

**ORESTONE MINING CORP.**

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**FOR THE PERIOD ENDED  
JULY 31, 2011**

# ORESTONE MINING CORP.

## INTRODUCTORY COMMENT

This is Management's Discussion and Analysis ("MD&A") for Orestone Mining Corp. ("Orestone" or the "Company") and has been prepared based on information known to management as of September 29, 2011. This MD&A is intended to help the reader understand the condensed consolidated unaudited interim financial statements of Orestone.

The Company adopted International Financial Reporting Standards ("IFRS") in accordance with IFRS1, First-time Adoption of IFRS ("IFRS1") with an adoption date of February 1, 2010 and a transition date of February 1, 2011. This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the six months ended July 31, 2011 and supporting notes. These condensed consolidated interim financial statements have been prepared using accounting policies consistent with IFRS and in accordance with International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting. A reconciliation of the previously disclosed comparative periods' financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is set out in Note 13 to these condensed financial statements.

Throughout this report we refer from time to time to "Orestone", "the Company", "we", "us", "our" or "its". All these terms are used in respect of Orestone Mining Corp. which is the reporting issuer in this document. *We recommend that readers consult the "Cautionary Statement" on the last page of this report.*

Additional information relating to the Company can be found on SEDAR [www.sedar.com](http://www.sedar.com) and the company website [www.orestone.ca](http://www.orestone.ca).

## FORWARD-LOOKING STATEMENTS

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those implied by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks as set out below.

## DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE

Orestone Mining Corp. is a junior mineral exploration company incorporated on April 30, 2007 and subsequently listed on the TSX Venture Exchange under the trading symbol "ORS" on March 11, 2008. The Company's exploration strategy has emphasized copper-gold and gold projects in Quesnel Terrane of British Columbia. Quesnel Terrane, which extends from the US border to Northern B.C., hosts numerous mines and many developing bulk tonnage copper-gold prospects such as those on the Mt. Milligan and Kwanika properties in North-central B.C., as well as sediment-hosted gold mineralization on the Spanish Mountain and Frasergold properties in South-central B.C.

On June 21, 2011, the Company announced a corporate reorganization consisting of the restructuring of its board of directors, the appointment of new executive officers, a shares-for-debt settlement arrangement, and its intent to proceed with a non-brokered private placement.

Michael Tulumello resigned as a director, and David Hottman and Gary Nordin were appointed directors of the company. Jose Antonio Pinedo resigned as president and chief executive officer, and David Hottman has been appointed to both positions. Mr. Pinedo has also resigned as corporate secretary and Bernard Poznanski has been appointed as corporate secretary. Robert Perry has resigned as vice-president,

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exploration, and Gary Nordin has been appointed as VP, exploration. Lorne Torjelm will remain as chief financial officer.

On July 12, 2011, pursuant to the private placement, the company issued 4.9 million units at a price of five cents per unit for gross proceeds of \$245,000, each unit consisting of one common share of the company and one common share purchase warrant. Each warrant is exercisable for one common share of the company at a price of 10 cents until July 11, 2013. The net proceeds of the private placement will be used for exploration and development of the company's mineral exploration projects and for working capital.

On September 5, 2011 the Company announced it had added Mehran Bagherzadeh, MBA, to corporate staff in the area of corporate relations. Mr. Bagherzadeh has previously worked in investor relations with Tekmira Pharmaceuticals, a Vancouver-based biotech company.

On September 13, 2011, pursuant to the reorganization, the company retired indebtedness owing by the Company, which include certain directors and executive officers of the company, in the total amount of \$262,400, by issuing a total of 5,244,400 common shares of the company at an issue price of five cents per share. (See Related Party Transactions)

On September 27<sup>th</sup>, the Company retained Deutsche Investor-Relations GmbH (Berlin) to undertake investor relations activities in Europe.

During September, 2011, company management undertook a review of its property holdings and has elected to drop its options on the Connor Creek and Funk Property (part of the Todd Creek Joint Venture.)

