

# **BURNSTONE VENTURES INC.**

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## **Form 51-102F1 Management's Discussion and Analysis<sup>1</sup> Containing Information up to and including July 15, 2011**

### **GENERAL**

**Burnstone Ventures Inc.** ("**Burnstone Ventures**" or the "**Company**") is an exploration stage company actively engaged in the acquisition, exploration and development of mineral resource properties located in Canada. On July 24, 2009, the Company was listed on the Canadian National Stock Exchange ("CNSX") and commenced trading under the symbol BVE. On July 31, 2009, the Company was delisted from the Toronto Stock Exchange. The Company holds various interests in properties in Nunavut, the Northwest Territories and in Colorado. The Company's current exploration efforts are concentrated on its Baffin Island Project in Nunavut and the Tomichi Copper, Molybdenum Project in Colorado.

The mineral exploration business is risky and most exploration projects will not become mines. The Company may offer an opportunity to a mining company to acquire an interest in a property in return for funding all or part of the exploration and development of the property. For the funding of property acquisitions and exploration that the Company conducts, the Company mainly depends on the issue of shares from treasury to investors. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management.

### **FORWARD LOOKING INFORMATION**

Certain statements contained in the MD&A constitute forward looking statements. Such forward looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from actual future results and achievements expressed or implied by such 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.

### **OVERALL PERFORMANCE**

The Company has continued to monitor its exploration and other expenditures in order to conserve funds while focusing its efforts on securing further financing. On November 2, 2010, the Company announced that it had closed a non-brokered private placement of 2,223,333 units for gross proceeds of \$133,400. On June 1, 2011, the Company announced that it had arranged another non-brokered private placement of up to 4,000,000 units at a price of \$0.30 per unit for gross proceeds of \$1,200,000 and on July 7, 2011, the Company announced that it had

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#### <sup>1</sup> **Note to Reader**

The following management's discussion and analysis ("**MD&A**") provides a detailed analysis of the Company's business and compares its financial results with those of the previous year and should be read in conjunction with the Company's audited consolidated financial statements for the year ended March 31, 2011. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("**Canadian GAAP**").

increased the non-brokered private placement from 4,000,000 to up to 10,000,000 units at a price of \$0.22 per unit for gross proceeds of \$2,200,000 (see “FINANCING ACTIVITIES – Non-brokered Private Placements” for details).

During the year ended March 31, 2010, the Company’s shareholders passed a special resolution to consolidate all of the Company’s issued and outstanding common shares. The Company also received CNSX acceptance and proceeded with (i) the consolidation on the basis of one post-consolidation common share for every ten pre-consolidation common shares and (ii) the Company’s name change to “Burnstone Ventures Inc.” (formerly “Pure Diamonds Exploration Inc.”). Fractional shares remaining after giving effect to the consolidation were cancelled, such that shareholdings of each shareholder were rounded down to the nearest whole number of post-consolidation common shares. The record date for the consolidation was after the close of trading on August 18, 2009.

Trading on a *post-consolidated* basis under the new name “Burnstone Ventures Inc.” commenced on the CNSX at the opening of trading on August 14, 2009. A full description of the transactions summarized above is contained in the Company’s Management Information Circular dated June 15, 2009, which has been filed on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) and is available for viewing under the Company’s name at [www.sedar.com](http://www.sedar.com).

The share consolidation and name change to Burnstone Ventures Inc. were deemed necessary to facilitate the Company’s securing funding to continue exploration on the Company’s Baffin Island property in the High Arctic location, or to secure a new property or pursue new ventures in line with Management’s ongoing efforts to locate new prospective opportunities for the Company.

## **EXPLORATION UPDATE**

The Company’s principal resource property is the Baffin Island Property, which includes the Baffin Mineral Claims in Nunavut and the Tomichi Copper, Molybdenum project in Colorado.

### ***Tomichi Project***

On March 21, 2011, the Company announced that it had signed a letter of intent to acquire all of the shares of Tomichi Copper Corp. (“Tomichi”), which has the right to acquire a 100% interest in the Tomichi copper-molybdenum (Cu-Mo) porphyry project in Gunnison County, south-central Colorado, (the “Project”). Subject to approval of the Board of the Company and all regulatory authorities, the Company would issue 3.1 million shares for the acquisition of Tomichi, and pay a finder’s fee in compliance with the regulations of the Canadian National Stock Exchange. Tomichi, through its US subsidiary, has the right to purchase a 100% interest in the Project for an exercise price of \$4 million US on or before the seventh anniversary of the option agreement (the “Option”).

