Interim Condensed Consolidated Financial Statements of

Brownstone Energy Inc.

(Unaudited – prepared in Canadian dollars)
March 31, 2012

Contents

Interim Condensed Consolidated Financial Statements:

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 and nine months ended March 31, 2012 have been prepared by the Company's management in accordance with International Financial Reporting Standards applicable to interim financial statements (see note 2 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.

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at March 31, 2012 and June 30, 2011
(Unaudited - prepared in Canadian dollars)

	Notes	March 31, 2012	June 30, 2011 [1]
Assets			
Current			
Cash and cash equivalents		**$ 20,603,312**	$ 29,833,806
Due from brokers		**87,173**	228,868
Restricted cash - current	6	**-**	4,165,776
Prepaids and other receivables		**571,031**	371,573
Investments, at fair value	4, 5(b)	**4,133,257**	12,350,483
Income taxes receivable		**327,531**	1,053,614
		25,722,304	48,004,120
Restricted cash	6	**2,401,836**	534,222
Exploration and evaluation assets	3	**40,833,532**	42,053,011
		$ 68,957,672	$ 90,591,353
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities		**$ 776,021**	$ 1,497,064
		776,021	1,497,064
Equity			
Share capital	8	**96,597,845**	96,597,845
Warrants and broker warrants	8(e)	**7,683,381**	6,873,384
Contributed surplus	8(f)	**16,049,979**	14,856,513
Foreign currency translation reserve		**(1,715,710)**	(3,165,014)
Deficit		**(50,433,844)**	(26,068,439)
		68,181,651	89,094,289
		$ 68,957,672	$ 90,591,353

1. Refer to note 14 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 and Nine Months Ended March 31,
(Unaudited - prepared in Canadian dollars)

	Notes	Three Months Ended 2012	Three Months Ended 2011 [1]	Nine Months Ended 2012	Nine Months Ended 2011 [1]
Net investment income (loss)					
Net realized gains (losses) on disposal of investments		**$ (3,185,515)**	$ 111,277	**$ (5,008,726)**	$ (612,899)
Net change in unrealized gains (losses) on investments		**(662,909)**	(256,829)	**751,690**	4,984,979
		(3,848,424)	(145,552)	**(4,257,036)**	4,372,080
Interest and other income		**67,202**	40,560	**249,177**	172,004
		(3,781,222)	(104,992)	**(4,007,859)**	4,544,084
Expenses					
Operating, general and administrative	11	**1,989,279**	1,178,863	**4,161,948**	3,477,352
Impairment of exploration and evaluation assets	3	**16,112,785**	-	**16,112,785**	-
Finance expense		**-**	118,426	**-**	532,349
		18,102,064	1,297,289	**20,274,733**	4,009,701
Profit (loss) before income taxes		**(21,883,286)**	(1,402,281)	**(24,282,592)**	534,383
Income tax expense (benefit)		**32,651**	(133,610)	**82,813**	(649,328)
Profit (loss) for the period		**$ (21,915,937)**	$ (1,268,671)	**$ (24,365,405)**	$ 1,183,711
Other comprehensive income (loss)					
Exchange differences on translation of foreign operations		**(814,684)**	(887,106)	**1,449,304**	(2,887,358)
Total comprehensive loss for the period		**$ (22,730,621)**	$ (2,155,777)	**$ (22,916,101)**	$ (1,703,647)
Earnings (loss) per common share based on profit (loss) for the period	8(g)				
Basic and diluted		**$ (0.17)**	$ (0.01)	**$ (0.19)**	$ 0.01