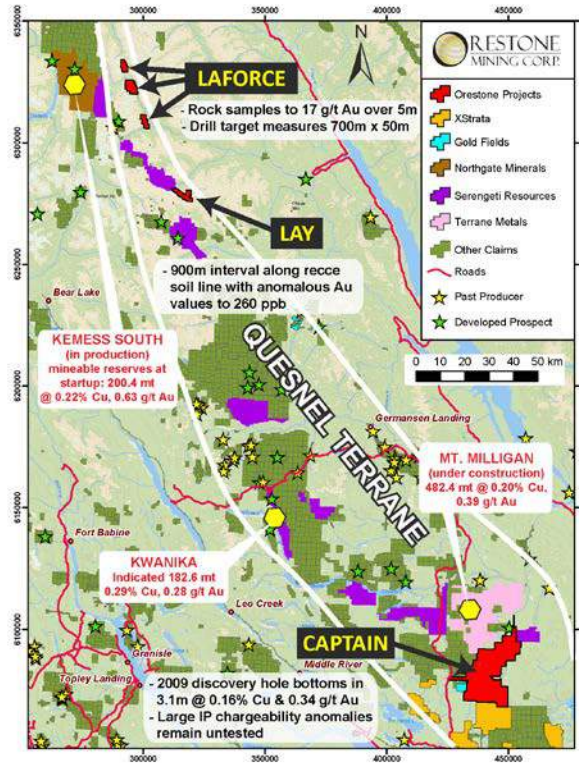
### **RESULTS OF OPERATIONS - MINERAL PROPERTIES**

To best understand Orestone's financial results, it is important to gain an appreciation for the significant events, transactions and activities which occurred on its mineral properties during and subsequent to the reporting period. These are summarized below.

#### **Captain Property**

Orestone owns 100% of the 41,659 hectare land position royalty free located within the Cariboo and Omineca Mining Divisions. The property is centered about 65 kilometers northeast of Fort St. James in the Nechako Plateau area of north-central British Columbia.

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The Captain Property and surrounding lands contain many airborne magnetic-high anomalies on ground previously worked by Placer Dome, Noranda and several junior resource companies during 1989 to 1996. Numerous airborne magnetic-high targets in Quesnel Terrane are known to be related to underlying intrusions important for their relationship with copper-gold porphyry deposits such as Thompson Creek Metals' Mt. Milligan deposit immediately North of the Captain Property. Induced polarization ("IP") surveys over the airborne magnetic highs are a key method of identifying drill targets in the largely overburden covered Captain Property. Between 2008 and 2010, the Company undertook geochemical sampling, induced polarization and ground magnetic surveys, and limited percussion and diamond drilling. Detailed results are filed on Sedar.

In August, 2011 Orestone completed an IP/Resistivity and ground magnetics survey that consisted of a total of 30 kilometers of survey in six lines spaced 400 meters apart and was designed to expand upon previous geophysical surveys along logging roads. The objective of the survey was to better define the potential for copper-gold sulphide mineralization in the area surrounding diamond drill hole 09-05 which encountered potassic-altered volcanic and intrusive rocks. This vertical drill hole reached a depth of 137 meters with the last 3.1 meters encountering mineralized breccia grading 0.21 per cent copper and 0.35 grams per tonne (g/t) gold.

Within the survey area results show three separate IP chargeability anomalies that flank magnetic high anomalies. The IP anomalies have widths of 1,000 meters or more that remain open, thus have yet to be fully outlined. The principal IP chargeability anomaly in the central portion of the survey area currently measures 1,000 meters by more than 4,000 meters and corresponds with a resistivity high. This coincident chargeability and resistivity high area is located on the western flank of a magnetic high interpreted to be a magnetite-bearing intrusive measuring 1,000 to 2,000 meters wide and in excess of five kilometers in strike length. This geophysical signature covering the central IP/resistivity high target on the Captain project is similar in nature to the geophysical signature of the MBX copper-gold deposit at Mt. Milligan.