A payment of \$14,988 (US \$15,000) required on signing and paid during the year ended March 31, 2011 was recorded as a deferred acquisition cost. Until the Option is exercised, to obtain and maintain the Option, the Company shall pay for a term of six years the following amounts (the “Annual Payments”):

- US \$40,000 on or before May 1, 2011 (paid subsequent to March 31, 2011)
- US \$60,000 on or before May 1, 2012
- US \$80,000 on or before May 1, 2013
- US \$125,000 on or before May 1, 2014
- US \$150,000 on or before May 1, 2015
- US \$180,000 on or before May 1, 2016

If the Option is exercised, no further Annual Payments are required. The current owners will retain a 1.5% Net Smelter Royalty. Pursuant to the Share Exchange Agreement dated April 26,

2011, the Company closed the acquisition and acquired all of the issued and outstanding shares  
of Tomichi

The following table contains assay results for a selection of holes from the historic drilling on the Project within the core area of the porphyry target:

DDH #	From m	To m	Interval m	%Mo	%Cu	%Cu Eq <sup>(1)</sup>
TM-04	140.2	385.7	<b>245.4</b>	0.066	0.08	<b>0.34</b>
TM-05	20.1	328.4	<b>308.2</b>	0.054	0.24	<b>0.46</b>
TM-07	6.1	441.2	<b>435.1</b>	0.024	0.26	<b>0.36</b>
TM-08	9.8	420.7	<b>411.0</b>	0.036	0.25	<b>0.39</b>
TM-09	10.1	357.9	<b>347.9</b>	0.060	0.31	<b>0.55</b>
TM-10	8.2	263.4	<b>255.2</b>	0.060	0.29	<b>0.53</b>
TM-11A	30.5	302.1	<b>271.6</b>	0.060	0.16	<b>0.40</b>
TM-13	73.2	398.5	<b>325.3</b>	0.042	0.32	<b>0.49</b>
TM-14	70.1	337.5	<b>267.4</b>	0.048	0.21	<b>0.40</b>
TM-15	21.3	337.5	<b>316.2</b>	0.060	0.22	<b>0.46</b>

(1) Copper Equivalent values were derived based on \$10.00/lb moly and \$3.00/lb copper.

The Project is located along the southeastern edge of the Colorado Mineral Belt, host to some of the world's largest (>250,000 tons contained Mo) porphyry moly deposits such as Henderson, Climax and Mt. Emmons. Initial exploration drilling at Tomichi was carried out by Climax Moly in 1957, with the most recent drilling by Molycorp in 1982-1984. A total of 55 diamond drill holes have been completed on the Project. A significant number of the drill holes intersected the mineralization at surface and many were terminated in ore grade material.

Mineralization at Tomichi consists of disseminated and fracture controlled molybdenite and chalcopyrite hosted by a mid-Tertiary, potassic altered, porphyritic quartz monzonite. The mineralized porphyry is exposed at surface on top of Copper Hill and has been traced to over 550m in depth. Diamond drilling has encountered copper-moly mineralization over an area in excess of 1500m by 800m, which remains open to the north and east.

The Company has the drill logs from most of the historical drill holes, and core from many of those holes has been preserved at the project site. Upon completion of the acquisition, the Company intends to re log the old core to get a better understanding of the mineralization and the related porphyry system. As all of the previous drilling was assayed only for copper and molybdenum, the Company will also resample selected mineralized intervals for precious metals and other significant pathfinder elements. Permitting for a summer exploration program, including diamond drilling, will begin as soon as possible.

Mr. James Chapman, P.Geo, is responsible for the design of the program and all exploration work on the Project will be done under his supervision.

### ***Baffin Island Property***

The Company terminated the High Arctic Option Agreement and has a 100% interest in the Baffin Mineral Claims subject to a 1% diamond royalty and a 1% NSR. As part of this termination agreement the Company elected to acquire a 100% interest in this Project as it is the most advanced of the High Arctic Projects, is the site of kimberlite discoveries and hosts a large area containing kimberlite boulders, kimberlite indicator mineral anomalies and potential drill targets.

