, each whole warrant entitling the broker to purchase one additional share of the Company for \$0.36 until 9 June 2006.

**Notes to Financial Statements****31 October 2006 and 2005**

Canadian Funds

**6. Share Capital - Continued****a) Continued**

(iv) During the prior year, the Company completed a non-brokered private placement of 500,000 units at a price of \$0.30 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase one additional share of the Company for \$0.36 until 12 July 2006.

**b) Contributed Surplus**

Details are as follows:

	2006	2005
Balance - beginning of year	\$ 654,300	\$ 441,521
Stock-based compensation (Note 6f)	201,843	212,779
Balance - end of year	\$ 856,143	\$ 654,300

c) As at 31 October 2006, there were 92,453 (2005 - 277,359) shares held in escrow, which are being released to directors of the Company over time according to TSX Venture Exchange policy.

d) As at 31 October 2006, the Company had share purchase warrants outstanding entitling the holder to purchase the following:

2006	2005	Exercise Price	Expiry Date
-	1,812,603	\$ 0.36	9 June 2006
-	268,534	\$ 0.30	9 June 2006
-	250,000	\$ 0.36	12 July 2006
1,162,500	-	\$ 0.30	2 February 2007
4,106,250	-	\$ 0.55	4 November 2007
574,875	-	\$ 0.40	4 November 2007
5,843,625	2,331,137		

e) As at 31 October 2006, the Company had stock options outstanding as follows:

Grant Date	2006	2005	Exercise Price	Expiry Date
19 August 2003	505,000	505,000	\$ 0.14	19 August 2008
12 January 2004	345,000	440,000	\$ 0.40	12 January 2009
5 May 2004	580,000	805,000	\$ 0.38	5 May 2009
1 September 2004	100,000	100,000	\$ 0.32	1 September 2009
13 April 2005	75,000	180,000	\$ 0.40	13 April 2010
28 September 2005	60,000	60,000	\$ 0.35	28 September 2010
26 January 2006	500,000	-	\$ 0.26	26 January 2011
27 February 2006	250,000	-	\$ 0.34	27 February 2011
18 April 2006	200,000	-	\$ 0.42	18 April 2011
13 October 2006	900,000	-	\$ 0.25	13 October 2011
	3,515,000	2,090,000		

The outstanding options have a weighted average exercise price of \$0.34 and a weighted-average remaining life of 3.54 years. As at 31 October 2006, 2,373,125 (2005 - 1,829,375) of these options have vested.

**Notes to Financial Statements****31 October 2006 and 2005**

Canadian Funds

**6. Share Capital – Continued****f) 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:

	<b>2006</b>	2005
Total options granted	<b>1,850,000</b>	240,000
Average exercise price	<b>\$ 0.28</b>	\$ 0.39
Estimated fair value of compensation	<b>\$ 376,949</b>	\$ 65,087
Estimated fair value per option	<b>\$ 0.20</b>	\$ 0.27

In addition, in April 2005 the Company re-priced 440,000 options from an exercise price of \$1.10 per share to an exercise price of \$0.40 per share. The Company subsequently re-priced 345,000 of these options to an exercise price of \$0.26 per share in January 2006. All other terms of the grant remain unchanged. Incremental stock-based compensation relating to these options has been estimated at \$6,716 and \$32,058 for the periods ended 31 October 2006 and 31 October 2005, respectively. As at 31 October 2006, these options were fully vested and had a remaining life of 2.2 years.

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:

	<b>2006</b>	2005
Risk-free interest rate	<b>4.07%</b>	3.59%
Expected dividend yield	<b>0.00%</b>	0.00%
Expected stock price volatility	<b>96.99%</b>	87.49%
Expected option life in years	<b>5.00</b>	5.00

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:

	<b>2006</b>	2005
Number of options vested in the year	<b>1,313,750</b>	557,500
Stock-based compensation expense	<b>\$ 201,667</b>	\$ 192,509
Capitalized to mineral properties	<b>176</b>	20,270
Total compensation recognized for the year	<b>\$ 201,843</b>	\$ 212,779

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 Financial Statements

31 October 2006 and 2005

Canadian Funds

### 7. Related Party Transactions

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

- a) Administration and management fees paid to directors and a company controlled by a director - \$96,000 (2005 - \$123,500);
- b) Rent and office services fees paid to a company with directors in common - \$48,000 (2005 - \$48,000);
- c) Graphic design and drafting fees paid to parties related to directors \$2,450 (2005 - \$5,250);
- d) In December 2005, the Company arranged a \$90,000 bridge financing loan from a director and parties related to directors to fund short-term working capital needs. The loan was repaid in full during the period with interest totalling \$2,293. The Company also issued 90,000 bonus shares at a deemed value of \$0.20 per share in consideration of the loan (*Note 6a*).