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During the quarter Orestone received permits for an additional 6 drill holes in the area of the geophysical anomalies and now has a total of 31 permitted drill hole sites in the area. The Company plans to drill test portions the outlined anomalies before the end of 2011. A map showing the interpreted results of the geophysical survey is posted on the company's website.

The Company also increased its land position through additional staking of 933 hectares.

### **Todd Property**

The Todd Property is located in the Skeena Mining Division of North-west British Columbia, approximately 35 km North-east of the town of Stewart. The property occurs within the Jurassic Hazelton Group volcano-sedimentary rock package. This geological environment hosts several large and significant mineral deposits including the Granduc Mine (historic resource and production of: 39MM Tonnes at 1.73% Cu with minor silver, gold, and zinc), Eskay Creek Mine (historic production of: 2.2MM Tonnes at 46 g/T Au and 2200 g/T Ag), and the Kerr-Sulphurets-Mitchell deposit (indicated and inferred resources of: 1,750 MM Tonnes at 0.60 g/T Au, 0.21% Cu). Intuitive believes that the Todd Property has the potential to host significant mineral deposits of a type consistent with the other known deposits in the district. These include Besshi and Kuroko type massive sulfide copper-zinc, epithermal gold-silver, and porphyry copper-gold deposits.

On April 28, 2010, Orestone signed the Todd Creek Joint Venture Agreement with Goldeye and Polar and became the Manager of the Joint Venture, in which it holds a 51% interest, acquired through the purchase of Intuitive Exploration Inc. ("Intuitive")(See PURCHASE OF INTUITIVE EXPLORATION INC. below) Under the Todd Creek option agreement, the Company earned its 51% interest in the Todd Property by making payments on the property aggregating \$180,000, issuing 170,000 shares and by incurring expenses related to the Todd Creek Property aggregating \$2,500,000. Geofine has a net smelter return royalty in the amount of 2.5%. The Todd Creek Joint Venture pays a \$25,000 advance on the above royalty to Geofine every November.

Pursuant to an option agreement dated August 19, 2008 between Intuitive and Mr. Kelly Funk, the Todd Creek Joint Venture also held an option to acquire 100% of the Kelly Funk Property, which is adjacent to and East of the Todd Property. Under the option agreement, the Todd Creek Joint Venture could earn 100% of the property by making payments of \$450,000 and issuing 350,000 shares. Intuitive paid \$65,000 and issued 65,000 common shares. On October 22, 2010, Orestone on behalf of the Joint Venture issued 50,000 shares in the capital of the Company to Mr. Funk (49% was reimbursed to the Company by the Joint Venture Partners) and the Joint Venture made the required 2010 payment of \$75,000. If Intuitive acquires the property, Intuitive has agreed to pay a net smelter return royalty of 2.0%. The royalty may be purchased at any time during the four year period following the grant of the royalty in 0.5% increments at \$750,000 per increment. On September 26, the Company, after review of its holdings and with the consent of its Joint Venture Partners, dropped its option on the property and has no further obligations under the option agreement.

Dr. Mark Fedikow of Mount Morgan Resources Ltd. completed a NI 43-101 technical report on the Todd Property and the Todd Creek Report has been filed on SEDAR at [www.sedar.com](http://www.sedar.com). The author of the Todd Creek Report, Dr. Fedikow, is an independent Qualified Person under NI 43-101.

### **LaForce Property**

The 100% owned LaForce Project consists of 47 square kilometers located approximately 20 kilometers east of Northgate Minerals Kemesss copper-gold mine in northern British Columbia.