1. Refer to note 14 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
Nine Months Ended March 31, 2012 and 2011
(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
Profit for the period	-	-	-	-	1,183,711	1,183,711
Exchange differences on translation of foreign operations	-	-	-	(2,887,358)	-	(2,887,358)
Total comprehensive income for the period	-	-	-	(2,887,358)	1,183,711	(1,703,647)
Stock-based compensation value of services	-	-	953,083	-	-	953,083
Issued pursuant to exercise of stock options	364,270	-	(132,168)	-	-	232,102
Issued pursuant to exercise of warrants	2,660,140	(554,757)		-	-	2,105,383
Issuance of warrants	(4,516)	4,516	-	-	-	-
Reallocation of expired warrants	-	(60,000)	60,000	-	-	-
Issued pursuant to private placement	21,800,125	4,751,116	-	-	-	26,551,241
Balance at March 31, 2011	$ 89,837,363	$ 8,169,750	$ 14,288,388	$ (2,887,358)	$ (23,303,431)	$ 86,104,712

	Share capital	Warrants and broker warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total equity
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	**-**	**-**	**-**	**-**	**(24,365,405)**	**(24,365,405)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**1,449,304**	**-**	**1,449,304**
Total comprehensive loss for the period	**-**	**-**	**-**	**1,449,304**	**(24,365,405)**	**(22,916,101)**
Stock-based compensation value of services	**-**	**-**	**1,193,466**	**-**	**-**	**1,193,466**
Cost of warrant expiry date extension	**-**	**809,997**	**-**	**-**	**-**	**809,997**
Balance at March 31, 2012	**$ 96,597,845**	**$ 7,683,381**	**$ 16,049,979**	**$ (1,715,710)**	**$ (50,433,844)**	**$ 68,181,651**

1. Refer to note 14 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
Nine Months Ended March 31,
(Unaudited - prepared in Canadian dollars)

	2012	2011
Cash flows used in operating activities		
Profit (loss) for the period	**$ (24,365,405)**	$ 1,183,711
Items not affecting cash		
Realized losses on disposal of investments, net	**5,008,726**	612,899
Unrealized gains on investments, net	**(751,690)**	(4,984,979)
Impairment of exploration and evaluation assets	**16,112,785**	-
Stock-based compensation expense	**1,193,466**	953,083
Cost of warrant expiry date extension	**809,997**	-
	(1,992,121)	(2,235,286)
Changes in non-cash working capital balances		
Prepaids and other receivables	**(199,458)**	(348,265)
Income taxes receivable	**726,083**	351,418
Accounts payable and accrued liabilities	**(721,043)**	(1,881,516)
	(2,186,539)	(4,113,649)
Cash flows from financing activities		
Proceeds pursuant to private placement financing, net	**-**	26,551,241
Proceeds pursuant to exercise of stock options	**-**	232,102
Proceeds pursuant to exercise of warrants, broker warrants and underlying warrants	**-**	2,105,383
Proceeds from promissory note payable	**-**	3,000,000
Repayment of promissory note payable	**-**	(3,000,000)
Decrease (increase) in due from brokers	**141,695**	(71,541)
	141,695	28,817,185
Cash flows from (used in) investing activities		
Expenditures on exploration and evaluation assets, net	**(13,443,910)**	(9,581,481)
Proceeds on sale of exploration and evaluation assets	**3,642**	263,328
Repayment of promissory note receivable	**-**	2,070,140
Decrease in restricted cash	**2,298,162**	3,174,274
Proceeds on disposal of investments	**4,010,190**	8,234,754
Purchases of investments	**(50,000)**	(264,000)
	(7,181,916)	3,897,015
Net increase (decrease) in cash and cash equivalents, during the period	**(9,226,760)**	28,600,551
Exchange rate changes on foreign currency cash balances	**(3,734)**	(60,417)
Cash and cash equivalents, beginning of period	**29,833,806**	1,832,230
Cash and cash equivalents, end of period	**20,603,312**	30,372,364
Supplemental cash flow information		
Income tax paid	**$ 82,813**	$ -
Income tax refunds	**726,083**	1,000,745
Finance expense paid	**-**	532,349

See accompanying notes to the interim condensed consolidated financial statements.

1. Nature of business:

Brownstone Energy Inc. ("Brownstone" or the "Company") was continued under the Canada Business Corporations Act on December 1, 2011 and its common shares are publicly traded on the TSX Venture Exchange under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". The Company is domiciled in the Province of Ontario and its head office is located 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 ("interim financial statements") were approved by the Company's board of directors on May 29, 2012.

