BROWNSTONE ENERGY INC.

FORM 51-101F1
STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Definitions

References in this statement of reserves data and other oil and gas information (the "Statement") to "Brownstone", the "Company", "we", "us" and "our" refer to Brownstone Energy Inc.

Certain terms in this Statement which first appear in italics (other than in headings) have the meanings ascribed to those terms in National Instrument 51-101 -- Standards of Disclosure for Oil and Gas Activities (and its companion policy) ("NI 51-101").

Unless otherwise indicated, all references to dollar amounts in this Statement are to U.S. dollars.

Abbreviations

In this Statement, the abbreviations indicated below have the associated meanings:

"Bbl":	barrel
"Cdn$":	Canadian dollars
"MMcf":	million cubic feet
"Mbbl" :	thousand barrels
"M$":	thousands of U.S. dollars
"MM$":	millions of U.S. dollars
"M$Cdn":	thousands of Canadian dollars
"U.S.":	United States of America
"WTI":	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

Date of Statement

The Statement contains information concerning our material *properties* for our financial year ended June 30, 2011. The Statement is dated October 22, 2011. The effective date of the Statement is June 30, 2011 and the preparation date of the Statement is October 27, 2011.

Forward-Looking Information

This Statement contains forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "believe", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook.

Statements relating to our reserves in this Statement (including statements regarding future net revenue attributable to the reserves) are forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Other forward-looking information in this Statement pertains to:

- the quantum of, and future net revenues from, the oil and natural gas reserves;
- oil and natural gas production levels;
- expectations regarding future development costs and the ability to fund such costs;
- projections of market prices and costs;
- future exploration activities, including drilling activities, on our properties;
- future work commitments relating to our properties; and
- expectations regarding exploration and development activities.

Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors, many of which are beyond our control, could cause actual results to differ materially from the results discussed in the forward-looking information. Some of the risks that could affect our future results and could cause results to differ materially from those expressed in our forward-looking information include:

- the need to obtain required approvals and permits from regulatory authorities;
- the impact of competition;
- compliance with and liabilities under environmental laws and regulations;
- the uncertainties of estimates by our independent reserves evaluators with respect to our reserves;
- the volatility of oil and natural gas prices;
- changes in the foreign exchange rate among the U.S. dollar, Argentinean Peso and Colombian Peso;
- general economic conditions in the countries in which we operate;
- changes to royalty regimes and government regulations regarding royalty payments;
- risks associated with exploring for, developing, producing, processing, storing and transporting oil and natural gas;
- geological, technical, drilling, testing and processing problems;
- our ability to hire and retain staff;
- imprecision in estimating capital expenditures and operating expenses;
- imprecision in estimating the timing, costs and levels of production and drilling;
- imprecision in estimates of future production capacity;
- potential delays or changes in plans with respect to exploration and development projects or capital expenditures;
- changes to regulations and legislation applicable to us and the interpretation thereof, including tax and environmental legislation and regulations in the countries in which we have operations;
- general economic and business conditions;
- unavailability of required equipment and services;
- the risks related to foreign operations and negotiating with third parties involved in international activities;
- potential conflicting interests with joint venture partners; and
- the other factors discussed under “Significant Factors” and elsewhere in this Statement.

With respect to forward-looking information contained in this Statement, we (and in some cases, our independent reserves evaluators) have made assumptions regarding, among other things:

- future prices for oil and natural gas;
- future currency and exchange rates;
- future inflation rates;
- our ability to generate sufficient cash flow from operations and to access the capital markets to meetour future obligations;
- the regulatory framework representing royalties, taxes and environmental matters in the countries in which we conduct our business; and
- our ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet our demands.