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The LaForce project falls within the Quesnel Terrane and straddles the contact between an Early Jurassic batholith of monzonitic to quartz dioritic composition in the west and Upper Triassic Takla Group basic to intermediate flows, breccias and tuffs and minor sedimentary rocks in the east. Previous surface work by Orestone has defined a zone of gold mineralization that has a strike length of more than 2 kilometers with widths up to 50 meters that roughly parallels this contact. Mineralization discovered to date is typically found within moderately to locally well-developed quartz stockwork/vein zones hosted by strongly pyritized and silica-sericite altered clastic sediments. These zones of quartz veins up to 20 cm wide carry variable amounts of pyrite, listwanite and minor chalcopyrite and lesser galena and may in part be stratabound.

Highlights of previous surface sample programs include 17.7 g/t gold over a 5 meter width and 10.6 g/t gold over a 2 meter width. These two samples were collected 700 meters apart along strike of the interpreted mineralized zone and are located at the hanging wall contact of the structure. Additional rock and soil sampling show the potential for the zone over a strike length of 2 kilometers.

The program completed in September 2011 consisted of geological mapping and sampling with the objective of better defining and expanding the known gold showings. A total of 16 samples were collected and submitted to Acme Labs for analysis. Results are still pending.

### **Lay Property**

The 1,673 hectare Lay Property (owned 100% by Orestone) is located 30 km southeast of the LaForce property and covers similar geology and regional geochemistry as the LaForce. Additional surface exploration is currently being planned to further evaluate the potential of the property.

No work was done on the Lay Property during the quarter.

### **Connor Creek Property**

The Company entered into an arm's length letter agreement dated November 10, 2009 with Kootenay Gold Inc ("Kootenay"), a publicly trading company on the TSX Venture Exchange (TSX-V:KTN), for the acquisition of an option to earn 60% of Kootenay's 100% interest in the Connor Creek gold property in the Nelson Mining Division, Southeastern British Columbia.

Pursuant to the Letter Agreement, Orestone could earn 60% of Kootenay's 100% interest in the Connor Creek Property by: (i) expending \$1,000,000 on the Property prior to November 10, 2013 including \$150,000 in exploration costs by November 10, 2010; and (ii) delivering to Kootenay an aggregate 750,000 shares of Orestone by November 10, 2013 including 150,000 shares on acceptance of the Letter Agreement by the TSX Venture Exchange. Upon making the foregoing expenditures and share payments, Orestone will have earned an undivided 60% interest in the Connor Creek Property. Orestone has made the initial 150,000 share payment and incurred exploration costs in excess of \$300,000, which satisfies the terms of the agreement through to November 10, 2010. Subsequently on November 9, 2010, the Company issued an additional 150,000 shares to Kootenay in order to maintain the option until November 2011. In addition, the Company is required to incur \$50,000 of exploration expenditures by November 10, 2011.

On September 8, 2011, the Company, after review of its holdings, dropped its option on Connor Creek Property and has no further obligations under the option agreement.

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## Qualified Person

The technical information reported in this MD&A has been reviewed and approved by Mr. Ross Zawada P. Geo., the Company's Exploration Manager. Mr. Zawada is a Professional Geoscientist and member of the Professional Engineers and Geoscientist Association of British Columbia (APGEBEC) and a qualified person as defined by NI 43-101.

## *Impairment of Long-lived Assets*

The Company completed an impairment analysis as at July 31 2011, which considered the indicators of impairment in accordance with IAS 36, "Impairment Assets". Management concluded that with the termination of the options on the Kelly Funk and the Connor Creek Properties, a corresponding write-off of mineral properties in the amount of \$162,502 would be recorded.

## PURCHASE OF INTUITIVE EXPLORATION INC.

The Company completed the acquisition of Intuitive Exploration Inc. on June 3, 2010. This purchase was pursuant to a November 26, 2009 arm's length letter agreement (the "Agreement") between the Company and Intuitive and 0875639 BC Ltd. ("0875639"), both of which were arm's length private British Columbia companies. The transaction was completed June 3, 2010 by way of share exchange.

As of June 3, 2010 Intuitive was the Company's wholly-owned subsidiary and the Company is the parent of Intuitive. The principle asset of Intuitive is the 51% ownership in the Todd Creek Joint Venture.