2. Basis of preparation:

(a) Statement of compliance:

These interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* and International Financial Reporting Standards ("IFRS") 1, *First Time Adoption of International Financial Reporting Standards* (''IFRS 1'') issued by the International Accounting Standards Board using accounting policies consistent with those which the Company expects to adopt in its annual consolidated financial statements as at and for the year ended June 30, 2012. 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''). Previously, the Company prepared its annual and interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

The same accounting policies and methods of computation were followed in the preparation of these interim financial statements as were followed in the preparation of the interim condensed consolidated financial statements for the three month period ended September 30, 2011, which were described in note 3 to the notes of the interim condensed consolidated financial statements for the three months ended September 30, 2011 and in preparing the opening IFRS statement of financial position as at July 1, 2010 as required by IFRS 1. Accordingly, these interim financial statements for the three and nine months ended March 31, 2012 should be read together with the interim condensed consolidated financial statements for the three months ended September 30, 2011. These interim financial statements don't include all of the required disclosures for full annual financial statements.

(b) Basis of presentation:

These interim financial statements have been prepared using the historical cost convention except for financial instruments which have been measured at fair value.

2. Basis of preparation (continued):

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

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for these interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2012. An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the Company as at and for the three and nine months ended March 31, 2011 is provided in note 14. 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.

(c) Basis of consolidation:

These interim 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 interim 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.

3. 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.

(Unaudited – prepared in Canadian dollars)

3. Exploration and evaluation assets (continued):

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:

	Colombia (a)	Israel	USA (b)	Canadian	Argentina (c)	Total
	$	$	$	$	$	$
Balance at July 1, 2010	11,101,778	-	15,937,827	1,003,282	4,242,401	32,285,288
Net additions	10,225,359	2,011,871	863,748	71,540	-	13,172,518
Disposals	-	-	(263,328)	-	-	(263,328)
Foreign currency translation	(1,317,457)	(81,024)	(1,357,785)	-	(385,201)	(3,141,467)
Balance at June 30, 2011	20,009,680	1,930,847	15,180,462	1,074,822	3,857,200	42,053,011
Net additions	**11,743,260**	**668,972**	**989,743**	**41,935**	**-**	**13,443,910**
Disposals	**-**	**-**	**(3,642)**	**-**	**-**	**(3,642)**
Impairment of exploration and evaluation assets	**-**	**-**	**(13,108,285)**	**-**	**(3,004,500)**	**(16,112,785)**
Foreign currency translation	**707,428**	**71,368**	**527,842**	**-**	**146,400**	**1,453,038**
Balance at March 31, 2012	**32,460,368**	**2,671,187**	**3,586,120**	**1,116,757**	**999,100**	**40,833,532**

(a) For the nine months ended March 31, 2012, the Company's net expenditures on its exploration and evaluation assets included capitalized crude oil sales revenue of $2,094,196 (US$2,097,164) (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.

(b) For the nine months ended March 31, 2012, the Company recorded an impairment charge on its USA exploration and evaluation assets in the Piceance/Uinta basin, USA of $12,519,467 to its estimated recoverable amount of approximately $2,997,300 (US$3,000,000) and impaired other USA exploration and evaluation assets by $588,818 to a net balance of $3,586,120.

(c) For the nine months ended March 31, 2012, the Company recorded an impairment charge on its Argentinean exploration and evaluation assets by $3,004,500 to its estimated recoverable amount of $999,100 (US$1,000,000).

4. Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
March 31, 2012	**$ 4,133,257**	**$ 13,250,659**
June 30, 2011	12,350,483	22,219,575

(Unaudited – prepared in Canadian dollars)

5. Financial instruments carrying amount and fair value:

(a) Financial instruments carrying amount:

	March 31, 2012	June 30, 2011
Investments	**$ 4,133,257**	$ 12,350,483
Cash and cash equivalents		
- Cash on hand	**2,455,982**	447,721
- Short-term investments with maturities of less than three months at the date of acquisition (i)	**18,147,330**	29,386,085
Due from brokers	**87,173**	228,868
Restricted cash, current	**-**	4,165,776
Restricted cash, long-term	**2,401,836**	534,222
Other receivables	**460,641**	343,594
Accounts payable and accrued liabilities	**(776,021)**	(1,497,064)
	$ 26,910,198	$ 45,959,685

(i) As at March 31, 2012, cash equivalents consisted of banker's acceptance notes with an average annual yield of 1.11% (June 30, 2011 – 1.16%).