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:

	<u>2006</u>	<u>2005</u>
Loss before income taxes for accounting purposes	\$ (673,527)	\$ (545,624)
Adjustments for differences between accounting and taxable income:		
Amortization	3,381	825
Stock-based compensation	201,667	192,509
Non-deductible and other items	12,182	27,397
Consolidated loss for tax purposes	<u>(456,297)</u>	<u>(324,893)</u>
Statutory tax rate	<u>34.1%</u>	<u>35.6%</u>
Expected tax recovery for the year	(155,598)	(115,662)
Increase (decrease) in taxes due to:		
Current valuation allowance	155,598	115,662
Tax recovery for the year	<u>\$ -</u>	<u>\$ -</u>

## Notes to Financial Statements

31 October 2006 and 2005

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 as at October 31 are as follows:

	2006	2005
Non-capital loss carry-forwards	\$ 483,424	\$ 346,175
Mineral property expenditures	1,905,513	1,307,859
Plant and equipment	4,993	3,483
	<b>2,393,930</b>	1,657,517
Valuation allowance	<b>(2,393,930)</b>	(1,657,517)
	<b>\$ -</b>	<b>\$ -</b>

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

Year of Expiry	Amount
2007	\$ 13,000
2008	94,000
2009	118,000
2010	116,000
2014	239,000
2015	381,000
2016	456,000
	<b>\$ 1,417,000</b>

The Company has approximately \$5,588,000 of resource related expenditures that may be carried forward indefinitely and used to reduce prescribed taxable income in future years.

### 9. Commitments

The Company has management services agreements with two of its directors that require an aggregate payment of \$8,000 per month. The contracts are for rolling two-year terms that renew automatically each year, unless otherwise terminated or altered by mutual consent. Should the Company terminate these contracts without cause, it would become liable for the total amounts payable under the contracts for the remaining terms.

## Notes to Financial Statements

31 October 2006 and 2005

Canadian Funds

### 10. Segmented Information

The company currently operates in only one segment, that being the mining exploration industry. Details of the segmented operations are reflected only in the balance sheet.

2006	Canada		Africa		Total
Identifiable Assets	\$	1,361,157	\$	5,328,278	\$ 6,689,345
Capital Expenditures	\$	4,859	\$	1,914,430	\$ 1,919,289

  

2005	Canada		Africa		Total
Identifiable Assets	\$	155,661	\$	3,304,973	\$ 3,460,634
Capital Expenditures	\$	9,784	\$	1,779,699	\$ 1,789,483

### 11. Subsequent Events

Subsequent to 31 October 2006, the Company:

- a) Issued 50,000 shares from treasury and paid US\$50,000 in trust to the optionors of the Rambo property (*Note 4a*) pending transfer of the title to the property to the Company;
- b) Paid US\$30,000 to the Optionor of the Liguidi Malguem property (*Note 4b*);
- c) Completed a non-brokered private placement of 1,000,000 units at a price of \$0.29 for gross proceeds of \$290,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.35 until 19 December 2007;
- d) Completed a non-brokered private placement of 1,050,000 units at a price of \$0.31 for gross proceeds of \$310,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.37 until 12 January 2008;
- e) Signed an option agreement to acquire a 90% interest in the Bouboulou property in Burkina Faso. The agreement calls for the Company to incur exploration expenditures of \$125,000, of which \$50,000 is a firm commitment;
- f) Agreed to sell, on a non-brokered private placement basis and subject to regulatory approval, up to 1,000,000 units at a price of \$0.34 for gross proceeds of \$340,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.40 for up to one year after closing.