In August of 2008 a surface exploration program was conducted by Apex Geoscience Ltd. ("Apex"). The program consisted of further detailed till sampling and prospecting over new target areas that were identified as a result of a review of the data by Apex. The samples were processed for kimberlite indicator minerals. The acquisition of a 100% working interest in the

Baffin Island Property gives the Company the option to consider bringing in a strategic partner to continue to finance the level of exploration needed to advance the Project. A number of diamond exploration and development companies are operating in this region of the High Arctic, which continues to be an area of focus for diamond exploration in Canada. Although expenditures by the Company have been minimal in the past two years, the Company still believes these claims to be promising and is actively seeking opportunities through either joint venture partners or a turn in the market in order to further finance future expenditures.

### **Colville Lake**

The Company has a 100% interest in the Colville Lake property subject to a 1% gross overriding royalty.

Several targets have been defined as a result of the surface exploration programs to date. As several of the targets are under small lakes, drilling must be conducted during the spring season. No field work was conducted during the 2010 summer field season. No field work is currently planned on the Colville Lake Property in 2011. During the year ended March 31, 2011, the Colville Lake Property was written off as no further exploration work was planned.

### **Buffalo Hills and Other Properties**

During the year ended March 31, 2011, the Company conducted an annual review of its resource property interests and recorded an impairment in the amount of \$4,135 (2010 - \$nil) on various non-core property interests as the Company had no plans to conduct further exploration on these properties.

During the year ended March 31, 2010, the Company sold its interest in the Buffalo Hills project in north central Alberta under a purchase and sale agreement with two third parties. The Company received \$75,000 in cash from each party for a total of \$150,000 and was granted a 1% royalty interest in the Buffalo Hills project. As a result of the sale, the Company recorded a gain on sale of resource property interest of \$148,980.

The Company holds varying interests in properties in the Northwest Territories and Nunavut that are owned jointly with other partners. In the Northwest Territories/Nunavut, these properties include the Round Rock, Star, and Cross claims which are operated by Stornoway Diamond Corporation ("Stornoway").

## **RESULTS OF OPERATIONS**

### **Selected Annual Information**

	2010 \$	2010 \$	2009 \$
Revenues	Nil	Nil	Nil
Loss Before Income Taxes	(256,109)	(225,094)	(511,536)
Net Loss	(256,109)	(225,094)	(511,536)
Loss Per Share <sup>2</sup>	(0.02)	(0.03)	(0.09)
Total Assets	5,097,067	5,181,345	5,023,760
Long-term Liabilities	Nil	Nil	Nil

<sup>2</sup> Loss per share has been calculated using the weighted average number of shares outstanding retroactively adjusted and determined as though the share consolidation occurred at March 31, 2008 (see "OVERALL PERFORMANCE" for details on the share consolidation).

The Company reported a net loss of \$256,109 in 2011 (\$0.02 loss per share), \$225,094 in 2010 (\$0.03 loss per share), and a net loss of \$511,536 (\$0.09 loss per share) in 2009. The increase in the net loss during the year was mainly due to a gain on sale of resource property interest of \$148,980 in 2010 (see "Buffalo Hills and Other Properties" for details), partially offset by higher overall administrative expenses. Stock-based compensation was \$43,668 (2010 - \$46,856; 2009 - \$3,593) as a result of the new options granted during the years ended March 31, 2011 and March 31, 2010. The Company recorded impairment of resource property interests in the amount of \$4,135 in 2011 relating to various non-core property interests compared to an impairment of \$Nil in 2010 and \$105,687 for the High Arctic and Buffalo properties in 2009.