## SUMMARY OF SELECTED ANNUAL FINANCIAL INFORMATION

	Year ended January 31, 2011	Year ended January 31, 2010	Year ended January 31, 2009
	Under IFRS	Under Canadian GAAP	
Net sales/ total revenues	\$ -	\$ -	\$ -
Income (loss) before discontinued operations and extraordinary items	\$ (546,613)	\$ (161,468)	\$ (421,636)
Per share basis	\$ (0.01)	\$ 0.00	\$ (0.02)
Diluted per share basis	\$ (0.01)	\$ 0.00	\$ (0.02)
Net income or loss, total	\$ (546,613)	\$ (161,468)	\$ (421,636)
Per share basis	\$ (0.01)	\$ 0.00	\$ (0.02)
Diluted per share basis	\$ (0.01)	\$ 0.00	\$ (0.02)
Total assets	\$ 2,963,387	\$ 2,293,508	\$ 2,339,003
Total long-term financial liabilities	\$ -	\$ -	\$ 38,571
Cash dividends declared per share	\$ -	\$ -	\$ -

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## RESULTS OF OPERATIONS

### Trends in Financial Condition and Results of Operations

The volatility of exploration costs is inherent to the business of resource-based companies. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production.

Management is also aware that material uncertainties exist, related to current economic conditions, which could adversely affect the Company's ability to continue to finance its activities. Management's plan include continuing to pursue additional sources of financing through equity offerings, seeking joint venture partners to fund exploration, monitoring exploration activity and reducing overhead costs.

Management of the Company believes that no additional meaningful information about the Company's operations can be found by further analyses of fluctuations.

### SUMMARY OF QUARTERLY FINANCIAL INFORMATION

Fiscal quarter ended	Revenues*	Net income (loss)**	Loss per share from continuing operations	Net comprehensive income (loss)	Net income (loss) per share
	\$	\$	\$	\$	\$
31-July-11(1)	Nil	(245,547)	(0.01)	(245,547)	(0.01)
30-Apr-11(1)	Nil	(34,551)	(0.01)	(34,551)	(0.00)
31-Jan-11(1)	Nil	(261,984)	(0.01)	(261,984)	(0.01)
31-Oct-10(1)	Nil	(31,905)	(0.00)	(31,905)	(0.00)
31-Jul-10(1)	Nil	(153,781)	(0.01)	(153,781)	(0.01)
30-Apr-10(1)	Nil	(15,017)	(0.00)	(15,017)	(0.00)
31-Jan-10(1)	Nil	(113,795)	(0.01)	(113,795)	(0.01)
31-Oct-09(2)	Nil	(16,612)	(0.00)	(16,612)	(0.00)
31-Jul-09(2)	Nil	(1,256)	(0.00)	(1,256)	(0.00)

\* Revenues exclude interest income.

\*\* Net income (loss) before income taxes.

(1) Under IFRS

(2) Under Canadian GAAP

The operating results of junior exploration companies are capable of demonstrating wide variations from quarter to quarter. The Management of Orestone Mining Corp. does not believe that meaningful information about the Company's operations can be derived from an analysis of quarterly fluctuations in any more detail than presented here.

For the three months ended July 31, 2011 compared to the three months ended July 31, 2010:

In the second quarter of fiscal 2012 the Company recorded a net loss of \$245,547 (loss per share - \$0.01) compared to \$153,781 (loss per share - \$0.00) in the second quarter of 2011. During the three months



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ended July 31, 2011, the Company expensed \$75,839 in exploration costs compared to \$31,077 exploration costs incurred in the second quarter of 2011 (see Results of Operations – Mineral Properties). During the three months ended July 31, 2011, the Company wrote-off Mineral Properties in the amount of \$162,502, compared with \$Nil in the second quarter of 2011.