**RIVERSTONE RESOURCES INC.**  
**Report to Shareholders and**  
**Management Discussion and Analysis**  
**Of the Financial Position and Results of Operations**  
**For the Year Ended October 31, 2006**

**February 23, 2007**

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**TO OUR SHAREHOLDERS:**

This Management's Discussion and Analysis ("MD&A") supplements, but does not form part of, the audited financial statements of the Company and the notes thereto for the year ended October 31, 2006. Consequently, the following discussion and analysis of the financial condition and results of operations for Riverstone Resources Inc. ("Riverstone" or the "Company"), should be read in conjunction with the audited annual financial statements for the year ended October 31, 2006 and related notes therein, which have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied.

Discussion of the Company, its operations and associated risks is further described in the Company's filings, available for viewing at [www.sedar.com](http://www.sedar.com). A copy of this MD&A will be provided to any applicant upon request.

**GENERAL**

Riverstone is a mineral exploration company that has interests in 13 mineral permits in Burkina Faso, West Africa. Six of the Company's permits are subject to option agreements, two of which have net smelter return royalties. All of the properties are subject to a standard government 10% carried production interest. All property transactions have been conducted on an arm's length basis between the Company and the vendors.

The Rambo, Liguide Malguem ("Ligidi"), Solna, Kao, Yaramoko, Biliga, Malgtaba, Bissiga, Pella, Tao, Tangapella, Sebila and Bouboulou gold properties are the primary exploration properties held by the Company. In addition, the Company is actively seeking additional properties for acquisition, exploration and development.

**SIGNIFICANT EVENTS AND TRANSACTIONS**

During the year, the Company completed a brokered private placement and a non-brokered private placement raising gross proceeds totalling \$3,750,000 and received an additional \$292,097 upon the exercise of warrants. The Company incurred approximately \$1.9 million on its Burkina Faso mineral properties during the year and acquired or optioned seven new properties. The Rambo permit was renewed during the year for a further three year term of validity. Subsequent to October 31, 2006, the Company earned its 80% interest in the Liguide Malguem property and signed an option on the Bouboulou property.

**MINERAL EXPLORATION**

*Rambo Permit*

The Rambo permit is located in the north-central part of Burkina Faso and is contiguous with Golden Star Resource's Goulagou project, and with the Company's Kao permit. The permit comprises 150 square kilometres in area and covers six known areas of artisanal workings. The main Rambo artisanal pit consists of a 60 metre by 40 metre oval pit, which is about 15 metres deep. Diamond drilling by a former

operator near the pit returned gold values including 20.03 grams per tonne ("g/t") gold over 15.79 metres, 4.29 g/t gold over 18.0 metres and 2.89 g/t gold over 15.0 metres.

Drilling by the Company in 2003 and 2004 identified a gold-bearing shoot within a sulphide-bearing structure. The shoot has an approximate strike length of 150 metres, has an average true thickness of about 11 metres and has been traced by drilling to a depth of 120 metres. Highlights of this work by the Company include 12.0 metres grading 7.0 g/t gold, 6.0 metres grading 16.4 g/t gold, 7.5 metres grading 4.2 g/t gold, 16.5 metres grading 4.5 g/t gold, 5.05 metres grading 2.16 g/t gold, and 8.77 metres grading 1.26 g/t gold (including 3.00 metres grading 2.85 g/t gold). The holes were drilled on fences spaced 50 metres apart over a strike length of 350 metres. The mineralized structure strikes generally east-west and is open in both directions and to depth.

Other work completed to date on the Rambo permit has also included prospecting and rock sampling in several new artisanal sites. Rock sampling at the Bonguirga site, a new artisanal site located about 500 metres northeast of the Rambo mineralized zone, returned impressive gold values in rock samples. Two selected samples of quartz vein material from the site assayed 394.8 g/t gold and 66.8 g/t gold.

There was no field work conducted in the current period, however, further work is planned for 2007 comprising mainly RAB drilling.

#### *Liguidi Malguem Permit*

The Company has entered into an agreement to acquire an 80% interest in the Liguidi Malguem mineral permit in Burkina Faso. The permit covers an area of 225 square kilometres and is located 125 kilometres southeast of Ouagadougou, the capital of Burkina Faso, and 50 kilometres southeast of the Bombore property presently being explored by Orezone Resources Inc. The Company has completed a geochemical survey over most of the property together with a program of geological mapping and rock sampling which has confirmed an extensive area with gold values in soils generally over 15 parts per billion ("ppb"), covering an area approximately 13 kilometres in length and 3 kilometres in width.