The decrease in administrative expenses during the year ended March 31, 2011 was due to a decrease in office facilities and administrative services as the Company surrendered the lease for one of its premises and paid a one-time penalty totaling approximately \$48,000 during the year ended March 31, 2010. The decrease in overall administrative expenses during the year ended March 31, 2011 compared to 2010 and 2009 were also a result of the Company's ongoing efforts to conserve cash while focusing efforts on securing further financing. On November 2, 2010, the Company announced that it had closed a non-brokered private placement of 2,223,333 units for gross proceeds of \$133,400 (see "FINANCING ACTIVITIES – Non-brokered Private Placements" for details). On June 1, 2011, the Company announced that it had arranged another non-brokered private placement of up to 4,000,000 units at a price of \$0.30 per unit for gross proceeds of \$1,200,000 and on July 7, 2011, the Company announced that it had increased the non-brokered private placement from 4,000,000 to up to 10,000,000 units at a price of \$0.22 per unit for gross proceeds of \$2,200,000 (see "FINANCING ACTIVITIES – Non-brokered Private Placements" for details).

The Company is an exploration stage company and does not generate operating revenue.

#### **FOURTH QUARTER**

The factors influencing the results in the fourth quarter are the same as those described under Results of Operations. The Company's net loss for the fourth quarter ended March 31, 2011 of \$96,150 (\$0.01 loss per share) was comparable to the net loss for the fourth quarter ending March 31, 2010 of \$93,758 (\$0.01 loss per share). The increase in the Company's net loss during the quarter ended March 31, 2011 compared to the quarter ended December 31, 2010 was mainly due to stock-based compensation of \$43,668.

#### **Summary of Quarterly Results**

The summary of quarterly results has been prepared in accordance with Canadian GAAP.

	<b>Revenue</b> <b>\$</b>	<b>Income (Loss)</b> <b>\$</b>	<b>Income (Loss) per share</b> <sup>3</sup> <b>\$</b>
<b>March 31, 2011</b>	<b>Nil</b>	<b>(96,150)</b>	<b>(0.01)</b>
December 31, 2010	Nil	(42,974)	(0.00)
September 30, 2010	Nil	(71,867)	(0.01)
June 30, 2010	Nil	(45,118)	(0.00)
March 31, 2010	Nil	(93,758)	(0.01)
December 31, 2009	Nil	97,266	0.01
September 30, 2009	Nil	(112,972)	(0.02)
June 30, 2009	Nil	(115,630)	(0.02)

<sup>3</sup> Income (Loss) per share has been calculated using the weighted average number of shares outstanding retroactively adjusted and determined as though the share consolidation occurred at March 31, 2009 (see "OVERALL PERFORMANCE" for details on the share consolidation).

Fluctuations in the Company's expenditures reflect the seasonal variations of exploration and the ability of the Company to raise capital for its projects. The results in the quarters ended December 31, 2010, September 30, 2010 and June 30, 2010 reflect an overall reduction in corporate activities. The results in the fourth quarter ended March 31, 2011 and March 31, 2010 reflect stock-based compensation expense of \$43,668 and \$46,856, respectively. The results reported in the quarter ended December 31, 2009 reflect a gain on sale of the Buffalo Hills project of \$148,980.

## **LIQUIDITY**

Financing of operations is mainly achieved by issuing share capital. At March 31, 2011, the Company had \$75,177 in cash and cash equivalents, and working capital of \$67,915. Working capital is comprised of current assets less current liabilities.

During the year ended March 31, 2011, net cash outflows from operating activities were \$203,238 compared to \$352,974 during the year ended March 31, 2010.

The Company's investing activities revolve around developing its resource properties. The Company incurred exploration and acquisition costs of \$52,161 during the year ended March 31, 2011 and received proceeds of \$8,000 from a reclamation bond compared to a *net* deferred exploration cost recovery of \$7,359 due to a \$10,000 field expense recovery during the year ended March 31, 2010. During the year ended March 31, 2010, the Company also received proceeds of \$150,000 from the sale of its Buffalo Hills Project. The Company's exploration and acquisition expenditures were incurred primarily on the Company's Baffin Island / High Arctic properties in Nunavut and the Tomichi Copper, Molybdenum project in Colorado.

Financing activities generated a cash inflow of \$133,400 during the year ended March 31, 2011, resulting from the completion of a non-brokered private placement. In the comparative period, the Company had a *net* cash inflow of \$363,300, resulting from the completion of a non-brokered private placement, which raised gross proceeds of \$388,300 (see "FINANCING ACTIVITIES – Non-brokered Private Placements" for details), and the net repayment of loans payable and related party loans of \$25,000 (see "FINANCING ACTIVITIES – Loan Agreements").