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

(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.

(Unaudited – prepared in Canadian dollars)

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

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 March 31, 2012 and June 30, 2011:

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
March 31, 2012	**$ 3,108,257**	**$ -**	**$ 1,025,000**	**$ 4,133,257**
June 30, 2011	$ 8,200,483	$ -	$ 4,150,000	$ 12,350,483

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the nine months ended March 31, 2012 and year ended June 30, 2011.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the nine months ended March 31, 2012 and year ended June 30, 2011. These financial instruments are measured at fair value utilizing non-observable market inputs. The net change in unrealized gains (losses) are recognized in the consolidated statements of comprehensive loss.

Investments, at fair value	Opening balance	Purchases	Net change in unrealized gains (losses)	Net transfer out of Level 3	Ending balance
March 31, 2012	**$ 4,150,000**	**$ 50,000**	**$ (3,175,000)**	**$ -**	**$ 1,025,000**
June 30, 2011	$ 2,469,700	$ -	$ 2,680,300	$ (1,000,000)	$ 4,150,000

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.

6. Restricted cash:

As at March 31, 2012, the Company had restricted cash totaling $2,401,836 (US$2,404,000) 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. The restricted cash is held in Guaranteed Investment Certificates ("GICs"), which are renewed on a monthly basis at the prevailing interest rate (0.02% per annum as at March 31, 2012 (June 30, 2011 – 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 its commitments under those blocks.

(Unaudited – prepared in Canadian dollars)

7. Related party transactions:

(a) Compensation to key management personnel and directors were as follows during the three and nine months ended March 31:

	Three months ended March 31,		Nine Months ended March 31,	
	2012	2011	**2012**	2011
Salaries and consulting fees	**$ 194,188**	$ 183,355	**$ 612,563**	$ 536,938
Other short-term benefits	**17,092**	7,367	**34,939**	17,359
Stock based compensation expense	**244,497**	182,839	**888,744**	653,889
	$ 455,777	$ 373,561	**$ 1,536,246**	$ 1,208,186

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 March 31, 2012, no options were granted to directors and officers of the Company.

During the nine months ended March 31, 2012, the Company granted 1,850,000 options to directors and officers of the Company, with an exercise price of $0.40 per share and expiring on October 10, 2016.

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	1,050,000	$ 1.20	March 29, 2016
Total granted	2,050,000		

8. 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, March 31, 2012 and June 30, 2011	**129,794,289**	**$ 96,597,845**

(a) During the nine months ended March 31, 2012, 1,505,000 options exercisable at prices ranging from $1.80 to $2.50 per share expired unexercised.

8. Share capital (continued):

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 and nine months ended March 31, 2012, 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 3.0%; and an expected life of 1.5 years. 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)

8. 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 one 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.

During the nine months ended March 31, 2012, the following options were granted:

Date granted	Options granted	Exercise price	Expiry
October 11, 2011	2,180,000	$ 0.40	October 10, 2016
February 8, 2012	225,000	0.56	February 7, 2017
	2,405,000		

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 nine months ended March 31, 2012 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used	
Expected volatility	115.5% to 117.6%
Expected dividend yield	0%
Risk-free interest rate	1.21% to 1.26%
Expected option life in years	3.6 years
Expected forfeiture rate	6.3% to 6.9%
Fair value per stock option granted on October 11, 2011	$ 0.29
Fair value per stock option granted on February 8, 2012	$ 0.41

(Unaudited – prepared in Canadian dollars)

8. Share capital (continued):

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	$ 0.58
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 March 31, 2012, included in operating, general and administrative expenses was stock-based compensation expense of $335,423 (three months ended March 31, 2011 - $228,651) relating to the stock options granted to directors, officers, employees and consultants of the Company.