Within this area are several anomalous zones where soil gold values are generally over 50 ppb and as high as 2,600 ppb. The largest of these covers an area approximately 4 kilometres in length and up to 2 kilometres in width. Several other anomalous zones are at least 1 kilometre long and up to 1 kilometre in width. Assay results of the first 79 rock samples taken in the larger grid area showed 26 samples with higher values of between 100 ppb and 500 ppb and a further 8 samples between 1.3 g/t and 12.0 g/t gold.

Previous work by Riverstone has identified three specific target areas - the Three Hills area near the centre of the permit, the Wayalguin area to the north-east and the Dassoui area to the south-west. The existence of artisanal gold workings is widespread in the area.

At Three Hills, an exposed area of schist with disseminated sulphide minerals and sulphide-bearing quartz veinlets appears similar to the gold-bearing schist horizon at High River Gold's Bissa deposit. Previous trenching across one of the anomalies returned two zones of significant gold mineralization. Zone 1 showed 18 metres grading 1.45 g/t gold, including 10.5 metres at 2.01 g/t gold and Zone 2 showed a further 18 metres grading 1.53 g/t gold and including 7.5 metres at 2.26 g/t gold. Reverse circulation drilling by the Company at two of the four known gold anomalies at Three Hills returned significant results including 16.50 metres grading 1.25 g/t gold. The drilling has validated the initial geochemical work and further exploration work is warranted.

Wayalguin is located approximately two kilometres east of the Three Hills prospect, and previous work on this permit has focused on the area surrounding two artisanal workings. The Wayalguin zone is underlain by Tarkwaian metasediments, which locally bear sulphide minerals. Trench sampling has indicated at least one broader interval of approximately 6 metres with an average grade of 2 g/t gold, which included samples of 8.3 g/t gold over 0.7 metres and 3.5 g/t gold over 1.5 metres. This mineralization is related to an east-west trending, moderately north-dipping structure. Previous drilling across the eastern portion of an 800-metre long geochemical anomaly encountered 2.22 g/t gold over 6.0 metres and 1.86 g/t gold over 4.5 metres. Two holes intersected several narrow intervals (1.5 metres) grading about 1.0 g/t gold.

The main Dassoui zone covers a 4 kilometre by 1 kilometre area surrounding four artisanal sites where gold has been recovered from quartz veins and stockwork veinlets. The soil geochemical survey identified multiple zones anomalous in gold and up to 2 kilometres in length trending generally in a northeast direction. The Dassoui area has not yet been tested by drilling.

The 2006 program consisted of rock sampling and geological mapping. An extensive rock sampling program was undertaken over a 1.5 km by 200 m wide area within a quartz boulder field within one of the geochemical soil anomalies. An additional 340 samples were taken elsewhere on the property, both from surface outcrop and from trenches. The assay results from this program are encouraging. A program of 5,000 metres of RAB drilling is planned for this permit during 2007.

#### *Bissa Area Permits*

The Company holds six permits in the active Bissa area located in north-central Burkina Faso. All six permits were acquired in the early part of 2006. The Company's permits are adjacent to High River Gold's Bissa project. High River recently announced an independent resource estimate for the Bissa project of 81,980 ounces of gold in the measured category, 580,270 ounces in the indicated category and 679,470 ounces in the inferred category (see High River news release May 23, 2006).

The Bissa deposits are located within the Sabcé Shear Zone, which trends north-easterly through High River's property. The Company's Bissa East permits (Tangapella, Sebila, Malgtaba and Billiga) cover portions of the north-easterly trending Sabcé Shear Zone, plus two parallel shear zones to the north and south of the Sabcé. A work program comprising regional and detailed soil sampling, reconnaissance mapping and approximately 3,000 metres of RAB drilling was completed on the Bissa East permits during 2006. Numerous gold-in-soil anomalies were defined and several significant gold intervals were intersected in the RAB drilling. Further mapping, geochemical sampling and RAB drilling will be carried out in 2007.

The Company's Bissa West permits (Bissiga and Pella) are located to the southwest of High River's Bissa project. A work program comprising regional soil sampling was carried out on the project area in 2006. Several gold-in-soil anomalies were defined which will be followed up in 2007 with further sampling and mapping.