Additional assumptions made relating to our reserves are discussed elsewhere in this Statement. Although the forward-looking information contained in this Statement is based upon assumptions which management of the Company believes to be reasonable, there can be no assurance that actual results will be consistent with this forward-looking information. The forward-looking information contained in this Statement is made as of its effective date or preparation date, as applicable, and we assume no obligation to update or revise it to reflect new events or circumstances, except as required by law. Because of the risks, uncertainties and assumptions inherent in forward-looking information, readers are cautioned to not place undue reliance on this forward-looking information.

Disclosure of Reserves Data

The reserves data, future net revenue and certain other information included in this Statement (the "Reserves Data") are derived from an evaluation of: (i) our U.S. reserves by Gustavson Associates LLC ("Gustavson"), an independent qualified reserves evaluator, contained in a report of Gustavson prepared for the Company entitled "Reserves and Resources Evaluation Report Brownstone Ventures Inc., Leasehold Uintah, Grand, and Emery Counties, Utah and Moffat, Rio Blanco, Garfield, Mesa, Delata, and Gunnison Counties, Colorado, USA", dated August 6, 2010 with an effective date of June 30, 2010 (the "Gustavson Report"); and (ii) our Colombian reserves by Petrotech Engineering Ltd. ("Petrotech") of Burnaby, British Columbia, an independent qualified reserves evaluator, contained in a report of Petrotech prepared for the Company entitled "Evaluation of the Interests of Brownstone Energy Inc. in the Canaguaro Block in the EASTERN Llanos Basin, Colombia" dated October 17, 2011 with an effective date of June 30, 2011 (the "Petrotech Report" and, together with the Gustavson Report, the "Reports").

All of our U.S. reserves are located at our Gibson Gulch Project area, Garfield County, Colorado. All of our Colombia reserves are located in the Canaguaro Block, Eastern Llanos Basin.

All evaluations of future revenue are after the deduction of future income tax expenses, unless otherwise noted in the tables, royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables does not necessarily represent the fair market value of our reserves. There is no assurance that the forecast price and cost assumptions contained in the Gustavson Report will be attained and variances could be material. Other assumptions and qualifications relating to costs and other matters are included in the Gustavson Report. The reserves estimates on the Company's properties described in this Statement are estimates only. The actual reserves on the Company's properties may be greater or less than those calculated.

Summary of Oil and Gas Reserves as of June 30, 2011 Forecast Prices and Costs

U.S.A.

Reserves Category	Light and Medium Oil[1] Gross[2] (Mbbl)	Light and Medium Oil[1] Net[3] (Mbbl)	Natural Gas[1] Gross[2] (MMcf)	Natural Gas[1] Net[3] (MMcf)
Proved				
Developed Producing	--	--	--	--
Developed Non-Producing	--	--	--	--
Undeveloped	271	217	24,681	19,748
Total Proved	271	217	24,681	19,748
Probable	371	297	33,704	26,968
Total Proved Plus Probable	**642**	**514**	**58,385**	**46,716**

(1) Numbers have been rounded.
(2) "Gross" reserves are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company.
(3) "Net" reserves are the Company's working interest (operating or non-operating) share after deduction of royalties, plus all royalty interests of the Company.

Colombia

Reserves Category	Heavy Oil Gross[2] (Mbbl)	Heavy Oil Net[3] (Mbbl)
Proved		
Developed Producing	156	143
Developed Non- Producing	0	0
Undeveloped	173	160
Total Proved	329	303
Probable	708	652
Total Proved Plus Probable	**1,038**	**955**

(1) Numbers have been rounded.
(2) "Gross" reserves are the Company's working interest (operating or non-operating) share before deduction of royalties and without including any royalty interests of the Company.
(3) "Net" reserves are the Company's working interest (operating or non-operating) share after deduction of royalties, plus all royalty interests of the Company.