For the nine months ended March 31, 2012, included in operating, general and administrative expenses was stock-based compensation expense of $1,193,466 (nine months ended March 31, 2011 - $953,083) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at the beginning and changes during the nine months ended March 31, 2012 and year ended June 30, 2011 are as follows:

	March 31, 2012		June 30, 2011	
	# 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
Granted	**2,405,000**	**0.41**	3,360,000	0.87
Exercised	**-**	**-**	(440,520)	0.61
Terminated	**(1,505,000)**	**2.44**	(2,136,200)	1.30
Outstanding, at end of period	**9,325,080**	**$ 0.81**	8,425,080	$ 1.21
Exercisable, at end of period	**6,728,390**	**$ 0.89**	6,100,657	$ 1.32

(Unaudited – prepared in Canadian dollars)

8. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2012:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
400,000	**400,000**	**2.60**	April 1, 2012
300,000	**200,000**	**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	**630,000**	**0.65**	April 14, 2015
130,000	**130,000**	**0.43**	May 25, 2015
1,186,680	**1,186,680**	**0.51**	September 20, 2015
1,365,000	**909,982**	**1.20**	March 29, 2016
2,180,000	**363,328**	**0.40**	October 10, 2016
225,000	**-**	**0.56**	February 7, 2017
9,325,080	**6,728,390**		

(e) A summary of the status of the Company's warrants and broker warrants at the reporting dates and the changes during the nine months ended March 31, 2012 and year ended June 30, 2011 are presented below:

	March 31, 2012		
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**
Cost of warrant expiry extension (i)	**-**	**-**	**809,997**
Outstanding, at end of period	**26,595,816**	**$ 1.06**	**$ 7,683,381**

	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

(Unaudited – prepared in Canadian dollars)

8. Share capital (continued):

The following table summarizes information about warrants and broker warrants outstanding as at March 31, 2012 and June 30, 2011:

Number of warrants and broker warrants		Exercise price	Expiry date	Warrants and broker warrants value
7,951,454	(i)	$ 0.75	April 13, 2014	$ 2,559,317
46,773		0.75	April 13, 2012	9,099
1,347,589	(ii)	0.55	April 13, 2012	363,849
15,131,579		1.25	September 11, 2012	4,167,645
2,118,421	(iii)	1.25	September 11, 2012	583,471
26,595,816				**$ 7,683,381**

(i) During the nine months ended March 31, 2012, 7,951,454 warrants expiring April 13, 2012 were extended to April 13, 2014. The fair value of these warrants immediately after the modification was $809,998 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 102.2%; dividend yield of 0%; risk-free interest rate of 1.2%; and an expected life of 1.77 years. The fair value of these warrants immediately prior to the extension was $1. Accordingly, the incremental fair value of the warrants resulting from this modification of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss reflected in operating, general and administrative expense.

(ii) Each broker warrant was exercisable for one unit of the Company at $0.55 per unit on or before April 13, 2012. Each unit was 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. All of these broker warrants expired unexercised.

(iii) Each broker warrant is exercisable for one common share of the Company at $1.25 per share on or before September 11, 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 8(d))	**1,193,466**
Balance, March 31, 2012	**$ 16,049,979**

(Unaudited – prepared in Canadian dollars)

8. Share capital (continued):

As at March 31, 2012 and June 30, 2011, contributed surplus was comprised of the following:

	March 31, 2012	June 30, 2011
Stock-based compensation	**$ 9,290,776**	$ 8,097,310
Expired warrants and broker warrants	**6,732,939**	6,732,939
Cancellation of common shares under normal course issuer bid	**20,639**	20,639
Value of cancelled escrowed shares	**5,625**	5,625
	$ 16,049,979	$ 14,856,513

(g) Basic and diluted earnings per common share based on profit (loss) for the nine months ended March 31:

	Three months ended March 31,		Nine months ended March 31,	
Numerator:	**2012**	2011	**2012**	2011
Profit (loss) for the period	**$ (21,915,937)**	$ (1,268,671)	**$ (24,365,405)**	$ 1,183,711