#### *Bouboulou Permit*

This newly acquired Exploration Permit is the Company's smallest at 51 square kilometres, but it is strategically located along the southeastern margin of the Company's Bissiga Permit. Bouboulou covers the southwestern extension of the Sabcé Shear Zone. A major mining company carried out 25,400 metres of RAB drilling in 1997 over the area comprising the present permit. This work identified an anomalous gold zone 13 kilometres in length and from 2 to 6 kilometres in width, which straddles the Sabcé Shear Zone. Limited geological mapping and sampling of this zone by Riverstone has shown that silicified volcanic and sedimentary rocks are associated with the Sabcé Shear Zone. The Company is currently compiling the historic data, and completing mapping and sampling in preparation for further drill testing.

#### *Tao Permit*

The Tao permit adjoins the Essakane project on its southern boundary. The Essakane project is a joint venture between Orezone Resources Inc. and Gold Fields Limited. Orezone recently announced that Gold Fields has approved a US\$9.3 million budget to complete a pre-feasibility study.

Geochemical soil sampling on the Tao permit by a previous operator outlined several large gold anomalies that aggregate greater than 10 kilometres in length. Trenching and RC drilling completed by a former operator on one of the geochemical anomalies outlined a mineralized zone approximately one

kilometre in length. Nine RC Holes were drilled and returned grades ranging from 0.95 to 5.0 g/t gold over widths ranging from 1.5 metres to 13.5 metres.

Riverstone completed a 4,358 metre RAB drilling program over two separate geochemical soil anomalies during July of 2006, plus very limited mapping and rock sampling. Results from this program are encouraging and RC drilling will be carried out in 2007 to further evaluate this property.

#### *Kao Permit*

The Kao permit is contiguous with the south side of the Rambo permit. Work completed on this permit comprised grid soil sampling, rock sampling and RAB drilling. Soil sampling in areas of new artisanal workings outlined one very strong gold anomaly, with dimensions of about 1 kilometre by 2 kilometres within the +10 ppb gold contour. Peak soil values range from 270 to 1,460 ppb gold. Two other slightly smaller anomalies were delineated elsewhere on the permit. Several rock samples collected from scattered areas of artisanal workings returned very encouraging gold values. Among these are numerous samples grading greater than 0.5 g/t gold, with two notable samples, from different areas, grading 10.1 and 13.1 g/t gold.

Two separate RAB drilling programs comprising 7,000 metres were completed in 2006. This drilling outlined four separate zones grading greater than 1 g/t gold, which are 200 to 400 metres in length and 50 to 100 metres in width within a much larger, lower grade mineralized envelope. These zones will be tested with up to 2,000 metres of reverse circulation drilling in 2007.

#### *Yaramoko Permit*

This permit is located approximately 200 kilometres west-southwest of Ouagadougou. The permit's northern boundary adjoins SEMAFO's Mana permit where a production decision has recently been announced on a gold reserve of 1 Moz. Previous work on Yaramoko has been concentrated on mapping, soil sampling, prospecting and rock sampling. Several rock samples from scattered areas on the permit have returned significant results, including 16 samples with values ranging from 1.0 to 11.9 g/t gold. Soil sampling in the area of recent artisanal workings has outlined several gold in soil anomalies, with many values exceeding 100 ppb gold. The largest of these anomalous areas measures about 500 metres wide by 3.5 kilometres long and covers an area with numerous active workings. No work was completed on this permit in the current period, but it is planned that this and several smaller anomalous areas will be evaluated in 2007 with RC drilling.

#### *Solna Permit*

The Solna Permit, covering approximately 160 square kilometres, is located in eastern Burkina Faso about 250 kilometres north-east of Ouagadougou. Gold mineralization is hosted in a zone of quartz and quartz-tourmaline veins cutting foliated and sheared rocks of the Sebba greenstone belt, which is part of the lower Proterozoic Birimian greenstone sequence that hosts most of the major gold deposits in West Africa. Solna is approximately 75 kilometres west of the producing Samira Hill gold mine of Etruscan Resources where a resource of 2 million ounces of gold has been announced.