Summary of Net Present Values of Future Net Revenue as of June 30, 2011 Forecast Prices and Costs

	Net Present Values of Future Net Revenue (M$)				
	Before Income Taxes Discounted at (%/year)				
Reserves Category	**0**	**5**	**10**	**15**	**20**
Proved					
Developed Producing					
U.S.A.	--	--	--	--	--
Colombia	4,770	4,150	3,666	3,280	2,967
Developed Non-Producing	--	--	--	--	--
Undeveloped					
U.S.A.	97,122	55,900	34,634	22,461	14,925
Colombia	5,363	4,017	3,050	2,339	1,806
Total Proved	107,255	64,067	41,350	28,080	19,698
Probable					
U.S.A.	154,667	75,108	39,965	22,664	13,440
Colombia	24,979	17,606	12,760	9,468	7,165
Total Probable	179,646	92,714	52,725	32,132	20,605
Total Proved + Probable	**286,901**	**156,781**	**94,075**	**60,212**	**40,303**

Numbers may be rounded off.

	Net Present Values of Future Net Revenue (M$)				
	After Income Taxes Discounted at (%/year)				
Reserves Category	**0**	**5**	**10**	**15**	**20**
Proved					
Developed Producing					
U.S.A.	--	--	--	--	--
Colombia	4,821	4,199	3,720	3,344	3,041
Developed Non-Producing	--	--	--	--	--
Undeveloped					
U.S.A	63,129	33,338	18,356	10,030	5,063
Colombia	5,135	3,922	3,058	2,425	1,949
Total Proved	73,085	41,459	25,134	15,799	10,033
Probable					
U.S.A	100,534	45,535	22,261	11,352	5,852
Colombia	20,023	14,323	10,532	7,927	6,082
Total Probable	120,557	59,858	32,793	19,279	11,934
Total Proved Plus Probable	**193,642**	**101,317**	**57,927**	**35,078**	**21,967**

Total Future Net Revenue (Undiscounted) as of June 30, 2011 Forecast Prices and Costs

Reserves Category	Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	Abandonment and Reclamation Costs (M$)	Future Net Revenue Before Income Taxes (M$)	Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Proved								
U.S.A.	210,060	41,982	26,850	43,841	266	97,122	33,993	63,129
Colombia	29,020[(1)]	1,991	13,323	3,380	193	10,132	176	9,956
Total Proved	239,080	43,973	40,173	47,221	459	107,254	34,169	73,085
Proved Plus Probable								
U.S.	526,540	105,240	65,174	103,709	629	251,789	88,126	163,663
Colombia	91,996[(1)]	5,770	40,283	10,410	422	35,111	5,136	29,979
Total Proved Plus Probable	618,536	111,010	105,457	114,119	1,051	286,900	93,262	193,642

(1) Revenue is calculated on production net of oil royalties payable in kind to ANH of 26 Mbbl, in respect of proved reserves, and 83 Mbbl, in respect of proved plus probable reserves, which are taken by ANH at the wellhead.

Future Net Revenue by Production Group as of June 30, 2011 Forecast Prices and Costs

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10% per year) (M$)	Unit Value ($/bbl) ($/Mcf)
Proved	Light and medium crude oil	4,358.6	$20.05/bbl
	Natural gas	34,634.1	$1.85/Mcf
	Heavy oil	6,716.0	$22.17/bbl
	Total	45,708.7	
Proved Plus Probable	Light and medium crude oil	8,967.4	$17.44/bbl
	Natural gas	69,989.8	$1.53/Mcf
	Heavy oil	19,476.0	$20.40/bbl
	Total	98,433.2	

Pricing Assumptions

U.S.A.

The pricing assumptions used in estimating our U.S. reserves data were provided by Gustavson Associates LLC, a qualified reserves evaluator independent of Brownstone, and are set forth below. Assumed prices for light and medium crude oil are based upon the NYMEX futures for WTI on June 30, 2011, adjusted for the average differential between WTI and Colorado pricing for the prior twelve months. Assumed prices for natural gas are based upon the NYMEX futures for Henry Hub, adjusted by the average differential between WTI and Colorado Interstate Gas mainline pricing and adjusted for a BTU content of 1150 BTU/CF.