Administrative expenses decreased by \$71,226 and totaled \$82,555 in the three months ended July 31 2011 (2010 – \$153,781). The decrease is mainly a result of a decrease in professional fees of \$99,858, due to legal fees incurred in the three months ended July, 31, 2010 in relation with the reverse take-over of Intuitive Exploration Inc.; offset by a new salaries and benefits expense of \$19,457 (2010 - \$Nil)

### *For the six months ended July 31, 2011 compared to the six months ended July 31, 2010:*

During the six months ended July 31, 2011, the Company incurred losses of \$280,098 (\$0.01 loss per share) compared to a net loss of \$168,798 (\$0.00 loss per share) for the same period in 2010.

During the six months ended July 31, 2011, the Company incurred \$117,106 (2010 - \$168,798) in general and administrative expenses. During the six months ended July 31, 2011, the Company wrote-off Mineral Properties in the amount of \$162,502, compared with \$Nil in the first two quarters of 2011.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at July 31, 2011, the Company had current assets of \$274,326 and current liabilities of \$477,721 (January 31, 2011 - \$184,063 and \$411,855, respectively). Working capital deficiency was \$203,395 (January 31, 2011 - \$227,792).

During the period ended July 31, 2011, the Company incurred a total of \$75,839 in exploration expenditures on its properties and had \$54,461 cash outflows from operating activities (see “Results of Operations”).

During the period, the Company closed a financing for proceeds of \$245,000, consisting of the issuance of 4,900,000 units at \$0.05 each.

The Company has obligations pursuant to option agreements it has entered into. The Company has no contractual commitments to satisfy these obligations, however it would forfeit any interest it may have earned to that date should it decide not to satisfy these obligations. Detailed terms of those agreements and the obligations are included in the Financial Statements.

The Company is currently considering options for raising addition capital. The Company has no material debt obligations, other than short term liabilities incurred in the normal activities of exploration and administration. The Company has no long term debt.

## **OFF BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that would potentially affect its operations or financial condition of the Company.

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## RELATED PARTY TRANSACTIONS

During the period ended July 31, 2011, the Company:

- incurred management fees of \$16,000 (2010 - \$9,487) to directors and officers of the Company;

As at July 31, 2011 \$196,070 (January 31, 2011 - \$178,070) was owing to directors and officers of the Company. This amount is non-interest bearing and has no fixed terms of repayment. Subsequent to the end of the period, the Company settled \$127,926 of these obligations through the issuance of 2,558,520 shares at a deemed value of \$0.05 per share.

- paid or accrued to pay a public company with two directors in common with the Company an aggregate of \$13,527 (2010 - \$Nil) for rent and office expenses;

As at July 31, 2011 \$13,527 (January 31, 2011 - \$Nil) is owed to this public company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

No director's fees were paid to any of the six Directors of the Company. It is the choice of the Board to receive their remuneration by way of expected future increases in the unit value of the common shares of the Company that they hold. After the period, the Company expanded its option plan for Directors, Officers and employees.

## PROPOSED TRANSACTIONS

The Company does not currently have any proposed transactions approved by the board of directors. . All current transactions are fully disclosed in the financial statements for the period ended July 31, 2011.

## OTHER ITEMS NOT RELATED TO ONGOING BUSINESS ACTIVITIES

### Changes in the direction of business

Since incorporation on April 30, 2007, the Company is and continues to be primarily in the exploration stage with respect to its mineral properties. On June 21<sup>st</sup>, the Company announced a change in management. (SEE DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE, above)

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, receivables, mineral tax credit recoverable, loans payable, accounts payable and due to related parties. The carrying value of these financial instruments approximates their fair value and are measured based on Level 1 of the fair value hierarchy. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

### *Management of Financial Risk*

The Company's financial instruments are exposed to certain financial risks, which include credit risk, interest rate risk, liquidity risk, and market risk.

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## ***Credit Risk***

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation causing the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash holdings and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. Receivables are due from the Government of Canada and for reimbursements. Management believes that credit risk related to these amounts is low.

## ***Interest Rate Risk***

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company's exposure to interest rate risk relates to its ability to maintain the current rate of interest on its short-term investment.