## **CAPITAL RESOURCES**

The Company has no operations that generate cash flow and its long term financial success is dependent on discovering properties that contain mineral reserves that are economically recoverable. The Company's primary capital assets are resource properties. The Company capitalizes all costs related to the resource properties until such time as a project is put into commercial production, sold, abandoned, or when delays in the development process require a revaluation.

The Company depends mainly on equity sales to finance its exploration programs and to cover administrative expenses.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company does not utilize off-balance sheet transactions.

## **FINANCING ACTIVITIES**

### ***Non-brokered Private Placements***

On June 1, 2011, the Company announced that it had arranged a non-brokered private placement of up to 4,000,000 units at a price of \$0.30 per unit (the "Units") for gross proceeds of \$1,200,000 (the "Offering"). On July 7, 2011, further to the Company's news release announced on June 1, 2011, the Company announced that it had increased the non-brokered private placement from 4,000,000 to up to 10,000,000 units at a price of \$0.22 per unit for gross proceeds of \$2,200,000. Each Unit will consist of one common share and one-half of one transferable share purchase warrant. Each whole share purchase warrant will entitle the holder thereof to purchase one additional common share of the Company for a period of eighteen months from the closing date of the Offering at an exercise price of \$0.32 per common share. In connection with the private placement, the Company may pay finders' fees pursuant to the policies of the CNSX. The Company anticipates that there may be insider participation in the above private placement, for which the finders will not receive a commission. Proceeds from the offering will be used by the Company for further exploration efforts and general ongoing corporate matters. The above private placement is subject to all regulatory and board approvals.

On November 2, 2010, the Company announced that it had closed the non-brokered private placement of 1,666,666 units of the Company at a price of \$0.06 per unit for gross proceeds of \$100,000. Each unit is comprised of one common share and one transferable share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share in the Company at \$0.10 per share until November 2, 2012. The Private Placement was oversubscribed by an additional 556,667 units for additional proceeds to the Company of \$33,400. As subscribers to the Private Placement, two directors of the Company acquired directly an aggregate of 140,000 units. The gross proceeds raised by the Company for the 2,223,333 units subscribed were \$133,400. The issued securities were subject to a hold period until March 3, 2011. No finder fees were paid. Proceeds from the private placement will be used for general working capital and operating expenses.

On December 22, 2009, the Company announced that it had closed the first tranche of the non-brokered private placement of 5,751,664 units of the Company at a price of \$0.06 per unit for gross proceeds of \$345,100. Each unit is comprised of one common share and one transferable share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company at \$0.10 per share until December 15, 2011. The issued securities were subject to a hold period until April 16, 2010. No finder's fees were paid. On January 15, 2010, the Company announced that it had closed the second and final tranche of the non-brokered private placement of 720,000 units of the Company, for gross proceeds of \$43,200. The Company issued 720,000 common shares and 720,000 transferable share purchase warrants to five subscribers. Each unit is comprised of one common share and one transferable share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share in the Company at \$0.10 per share until January 7, 2012. The issued securities were subject to a hold period until May 8, 2010. No finder's fees were paid.

### ***Loan Agreements***

On July 20, 2009, the Company issued a loan agreement to a director of the Company and a loan agreement to a company owned by a director of the Company, in the principal amounts of \$10,000 and \$5,000, respectively, due on July 21, 2010, bearing annual interest at 10%. The Company also issued three unsecured loan agreements to external third parties in the principal amounts of \$25,000, \$10,000 and \$5,000, all due on July 21, 2010 and bearing annual interest at 10%.

On May 12, 2009, the Company issued a loan agreement to an external third party in the principal amount of \$25,000 due on November 8, 2009, bearing annual interest at 10%. On June 30, 2009, the due date on the loan was extended to July 21, 2010.

On May 8, 2009, the Company issued a loan agreement to a director of the Company, in the principal amount of \$20,000 due on August 6, 2009, bearing annual interest at 10%. On May 21, 2009, the Company issued a loan agreement to a director of the Company, in the principal amount of \$10,000 due on August 19, 2009, bearing annual interest at 10%. On June 30, 2009, the due dates on the loans were extended to July 21, 2010.

