Interim Condensed Consolidated Financial Statements of

Brownstone Energy Inc.

(Unaudited – prepared in Canadian dollars)
September 30, 2011

Contents

Interim Condensed Consolidated Financial Statements:

Notice to reader pursuant to National Instrument 51-102

Responsibility for Interim Condensed Consolidated Financial Statements:

The accompanying unaudited interim condensed consolidated financial statements of Brownstone Energy Inc. ("Brownstone" or "the Company") as at and for the three months ended September 30, 2011 and 2010 have been prepared by the Company's management in accordance with International Financial Reporting Standards applicable to interim financial statements (see notes 2 and 3 to the interim condensed consolidated financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the interim condensed consolidated financial statements, management is satisfied that these interim condensed consolidated financial statements have been fairly presented.

Auditors' involvement:

Ernst & Young LLP, Chartered Accountants, the external auditors of the Company have not audited or performed review procedures applicable to auditor review of interim financial statements and the notes herein as at and for the three months ended September 30, 2011 and 2010.

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at Septmber 30, 2011, June 30, 2011 and July 1, 2010
(Unaudited - prepared in Canadian dollars)

	Notes	September 30, 2011	June 30, 2011 [1]	July 1, 2010 [1]
Assets				
Current				
Cash and cash equivalents		**$ 30,852,083**	$ 29,833,806	$ 1,832,230
Due from brokers		**91,059**	228,868	-
Restricted cash - current	8	**-**	4,165,776	-
Prepaids and other receivables		**345,198**	371,573	102,893
Promissory note receivable	7	**-**	-	2,070,140
Investments, at fair value	5, 6(b)	**9,748,982**	12,350,483	17,174,119
Income taxes receivable		**1,053,614**	1,053,614	1,328,276
		42,090,936	48,004,120	22,507,658
Restricted cash	8	**575,551**	534,222	5,286,967
Exploration and evaluation assets	4	**48,536,008**	42,053,011	32,285,288
		$ 91,202,495	$ 90,591,353	$ 60,079,913
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		**$ 1,852,128**	$ 1,497,064	$ 2,113,363
		1,852,128	1,497,064	2,113,363
Shareholders' equity				
Share capital	10	**96,597,845**	96,597,845	65,017,344
Warrants and broker warrants	10(e)	**6,873,384**	6,873,384	4,028,875
Contributed surplus	10(f)	**15,244,364**	14,856,513	13,407,473
Foreign currency translation reserve		**46,539**	(3,165,014)	-
Deficit		**(29,411,765)**	(26,068,439)	(24,487,142)
		89,350,367	89,094,289	57,966,550
		$ 91,202,495	$ 90,591,353	$ 60,079,913

1. Refer to Note 17 to the interim condensed consolidated financial statements for the effects of the adoption of IFRS.

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Comprehensive Loss
Three Months Ended September 30,
(Unaudited - prepared in Canadian dollars)

	Notes	2011	2010 [1]
Net investment income			
Net realized losses on disposal of investments		**$ (191,331)**	$ (1,003,846)
Net change in unrealized gains (losses) on investments		**(2,372,268)**	1,063,164
	13	**(2,563,599)**	59,318
Interest and other income		**85,173**	76,847
		(2,478,426)	136,165
Expenses			
Operating, general and administrative	9, 14	**836,438**	1,000,212
		836,438	1,000,212
Loss before income taxes		**(3,314,864)**	(864,047)
Income tax expense (benefit)		**28,462**	(269,849)
Loss for the period		**$ (3,343,326)**	$ (594,198)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		**3,211,553**	(855,711)
Total comprehensive loss for the period		**$ (131,773)**	$ (1,449,909)
Loss per common share based on loss for the period			
Basic and diluted		**$ (0.03)**	$ (0.01)
Weighted average number of common shares outstanding			
Basic and diluted		**129,794,289**	88,691,104

1. Refer to Note 17 to the interim condensed consolidated financial statements for the effects of the adoption of IFRS.

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.
Consolidated Statements of Changes in Equity
Three Months Ended September 30, 2011 and 2010
(Unaudited - prepared in Canadian dollars)

	Share capital	Warrants and broker warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total equity
Balance at July 1, 2010 [1]	$ 65,017,344	$ 4,028,875	$ 13,407,473	$ -	$ (24,487,142)	$ 57,966,550
Loss for the period	-	-	-	-	(594,198)	(594,198)
Exchange differences on translation of foreign operations	-	-	-	(855,711)	-	(855,711)
Total comprehensive loss for the period	-	-	-	(855,711)	(594,198)	(1,449,909)
Stock-based compensation value of services	-	-	291,907	-	-	291,907
Balance at September 30, 2010	$ 65,017,344	$ 4,028,875	$ 13,699,380	$ (855,711)	$ (25,081,340)	$ 56,808,548
Balance at July 1, 2011 [1]	$ 96,597,845	$ 6,873,384	$ 14,856,513	$ (3,165,014)	$ (26,068,439)	$ 89,094,289
Loss for the period	**-**	**-**	**-**	**-**	**(3,343,326)**	**(3,343,326)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**3,211,553**	**-**	**3,211,553**
Total comprehensive loss for the period	**-**	**-**	**-**	**3,211,553**	**(3,343,326)**	**(131,773)**
Stock-based compensation value of services	**-**	**-**	**387,851**	**-**	**-**	**387,851**
Balance at September 30, 2011	**$ 96,597,845**	**$ 6,873,384**	**$ 15,244,364**	**$ 46,539**	**$ (29,411,765)**	**$ 89,350,367**

1. Refer to Note 17 to the interim condensed consolidated financial statements for the effects of the adoption of IFRS.

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.
Consolidated Statements of Cash Flows
Three Months Ended September 30,
(Unaudited - prepared in Canadian dollars)

	2011	2010
Cash flows used in operating activities		
Loss for the period	**$ (3,343,326)**	$ (594,198)
Items not affecting cash		
Realized losses on disposal of investments, net	**191,331**	1,003,846
Unrealized losses (gains) on investments, net	**2,372,268**	(1,063,164)
Stock-based compensation expense	**387,851**	291,907
	(391,876)	(361,609)
Changes in non-cash working capital balances		
Prepaids and other receivables	**26,375**	(34,874)
Income taxes receivable	**-**	(232,595)
Accounts payable and accrued liabilities	**83,493**	(1,978,779)
	(282,008)	(2,607,857)
Cash flows from financing activities		
Decrease (increase) in due from brokers	**137,809**	(191,685)
	137,809	(191,685)
Cash flows used in investing activities		
Expenditures on exploration and evaluation assets, net	**(2,961,266)**	(1,581,846)
Repayment of promissory note receivable	**-**	120,140
Decrease (increase) in restricted cash	**4,124,447**	(2,085,251)
Proceeds on disposal of investments	**87,902**	4,932,791
Purchases of investments	**(50,000)**	-
	1,201,083	1,385,834
Net decrease in cash and cash equivalents, during the period	**1,056,884**	(1,413,708)
Exchange rate changes on foreign operations' cash balances	**(38,607)**	39,757
Cash and cash equivalents, beginning of period	**29,833,806**	1,832,230
Cash and cash equivalents, end of period	**30,852,083**	458,279
Supplemental cash flow information		
Income tax paid	**$ 28,462**	$ -
Income tax refunds	**-**	37,253

See accompanying notes to the interim condensed consolidated financial statements.

1. Nature of business:

Brownstone Energy Inc. ("Brownstone" or the "Company") was incorporated in 1987 under the laws of the Province of British Columbia and its common shares are publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". The Company is domiciled in the Province of British Colombia, Canada and its head office is at 130 King St. West, Suite 2500, Toronto, Ontario, Canada.

Brownstone is a Canadian-based, energy-focused company with direct interests in oil and gas exploration projects, including varying interests in three offshore Israel concessions and four blocks in the Llanos Basin of Colombia.

These interim condensed consolidated financial statements were approved by the Company's board of directors on November 29, 2011.

2. Basis of preparation:

(a) Statement of compliance:

These unaudited interim condensed consolidated financial statements ("interim financial statements") are the Company's first financial statements under International Financial Reporting Standards ("IFRS") and have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") and IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The Company's first annual consolidated financial statements under IFRS will be presented for the year ending June 30, 2012.

These interim financial statements are prepared in accordance with the accounting policies that the Company expects to adopt in its IFRS annual consolidated financial statements for the year ended June 30, 2012 and are based on IFRS as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable at that time. The significant accounting policies are presented in Note 3 and have been consistently applied in each of the periods presented. Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these interim financial statements are presented below.

The Company's date of transition to IFRS and its opening IFRS statement of financial position are as at July 1, 2010 (the "Transition Date"). These interim financial statements were prepared on a going concern basis under the historical cost method except for certain financial assets which are measured at fair value.

As this is the Company's first year of preparing interim financial statements in accordance with IFRS, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has exceeded the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS.

2. Basis of preparation (continued):

For the remainder of fiscal 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim financial statements under IFRS as the reader will be able to rely on the this interim financial statement and the annual consolidated financial statements which will be prepared in accordance with IFRS.

(b) Basis of presentation:

These interim financial statements include disclosures required by IFRS for annual consolidated financial statements. The Company's audited consolidated financial statements for the year ended June 30, 2011 and prior years were presented under Canadian generally accepted accounting principles ("CGAAP"). The basis of presentation of these interim financial statements is different than that of the audited consolidated financial statements, however, due to the Company's transition to IFRS. An explanation of how the transition to IFRS on the Transition Date has affected the reported financial position and financial performance of the Company is provided in Note 17. This includes reconciliations of Brownstone's consolidated statements of financial position and comprehensive loss, for comparative periods prepared and previously reported in accordance with CGAAP, to those prepared and reported in these interim financial statements in accordance with IFRS.

All monetary references expressed in these notes are references to Canadian dollar amounts ("$").

(c) Basis of consolidation:

These consolidated financial statements include the financial statements of Brownstone and its wholly-owned subsidiaries: Brownstone Ventures (US) Inc., Brownstone Ventures (Barbados) Inc., Brownstone Comercializadora de Petroleo Ltda., and 2121197 Ontario Ltd.

Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation.

(d) Early adoption of IFRS 9 and IFRS 7:

The effective date of IFRS 9, *Financial Instruments: Classification and Measurement* ("IFRS 9") is January 1, 2015. As permitted by the IASB, the Company has early adopted IFRS 9 in conjunction with the transition to IFRS on July 1, 2010.

2. Basis of preparation (continued):

The Company has also adopted IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") in conjunction with the transition to IFRS on July 1, 2010. The amendment to IFRS 7 requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's interim financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has therefore no impact on the Company's financial position or performance.

(e) Significant accounting judgments, estimates and assumptions:

The preparation of the interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts for revenues and expenses during the reporting period.

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is as follows:

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements have been prepared on the going concern basis.

(ii) Fair value of investment in securities not quoted in an active market or private company investments:

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

2. Basis of preparation (continued):

(iii) Fair value of financial derivatives:

Investments in options and warrants which are not traded on a recognized securities exchange do not have a readily available market value. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants and options are valued at intrinsic value.

(iv) Deferred tax assets:

Deferred tax assets ("DTA") are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. A valuation allowance against the DTA is recorded to the extent that the Company considers it more likely than not that all or a portion of the DTA will not be realized in the foreseeable future.

(v) Impairments:

At the end of each financial reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

(vi) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to fair value options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense.

3. Significant accounting policies:

The significant accounting policies used in the presentation of these unaudited interim financial statements are set out below. These policies have been consistently applied to all the periods presented.

3. Significant accounting policies (continued):

(a) Oil and gas properties and exploration and evaluation assets:

(i) Exploration and evaluation assets:

Amounts included under exploration and evaluation assets relate to properties that are in preproduction and are undergoing exploration and evaluation.

All costs incurred in connection with the Company's oil and gas exploration and evaluation (acquisition, exploration for and development of oil and gas reserves) including certain overhead and dry-holes are capitalized less accumulated impairment losses. Such amounts include land acquisition costs, geological and geophysical expenditures, cost of drilling both productive and non-productive wells, gathering production facilities and equipment, and overhead expenses directly related to exploration and development activities. The Company capitalizes carrying costs directly attributable to its acquisition, exploration, and development activities, such as interest costs.

For preproduction cost centres, capitalized exploration and evaluation assets are assessed whether it is likely such net costs, in the aggregate, may be recovered in the future. Assets that are unlikely to be recovered are written down to their fair value. Impairment reviews take place where there is an indication of impairment or when a cost centre has been transferred into production cost centres. Impairment reviews are based on blocks which may contain more than one cash-generating unit.

(ii) Oil and gas properties:

Expenditures relating to producing properties will be included in oil and gas properties.

For production cost centres, capitalized oil and gas properties are depleted using the unit-of-production method based on net proved reserves for each cost centre. Costs subject to depletion include both the estimated costs required to develop proved undeveloped reserves and the associated addition to the asset retirement obligations. Costs of acquiring and evaluating significant unproved oil and gas properties are initially excluded from the depletion base.

When it is determined that proved oil and gas reserves are attributable to a property, or the property is considered to be impaired, the cost of the property and related expenditures or the impairment is added to the depletion base. The Company applies an impairment test to the net carrying value of oil and gas properties designed to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount is the aggregate of estimated undiscounted future net cash flows from production of proved reserves and the cost of unproved oil and gas properties less impairments.

3. Significant accounting policies (continued):

Future cash flows are estimated using future prices and costs without discounting. Should the net carrying value of oil and gas properties exceed the amount ultimately recoverable, the amount of the impairment is determined by deducting the discounted estimated future cash flows from proved and probable reserves based on the future prices plus the cost of unproved properties, net of impairment allowances, from the carrying value of the related assets. Any reduction in the net carrying value, as a result of the impairment test, is included in depletion, depreciation and amortization expense.

(iii) Joint oil and gas activities:

All of the Company's oil and gas activities are conducted jointly with others. The Company's accounts reflect only the Company's proportionate interest in these activities.

For interests in jointly controlled assets and operations, the Company’s share of the jointly controlled assets are classified according to the nature of the assets, the Company’s share of any liabilities incurred jointly with the other parties, and the Company’s share of any income and expenses incurred jointly with the partners are recognized in the consolidated financial statements.

Jointly controlled assets involve the joint control or joint ownership by partners of one or more assets dedicated to the purposes of the joint venture or partnership.

(b) Fair value of investments:

(i) Designation:

All investments are designated upon initial recognition at fair value through profit or loss, with changes in fair value reported in profit (loss).

(ii) Recognition, derecognition and measurement:

Regular purchases and sales of investments are recognized on the settlement date.

Investments at fair value through profit or loss are initially recognized at fair value. Transaction costs are expensed as incurred in the statement of comprehensive loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all investments at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are presented in the statement of comprehensive loss within unrealized gains or losses on investments in the period in which they arise.

3. Significant accounting policies (continued):

(iii) Reclassification of investments:

The Company would only reclassify any financial assets when the Company changes its business model for managing the financial asset. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

(iv) Determination of fair values:

The determination of fair value requires judgment and is based on market information where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

The Company is also required to present its investments (and other financial assets and liabilities reported at fair value) into three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring the fair value, and to provide additional disclosure in connection therewith (see notes 5 and 6).

1. Publicly-traded investments (i.e., securities of issuers that are public companies):

   a. Securities, including shares, options, and warrants which are traded on a recognized securities exchange and for which no sales restrictions apply are presented at fair value based on quoted closing bid prices at the consolidated statement of financial position date or the closing bid price on the last day the security traded if there were no trades at the consolidated statement of financial position date. These are included in Level 1 in note 6(b).

   b. Securities which are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value to a maximum of 10%. In determining the discount for such investments, the Company considers the nature and length of the restriction. These are included in Level 2 in note 6(b).

   c. For options and warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants and options are valued at intrinsic value, which is equal to the higher of the closing bid price at the consolidated statement of financial position date of the underlying security less the exercise price of the warrant or option, and zero. These are included in Level 2 in note 6(b).

3. Significant accounting policies (continued):

2. Private company investments (securities of issuers that are not public companies):

   All privately-held investments (other than options and warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may, depending upon the circumstances, be adjusted using one or more of the valuation indicators described below. These are included in Level 3 in note 6(b). Options and warrants of private companies are carried at nil.

   The determinations of fair value of the Company's privately-held investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

   Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

   The following circumstances are used to determine if the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to the events described below which may affect a specific investment, the Company will take into account general market conditions when valuing the privately-held investments in its portfolio.

   Absent the occurrence of any of these events or any significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

   The fair value of a privately-held investment may be adjusted upward if:

   a. there has been a significant subsequent equity financing provided by outside investors, at a valuation above the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place; or

   b. there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable.

3. Significant accounting policies (continued):

Such events include, without limitation:

i. political changes in a country in which the investee company operates which, for example, reduce the corporate tax burden, permit mining where, or to an extent that, it was not previously allowed, or reduce or eliminate the need for permitting or approvals;

ii. receipt by the investee company of environmental, mining, aboriginal or similar approvals, which allow the investee company to proceed with its project(s);

iii. filing by the investee company of a National Instrument 43-101 technical report in respect of a previously non-compliant resource;

iv. release by the investee company of positive exploration results, which either proves or expands their resource prospects; and

v. important positive management changes by the investee company that the Company's management believes will have a very positive impact on the investee company's ability to achieve its objectives and build value for shareholders.

In the circumstances described above under (i) through (v), or in circumstances where general market conditions so warrant it, an adjustment to the fair value of an investment will be based upon management's judgment and any value estimated may not be realized or realizable.

The fair value of a privately-held investment may be adjusted downward if:

a. there has been a significant subsequent equity financing provided by outside investors, at a valuation below the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

b. the investee company is placed into receivership or bankruptcy;

c. based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern; or

d. there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and therefore its fair value. The amount of the change to the fair value of the investment is based on management's judgment and any value estimated may not be realized or realizable.

3. Significant accounting policies (continued):

Such events include, without limitation:

i. political changes in a country in which the investee company operates which increases the tax burden on companies, which prohibit mining where it was previously allowed, which increases the need for permitting or approvals, etc.;

ii. denial of the investee company's application for environmental, mining, aboriginal or similar approvals which prohibit the investee company from proceeding with its projects;

iii. the investee company releases negative exploration results; and

iv. changes to the management of the investee company take place which the Company believes will have a negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

In the circumstances described above under (i) through (iv), or in circumstances where general market conditions so warrant it, an adjustment to the fair value of an investment will be based upon management's judgment and any value estimated may not be realized or realizable.

The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed. In addition, the amounts at which the Company's privately-held investments could be disposed of currently may differ from the carrying value assigned.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term investments with remaining maturities of less than three months. Cash and cash equivalents include accrued interest on short-term investments.

(d) Restricted cash:

Restricted cash represents cash in the form of Guaranteed Investment Certificates ("GIC") deposited with the Company's bank as collateral for letters of guarantee provided by the bank. The restricted cash underlying a GIC (or part thereof) is classified as current if the GIC (or part thereof) is expected to be released within one year, otherwise the restricted cash is classified as non-current.

3. Significant accounting policies (continued):

(e) Revenue recognition:

Securities transactions are recorded on a settlement date basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of comprehensive loss and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statements of comprehensive loss as incurred.

Interest and other income are recorded on an accrual basis.

Revenues from the sale of oil and natural gas are reported as sales revenue when management has determined that the oil and gas property is commercially viable.

Revenues from the sale of oil and natural gas prior to when an oil and gas property is commercially viable are netted against exploration and evaluation assets, together with the associated operating expenses as the revenue is generated from a process bringing the property to the location and condition for its intended use. Revenues are recognized when the risk and rewards of ownership pass to the purchaser, including delivery of the product, the selling price is fixed or determinable and collectability is reasonably assured.

(f) Segment reporting:

Operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. The Company has the following reportable geographic segments: Colombia, Israel, Canada, United States, Argentina and Brazil.