## ***Liquidity Risk***

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital to continue its operations and discharge its commitments as they become due.

## ***Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk. The Company is not subject to currency risk as the functional currency is the Canadian dollar. The Company does not use any form of derivative or hedging instruments to reduce its foreign currency risk. The Company is not affected by price risk.

## ***Management of Industry Risk***

The Company is engaged primarily in the mineral exploration field and manages related industry risk issues directly. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements.

## **ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these financial statements requires management to make estimates and judgments and form assumptions that affect the reported amounts and other disclosures in these financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year. Critical estimates used in the preparation of these financial statements include, among others, the recoverability of accounts receivable and deferred income tax assets, impairment of assets, measurement of share-based payments and valuation of reclamation obligations.

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Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting judgments include the expected economic lives of and the estimated future operating results and net cash flows from exploration properties and equipment.

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

#### ***International Financial Reporting Standards (“IFRS”)***

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

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

These are the Company’s IFRS condensed consolidated interim financial statements for the six month period ended July 31, 2011 covered by the first IFRS consolidated annual financial statements to be presented in accordance with IFRS for the year ending January 31, 2011. Previously, the Company prepared its consolidated annual and consolidated interim financial statements in accordance with Cdn GAAP.

The accounting policies in Note 2 of the condensed consolidated financial statements have been applied as follows:

- in preparing the condensed consolidated interim financial statements for the three months ended July 31, 2011;
- the comparative information for the three months ended July 31, 2010;
- the statement of financial position as at January 31, 2011; and
- the preparation of an opening IFRS statement of financial position on the Transition Date, February 1, 2010.

In preparing the opening IFRS statement of financial position, comparative information for the three months ended July 31, 2010 and the financial statements for the year ended January 31, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Cdn GAAP.

An explanation of how the transition from Cdn GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables in the Note 12 of financial statements.

#### **Elections upon first-time adoption of IFRS**

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

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## (i) Business combinations

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

## (ii) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

## Mandatory Exceptions under IFRS

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

### (iii) Estimates

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

### (iv) Reclassification within Equity section

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of warrants, agent's options and equity-settled employee benefits. Upon adoption of IFRS, the balance in this account has been reclassified to "Reserves – Warrants".

### (v) Deferred Tax on Mineral Properties

As of January 31, 2011, the Company recognized a deferred income tax expense of \$84,848 arising from goodwill upon completion of the RTO as the difference between the allocated fair value and the tax base of the assets acquired. IAS 12, *Income Taxes* does not permit the recognition of deferred taxes on such transactions. As a result, the Company has derecognized the deferred income tax expense and liability which had previously been recognized on the transaction.

## *Future Accounting Pronouncements*

### *IFRS 9 Financial instruments ("IFRS 9")*

IFRS 9 was issued by the IASB on November 12, 2009 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

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IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This new standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

### *Recent pronouncements*

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, Consolidated Financial Statements (“IFRS 10”), IFRS 11, Joint Arrangements (“IFRS 11”), IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”), IAS 27, Separate Financial Statements (“IAS 27”), IFRS 13, Fair Value Measurement (“IFRS 13”) and amended IAS 28, Investments in Associates and Joint Ventures (“IAS 28”). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS,

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guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

In addition, there have been amendments to existing standards, including IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

### OTHER MD&A DISCLOSURE REQUIREMENTS

#### Information available on SEDAR:

As specified by National Instrument 51-102, Orestone advises readers of this MD&A that important additional information about the Company is available on the SEDAR website (www.sedar.com).

#### Disclosure by venture issuer without significant revenue

An analysis of the material components of the Company's general and administrative expenses is disclosed in the financial statements to which this MD&A relates. An analysis of the material components of the mineral property and deferred exploration costs of the Company's mineral properties for its first two completed financial years is disclosed in Note 4 to the financial statements to which this MD&A relates.