On March 13, 2009, the Company issued a loan agreement to a company owned by a director of the Company, in the principal amount of \$10,000 due on September 9, 2009, bearing annual interest at 10%. On March 26, 2009, the Company issued a loan agreement to a company owned by a director of the Company, in the principal amount of \$15,000 due on September 22, 2009 and bearing annual interest at 10%. On June 30, 2009, the due dates on the loans were extended to July 21, 2010.

All loans from directors, companies owned by directors and external third parties were unsecured.

During the year ended March 31, 2010, the Company repaid all of the loans to directors and companies owned by directors totalling \$70,000, plus accrued interest of \$4,118. As well, the Company repaid all of the outstanding loans payable to external third parties totalling \$65,000, plus accrued interest of \$3,001. As at March 31, 2010 there are no outstanding loans payable to directors, companies owned by directors or external third parties.

## **TRANSACTIONS WITH RELATED PARTIES**

The management functions of the Company are performed by the directors and senior officers of the Company and there are no management agreements or arrangements under which such management functions are performed by persons other than the directors and senior officers of the Company other than the contracts described below. The Board has approved these contracts, excluding the loan agreements, having taken into consideration the level of service provided and compensation offered by companies comparable to the Company in terms of size, assets and stage of development. The Board is satisfied that the level of compensation continues to be competitive with that of comparable companies.

The Company entered into a management agreement with Pender Street Corporate Consulting Ltd. ("PSCC"), a private company owned by a director, dated September 1, 2007. Under the Management Agreement, PSCC provides general management, accounting and administrative services to the Company for a fee of \$7,500 per month. The contract has an initial term of one year and automatically renews for further one-year terms. The Company may terminate the agreement by giving PSCC 90 days written notice. On June 1, 2009, the Management Agreement was amended to reflect a reduction in the fee to \$5,000 per month.

The Company has entered into a lease agreement with PSCC commencing January 1, 2011, for lease of its principal office space for a fee of \$2,250 per month. The contract has an initial term of one year and automatically renews for further one-year terms. The Company may terminate the agreement by giving PSCC 90 days written notice. The lease agreement was amended to reflect an increase in rent to \$3,000 per month commencing March 1, 2011 and to \$3,500 per month commencing July 1, 2011. The rent is, in turn, paid to the head landlord.

The Company has entered into a consulting agreement with Gordon Keevil, a director of the Company, dated September 1, 2007. The consulting agreement provides for geological advice and assistance in overseeing field operations for a fee of \$5,000 per month plus an annual bonus of \$5,000 to be paid on each anniversary date of the agreement. The agreement is for an indefinite term and either party may terminate the agreement at any time. Should the Company terminate the agreement for any reason other than each party's mutual consent or for just cause, the Company must pay a liquidated amount equal to the value of all compensation Mr. Keevil would have been entitled to receive for the six month period following the date of such

termination. On June 1, 2009, this Consulting Agreement was terminated without any termination payment made or required. It was agreed that future services will be billed on a month-to-month basis in accordance with the time that Mr. Keevil spends in his capacity with the Company.

The Company has entered into a consulting agreement with Eugene Beukman, a director and officer of the Company, dated September 1, 2007. The consulting agreement provides for advice on legal matters and property management for a fee of \$5,000 per month plus an annual bonus of \$5,000 to be paid on each anniversary date of the agreement. The agreement is for an indefinite term and either party may terminate the agreement at any time. Should the Company terminate the agreement for any reason other than each party's mutual consent or for just cause, the Company must pay a liquidated amount equal to the value of all compensation Mr. Beukman would have been entitled to receive for the six month period following the date of such termination. On June 1, 2009, this Consulting Agreement was terminated without any termination payment made or required. It was agreed that future services will be billed on a month-to-month basis in accordance with the time that Mr. Beukman spends in his capacity with the Company.

During the year ended March 31, 2011, the Company paid or accrued \$60,000 in management and administrative fees to PSCC, which was used to pay staff salaries. The Company also paid \$3,500 in consulting fees, \$2,250 in director fees and \$31,396 to PSCC for its portion of rent, which was then remitted to the landlord.