Summary of Pricing and Inflation Rate Assumptions as of June 30, 2011
Forecast Prices and Costs

Year	Oil Price ($/bbl)	Gas Price ($/MMbtu)
2011	92.22	3.18
2012	93.26	3.41
2013	94.98	3.69
2014	95.75	3.96
2015	96.26	4.23
2016	96.78	4.49
2017	97.41	4.74
2018	98.13	4.97
2019	98.60	5.21
2020	98.60	5.45
2021	98.60	5.69
2022	98.60	5.95
2023	98.60	6.10
2024	98.60	6.10
2025	98.60	6.10

Colombia:

The pricing assumptions used in estimating our Colombian reserves data were provided by Petrotech Engineering Ltd., a qualified reserves evaluator independent of Brownstone. The June 30, 2011 oil price for WTI on the NYMEX Futures closed at $95.42 per barrel and the Vasconia oil price was at $106.31 per barrel (from Platts Latin American Posted Prices). The crude sales price is to be based on the API gravity at the delivery point and will be the difference between Vasconia 25^{o}API crude and Canaguaro crude at 19.8^{o}API using the average 2011 crude oil pricing. The forecast oil price for subsequent years has been escalated as per escalation factors from the NYMEX Futures on WTI using the monthly settlement prices to 2016 and then applied to the annual forecast pricing to 2016. Prices after 2016 are escalated at 2% per year thereafter. The historical annual average WTI oil prices were taken from Sproule and Associates Inc. The following summarizes the forecast prices used in this evaluation as follows:

Summary of Pricing and Inflation Rate Assumptions as of June 30, 2011
Forecast Prices and Costs

	WTI Oil Price (40 ^{o}API)	Escalation Factor	Vasconia Oil (25 ^{o}API)	Canaguaro Oil (19.8 ^{o}API)
Year	($/bbl)	(% per year)	($/bbl)	($/bbl)
2004	41.42			
2005	56.46			
2006	66.09			
2007	72.27			
2008	99.59			
2009	62.09			
2010	79.43		77.40	74.29
31-Dec-10	91.40		90.80	87.69
30-Jun-11	95.42		106.31	
NYMEX Futures				
2011	96.49	1.12%	104.34	103.12
2012	99.73	3.35%	99.73	98.56
2013	100.92	1.19%	95.85	94.73
2014	100.73	-0.002%	95.67	94.55
2015	100.34	-0.006%	95.30	94.18
2016	100.21	-0.001%	95.17	94.06

Based on the Colombian inflation index (taken from Mundi Index), the cost escalation factor 4% per year is used.

Reconciliation of Changes in Reserves

Reconciliation of Company Gross Reserves by Principal Product Type Forecast Prices and Costs

The following tables set forth a reconciliation of the changes in the Company's gross reserves of light and medium crude oil, and associated and non-associated gas in the U.S. and of heavy oil in Colombia, in each case estimated as at June 30, 2011 (using forecast prices and costs) against such reserves as at June 30, 2010.

U.S.A

Factors	Light and Medium Crude Oil[1] Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)	Associated and Non-Associated Gas[1] Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
June 30, 2010	289	394	683	43,734	59,723	103,457
Extensions and improved recovery						
Infill drilling	-	-	-	-	-	-
Technical revisions	(18)	(23)	(41)	(19,053)	(26,019)	(45,072)
Acquisitions	-	-	-	-	-	-
Dispositions	-	-	-	-	-	-
Economic factors	-	-	-	-	-	-
Production	--	--	--	--	--	--
June 30, 2011	271	371	642)	24,681	33,704	58,385

[1]Numbers have been rounded.

Colombia

Factors	Heavy Oil[1] Gross Proved (Mbbl)	Gross Probable (Mbbl)	Gross Proved Plus Probable (Mbbl)
June 30, 2010	--	--	--
Extensions and improved recovery	--	--	--
Technical revisions	--	--	--
Discoveries	335.6	708.3	1,043.8
Acquisitions	--	--	--
Dispositions	--	--	--
Economic factors	--	--	--
Production	(6.2)	--	(6.2)
June 30, 2011	329.4	708.3	1,037.6

[1]Numbers have been rounded.