(g) Foreign currency translation:

(i) Functional currency:

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Each entity in the Company's consolidated group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances:

Transactions in foreign currencies are initially recorded in the functional currency at the rate prevailing at the date of the transaction.

3. Significant accounting policies (continued):

Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange prevailing at the reporting date. All differences are taken to the statement of comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All exchange differences are recorded in the consolidated statement of comprehensive loss under operating, general, and administrative.

(iii) Translation of foreign operations:

The results and financial position of Brownstone's subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Revenue and expenses for each statement of comprehensive loss are translated at average monthly exchange rates; and

3. All resulting exchange differences are recognized as a separate component of equity as foreign currency translation reserve and as exchange differences on translation of foreign operations in other comprehensive loss in the consolidated statement of comprehensive loss.

The Company treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment which is recorded as an exchange difference on translation of foreign operations in other comprehensive loss in the consolidated statement of comprehensive loss.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the profit or loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(h) Non-monetary transactions:

Transactions in which shares or other non-cash consideration are exchanged for assets or services are valued at the fair value of the assets or services involved.

3. Significant accounting policies (continued):

(i) Income taxes:

(i) Current income tax:

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the intention is to settle on a net basis, or to realize the asset and settle the liability simultaneously. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

(ii) Deferred tax:

Deferred tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities ("DTL") are recognized for all taxable temporary differences and DTA are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. The Company creates a valuation allowance to the extent that it considers deductible temporary differences, the carry forward of unused tax credits and unused tax losses cannot be utilized.

DTA and DTL are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. DTA and DTL are not offset unless a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(j) Stock-based compensation:

Employees (including officers), directors and consultants of the Company receive remuneration in the form of stock options for rendering services to the Company ("equity-settled transactions"). Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model.
The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense. The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award ("the vesting date").

3. Significant accounting policies (continued):

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The Company records compensation expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period. Any consideration received on the exercise of stock options is credited to share capital.

Where the terms of an equity-settled award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings (loss) per share (note 3(l)).

(k) Interest expense:

Interest expense is recorded on an accrual basis.

(l) Earnings (loss) per share:

Basic earnings (loss) per common share is determined by dividing profit (loss) for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding. This method assumes that any proceeds received from in-the-money options and warrants would be used to buy common shares at the average market price for the period.

(m) Financial assets other than investments at fair value:

Financial assets which are managed to collect contractual cash flows made up of principal and interest are designated as at amortized cost. All other financial assets are designated at fair value through profit and loss. All financial assets are recognized initially at fair value plus, in the case of financial assets designated at amortized cost directly attributable transaction costs.

3. Significant accounting policies (continued):

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. Financial assets at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method less cumulative repayments and cumulative impairment losses.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired, or the Company has transferred substantially all the risks and rewards of the asset. The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. For amounts deemed to be impaired the impairment provision is based upon the expected loss.

(n) Financial derivatives – options and warrants

A financial derivative such as warrants and options which will be settled with the entity's own equity instruments will be designated as an equity instrument if the derivative is to acquire a fixed number of the entity's own equity instruments for a fixed amount of Canadian dollars. A financial derivative will be considered as a financial liability at fair value through profit or loss if it is to acquire either a variable number of equity instruments or the exercise price is not fixed.

Where the exercise price is in a foreign currency and the options and warrants were not offered pro rata to all of its existing owners of the same class of its own non-derivative equity instruments then this instrument will be classified as a financial liability at fair value through profit or loss.

(o) Provisions:

(i) General:

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event which is independent of future action by the Company, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Asset retirement obligation:

Asset retirement obligation is the present value of estimated costs to restore operating locations in accordance with regulations and laws as defined by each oil and gas license.

3. Significant accounting policies (continued):

(p) Financial liabilities:

All financial liabilities are designated as at amortized cost except for financial derivatives and any financial liabilities from inception classified as at fair value through profit or loss. All financial liabilities are recognized initially at fair value plus directly attributable transaction costs except for those designated at fair value through profit and loss. Financial liabilities at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. Financial liabilities at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method less payments.

(q) Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(r) Cost of private placement financings:

Incremental costs incurred in respect of raising capital through private placements are charged against equity proceeds raised.

(Unaudited – prepared in Canadian dollars)

4. Exploration and evaluation assets:

All of the Company's oil and gas activities are conducted jointly with others. The Company enters into exploration agreements with other parties, pursuant to which Brownstone may earn interests in the underlying exploration and evaluation assets by issuing common shares and/or making cash payments and/or incurring expenditures in varying amounts by varying dates. Failure by the Company to issue such shares, make such cash payments or incur such expenditures can result in a reduction or loss of the Company's interests.

The Company's accounts reflect only the Company's proportionate interests in its oil and gas activities. The following is a summary of the Company's exploration and evaluation assets:

	July 1, 2010	Year ended June 30, 2011		**Three months ended September 30, 2011**	
	Net Book Value	Net Expenditures	Net Book Value	**Net Expenditures**	**Net Book Value**
Joint ventures in Colombia properties (a)					
Acquisition	$ 2,850,040	$ -	$ 2,850,040	**$ -**	**$ 2,850,040**
Exploration	7,997,964	10,225,359	18,223,323	**2,972,870**	**21,196,193**
Foreign currency translation	253,774	(1,317,457)	(1,063,683)	**1,704,159**	**640,476**
	11,101,778	8,907,902	20,009,680	**4,677,029**	**24,686,709**
Joint ventures in USA properties					
Acquisition	14,271,014	(263,328)	14,007,686	**-**	**14,007,686**
Exploration	2,342,454	863,748	3,206,202	**259,967**	**3,466,169**
Foreign currency translation	(675,641)	(1,357,785)	(2,033,426)	**1,098,227**	**(935,199)**
	15,937,827	(757,365)	15,180,462	**1,358,194**	**16,538,656**
Joint ventures in Argentina properties					
Acquisition	4,128,331	-	4,128,331	**-**	**4,128,331**
Foreign currency translation	114,070	(385,201)	(271,131)	**298,400**	**27,269**
	4,242,401	(385,201)	3,857,200	**298,400**	**4,155,600**
Joint ventures in Canadian properties					
Acquisition	797,353	-	797,353	**-**	**797,353**
Exploration	205,929	71,540	277,469	**-**	**277,469**
	1,003,282	71,540	1,074,822	**-**	**1,074,822**
Joint ventures in Israel					
Exploration	$ -	$ 2,011,871	$ 2,011,871	**$ -**	**$ 2,011,871**
Foreign currency translation	-	(81,024)	(81,024)	**149,374**	**68,350**
	-	1,930,847	1,930,847	**149,374**	**2,080,221**
Total oil & gas properties	$ 32,285,288	$ 9,767,723	$ 42,053,011	**$ 6,482,997**	**$ 48,536,008**

(Unaudited – prepared in Canadian dollars)

4. Exploration and evaluation assets (continued):

(a) For the three months ended September 30, 2011, the Company decreased its exploration and evaluation assets by capitalizing crude oil sales revenue of $553,045 (US$564,217) (year ended June 30, 2011 – $259,228 (US$265,385)), which was generated from the long-term production testing of the Canaguaro well in the Llanos Basin of Central Colombia.

5. Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
September 30, 2011	**$ 9,748,982**	**$ 21,990,342**
June 30, 2011	12,350,483	22,219,575
July 1, 2010	17,174,119	32,093,349

6. Financial instruments carrying amount and fair value:

(a) Financial instruments carrying amount:

	September 30, 2011	June 30, 2011	July 1, 2010
Designated at fair value through profit or loss:			
- Investments	**$ 9,748,982**	$ 12,350,483	$17,174,119
Designated at amortized cost:			
- Cash and cash equivalents			
- Cash on hand	**2,828,796**	447,721	1,279,961
- Short-term investments with maturities of less than three months (i)	**28,023,287**	29,386,085	552,269
- Due from brokers	**91,059**	228,868	-
- Restricted cash, current	**-**	4,165,776	-
- Restricted cash, long-term	**575,551**	534,222	5,286,967
- Other receivables	**341,446**	343,594	78,545
- Promissory note receivable	**-**	-	2,070,140
- Accounts payable and accrued liabilities	**(1,852,128)**	(1,497,064)	(2,113,363)
	$ 30,008,011	$ 33,609,202	$ 7,154,519

(i) As at September 30, 2011, cash equivalents consisted of banker's acceptance notes with an average annual yield of 1.16% (June 30, 2011 – 1.16%; July 1, 2010 – 0.80%).

The carrying values of cash and cash equivalents, due from brokers, restricted cash, other receivables, promissory note receivable, and accounts payable and accrued liabilities approximate their fair values due to the short term to maturity for these instruments.

(Unaudited – prepared in Canadian dollars)

6. Financial instruments carrying amount and fair value (continued):

(b) Financial instruments hierarchy:

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The following table presents the Company's financial instruments, measured at fair value and categorized into levels of the fair value hierarchy on the consolidated statements of financial position as at September 30, 2011, June 30, 2011 and July 1, 2010:

Investments, at fair value	Level 1 Quoted market price	Level 2 Valuation technique – observable market inputs	Level 3 Valuation technique – non-observable market inputs	Total
September 30, 2011	**$ 5,548,982**	**$ -**	**$ 4,200,000**	**$ 9,748,982**
June 30, 2011	$ 8,200,483	$ -	$ 4,150,000	$ 12,350,483
July 1, 2010	$ 14,704,419	$ -	$ 2,469,700	$ 17,174,119

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the three months ended September 30, 2011 and year ended June 30, 2011.

(Unaudited – prepared in Canadian dollars)

6. Financial instruments carrying amount and fair value (continued):

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the three months ended September 30, 2011 and year ended June 30, 2011. These financial instruments are measured at fair value utilizing non-observable market inputs. The realized losses and net unrealized gains are recognized in the consolidated statements of comprehensive loss.