As at March 31, 2011, \$1,215 (March 31, 2010 - \$2,015) was due to directors and/or companies controlled by directors. Amounts due to related parties, excluding loans payable (see "FINANCING ACTIVITIES – Loan Agreements"), are non-interest bearing and have no specified terms of repayment.

On November 2, 2010, two of the Company's directors participated in the Company's non-brokered private placement, by purchasing a total of 140,000 units at \$0.06 per unit (see "FINANCING ACTIVITIES – Non-brokered Private Placements" for further details on the private placement).

During the year ended March, 31, 2010, four of the Company's directors participated in the Company's non-brokered private placement, by purchasing a total of 1,801,666 units at \$0.06 per unit (See "FINANCING ACTIVITIES – Non-brokered Private Placements" for details on the private placement).

## **PROPOSED TRANSACTIONS**

There are no proposed transactions that will materially affect the performance of the Company.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's accounting policies are described in Notes 2 and 3 of the audited consolidated financial statements for the year ended March 31, 2011. Management considers the following policies to be the most critical in understanding the judgments and estimates that are involved in the preparation of its consolidated financial statements.

### ***Use of Estimates***

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of resource property interests, asset retirement obligations, expected tax rates for future income tax recoveries, fair values of share based payments, and useful lives

for depreciation and amortization of long-lived assets. Financial results as determined by actual events could differ from those estimates.

## ***Accounting for Stock Options***

Stock options are measured and expensed using the fair value method. The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly subjective assumptions including the expected price volatility of the Company's shares. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

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

### ***New accounting standards not yet adopted***

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

In February 2008, The CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS effective April 1, 2011 to be in line with its March 31<sup>st</sup> year-end and will be required to restate, for comparative purposes, amounts reported by the Company for its year ended March 31, 2011.

#### Approach:

There are five phases that will be followed to ensure compliance with IFRS as follows: (1) identification of key accounting issues (2) analysis of accounting standards (3) determination of accounting policies (4) implementation and (5) post implementation review. The implementation team consists of an external consultant and internal resources. The implementation team will report to the CFO and the Audit Committee on the progress towards IFRS convergence.

#### Training:

Members of the Company's finance department have taken steps to become proficient in IFRS, including participating in IFRS training sessions.

#### Accounting Policies impacted:

The detailed analysis of the accounting policies impacted by the IFRS convergence has been completed and great effort will be put in the financial statements presentation, as IFRS requires more disclosure. Based on the analysis of expected accounting differences conducted so far, the following is a non-exhaustive list of the IFRS accounting policies that could have a potential impact on the financial statements of the Company:

#### First Time adoption (IFRS 1)

IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

#### Impairment (IAS 36, IAS6)

IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss). IFRS requires reversal of impairment losses where previous adverse circumstances have changed; this is prohibited under Canadian GAAP. Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU").

#### Share-based payments (IFRS 2)

Per IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Company at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur.

#### Mineral property interests, exploration and evaluation costs (IFRS 6)

Under IFRS, the Company would be required to develop an accounting policy to specifically and consistently identify which expenditures on exploration and evaluation activities will be recorded as assets. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment. Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

#### Information systems:

The accounting processes of the Company are simple and no major challenges are expected. The Company expects that no historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1. As the Company will perform its accounting under Canadian GAAP from April 2010 to March 2011, it will generate dual accounting under IFRS for this period so that it has the comparatives available at the changeover date.

#### Internal Controls:

Since the Company is listed on the CNSX, management does not make representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109. Management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support their certification of the financial statements and MD&A, more specifically assessing that the SEDAR filings are presenting fairly the results of the Company. Management will make sure that once the convergence process is completed, it can still certify its filings.

#### Impact on the business:

The business processes of the Company are simple and no major challenges are expected at this point to operate under IFRS. The Company has no compensation arrangements that will be affected by the IFRS implementation. The Company's Stock Option Plan is not affected by ratios or financial targets. Business processes will be monitored through 2011 to detect unsuspected impact.