Additional Information Relating to Reserves Data

Undeveloped Gross Reserves

Financial Year (ended June 30)	Proved Undeveloped Reserves[1] Light and Medium Crude Oil (Mbbl)	Heavy Oil (Mbbl)	Associated and Non-associated Natural Gas (MMcf)
2008 and prior	--	--	--
2009	--	--	--
2010	289	--	43,734
2011	271	173.5	24,681

[1]Numbers have been rounded.

	Probable Undeveloped Reserves[1]		
Financial Year (ended June 30)	**Light and Medium Crude Oil (Mbbl)**	**Heavy Oil (Mbbl)**	**Associated and Non-associated Natural Gas (MMcf)**
2008 and prior	--	--	--
2009	--	--	--
2010	394	--	59,723
2011	371	708.3	33,704

[1]Numbers have been rounded.

The Company was assigned proved undeveloped reserves and probable undeveloped reserves by Gustavson on the Company's US properties based upon assumptions of timing of a proposed development plan that is subject to commodity pricing levels and the availability of the necessary capital funding for the Company and its partners. The operator of these lands has advised the Company that it expects to begin a drilling program in 2012. .

In Colombia, the Operator has advised the Company that as part of the Long Term Testing Program on the Canaguay-1 well, a work over of the well will be undertaken to help determine timing and locations for future development plans on the block.

Under Probable Undeveloped reserves of heavy oil in Colombia, there is 81.7 Mbbl assigned to the Canaguay 1 well, an additional 111.2 Mbbl assigned to the first offset location to Canaguay-1 and two more offsets are assigned 515.4 Mbbl for total Probable Undeveloped reserves of 708.3 Mbbl.

Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves

The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. Estimates may change substantially as additional data from ongoing development activities and production performance becomes available, and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained in this Statement are based on current production forecasts, commodity prices and economic conditions, and are evaluated by Gustavson and Petrotech, each, an independent engineering firm.

Estimates made are reviewed and revised, either upward or downward, as warranted by new information. As a result, new geological or production information, a changing environment and subjective decisions made by the Company impact on these estimates. Revisions to estimates are often required due to changes in well performance, commodity prices, and economic conditions, availability of required services, weather and governmental restrictions. Although every reasonable effort is made to insure that reserve estimates are accurate, reserve estimation is an inferential science. Brownstone's reserve estimates in this Statement are estimates only and there is no assurance or guarantee that the estimated reserves will be recovered. The Company's actual production, revenues, taxes, and development and operating expenditures with respect to its reserves may vary from such estimates, and the variances could be material. See also "Forward-Looking-Information" in this Statement.

The development plans for our undeveloped reserves are based on forecast price and cost assumptions. The actual prices that occur may be higher or lower resulting in certain projects being advanced or delayed. The evaluation of reserves is a process that can be significantly affected by a number of internal and external factors. Revisions are often necessary resulting in changes in technical data acquired, historical performance, fluctuations in operating costs, development costs and product pricing, economic conditions, changes in royalty regimes and environmental regulations, and future technology improvements.

Future Development Costs

The following table indicates development costs deducted in the estimation of future net revenue (using forecast prices and costs as at June 30, 2011 and calculated using no discount) attributable to the specified reserve categories.

Future Development Costs (MM$)

	U.S.A.		**Colombia**	
Year	**Proved Reserves**	**Proved Plus Probable Reserves**	**Proved Reserves**	**Proved Plus Probable Reserves**
2012	7.54	-	3,380	10,410
2013	7.54	-	--	--
2014	7.54	-	--	--
2015	7.54	7.54	--	--
2016	7.54	7.54	--	--
Beyond	2.61	45.15	--	--
Total	**40.31**	**60.23**	**3,380**	**10,410**

Brownstone expects to finance future development costs from existing and future cash flow and funds raised in the capital markets through equity financings. Management does not believe that the costs of these sources of funding will have a material impact of the Company's reserves or future net revenue. However, there can be no guarantee that funds will be available when required or will be allocated to develop all of the reserves attributed to the Company in the Reports, and failure to develop the reserves would have a negative impact on the Company's future net revenue.