No work at Solna was completed in the current period, however, previous exploration confirms a significant area that is anomalous in gold values in both soil and rock chip samples. The main soil anomaly identified to date extends at least 2 kilometres in length and averages approximately 250 metres in width, with gold values in soils in excess of 100 ppb and ranging up to approximately 1.3 g/t gold. In addition, a parallel secondary mineralized corridor lies outside this main anomalous zone.

Within these areas, rock chip samples ranged from several parts per billion gold to as high as 8.3 g/t gold, including values of 6.7, 6.8 and 7.8 g/t gold. A total of 143 rock samples have been taken at Solna, of which over 20% showed gold values greater than 1.0 g/t gold, including 17% greater than 2.0 g/t gold. Artisanal gold workings are also evident within the areas.



Except for the quarter ended July 31, 2006, the quarterly losses presented (before stock-based compensation) are fairly consistent. Stock-based compensation is recognized as stock options vest, which varies due to the timing of the vesting provisions of the various stock option grants that the Company has made. The increase in the loss for the three months ended July 31, 2006 is due to an increase in professional fees, promotion and public relations costs, and filing fees relating to the Company's financings, as well as the increase in salaries due to the hiring of a full-time exploration manager, and interest and financing costs incurred on bridge financing loans incurred prior to the Company's financings. The Company also incurred \$16,785 in general exploration costs in this quarter.

Except for the quarter ended July 31, 2006, cash flows used in operations, before changes in non-cash working capital items, were reasonably consistent with the other quarters presented, averaging approximately \$90,000 per quarter. Comparative cash flows for the quarter ended July 31, 2006 totalled approximately \$170,000, reflecting the higher costs as detailed above.

## **FINANCIAL POSITION AND LIQUIDITY**

Riverstone has no history of profitable operations and its mineral projects are at an early stage. Therefore, it is subject to many risks common to comparable companies, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources as well as a lack of revenues.

At the end of the year under review, the Company had working capital of \$1,228,242 compared to working capital deficiency of \$137,729 at the end of the previous year. The increase in working capital over the previous year results from cash provided by equity financing activities (\$3,708,063) outweighing cash used in operating activities (\$450,479) and investing activities (\$1,891,613) during the year.

At October 31, 2006, the Company had cash on hand of \$1,379,694 compared to \$97,036 at October 31, 2005. In addition, subsequent to October 31, 2006 the Company raised an additional \$600,000 through two private placements – See *Subsequent Events*. The Company's current working capital position is considered sufficient to meet its ongoing operations for the ensuing year.

## **CAPITAL RESOURCES AND COMMITMENTS**

The Company has cash payment, share issuance and mineral expenditure requirements under its Rambo property agreement. Terms of the agreement require cash payments totalling US\$240,000 and the issuance to the vendors of a total of 250,000 common shares of the Company over a period of four years, with a work commitment totalling US\$500,000 over a period of three years. As at October 31, 2006, the Company had satisfied the entire exploration expense requirement on the property. To earn its interest in the property, the Company must make the remaining scheduled cash payments of US\$100,000 and issue 100,000 shares before December 15, 2007 – See *Subsequent Events*.

The Company has cash payment and mineral expenditure requirements under its Liquidi Malguem property agreement. This agreement calls for cash payments totalling US\$95,000 and requires the Company to incur exploration expenditures of approximately \$210,000. As at October 31, 2006, the Company had satisfied the entire exploration expense requirement on the property and must make the remaining cash payment of US\$30,000 on or before November 1, 2006 to earn its interest in the property – See *Subsequent Events*.

The Company has cash payment and mineral expenditure requirements under its Tangapella/Sebila property agreement. This agreement calls for cash payments totalling US\$140,000 and requires the Company to incur exploration expenditures of approximately \$290,000 in the first year. The Company had completed US\$40,000 of the cash payments by October 31, 2006.

Similarly, the Company has cash payment and mineral expenditure requirements under its Tao property agreement. This agreement calls for cash payments totalling US\$132,000 and requires the Company to incur exploration expenditures of approximately \$110,000 in the first year. The Company had completed US\$42,000 of the cash payments by October 31, 2006.

Subsequent to October 31, 2006, the Company signed an option agreement to acquire a 90% interest in the Bouboulou property, which requires the Company to incur \$125,000 in exploration expenditures, \$50,000 of which are a firm commitment.