#### *Business combinations, consolidated financial statements and non-controlling interest*

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces sections 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 – Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period

beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standards IAS 27 – Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

## **FINANCIAL INSTRUMENTS**

### ***Designation and valuation of financial instruments***

The Company enters into financial instruments to finance its operations in the normal course of business. The carrying values of the Company's financial instruments compared to their fair values are as follows:

- The fair values of cash and cash equivalents, HST/GST recoverable, accounts payable and accrued liabilities and due to related parties approximate their carrying values due to the short-term maturity of these instruments.
- Since the Company has classified marketable securities as "Available for Sale", the Company has valued these at the closing price of the shares on the related market where the specific shares are listed for trading at March 31, 2011. As at March 31, 2011, the fair value exceeded the cost of these assets by \$1,350.

### ***Risks***

#### ***Credit risk***

Credit risk refers to the risk that another entity will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk is primarily attributable to its cash deposits and HST/GST recoverable. Cash is held with a reputable Canadian institution and HST/GST recoverable is due from the government of Canada. Management believes the risk of loss to be minimal.

#### ***Market risk***

Market risk includes currency risk, interest rate risk and price risk. The Company's activities expose it primarily to the financial risks of changes in the price of commodities. The exposure includes the ability to raise capital with favourable terms and the value of the marketable securities the Company accepts for certain option rights on its properties. The Company holds all cash in an interest bearing account and has no other interest bearing financial assets or liabilities, except for loans which have a fixed interest rate and have been repaid in full. The Company does not currently hold any financial instruments that mitigate this risk.

### *Liquidity risk*

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at an excessive cost. Accounts payable and accrued liabilities are current. The Company's loans payable were paid in full by the Company during the year ended March 31, 2010 (see "FINANCING ACTIVITIES - Loan Agreements" for further details).

### **SHARE DATA**

The authorized capital of the Company consists of an unlimited number of common shares of which 18,788,419 common shares were issued and outstanding as of the date of this report (see also "OVERALL PERFORMANCE" for details on the consolidation of the Company's issued and outstanding common shares).

At the Company's Annual General and Special Meeting of Shareholders held on July 21, 2009, shareholders approved an amendment to the Company's Stock Option Plan to conform to the policies of the CNSX. Under the new stock option plan, the Company may issue up to 1,182,741 (post-consolidation) options to purchase common shares of the Company. During the year ended March 31, 2010, 3,984,375 (pre-consolidation) options under the old stock option plan were cancelled. As at the date of this report, there are 1,032,741 options outstanding, which have been issued from the new stock option plan.

The following table sets out all of the options outstanding in the Company as at the date of this report:

Options Outstanding	Exercise Price	Expiry Date
750,000	\$ 0.10	March 22, 2015
282,741	\$ 0.17	March 30, 2016
<u>1,032,741</u>		

The following table sets out all the outstanding share purchase warrants in the Company as at the date of this report (see "FINANCING ACTIVITIES – Non-brokered Private Placements" for details on the non-brokered private placements):

Warrants Outstanding	Exercise Price	Expiry Date
5,301,664	\$ 0.10	December 15, 2011
720,000	\$ 0.10	January 7, 2012
2,223,333	\$0.10	November 2, 2012
<u>8,244,997</u>		

The Company has no performance shares or escrow shares outstanding.

## **RISKS AND UNCERTAINTIES**

The Company's principal activity is mineral exploration and development. Companies in this industry are subject to many and varied kinds of risks, including but not limited to, environmental, metal prices, political and economical.

The Company has no significant source of operating cash flow and no revenues from operations. The Company has not yet determined whether its mineral properties contain mineral reserves that are economically recoverable. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish reserves.

There is no guarantee that the Company will be able to contribute or obtain all necessary resources and funds for the exploration and exploitation of its permits, and may fail to meet its exploration commitments.

The property interests the Company has an option to earn an interest are in the exploration stages only, are without known bodies of commercial mineralization and have no ongoing mining operations. Mineral exploration involves a high degree of risk and few properties, which are explored, are ultimately developed into producing mines.

Exploration of the Company's mineral properties may not result in any discoveries of commercial bodies of mineralization. If the Company's efforts do not result in any discovery of commercial mineralization, the Company will be forced to look for other exploration projects or cease operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters.

## **OTHER**

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.burnstoneventures.com](http://www.burnstoneventures.com) and by accessing the Company's other public documents filed on SEDAR at [www.sedar.com](http://www.sedar.com).