Other Oil and Gas Information

Oil and Gas Properties and Wells

Our important properties are located in Colombia, Israel, U.S. (Utah and Colorado) and Argentina, and are described below. All are located onshore, except for our Israeli properties which are all offshore. We do not have any properties to which reserves have been attributed and which are capable of producing but which are not producing.

Colombia

Our material properties in Colombia are comprised of private participating interests of between 14% and 35% in Blocks LLA-21, 27, 36 and Canaguaro in the Llanos Basin of central Colombia.

Israel

Our material properties in Israel are comprised of a 6.75% interest in the rights to the Samuel license, which covers a 359 km^2 area located approximately 17km offshore adjacent to the shoreline between the City of Ashkelon in the South and the City of Rishon Le'tziyon in the North, and a 15% private participating interest in the rights to each of the Gabriella license and the Yitzhak license, which covers a 392 km^2 area located 10 kilometres offshore between the City of Netanya in the North and the City of Ashdod in the South and a 127 km^2 area located 10 km offshore between the City of Hadera in the North and the City of Netanya in the South, respectively.

Utah/Colorado

Our material properties in the U.S. are comprised of 10% and 28% working interests, as applicable, in approximately 270 oil and gas leases, covering in excess of 300,000 acres located in the Piceance and Unita Basins in Colorado and Utah, respectively.

Argentina

Our material property in Argentia is comprised of a 25% working interest in the Vaca Mahuida Block in the Province of Rio Negro.

Oil and Gas Wells

The following table sets forth the number of producing wells in which we have a working interest as at June 30, 2011. We have no non-producing wells.

	Oil Wells	
	Gross(1)	Net(2)
Colombia	1	0.25
Total	1	0.25

(1) Gross wells are the total number of wells in which the Company has an interest.
(2) Net wells are the total number of gross wells in which the Company has an interest multiplied by the Company's percentage interest in the wells.

Properties With No Attributed Reserves

The following table indicates the *gross* and *net* area of our *unproved* properties (properties to which no reserves have been specifically attributed) as at June 30, 2011. We do not expect any of our rights to explore, develop and exploit any unproved properties to expire within one year.

	Unproved Properties (acres)	
Location	**Gross(1)**	**Net(2)**
Colombia	140,700	31,625
Israel	217,200	25,200
U.S.	646,019	74,717
Argentina	253,000	63,250
Total	**1,256,919**	**194,792**

(1)Gross area is the total area in which we have an interest.
(2)Net area is the aggregate of the total area in which we have an interest multiplied by our percentage interest therein.

Colombia

Blocks LLA-21, 27 and 36 are our unproved properties in Colombia.

Block LLA-21:

Pursuant to the terms of our participation agreement in respect of Block LLA-21, we have a 35% (private) participating interest in the Block, are required to pay 50% of the capital costs incurred during the exploration and production phases of the block, and will be entitled to receive 45.5% of all net production revenue, until all aggregate costs have been recouped, following which we will be obligated to fund 35% of any ongoing costs in order to be entitled to receive 35% of any further net production revenue.

The Company is required to fund its share of a two well drilling commitment on Block 21 that will cost approximately US$3.5MM net per well, US7.0MM total net, by September, 2012. As a June 30, 2011, letters of credit in an aggregate amount of $2,700,000 had been posted with the ANH in support of our interest and obligations on the Block.