Investments, at fair value	Opening balance	Net purchases	Realized losses	Net unrealized gains	Net transfer out of Level 3	Ending balance
September 30, 2011	**$ 4,150,000**	**$ 50,000**	**$ -**	**$ -**	**$ -**	**$ 4,200,000**
June 30, 2011	$ 2,469,700	$ -	$ -	$ 2,680,300	$ (1,000,000)	$ 4,150,000
July 1, 2010	$ 2,266,033	$ -	$ -	$ 203,667	$ -	$ 2,469,700

For the year ended June 30, 2011, the net transfer out of Level 3 consists of investments in private companies as at July 1, 2010 which became publicly-traded investments during the year ended June 30, 2011.

7. Promissory note receivable:

As at July 1, 2010, the Company held a promissory note totaling $2,070,140 receivable from Dejour Enterprises Ltd., an oil and gas exploration company and reporting issuer listed on the Toronto Stock Exchange ("TSX") under the symbol "DEJ" ("Dejour"). The Dejour promissory note was secured by a general security agreement between the Company and Dejour, bore interest at 12% per annum, payable quarterly, and was due to mature on January 1, 2011. During the year ended June 30, 2011, the total amounts outstanding under the promissory note were repaid in full prior to maturity.

For the three months ended September 30, 2010, included in the consolidated statements of comprehensive loss was $62,338 of interest income earned by Brownstone relating to the promissory note.

8. Restricted cash:

As at September 30, 2011, the Company had restricted cash totaling $575,551 (US$554,000) as collateral to the Royal Bank of Canada ("RBC") for letters of guarantee issued by RBC. As at June 30, 2011, the Company had restricted cash totaling $4,699,998 (US$4,874,000) of which $4,165,776 (US$4,320,000) was current (July 1, 2010 - $5,286,967 (US$4,984,883)). The restricted cash is held in GICs, which are renewed on a monthly basis at the prevailing interest rate (0.02% per annum as at September 30, 2011 (June 30, 2011 and July 1, 2010 – 0.03%)).

The GICs are held as collateral by RBC for letters of guarantee issued by RBC to Agencia Nacional de Hidrocarburos ("ANH"), the oil and gas agency of the Colombian government. The letters of guarantee are provided to secure Brownstone's interests and exploration in Colombia Llanos exploration Blocks 21, 27, and 36 and to ensure that the Company fulfills their commitments under the blocks.

(Unaudited – prepared in Canadian dollars)

8. Restricted cash (continued):

In November 2010, Export Development Canada ("EDC"), a Canadian federal government agency, issued three Performance Security Guarantees ("PSG") totaling US$4,984,883 to RBC to secure certain of the letters of guarantee issued by RBC to ANH. As a result, the Company's restricted cash in the amount of the PSGs was released.

9. Related party transactions:

All transactions with related parties have occurred in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) Compensation to key management personnel and directors were as follows during the three months ended September 30:

Type of expense	**2011**	2010
Salaries and consulting fees	**$ 234,188**	$ 187,937
Other short-term benefits	**12,137**	3,465
Stock-based compensation expense	**279,272**	215,936

Key management personnel are the Chairman and Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer and Vice President, Corporate & Legal Affairs.

(b) During the three months ended September 30, 2011 the Company did not grant any options to directors and officers of the Company.

During the year ended June 30, 2011, the Company granted the following options to directors and officers of the Company:

Date Granted	Options Granted	Exercise Price	Expiry
September 21, 2010	1,000,000	$ 0.51	September 20, 2015
March 30, 2011	1,125,000	$ 1.20	March 29, 2016
Total granted	2,125,000		

10. Share capital:

Authorized: Unlimited number of common shares, no par value
Issued and outstanding:

	# of Shares	**Amount**
Balance, July 1, 2010	88,691,104	$ 65,017,344
Issued pursuant to exercise of stock options (a)	440,520	423,783
Issued pursuant to exercise of warrants and broker warrants (b)	10,399,507	9,358,419
Issued pursuant to private placement financing, net (c)	30,263,158	21,798,299
Balance, September 30, 2011 and June 30, 2011	**129,794,289**	**$ 96,597,845**

10. Share capital (continued):

(a) During the three months ended September 30, 2011, 1,455,000 options exercisable at prices ranging from $2.20 to $2.50 per share expired unexercised.

During the year ended June 30, 2011, 2,136,200 options exercisable at prices ranging from $0.61 to $2.08 per share expired unexercised and 440,520 options were exercised at prices ranging from $0.50 to $0.65 per share for total proceeds of $266,845. As a result of the exercise of stock options, $156,938 in contributed surplus was reallocated to share capital.

(b) During the three months ended September 30, 2011, no warrants or broker warrants were exercised.

During the year ended June 30, 2011, 2,000,000 broker warrants exercisable at $2.00 per share expired unexercised and 10,399,507 warrants, broker warrants, and underlying broker warrants were exercised at prices ranging from $0.50 and $0.75 per share for total proceeds of $7,511,812. Amounts of $1,874,549 in warrants were reallocated to share capital. Pursuant to the exercise of broker warrants, 590,245 purchase warrants were issued exercisable at $0.75 per share and expiring on April 13, 2012.

The purchase warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 96.9%; dividend yield of 0%; risk-free interest rate of 3.00%; and an expected life of 1.5 year. The value assigned to the purchase warrants was $27,942.

(c) On March 11, 2011, the Company completed a brokered private placement financing raising gross proceeds of $28,750,000 through the issuance and sale of 30,263,158 units at a price of $0.95 per unit. Each unit was comprised of one common share of the Company and one-half common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at $1.25 per share on or before September 11, 2012. In connection with the private placement, the Company paid cash commissions and other expenses of $2,200,585, and issued an aggregate of 2,118,421 broker warrants. Each broker warrant entitles the holder to acquire one common share at an exercise price of $1.25 per unit until September 11, 2012.

The purchase warrants and broker warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 83.3%; dividend yield of 0%; risk-free interest rate of 3.0%; and an expected life of 1.5 years. The value assigned to the purchase warrants and broker warrants was $4,751,116.

(d) Stock options granted:

The Company grants stock options to eligible directors, officers, key employees and consultants under its 2006 stock option plan to enable them to purchase common shares of the Company. Under the terms of the plan, the number of common shares which may be issued pursuant to the exercise of options granted under the plan may not exceed 10% of the number of common shares outstanding at the time of grant.

(Unaudited – prepared in Canadian dollars)

10. Share capital (continued):

The exercise price of an option granted under the plan cannot be less than the closing price of the common shares on the last day on which the common shares trade prior to the grant date of the option. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding five years. Stock options granted vest at the rate of 1/6 of the grant every three months over an 18-month period. Stock options granted to consultants for investor relations vest at the rate of ¼ of the grant every four months over a 1 year period.

Options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense and credits contributed surplus for all options granted. There were no options granted during the three months ended September 30, 2011.

The following options were granted during the year ended June 30, 2011:

Date granted	Options granted	Exercise price	Expiry
September 21, 2010	1,195,000	$ 0.51	September 20, 2015
December 17, 2010 (i)	500,000	0.80	December 16, 2015
February 17, 2011	300,000	0.95	February 17, 2013
March 30, 2011	1,365,000	1.20	March 29, 2016
	3,360,000		

(i) On March 3, 2011, the 500,000 options granted on December 17, 2010 to a consultant were terminated.

The fair value of the options granted during the year ended June 30, 2011 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used	
Expected volatility	109.0% to 120.9%
Expected dividend yield	0%
Risk-free interest rate	1.7% to 2.3%
Expected option life in years	2.0 to 4.5 years
Expected forfeiture rate	2.7% to 4.0%
Fair value per stock option granted on September 21, 2010	$ 0.37
Fair value per stock option granted on December 17, 2010	$ 0.59
Fair value per stock option granted on February 17, 2011	$ 0.54
Fair value per stock option granted on March 30, 2011	$ 0.89

For the three months ended September 30, 2011, included in operating, general and administrative expenses was stock-based compensation expense of $387,851 (three months ended September 30, 2010 - $291,907) relating to the stock options granted to directors, officers, employees and consultants of the Company.

(Unaudited – prepared in Canadian dollars)

10. Share capital (continued):

A summary of the status of the Company's stock options as at the beginning of the periods indicated and changes during those periods is shown below:

	September 30, 2011		June 30, 2011		July 1, 2010	
Stock Options	**# of Options**	**Weighted Average Exercise Price**	# of Options	Weighted Average Exercise Price	# of Options	Weighted Average Exercise Price
Outstanding, at beginning of period	**8,425,080**	**$ 1.21**	7,641,800	$ 1.35	n/a	$ n/a
Granted	**-**	**-**	3,360,000	0.87	n/a	n/a
Exercised	**-**	**-**	(440,520)	0.61	n/a	n/a
Terminated	**(1,455,000)**	**2.46**	(2,136,200)	1.30	n/a	n/a
Outstanding, at end of period	**6,970,080**	**$ 0.95**	8,425,080	$ 1.21	7,641,800	$ 1.35
Exercisable, at end of period	**5,333,024**	**$ 0.94**	6,100,657	$ 1.32	5,006,993	$ 1.73

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2011:

Number of options outstanding	**Number of options exercisable**	**Exercise price**	**Expiry date**
50,000	**50,000**	**$ 1.80**	February 4, 2012
400,000	**400,000**	**2.60**	April 1, 2012
300,000	**100,000**	**0.95**	February 17, 2013
10,000	**10,000**	**1.25**	February 21, 2013
40,000	**40,000**	**1.20**	March 19, 2013
840,000	**840,000**	**1.48**	June 25, 2013
100,000	**100,000**	**0.50**	August 10, 2014
1,133,400	**1,133,400**	**0.52**	August 12, 2014
35,000	**35,000**	**0.61**	October 5, 2014
50,000	**50,000**	**0.75**	November 26, 2014
200,000	**200,000**	**0.75**	November 30, 2014
500,000	**500,000**	**0.65**	March 2, 2015
630,000	**524,180**	**0.65**	April 4, 2015
130,000	**108,180**	**0.43**	May 25, 2015
1,186,680	**787,280**	**0.51**	September 20, 2015
1,365,000	**454,984**	**1.20**	March 29, 2016
6,970,080	**5,333,024**		

(e) A summary of the status of the Company's warrants and broker warrants at the reporting dates and the changes during the periods then ended are presented below:

	September 30, 2011		
Warrants and broker warrants	**# of warrants and broker warrants**	**Weighted average exercise price**	**Amount**
Outstanding, at beginning of period	**26,595,816**	**$ 1.06**	**$ 6,873,384**
Outstanding, at end of period	**26,595,816**	**$ 1.06**	**$ 6,873,384**

(Unaudited – prepared in Canadian dollars)

10. Share capital (continued):

	June 30, 2011		
Warrants and Broker Warrants	# of warrants and broker warrants	Weighted average exercise price	Amount
Outstanding, at beginning of year	21,155,078	$ 0.84	$ 4,028,875
Exercised	(10,399,507)	0.72	(1,874,548)
Issued	17,840,245	1.23	4,779,057
Expired	(2,000,000)	2.00	(60,000)
Outstanding, at end of year	26,595,816	$ 1.06	$ 6,873,384

The following table summarizes information about warrants and broker warrants outstanding as at September 30, 2011 and June 30, 2011:

Number of warrants and broker warrants		**Exercise price**	**Expiry date**	**Warrants and broker warrants value**
7,998,227		$ 0.75	April 13, 2012	$ 1,758,419
1,347,589	(i)	0.55	April 13, 2012	363,849
15,131,579		1.25	September 11, 2012	4,167,645
2,118,421	(ii)	1.25	September 11, 2012	583,471
26,595,816				**$ 6,873,384**

(i) Each broker warrant is exercisable for one unit of the Company at $0.55 per unit on or before April 13, 2012. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of $0.75 per share on or before April 13, 2012.