The Company has business services agreements, with two of its directors, which call for monthly payments of \$4,000 each with a term of two years, renewable upon mutual consent. The Company also has a month-to-month agreement, with a company related by certain directors it has in common, for office rent and administrative support services. The Company pays \$4,000 per month and the agreement can be cancelled at any time.

With the subsequent private placements (See – *Subsequent Events*), the Company has sufficient capital to meet its ongoing exploration and overhead requirements for the ensuing year.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. Historically the capital requirements of the Company have been met by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company had no off-balance sheet arrangements as at October 31, 2006 or as at the date hereof.

#### **RELATED PARTY TRANSACTIONS**

Transactions with related parties are disclosed in the financial statements and include administration and management fees for the year of \$96,000 (2005 - \$123,500) and rent and office services of \$48,000 (2005 - \$48,000) paid to a company with which the company shares directors in common. The decrease in management fees over the prior year is due to the resignation of one of the Company's paid directors during the year.

In December 2005, the Company arranged a \$90,000 bridge financing loan from a director and parties related to directors to fund short-term working capital needs. The loan was repaid in full during the year with interest totalling \$2,293. The Company also issued 90,000 bonus shares at a deemed value of \$0.20 per share in consideration of the loan.

#### **DISCUSSION OF FOURTH QUARTER RESULTS**

The fourth quarter of 2006 saw the Company continue its exploration activities in West Africa incurring \$671,524 in exploration expenditures compared to \$767,464 in the third quarter.

General and administrative costs of \$213,986 incurred in the fourth quarter were consistent with costs of \$216,962 incurred in the third quarter.

Cash flows used in operations, before changes in non-cash working capital items, of \$112,854 were lower than the third quarter of 2006 as discussed in *Summary of Quarterly Results* but were consistent with the second quarter of 2006.

#### **AUDITOR**

The Company's auditors for the year ended October 31, 2006, Staley Okada & Partners (Staley Okada), have entered into a transaction with PricewaterhouseCoopers LLP (PwC) under which certain assets of Staley Okada were sold to PwC and a number of the professional staff and partners of Staley Okada joined PwC either as employees or partners and will carry on practicing as members of PwC. The directors subsequently appointed PwC as the Company's auditors for the year ending October 31, 2006.

## **CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policies in the year under review.

## **FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, GST receivable, and accounts payable. The Company maintains most of its cash in Canadian dollars; however, from time to time a small amount of cash is maintained in foreign currencies and is therefore subject to changes in fair value due to fluctuations in exchange rates. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

## **DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Consistent with other companies in the mineral exploration industry, Riverstone has no source of operating revenue. The Company's October 31, 2006 audited financial statements provide a breakdown of the general and administrative expenses for the year under review (Statement 2) and an analysis of the capitalized and expensed exploration and development costs incurred on its mineral properties (Schedule and Note 4e).

## **OUTSTANDING SHARES**

As at October 31, 2006, the Company had 28,524,905 (diluted – 37,883,530) common shares issued and outstanding versus 16,991,270 (diluted – 21,412,407) at October 31, 2005. The increase over 2005 reflects the success of the Company in raising funds through the issue of new shares and the exercise of warrants as described below.

The increase in the number of issued shares for the year is due to the issuance of 2,325,000 shares under a non-brokered private placement, 8,212,500 shares under a brokered private placement, and 856,135 shares upon the exercise of warrants during the period. In addition, the Company issued 50,000 shares under the Rambo option agreement (see *Mineral Exploration*) and 90,000 shares as a loan bonus (see *Results of Operations*). The increase in the number of diluted shares since October 31, 2005 also includes the issuance of 1,162,500 warrants under the non-brokered private placement, 4,681,125 warrants under the brokered private placement, the granting of 1,040,000 options to directors and 810,000 to employees and consultants, the forfeiture of 425,000 options, and the expiry of 1,475,002 warrants during the period.

Issued and diluted shares outstanding as at the date hereof are 30,624,905 and 41,008,530 respectively. The increase from October 31, 2006 reflects the subsequent issuance of 50,000 shares under the Rambo property agreement and 2,050,000 units under private placements – see *Subsequent Events*.

## **INVESTOR RELATIONS ACTIVITIES**

With respect to public relations, the Company's provides information from its corporate offices to investors and brokers directly. In addition, Mr. Ron Cooper provides the Company with investor relations services on a month to month basis.