### OUTSTANDING SHARE DATA

#### Common Shares

Authorized: unlimited number of common shares without par value

	Issued and Outstanding	
	July 31, 2011	September 29, 2011
Common shares	48,079,913	58,224,313

On July 11, 2011 the Company completed a private placement of 4,900,000 units at a price of \$0.05 per unit for proceeds of \$245,000. Each unit consisted of one common share and one common share purchase warrant exercisable into one common share at a price of \$0.10 until July 11, 2013.

The securities issued on this private placement are subject to a hold period that expires on November 12, 2011. The private placement has received the final approval of the TSX Venture Exchange.

On September 28, 2011, 2,480,000 incentive stock options at an exercise price of ten and a half cents were granted to officers, employees and consultants of the Company. 555,000 options are exercisable until September 8, 2013 and the remaining 1,925,000 are exercisable until September 8, 2015.

As of January 31, 2011, 975,000 common shares are held in escrow, which were released as of April 30, 2011.

#### Options

The following options were outstanding as at September 28, 2011:

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Number of Options	Exercise Price	Expiry Date
750,000	\$0.200	March 7, 2013
555,000	\$0.105	September 8, 2013
300,000	\$0.150	January 12, 2015
<hr/> 1,925,000	\$0.105	September 8, 2015
<hr/> 3,530,000		

### Warrants

The following warrants were outstanding as at September 28, 2011:

Number of Warrants	Exercise Price	Expiry Date
3,650,400	\$0.15	December 18, 2011
200,000	\$0.15	June 3, 2012
4,900,000	\$0.10	July 11, 2013
<hr/> 8,750,400		

### **Going concern issue**

The Company is in the exploration stage and has no revenue or income from operations. The Company has limited capital resources and has to rely upon the sale of equity and/or debt securities for cash required for exploration and development purposes, for acquisitions and to fund the administration of the Company. Since the Company does not expect to generate any revenues from operations in the near future, it must continue to rely upon the sales of its equity or debt securities or joint venture agreements to raise capital. It follows that there can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company.

The Company's financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to obtain the necessary financing to meet its ongoing commitments and further its mineral exploration programs.

The Company may encounter difficulty sourcing future financing in light of the recent economic downturn. The current financial equity market conditions and the inhospitable funding environment make it difficult to raise capital through the private placements of shares. The junior resource industry has been severely affected by the world economic situation as it is considered speculative and high-risk in nature, making it even more difficult to fund. While the Company is using its best efforts to achieve its business plans by examining various financing alternatives, there is no assurance that the Company will be successful with any financing ventures.



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## **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as at July 31, 2011, as required by Canadian securities law. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of July 31, 2011, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws were recorded, processed, summarized and reported within the time period specified by those laws and that material information was accumulated and communicated to management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for accurate disclosure to be made on a timely basis.

## **Changes in Internal Control over Financial Reporting**

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and Chief Financial Officer have concluded that there has been no change in the Company's internal control over financial reporting during the period ended July 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. As of July 31, 2011, the Company's internal control over financial reporting was effective.

## **Cautionary Statement**

This document contains "forward-looking statements" within the meaning of applicable Canadian securities regulations. All statements other than statements of historical fact herein, including, without limitation, statements regarding exploration results and plans, and the Company's other future plans and objectives, are forward-looking statements that involve various risks and uncertainties. Such forward-looking statements include, with limitation, (i) estimates of exploration investment and scope of exploration programs, and (ii) estimates of stock-based compensation expense. There can be no assurance that such statements will prove to be accurate, and future events and actual results could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in the Company's documents filed from time to time via SEDAR with the Canadian regulatory agencies to whose policies we are bound. Forward-looking statements are based on the estimates and opinions of management on the date the statements are made, and we do not undertake any obligation to update forward-looking statements should conditions or our estimates or opinions change. Forward-looking statements are subject to risks, uncertainties and other factors, including risks associated with mineral exploration, price volatility in the mineral commodities we seek, and operational, political and environmental risks.

Dated: September 29, 2011