Block LLA-27:

Pursuant to the terms of our participation agreement in respect of Block LLA-27, we have a 34.25% (private) participating interest in the Block, are required to pay 50% of the capital costs incurred during the exploration and production phases of the block, and will be entitled to receive 45.275% of all net production revenue, until all aggregate costs have been recouped, following which we will be obligated to fund 34.25% of any ongoing costs in order to be entitled to receive 34.25% of any further net production revenue.

The Company is required to fund its share of a one well drilling commitment on Block 27. The commitment well was spud on October 21, 2011 and is currently under drilling operations. As a June 30, 2011, letters of credit in an aggregate amount of $3,358,883 have been posted with the ANH in support of our interest and obligations on the Block.

Block LLA-36:

Pursuant to the terms of our participation agreement in respect of Block LLA-36, we have a 14% (private) participating interest in the Block, are required to pay 20% of the capital costs incurred during the exploration and production phases of the block, and will be entitled to receive 18.2% of all net production revenue, until all aggregate costs have been recouped, following which we will be obligated to fund 14% of any ongoing costs in order to be entitled to receive 14% of any further net production revenue.

The Company is required to fund its share of an exploration well by February, 2012 with a minimum cost of US$3.5MM. The Operator has informed the Company that due to delays related to weather and regulatory issues it has submitted to the ANH a request for an extension on the block. As a June 30, 2011, letters of credit in an aggregate amount of $1,100,000 have been posted with the ANH in support of our interest and obligations on the Block.

Israel

Gabriella:

In accordance with the terms of our international operating agreement in respect of the Gabriella license, we have a 15% (private) participating interest in the rights to the licence and are required to fund 15% of all costs incurred in the conduct of the work programs undertaken in respect of the license.

Yitzhak:

In accordance with the terms of our international operating agreement in respect of the Yitzhak license, we have a 15% (private) participating interest in the rights to the licence and are required to fund 15% of all costs incurred in the conduct of the work programs undertaken in respect of the license.

Samuel:

We have a 6.75% (registered) interest in the rights to the Samuel license and pursuant to our international operating agreement in respect of the license we are required to fund 6.75% of all costs and expenses incurred in the conduct of operations and activities under the agreement by the operator.

The Operator of our Israeli blocks has informed the Company that it has received an extension from the regulatory authorities that extends the requirement to begin drilling operations on the Gabriella, Yitzhak and Samuel blocks until the end of 2012, with the three wells being drilled successively into 2013. Gross costs for the wells are estimated to range from US$25MM to US$60MM per well.

U.S.

Under the terms of our participation agreements with our partners, we are obligated to pay 10% to 28.57% of all work done on the Piceance and Unita Basin properties, including drilling and other work costs. The operators of our U.S. interests are actively evaluating alternatives to advance the acreages, including developing parcels and selling or farming-out interests in parcels. There are presently no work commitments contemplated for the remainder of the 2011 calendar year or for 2012 on our unproved U.S. properties.

Argentina

Under the terms of a participation agreement with our partner, Petrolifera Petroleum Limited ("Petrolifera"), we were obligated to pay 50% of the costs incurred in the conduct of the work program on the Vaca Mahuida block, including drilling and other work costs. The Company has fulfilled its earning requirements and now has a 25% Working Interest in the block. Petrolifera was acquired by Gran Tierra Energy Inc. during the 2011 fiscal year. There are presently no work commitments contemplated for the remainder of the 2011 calendar year or for 2012. The Company through its Operator is currently conducting flow testing of several of the wells drilled pursuant to our previous work commitments on the block to ascertain whether there is sufficient gas in place to warrant making an application to the relevant regulatory authorities for an exploitation permit on the block. Results are anticipated by mid-2012.

Additional Information Concerning Abandonment Costs and Reclamation Costs

Abandonment costs of $10,000 per well (escalating at 2% per year) were assumed by Gustavson in estimating the future net revenue attributable to our U.S. reserves. Costs were based upon average costs for the applicable areas.