(ii) Each broker warrant is exercisable for one common share of the Company at $1.25 per share on or before September 11, 2012.

The following table summarizes information about warrants and broker warrants outstanding as at July 1, 2010:

Number of warrants and broker warrants		Exercise price	Expiry date	Warrants and broker warrants value
2,000,000		$ 2.00	October 28, 2010	$ 60,000
6,615,000		0.75	May 28, 2011	1,124,550
1,034,400	(i)	0.50	May 28, 2011	237,912
12,000		0.75	May 28, 2011	3,120
9,999,998		0.75	April 13, 2012	2,200,000
1,493,680	(ii)	0.55	April 13, 2012	403,293
21,155,078				$ 4,028,875

(Unaudited – prepared in Canadian dollars)

10. Share capital (continued):

(i) Each broker warrant is exercisable for one unit of the Company at $0.50 per unit on or before May 28, 2011. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of $0.75 per share on or before May 28, 2011.

(ii) Each broker warrant is exercisable for one unit of the Company at $0.55 per unit on or before April 13, 2012. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of $0.75 per share on or before April 13, 2012.

(f) Contributed surplus transactions for the respective years are as follows:

	Amount
Balance, July 1, 2010	$ 13,407,473
Stock-based compensation	1,545,978
Exercise of stock options	(156,938)
Expiration of warrants	60,000
Balance, June 30, 2011	14,856,513
Stock-based compensation (note 10(d))	**387,851**
Balance, September 30, 2011	**$ 15,244,364**

As at September 30, 2011, June 30, 2011 and July 1, 2010 contributed surplus was comprised of the following:

	September 30, 2011	June 30, 2011	July 1, 2010
Fair value of stock-based compensation	**$ 8,485,161**	$ 8,097,310	$ 6,708,270
Fair value of expired warrants and broker warrants	**6,732,939**	6,732,939	6,672,939
Cancellation of common shares under normal course issuer bid	**20,639**	20,639	20,639
Value of cancelled escrowed shares	**5,625**	5,625	5,625
	$ 15,244,364	$ 14,856,513	$ 13,407,473

11. Deferred taxes:

As at September 30, 2011, the Company has approximately $937,000 (June 30, 2011 - $961,600; July 1, 2010 - $1,001,000) of Canadian resource deductions and $22,463,500 (June 30, 2011 - $22,586,500; July 1, 2010 - $23,076,000) of foreign resource deductions available that have an unlimited carry-forward period to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts.

As at September 30, 2011, the Company has approximately $3,037,400 (June 30, 2011 - $2,400,900; July 1, 2010 - $73,100) of Canadian non-capital losses available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts.

(Unaudited – prepared in Canadian dollars)

11. Deferred taxes (continued):

The non-capital losses will expire as follows:

2028	$	73,100
2031		2,327,800
2032		636,500
	$	3,037,400

The Company has not recognized any deferred tax assets in these interim financial statements relating to the losses or tax effects of other tax temporary differences.

12. Segmented information:

Operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the oil and gas sector. The Company's significant segments include six distinct geographic areas: Colombia, Israel, Canada, United States, Argentina and Brazil. There were no changes in the reportable segments during the three months ended September 30, 2011.

The accounting policies applied to Brownstone's operating segments are the same as those described in the summary of significant accounting policies except that certain expenses and other items are not allocated to the individual operating segments when determining profit or loss, but are attributed to the Canadian operations where the corporate head office is located.

As at September 30, 2011, June 30, 2011, and July 1, 2010, no customer accounted for more than 10% of revenues.

The following is segmented information as at and for the three months ended September 30, 2011:

	Three months ended September 30, 2011		**As at September 30, 2011**		
	Interest and other income	**Loss for the period**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 79,625**	**$ 3,264,190**	**$ 1,074,822**	**$ 41,497,720**	**$ 42,572,542**
Colombia	**5,548**	**66,104**	**24,686,709**	**874,616**	**25,561,325**
United States	**-**	**-**	**16,538,656**	**107,668**	**16,646,324**
Argentina	**-**	**-**	**4,155,600**	**22,610**	**4,178,210**
Israel	**-**	**13,032**	**2,080,221**	**5,881**	**2,086,102**
Brazil	**-**	**-**	**-**	**157,992**	**157,992**
	$ 85,173	**$ 3,343,326**	**$ 48,536,008**	**$ 42,666,487**	**$ 91,202,495**

(Unaudited – prepared in Canadian dollars)

12. Segmented information (continued):

The following is segmented information for the three months ended September 30, 2010 and as at June 30, 2011:

	Three months ended September 30, 2010		As at June 30, 2011		
	Interest and other income	Loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 63,567	$ 492,984	$ 1,074,822	$ 47,982,817	$ 49,057,639
Colombia	13,280	101,214	20,009,680	352,860	20,362,540
United States	-	-	15,180,462	6,227	15,186,689
Argentina	-	-	3,857,200	20,931	3,878,131
Israel	-	-	1,930,847	1,652	1,932,499
Brazil	-	-	-	173,855	173,855
	$ 76,847	$ 594,198	$ 42,053,011	$ 48,538,342	$ 90,591,353

The following is segmented information as at July 1, 2010:

	As at July 1, 2010		
	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 1,003,282	$ 26,517,343	$ 27,520,625
United States	15,937,827	1,063,027	17,000,854
Colombia	11,101,778	18,108	11,119,886
Argentina	4,242,401	30,157	4,272,558
Brazil	-	165,990	165,990
	$ 32,285,288	$ 27,794,625	$ 60,079,913

13. Net investment income:

Net investment income is comprised of the following for the three months ended September 30:

	2011	2010
Net realized losses on investments at fair value through profit and loss	**$ (191,331)**	$ (1,003,846)
Net change in unrealized gains (losses) on investments at fair value through profit and loss	**(2,372,268)**	1,063,164
	$ (2,563,599)	$ 59,318

(Unaudited – prepared in Canadian dollars)

14. Expenses by nature:

Included in general, administrative and operating expenses for the three months ended September 30:

	2011	2010
Stock-based compensation expense	**$ 387,851**	$ 291,907
Salaries and consulting fees	**341,778**	252,447
Other office and general	**190,499**	151,624
Professional fees	**63,189**	58,399
Shareholder relations, transfer agent and filing fees	**28,198**	29,111
Other employment benefits	**14,114**	3,465
Travel and promotion	**7,964**	30,523
Transaction costs	**67**	24,051
Foreign exchange loss (gain)	**(197,222)**	158,685
	$ 836,438	$ 1,000,212

15. Management of capital:

The Company includes the following in its capital:

	September 30, 2011	June 30, 2011	July 1, 2010
Shareholders' equity comprised of			
Share capital	**$ 96,597,845**	$ 96,597,845	$ 65,017,344
Warrants and broker warrants	**6,873,384**	6,873,384	4,028,875
Contributed surplus	**15,244,364**	14,856,513	13,407,473
Foreign currency translation reserve	**46,539**	(3,165,014)	-
Deficit	**(29,411,765)**	(26,068,439)	(24,487,142)
	$ 89,350,367	$ 89,094,289	$ 57,966,550

The Company's objectives when managing capital are:

(a) to ensure that the Company maintains the level of capital necessary to meet the requirements of cash calls for the exploration of properties and from operators in joint venture properties;

(b) to ensure that the Company maintains the level of capital necessary to meet the requirements of its brokers;

(c) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments and acquisitions of exploration properties;

(d) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and

(e) to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

15. Management of capital (continued):

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) realizing proceeds from the disposition of its investments; and

(b) raising capital through equity or debt financings.

The Company is not subject to any capital requirements imposed by a regulator, except to the extent that it has pledged cash as collateral for certain letters of guarantee issued to the ANH (note 8).

There were no changes in the Company's approach to capital management during the three months ended September 30, 2011. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's current capital resources are sufficient to discharge its liabilities as at September 30, 2011.

16. Risk management:

The investment operations of Brownstone's business involve the purchase and sale of securities and, accordingly, a portion of the Company's assets are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including market, credit, and liquidity risks. A discussion of the Company's use of financial instruments and their associated risks is provided below.

(a) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Brownstone's financial position.

There were no changes to the way the Company manages market risk during the three months ended September 30, 2011. The Company manages market risk by having a portfolio which is not singularly exposed to any one issuer; however, its investment activities are currently concentrated primarily in the oil and gas resource industry.