## **MANAGEMENT**

Riverstone is very dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Riverstone could result, and other persons would be required to manage and operate the Company.

## **SUBSEQUENT EVENTS**

Subsequent to 31 October 2006, the Company issued 50,000 shares from treasury and paid US\$50,000 in trust to the optionors of the Rambo property, pending transfer of the title to the property to the Company, and paid US\$30,000 to the optionor of the Liguidi Malguem property. The Company also completed a non-brokered private placement of 1,000,000 units at a price of \$0.29 for gross proceeds of \$290,000, a non-brokered private placement of 1,050,000 units at a price of \$0.31 for gross proceeds of \$310,000 and announced its intention to sell, on a non-brokered private placement basis, up to 1,000,000 units at a price of \$0.34 for gross proceeds of \$340,000. The Company also signed an option agreement to acquire a 90% interest in the Bouboulou property in Burkina Faso. Further details of these items are included in note 11 to the Company's annual audited financial statements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that, as of October 31, 2006, the disclosure controls and procedures were effective to provide reasonable assurance that material information is accumulated and communicated to management to allow timely decisions regarding disclosure required in the Company's annual filings and interim filings and other reports filed or submitted under Canadian securities laws and such material information is reported within the time periods specified by those laws.

## **INTERNAL CONTROLS AND PROCEDURES**

Internal controls and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with the Company's generally accepted accounting principles. As at the end of the period covered by this management's discussion and analysis, management had designed and implemented internal controls and procedures as required by Canadian securities laws.

The Company has evaluated the design of its internal controls and procedures over financial reporting for the fiscal year ended October 31, 2006. No material weakness in the design has been identified. Management continues to review and refine its internal controls and procedures.

## **RISK FACTORS**

Companies operating in the mining industry face many and varied kinds of risks. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

Exploring and developing mineral resource projects bears a high potential for all manner of risks. Additionally, few exploration projects successfully achieve development due to factors that cannot be predicted or foreseen. Moreover, even one such factor may result in the economic viability of a project being detrimentally impacted such that it is neither feasible nor practical to proceed. The Company closely monitors its activities and those factors that could impact them, and employs experienced consulting, engineering, insurance and legal advisors to assist in its risk management reviews.

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

At present the principal activity of the Company is the exploration and development of gold resource properties. The feasible development of such properties is highly dependent upon the price of gold. A sustained and substantial decline in commodity gold prices could result in the write-down, termination of exploration and development work or loss of its interests in identified resource properties. Although such prices cannot be forecasted with certainty, the Company carefully monitors factors that could affect gold commodity prices in order to assess the feasibility of its resource projects.

Exploration and development projects are subject to the environmental laws and regulations of the country within which the Company is conducting its operations. As such laws are subject to change, the Company carefully monitors proposed and potential changes, and ensures that it is and will be in strict compliance. Various non-governmental organizations dedicated to environmental protection monitor, amongst others, the mining industry. These organizations have in the past commenced actions with the regulatory agencies or the courts to prevent or delay mining activities.

### **FORWARD-LOOKING STATEMENTS**

*Certain statements made and information contained in this MD&A and elsewhere constitute "forward-looking information" within the meaning of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation, risks and uncertainties relating to the interpretation of drill results and the estimation of mineral resources, the geology, grade and continuity of mineral deposits, the possibility that future exploration, development results will not be consistent with the Company's expectations, accidents, equipment breakdowns, title matters and surface access, labour disputes, the potential for delays in exploration activities, the potential for unexpected costs and expenses, commodity price fluctuations, currency fluctuations, failure to obtain adequate financing on a timely basis and other risks and uncertainties, including those described under Risk Factors in each management discussion and analysis. In addition, forward-looking information is based on various assumptions including, without limitation, the expectations and beliefs of management, the assumed long term price of gold, that the Company will receive required permits and access to surface rights, that the Company can access financing, appropriate equipment and sufficient labour and that the political environment within Burkina Faso will continue to support the development of environmentally safe mining projects. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking statements.*

### **APPROVAL**

The Board of Directors of the Company has approved the disclosure contained in this Annual Management Discussion and Analysis.

Respectfully submitted  
On Behalf of the Board of Directors

*"Michael D. McInnis"*

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Michael D. McInnis, P. Eng., President & CEO