Abandonment costs of $250,000 per well, net of salvage value and adjusted for a cost escalation factor of 4% per year using the Colombian inflation index, were assumed by Petrotech in estimating the future net revenue attributable to our Colombian reserves, resulting in total costs of

$418,150, undiscounted, and $116,220, discounted at a rate of 10%, based upon 4 gross wells and 1 net well. Costs were based upon the historical costs of the operating fields in the area.

We have not incurred any abandonment or reclamation costs and do not anticipate incurring any in the next three financial years.

Tax Horizon

The Company does not expect that any income tax will be payable in the immediately foreseeable future and until such time that its oil and gas production exceeds its carried exploration costs for tax purposes.

The Company has incurred exploration costs on its Colombia blocks in the approximate amount of 21 million dollars. There are no specific tax pools in Colombia, but for tax purposes no income tax will be payable in Colombia until revenue exceeds the exploration expenditures.

Cost Incurred

The following table summarizes our *property acquisition costs*, *exploration costs* and *development costs* for the financial year ended June 30, 2011 in respect of our properties:

	Property Acquisition Costs (M$Cdn)			
Country	**Proved Properties**	**Unproved Properties**	**Exploration Costs (M$Cdn)**	**Development Costs (M$Cdn)**
Columbia	--	--	7,706	2,519
Israel	--	--	2,012	--
U.S.	--	--	864	--
Argentina	--	--	--	--

Exploration and Development Activities

Exploratory and Development Wells:

We completed 1 gross (0.25 net) well during our fiscal year ended June 30, 2011. Canaguay 1 is an exploratory oil well on the Canaguaro Block in Colombia.

Exploration & Development Activities:

Colombia

In the Canaguaro Block, the Canaguay 1 well made an oil discovery and the well was under initial testing and extended testing during the fiscal year ended on June 30, 2011. Due to unusual weather during the testing period and road conditions, testing was delayed and the cost of testing was higher. Therefore, the operating, trucking and sales costs were not normal during the testing period. Future plans for the block will be determined upon completion of the Long Term Testing program.

Plans for drilling on blocks 27, 21 and 36 are discussed above.

US

The Operator of the Gibson Gultch project has commenced drilling preparations and, as discussed above, will be planning for drilling in 2012, depending on funding.

Israel

The Operator has applied for extensions from regulators, as discussed above, which would result in drilling on the Company's Yitzhak, Gabriella and Samuel blocks in 2013.

Production Estimates

The following table sets for the volume of production estimated for the 12-month period ended June 30, 2012, which is reflected in the estimates for our gross proved and probable reserves disclosed earlier in this Statement.

Reserves	**Light and Medium Crude Oil Gross (Mbbl)**	**Heavy Oil Gross (Mbbl)[1]**	**Associated and Non-associated Natural Gas Gross (MMcf)**
Proved			
Colombia	--	37.26	--
U.S.	1,036	--	93.9
Probable			
Colombia	--	3.91	--
U.S.	--	--	--
Total Proved plus probable	1,036	41.17	93.9

(1) Represents estimated production exclusively from the Canaguay 1 well on the Canaguaro Block in Colombia.

Production History

The Canaguay 1 on the Canaguaro Block in Colombia underwent initial and extending production testing during our 2011 fiscal year, resulting in average gross daily production for us of 8 Bbbl and 43 Bbbl, respectively, of heavy oil in the third and fourth quarter of fiscal 2011. There was no production during the first two quarters.

The average of the prices received, royalties paid, production costs, and resulting netback to the Company per Bbbl during the third and fourth quarters of fiscal 2011 is indicated below:

Quarter	Net Price Received[1] ($/Bbl)	Royalties Paid[2] ($/Bbbl)	Production Costs ($/Bbl)	Netback ($/Bbl)
Q3	58.24	1.75	45.55	10.94
Q4	67.67	2.03	45.55	20.09

(1) The Company's share of production is net of oil royalties payable in kind to ANH, which are taken by ANH at the wellhead.
(2) Royalties paid in addition to those paid in kind to ANH and referenced in note (1) above.