(Unaudited – prepared in Canadian dollars)

16. Risk management (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three months ended September 30, 2011 from a change in the closing bid price of the Company's investments with all other variables held constant as at September 30, 2011:

Percentage of change in closing bid prices	**Decrease in net after-tax loss from % increase in closing bid price**	**Increase in net after-tax loss from % decrease in closing bid price**
2%	**$ 170,120**	**$ (170,120)**
4%	**340,239**	**(340,239)**
6%	**510,359**	**(510,359)**
8%	**680,479**	**(680,479)**
10%	**850,599**	**(850,599)**

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2011 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 2011:

Percentage of change in closing bid prices	Decrease in net after-tax loss from % increase in closing bid price	Increase in net after-tax loss from % decrease in closing bid price
2%	$ 214,775	$ (214,775)
4%	429,550	(429,550)
6%	644,325	(644,325)
8%	859,100	(859,100)
10%	1,073,875	(1,073,875)

(b) Credit risk:

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money or securities (in connection with convertible or debt securities, for example) will not perform their underlying obligations and for funds held with banks for cash and cash equivalents. The Company may, from time to time, invest in debt obligations. As at September 30, 2011, June 30, 2011, and July 1, 2010, the Company did not hold any debt obligations. All funds in cash and cash equivalents are held in financial institutions that have a credit rating above AA and the Company believes it is not exposed to any significant loss.

There were no changes to the way the Company manages credit risk during the three months ended September 30, 2011. The Company is also exposed, in the normal course of business, to credit risk from the sale of its investments and advances to investee and joint venture companies.

(Unaudited – prepared in Canadian dollars)

16. Risk management (continued):

The Company's maximum exposure to credit risk is:

	September 30, 2011	June 30, 2011	July 1, 2010
Cash and cash equivalents	**$ 30,852,083**	$ 29,833,806	$ 1,832,230
Restricted cash	**575,551**	4,699,998	5,286,967
Due from brokers	**91,059**	228,868	-
Promissory note receivable	**-**	-	2,070,140
Income taxes receivable	**1,053,614**	1,053,614	1,328,276
Other receivables	**345,198**	371,573	102,893
	$ 32,917,505	$ 36,187,859	$ 10,620,506

As at September 30, 2011, June 30, 2011 and July 1, 2010, the Company had the following significant receivables:

(i) As at September 30, 2011, the Company had accrued income taxes receivable of $1,053,614 (June 30, 2011 - $1,053,614; July 1, 2010 - $1,328,276) relating to refunds of taxes previously paid, from taxable losses carried back to prior years. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government.

(ii) As at September 30, 2011, included in other receivables is $273,942 (June 30, 2011 - $255,911; July 1, 2010 - nil) relating from oil sales revenue. The Company is exposed to this credit risk since the amount is due from one counterparty.

(iii) As at July 1, 2010, the Company held a promissory note for $2,070,140 from Dejour, a company with a director who is also an officer of Brownstone. During the year ended June 30, 2011, the Company has received repayment of the promissory note in full from Dejour (note 7).

(c) Liquidity risk:

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. The Company generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest earned on its investments. The Company has sufficient investments which primarily consist of freely tradable and relatively liquid equity securities to fund its obligations as they become due under normal operating conditions.

There were no changes to the way the Company manages liquidity risk during the three months ended September 30, 2011. The Company manages liquidity risk by reviewing the amount of margin available on a daily basis, and managing its cash flow. The Company holds investments which can be converted into cash when required.

(Unaudited – prepared in Canadian dollars)

16. Risk management (continued):

As at September 30, 2011, the Company was not using any margin but had $91,059 (June 30, 2011 - $228,868; July 1, 2010 - $0) due from its broker (cash held at a brokerage account).

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at September 30, 2011:

Liabilities and obligations	**Payments due by period**				
	Total	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 1,852,128**	**$ 1,852,128**	**$ -**	**$ -**	**$ -**
	$ 1,852,128	**$ 1,852,128**	**$ -**	**$ -**	**$ -**

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2011:

Liabilities and obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,497,064	$ 1,497,064	$ -	$ -	$ -
	$ 1,497,064	$ 1,497,064	$ -	$ -	$ -

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2010:

Liabilities and obligations	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 2,113,363	$ 2,113,363	$ -	$ -	$ -
	$ 2,113,363	$ 2,113,363	$ -	$ -	$ -

The following table shows the Company's source of liquidity by assets as at September 30, 2011:

Assets	**Liquidity by period**				
	Total	**Less than 1 year**	**1 – 3 years**	**After 4 years**	**Non-liquid assets**
Cash and cash equivalents	**$ 30,852,083**	**$ 30,852,083**	**$ -**	**$ -**	**$ -**
Due from brokers	**91,059**	**91,059**	**-**	**-**	**-**
Prepaids and other receivables	**345,198**	**345,198**	**-**	**-**	**-**
Investments at fair value	**9,748,982**	**-**	**9,748,982**	**-**	**-**
Income taxes receivable	**1,053,614**	**1,053,614**	**-**	**-**	**-**
Restricted cash	**575,551**	**-**	**575,551**	**-**	**-**
Exploration and evaluation assets	**48,536,008**	**-**	**-**	**-**	**48,536,008**
	$ 91,202,495	**$ 32,341,954**	**$ 10,324,533**	**$ -**	**$ 48,536,008**

(Unaudited – prepared in Canadian dollars)

16. Risk management (continued):

The following table shows the Company's source of liquidity by assets as at June 30, 2011:

	Liquidity by period				
Assets	Total	Less than 1 year	1 – 3 years	After 4 years	Non-liquid assets
Cash and cash equivalents	$ 29,833,806	$ 29,833,806	$ -	$ -	$ -
Due from brokers	228,868	228,868	-	-	-
Restricted cash – current	4,165,776	4,165,776			
Prepaids and other receivables	371,573	371,573	-	-	-
Investments at fair value	12,350,483	-	12,350,483	-	-
Income taxes receivable	1,053,614	1,053,614	-	-	-
Restricted cash	534,222	-	534,222	-	-
Exploration and evaluation assets	42,053,011	-	-	-	42,053,011
	$ 90,591,353	$ 35,653,637	$ 12,884,705	$ -	$ 42,053,011

The following table shows the Company's source of liquidity by assets as at July 1, 2010:

	Liquidity by period				
Assets	Total	Less than 1 year	1 – 3 years	After 4 years	Non-liquid assets
Cash and cash equivalents	$ 1,832,230	$ 1,832,230	$ -	$ -	$ -
Prepaids and other receivables	102,893	102,893	-	-	-
Promissory note receivable	2,070,140	2,070,140	-	-	-
Investments at fair value	17,174,119	-	17,174,119	-	-
Income taxes receivable	1,328,276	1,328,276	-	-	-
Restricted cash	5,286,967	-	5,286,967	-	-
Exploration and evaluation assets	32,285,288	-	-	-	32,285,288
	$ 60,079,913	$ 5,333,539	$ 22,461,086	$ -	$ 32,285,288

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at September 30, 2011, June 30, 2011, and July 1, 2010, the Company did not have any interest rate risk liabilities. The Company holds a significant portion of cash equivalents in interest-bearing instruments and is exposed to the risk of changing interest rates.

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income it receives from its investments without significantly increasing risk. The Company places investments with high credit quality issuers. To minimize interest rate risk, the Company maintains its portfolio of cash equivalents in guaranteed investment certificates and bankers' acceptances with maturities of less than one year. The Company does not use any derivative instruments to reduce exposure to interest rate fluctuations.

16. Risk management (continued):

(e) Currency risk:

Currency risk is the risk that the fair value of or future cash flows from the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time.

The Company presently holds funds in Canadian dollars but a significant amount of its costs are denominated in U.S. dollars, Argentinean pesos and Brazilian reals. The Company does not engage in any hedging activities to mitigate its foreign exchange risk.

A change in the foreign exchange rate of the Canadian dollar versus another currency may increase or decrease the value of the Company's financial instruments. The Company does not hedge its foreign currency exposure.

The following assets and liabilities were denominated in foreign currencies:

	September 30, 2011	June 30, 2011	July 1, 2010
Denominated in U.S. dollars:			
Investments	**$ -**	$ -	$ 890,313
Cash and cash equivalents	**1,954,088**	69,779	1,063,028
Due from brokers	**91,015**	157,095	-
Restricted cash	**575,551**	4,699,998	5,286,967
Prepaids and other receivables	**276,525**	260,309	3,202
Exploration and evaluation assets	**47,461,186**	40,978,189	31,282,006
Accounts payable and accrued liabilities	**(1,780,376)**	(1,397,055)	(85,629)
Net assets denominated in U.S. dollars	**48,577,989**	44,768,315	38,439,887
Denominated in Brazilian reals:			
Cash and cash equivalents	**157,992**	173,855	165,990
Net assets denominated in Brazilian reals	**157,992**	173,855	165,990
Denominated in Argentinean pesos:			
Cash and cash equivalents	**1,217**	1,538	9,363
Prepaids and other receivables	**21,393**	19,393	20,794
Net assets denominated in Argentinean pesos	**22,610**	20,931	30,157
Denominated in Colombian pesos:			
Cash and cash equivalents	**600,945**	96,949	17,736
Prepaids and other receivables	**-**	-	372
Net assets denominated in Colombian pesos	**600,945**	96,949	18,108

16. Risk management (continued):

The following table shows the estimated sensitivity of the Company's total comprehensive loss for three months ended September 30, 2011 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at September 30, 2011:

Percentage change in U.S. dollar	**Decrease in after-tax net loss from an increase in % in the U.S. dollar exchange rate**	**Increase in after-tax net loss from a decrease in % in the U.S. dollar exchange rate**
2%	**$ 723,812**	**$ (723,812)**
4%	**1,447,624**	**(1,447,624)**
6%	**2,171,436**	**(2,171,436)**
8%	**2,895,248**	**(2,895,248)**
10%	**3,619,060**	**(3,619,060)**

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 2011 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at June 30, 2011:

Percentage change in U.S. dollar exchange rate	Decrease in after-tax net loss from an increase in % in the U.S. dollar exchange rate	Increase in after-tax net loss from a decrease in % in the U.S. dollar exchange rate
2%	$ 665,675	$ (665,675)
4%	1,331,350	(1,331,350)
6%	1,997,025	(1,997,025)
8%	2,662,700	(2,662,700)
10%	3,328,376	(3,328,376)

17. Transition to IFRS:

For all periods up to and including the year ended June 30, 2011, the Company prepared its consolidated financial statements in accordance with CGAAP. The consolidated financial statements for the three months ended September 30, 2011 are the first financial statements that the Company has prepared in accordance with IFRS.

In preparing these consolidated financial statements, the opening statement of financial position was prepared as at July 1, 2010, the Transition Date. This note explains the principal adjustments made in restating the previous CGAAP statement of financial position as at July 1, 2010 and its previously reported CGAAP consolidated financial statements for the three months ended September 30, 2010 and the year ended June 30, 2011.

(a) Exemptions applied:

IFRS 1, *First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of IFRS.

17. Transition to IFRS (continued):

The Company has elected to apply the following exemptions:

(i) IFRS 2 *Share-based Payment* ("IFRS 2") has not been applied to the options issued under the Company's stock option plan that vested prior to July 1, 2010.

(ii) The Company has elected to apply IFRS 3 prospectively to business combinations occurring after July 1, 2010. Business combinations occurring prior to the Transition Date have not been restated.

(iii) All exploration and evaluation assets are measured at the Transition Date at the amount determined under CGAAP. The Company has tested all exploration and evaluation assets included in accordance with IFRS 6 *Exploration for and Evaluation of Mineral Resources* and where necessary, reduced the carrying amount for any impairment.

(iv) The Company elected to adopt IFRS 9 from the Transition Date rather than January 1, 2015. All previously recognized financial assets and financial liabilities are designated as either amortized cost or at fair value through profit and loss based upon the facts and circumstances existing at the Transition Date.

(v) IFRS 1 offers the first-time adopter of IFRS the option to reset the foreign currency translation reserve that existed at the date of transition to IFRS to zero as an alternative to establishing a foreign currency translation reserve as if the accounting and translation principles in IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") had always been used and the measurement of assets and liabilities had been as required by currently implemented IFRS. The Company has elected to utilize this option, and has reset the foreign currency translation reserve for all foreign operations to zero as of July 1, 2010. Future gains or losses on a subsequent disposal of any foreign operation will therefore exclude translation differences that arose before Transition Date.

The exceptions under IFRS 1 not to retrospectively apply IFRS at the Transition Date have all been applied.

(b) Reconciliations:

The reconciliations between the Company's previously reported financial results under CGAAP and the current reported financial results under IFRS are provided as follows:

(i) reconciliation of the consolidated statement of financial position and equity as at July 1, 2010;

(ii) reconciliation of the consolidated statement of financial position and equity as at September 30, 2010;

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

(iii) reconciliation of the consolidated statement of financial position and equity as at June 30, 2011;

(iv) reconciliation of the consolidated statement of comprehensive loss for the three months ended September 30, 2010;

(v) reconciliation of the consolidated statement of comprehensive loss for the year ended June 30, 2011.

There is no reconciliation for the consolidated cash flow statement as there are no significant differences.

Reconciliations:

(i) The following is a reconciliation of the consolidated statement of financial position and equity as at July 1, 2010:

	Notes	CGAAP	IFRS Adjust.	IFRS
Assets				
Current				
Cash and cash equivalents		$ 1,832,230	$ -	$ 1,832,230
Prepaids and other receivables		102,893	-	102,893
Promissory note receivable		2,070,140	-	2,070,140
Investments, at fair value		17,174,119	-	17,174,119
Income taxes receivable		1,328,276	-	1,328,276
		22,507,658	-	22,507,658
Restricted cash		5,286,967	-	5,286,967
Exploration and evaluation assets	1.	36,167,168	(3,881,880)	32,285,288
		$ 63,961,793	$ (3,881,880)	$ 60,079,913
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		$ 2,113,363	$ -	$ 2,113,363
		2,113,363	-	2,113,363
Shareholders' equity				
Share capital		65,017,344	-	65,017,344
Warrants and broker warrants		4,028,875	-	4,028,875
Contributed surplus	2.	13,008,062	399,411	13,407,473
Foreign currency translation reserve		-	-	-
Deficit	1.,3.	(20,205,851)	(4,281,291)	(24,487,142)
		61,848,430	(3,881,880)	57,966,550
		$ 63,961,793	$ (3,881,880)	$ 60,079,913

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

(ii) The following is a reconciliation of the consolidated statement of financial position and equity as at September 30, 2010:

	Notes	CGAAP	IFRS Adjust.	IFRS
Assets				
Current				
Cash and cash equivalents		$ 458,279	$ -	$ 458,279
Due from brokers		191,685	-	191,685
Prepaids and other receivables		137,767	-	137,767
Promissory note receivable		1,950,000	-	1,950,000
Investments, at fair value		12,300,646	-	12,300,646
Income taxes receivable		1,560,871	-	1,560,871
		16,599,248	-	16,599,248
Restricted cash		7,372,218	-	7,372,218
Exploration and evaluation assets	1.	37,749,014	(4,777,348)	32,971,666
		$ 61,720,480	$ (4,777,348)	$ 56,943,132
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		$ 134,584	$ -	$ 134,584
		134,584	-	134,584
Shareholders' equity				
Share capital		65,017,344	-	65,017,344
Warrants and broker warrants		4,028,875	-	4,028,875
Contributed surplus	2.	13,207,851	491,529	13,699,380
Foreign currency translation reserve	1.	-	(855,711)	(855,711)
Deficit	1., 3.	(20,668,174)	(4,413,166)	(25,081,340)
		61,585,896	(4,777,348)	56,808,548
		$ 61,720,480	$ (4,777,348)	$ 56,943,132

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

(iii) The following is a reconciliation of the consolidated statement of financial position and equity as at June 30, 2011:

	Notes	CGAAP	IFRS Adjust.	IFRS
Assets				
Current				
Cash and cash equivalents		$ 29,833,806	$ -	$ 29,833,806
Due from brokers		228,868	-	228,868
Restricted cash - current		4,165,776	-	4,165,776
Prepaids and other receivables		371,573	-	371,573
Investments, at fair value		12,350,483	-	12,350,483
Income taxes receivable		1,053,614	-	1,053,614
		48,004,120	-	48,004,120
Restricted cash		534,222	-	534,222
Exploration and evaluation assets	1.	49,076,358	(7,023,347)	42,053,011
		$ 97,614,700	$ (7,023,347)	$ 90,591,353
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities		$ 1,497,064	$ -	$ 1,497,064
		1,497,064	-	1,497,064
Shareholders' equity				
Share capital	2.	96,590,701	7,144	96,597,845
Warrants and broker warrants		6,873,384	-	6,873,384
Contributed surplus	2.	14,158,415	698,098	14,856,513
Foreign currency translation reserve	1.	-	(3,165,014)	(3,165,014)
Deficit	1., 3.	(21,504,864)	(4,563,575)	(26,068,439)
		96,117,636	(7,023,347)	89,094,289
		$ 97,614,700	$ (7,023,347)	$ 90,591,353

1. Under CGAAP, there are various indicators to be considered in determining the appropriate functional currency of a foreign operation and such indicators are similar to those under IFRS. When the assessment of functional currency provides mixed indicators and the functional currency is not obvious, the IFRS standard requires that priority be given to certain primary indicators that may lead to a different functional currency determination under IFRS compared to CGAAP.

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

As a result of the transition to IFRS, effective July 1, 2010, the Company determined that the U.S. dollar is the functional currency of certain of its foreign subsidiaries. Prior to the Transition Date, these subsidiaries were considered to be integrated foreign operations with the Canadian Dollar as their functional currency, meaning that non-monetary assets like exploration and evaluation assets (previously called oil and gas properties and related expenditures) are converted using the historic exchange rate. Under IFRS an adjustment is required to translate exploration and evaluation assets held by foreign subsidiaries using the closing exchange rate rather than the historic exchange rate. Also, the translation of foreign subsidiaries and the exchange differences on long-term monetary balances between the Company and the foreign subsidiaries under IAS 21 must be shown under exchange differences on translation of foreign operations in other comprehensive loss.

On the Transition Date, this adjustment was to decrease exploration and evaluation assets by $307,797 and the corresponding entry to increase deficit.

The Company has also elected under IFRS 1 to use as the carrying amount for exploration and evaluation assets, the amount recognized under CGAAP. Following the impairment review required under this exemption, an additional provision was made. On the Transition Date, this adjustment was to decrease exploration and evaluation assets by $3,574,083 and the corresponding entry to increase deficit.

The following is a summary of the adjustments to exploration and evaluation assets and deficit as at July 1, 2010:

Adjustment to exploration and evaluation assets:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
	$ (3,881,880)
Net adjustment to accumulated deficit relating to IAS 21 and impairment review:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
	$ (3,881,880)

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

The following is a summary of the adjustments as at September 30, 2010:

Adjustment to exploration and evaluation assets:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Exchange loss on exploration and evaluation assets due to change to functional currency	(895,468)
	$ (4,777,348)
Net adjustment to foreign currency translation reserve:	
Exchange loss on exploration and evaluation assets due to change to functional currency	$ (895,468)
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	(1,241,300)
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	1,281,057
	$ (855,711)
Net adjustment to accumulated deficit relating to IAS 21 and impairment review:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	1,241,300
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	(1,281,057)
	$ (3,921,637)

The following is a summary of the adjustments as at June 30, 2011:

Adjustment to exploration and evaluation assets:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Exchange loss on exploration and evaluation assets due to change to functional currency	(3,141,467)
	$ (7,023,347)
Net adjustment to foreign currency translation reserve:	
Exchange loss on exploration and evaluation assets due to change to functional currency	$ (3,141,467)
Exchange loss on intragroup long-term monetary balances reflected in the year ended June 30, 2011	(4,384,760)
Exchange gains on translating foreign operations reflected in the year ended June 30, 2011	4,361,213
	$ (3,165,014)

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

Net adjustment to accumulated deficit relating to IAS 21 and impairment review:	
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	$ (307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Exchange loss on intragroup long-term monetary balances reflected in the year ended June 30, 2011	4,384,760
Exchange gains on translating foreign operations reflected in the year ended June 30, 2011	(4,361,213)
	$ (3,858,333)

2. Under CGAAP, the Company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation expense was then recognized on a straight-line basis and the Company was not required to use estimated future forfeitures of the options. Under IFRS 2 the Company is required to use the graded method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

   Upon transition to IFRS, an adjustment is required to retrospectively apply the valuation methods under IFRS 2, for outstanding and non-vested options under the stock option plan. This adjustment was to increase contributed surplus by $399,411 and the corresponding entry to increase deficit.

   The following is a summary of the adjustments for the three months ended September 30, 2010:

Increase in contributed surplus and a corresponding increase in accumulated deficit:	
Adjustment at Transition Date for stock options outstanding and not vested	$ 399,411
Adjustment during the three months ended September 30, 2010	92,118
	$ 491,529

The following is a summary of the adjustments for the year ended June 30, 2011:

Increase in contributed surplus:	
Adjustment at Transition Date for stock options outstanding and not vested	$ 399,411
Adjustment during the year ended June 30, 2011	305,831
Adjustment relating to stock options exercised during the year ended June 30, 2011	(7,144)
	$ 698,098

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

3. The following is a reconciliation of the accumulated deficit balance as at July 1, 2010:

Deficit as reported under CGAAP as at July 1, 2010	$ (20,205,851)
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	(307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Adjustment at Transition Date for stock options outstanding and not vested	(399,411)
Deficit as reported under IFRS as at July 1, 2010	$ (24,487,142)

The following is a reconciliation of the accumulated deficit balance as at September 30, 2010:

Deficit as reported under CGAAP as at September 30, 2010	$ (20,668,174)
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	(307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Adjustment at Transition Date for stock options outstanding and not vested	(399,411)
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	1,241,300
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	(1,281,057)
Adjustment for stock options in the three months ended September 30, 2010	(92,118)
Deficit as reported under IFRS as at September 30, 2010	$ (25,081,340)

The following is a reconciliation of the accumulated deficit balance as at June 30, 2011:

Deficit as reported under CGAAP as at June 30, 2011	$ (21,504,864)
Adjustment to exploration and evaluation assets at Transition Date, reflected directly in deficit	(307,797)
Adjustment at Transition Date for impairment review under IFRS 1	(3,574,083)
Adjustment at Transition Date for stock options outstanding and not vested	(399,411)
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	4,384,760
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	(4,361,213)
Adjustment for stock options in the three months ended September 30, 2010	(305,831)
Deficit as reported under IFRS as at June 30, 2011	$ (26,068,439)

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

(iv) The following is a reconciliation of the consolidated statement of comprehensive loss for the three months ended September 30, 2010:

	Notes	CGAAP	IFRS Adjust.	IFRS
Net investment gains				
Realized losses on disposal of investments, net		$ (1,003,846)	$ -	$ (1,003,846)
Unrealized gains on investments, net		1,063,164	-	1,063,164
		59,318	-	59,318
Interest and other income		76,847	-	76,847
		136,165	-	136,165
Expenses				
Operating, general and administrative	4., 5.	868,337	131,875	1,000,212
		868,337	131,875	1,000,212
Loss before income taxes		(732,172)	(131,875)	(864,047)
Income tax benefit		(269,849)	-	(269,849)
Loss for the period		$ (462,323)	$ (131,875)	$ (594,198)
Other comprehensive loss				
Exchange differences on translation of foreign operations	5.	-	(855,711)	(855,711)
Total comprehensive loss for the period		$ (462,323)	$ (987,586)	$ (1,449,909)
Loss per common share based on loss for the period				
Basic and diluted		$ (0.01)		$ (0.01)
Weighted average number of common shares outstanding				
Basic and diluted		88,691,104		88,691,104

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

(v) The following is a reconciliation of the consolidated statement of comprehensive loss for the year ended June 30, 2011:

	Notes	CGAAP	IFRS Adjust.	IFRS
Net investment gains				
Realized gains (losses) on disposal of investments, net		$ (1,385,033)	$ -	$ (1,385,033)
Unrealized gains on investments, net		5,050,138	-	5,050,138
		3,665,105	-	3,665,105
Interest and other income		260,513	-	260,513
		3,925,618	-	3,925,618
Expenses				
Operating, general and administrative	4., 5., 6.	5,752,140	(47,716)	5,704,424
Finance expense	6.	202,350	330,000	532,350
		5,954,490	282,284	6,236,774
Profits (loss) before income taxes		(2,028,872)	(282,284)	(2,311,156)
Income tax benefit		(729,859)	-	(729,859)
Profits (loss) for the period		$ (1,299,013)	$ (282,284)	$ (1,581,297)
Other comprehensive loss				
Exchange differences on translation of foreign operations	5.	-	(3,165,014)	(3,165,014)
Total comprehensive income (loss) for the period		$ (1,299,013)	$ (3,447,298)	$ (4,746,311)
Loss per common share based on loss for the period				
Basic and diluted		$ (0.01)		$ (0.02)
Weighted average number of common shares outstanding				
Basic and diluted		100,279,183		100,279,183

4. Under CGAAP, the Company was permitted to elect to treat the stock options issued as a pool and determine fair value using the average life of the instruments, provided that compensation expense was then recognized on a straight-line basis and the Company was not required to use estimated future forfeitures of the options. Under IFRS 2, the Company is required to use the graded method in valuing stock options and use an estimated forfeiture rate, resulting in an accelerated compensation expense for these awards under IFRS.

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

For the three months ended September 30, 2010, the adjustment was to decrease the stock-based compensation expense (included in operating, general, and administrative expenses) by $92,118.

For the year ended June 30, 2011, the adjustment was to decrease the stock-based compensation expense (included in operating, general, and administrative expenses) by $305,831.

5. Under CGAAP, there are various indicators to be considered in determining the appropriate functional currency of a foreign operation and such indicators are similar to those under IFRS. When the assessment of functional currency provides mixed indicators and the functional currency is not obvious, the IFRS standard requires that priority be given to certain primary indicators that may lead to a different functional currency determination under IFRS compared to CGAAP.

   As a result of the transition to IFRS, effective July 1, 2010, the Company determined that the U.S. dollar is the functional currency of certain of its foreign subsidiaries. Prior to the Transition Date, these subsidiaries were considered to be integrated foreign operations with the Canadian Dollar as their functional currency, meaning that non-monetary assets like exploration and evaluation assets (previously called oil and gas properties and related expenditures) are converted using the historic exchange rate. Under IFRS an adjustment is required to translate exploration and evaluation assets held by foreign subsidiaries using the closing exchange rate rather than the historic exchange rate. Also, the translation of foreign subsidiaries and the exchange differences on long-term monetary balances between the Company and the foreign subsidiary under IAS 21, must be shown under exchange differences on translation of foreign operations in other comprehensive loss.

   For the three months ended September 30, 2010, this adjustment was to increase foreign exchange loss (included in operating, general, and administrative expenses) by $39,757 and the corresponding entry to decrease comprehensive loss.

   The following is a summary of the adjustments for the three months ended September 30, 2010:

Adjustment to foreign exchange loss (operating, general, and administrative expenses):	
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	$ 1,281,057
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	(1,241,300)
	$ 39,757

(Unaudited – prepared in Canadian dollars)

17. Transition to IFRS (continued):

Net adjustment to exchange differences on translation of foreign operations:	
Exchange gains on translating foreign operations reflected in the three months ended September 30, 2010	$ 1,281,057
Exchange loss on intragroup long-term monetary balances reflected in the three months ended September 30, 2010	(1,241,300)
Exchange loss on exploration and evaluation assets due to change to functional currency	(895,468)
	$ (855,711)

For the year ended June 30, 2011, this adjustment was to decrease foreign exchange loss (included in operating, general, and administrative expenses) by $23,547 and the corresponding entry to increase comprehensive loss.

A summary of the adjustments for the year ended June 30, 2011 is as follows:

Adjustment to foreign exchange loss (operating, general, and administrative expenses):	
Exchange gains on translating foreign operations reflected in the year ended June 30, 2011	$ 4,361,213
Exchange loss on intragroup long-term monetary balances reflected in the year ended June 30, 2011	(4,384,760)
	$ (23,547)
Net adjustment to exchange differences on translation of foreign operations:	
Exchange gains on translating foreign operations reflected in the year ended June 30, 2011	$ 4,361,213
Exchange loss on intragroup long-term monetary balances reflected in the year ended June 30, 2011	(4,384,760)
Exchange loss on exploration and evaluation assets due to change to functional currency	(3,141,467)
	$ (3,165,014)

6. During fiscal 2011, the Company received gross proceeds of $3,000,000 in the form of a 12% one-year loan which was repaid during 2011. As consideration for the loan, the Company paid a financing fee of $330,000. Under IFRS, the Company has reallocated the financing fee of $330,000 from operating, general, and administrative expense to finance expense.

   The following is a summary of the adjustment to operating, general and administrative expense for the year ended June 30, 2011:

Adjustment to foreign exchange loss (operating, general, and administrative expenses):	
Exchange gains on translating foreign operations reflected in the year ended June 30, 2011	$ 4,361,213
Exchange loss on intragroup long-term monetary balances reflected in the year ended June 30, 2011	(4,384,760)
Adjustment for stock-based compensation expense during the year ended June 30, 2011	305,831
Finance expense	(330,000)
	$ (47,716)

18. Future changes in accounting policies:

(a) *IFRS 10, Consolidation* ("IFRS 10")

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*. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(b) *IFRS 11, Joint Arrangements* ("IFRS 11")

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operative. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer 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.* This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(c) *IFRS 12, Disclosure of Interests in Other Entities* ("IFRS 12")

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. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(d) *IFRS 13, Fair Value Measurement* ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. 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, 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. This standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

18. Future changes in accounting policies (continued):

(e) Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, *Consolidated and Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Venture* ("IAS 28"). The amended 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 through 1.

(f) Implication of New and Amended Standards to the Company

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its interim condensed consolidated financial statements or whether to early adopt any of the new requirements.

19. Subsequent events:

Subsequent to September 30, 2011, the Company granted 2,180,000 options exercisable at $0.40 per share and expiring on October 10, 2016.