	Three months ended March 31,		Nine months ended March 31,	
Denominator:	**2012**	2011	**2012**	2011
Weighted average number of common shares outstanding - basic	**129,794,289**	91,663,673	**129,794,289**	91,669,349
Weighted average effect of diluted stock options and warrants (i)	**-**	-	**-**	8,741,697
Weighted average number of common shares outstanding – diluted	**129,794,289**	91,663,673	**129,794,289**	100,411,046

Earnings (loss) per common share based on profit (loss) for the period:	Three months ended March 31,		Nine months ended March 31,	
	2012	2011	**2012**	2011
Basic and diluted	**$ (0.17)**	$ (0.01)	**$ (0.19)**	$ 0.01

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 35,920,896 shares related to stock options, warrants, and broker warrants that were anti-dilutive for the three and nine months ended March 31, 2012 (three and nine months ended March 31, 2011 – 21,790,000 shares).

(Unaudited – prepared in Canadian dollars)

8. Share capital (continued):

(h) Maximum share dilution:

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options, warrants and broker warrants were exercised as at March 31, 2012 and June 30, 2011:

	March 31, 2012	June 30, 2011
Common shares outstanding	**129,794,289**	129,794,289
Stock options to purchase common shares	**9,325,080**	8,425,080
Warrants to purchase common shares	**23,129,806**	23,129,806
Broker warrants to purchase common shares	**3,466,010**	3,466,010
Underlying broker warrants to purchase common shares	**673,795**	673,795
Fully diluted common shares outstanding	**166,388,980**	165,488,980

9. Deferred taxes:

As at March 31, 2012, the Company has approximately $926,000 (June 30, 2011 - $961,600) of Canadian resource deductions and $22,219,000 (June 30, 2011 - $22,586,500) 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 March 31, 2012, the Company has approximately $5,029,000 of capital losses (June 30, 2011 - $nil) and $5,893,000 (June 30, 2011 - $2,400,900) 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.

The non-capital losses will expire as follows:

2028	$	73,100
2031		2,327,800
2032		3,492,100
	$	5,893,000

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.

(Unaudited – prepared in Canadian dollars)

10. 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 nine months ended March 31, 2012.

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.

The following is segmented information as at and for the nine months ended March 31, 2012:

	Nine months ended March 31, 2012		As at March 31, 2012		
	Interest and other income	**Loss for the period**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 213,555**	**$ 8,123,481**	**$ 1,116,757**	**$ 26,179,508**	**$ 27,296,265**
Colombia	**35,622**	**3,217,726**	**32,460,368**	**768,421**	**33,228,789**
Israel	**-**	**47,221**	**2,671,187**	**847,743**	**3,518,930**
United States	**-**	**12,976,977**	**3,586,120**	**143,854**	**3,729,974**
Argentina	**-**	**-**	**999,100**	**30,307**	**1,029,407**
Brazil	**-**	**-**	**-**	**154,307**	**154,307**
	$ 249,177	**$ 24,365,405**	**$ 40,833,532**	**$ 28,124,140**	**$ 68,957,672**

The following is segmented information for the nine months ended March 31, 2011 and as at June 30, 2011:

	Nine months ended March 31, 2011		As at June 30, 2011		
	Interest and other income	Profit (loss) for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 147,412	$ 1,531,058	$ 1,074,822	$ 47,982,817	$ 49,057,639
Colombia	24,592	(319,811)	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	-	(27,536)	1,930,847	1,652	1,932,499
Brazil	-	-	-	173,855	173,855
	$ 172,004	$ 1,183,711	$ 42,053,011	$ 48,538,342	$ 90,591,353

(Unaudited – prepared in Canadian dollars)

11. Expenses by nature:

Included in operating, general, and administrative expenses for the three and nine months ended March 31:

	Three months ended March 31,		Nine Months ended March 31,	
	2012	2011	**2012**	2011
Stock-based compensation expense	**$ 335,423**	$ 228,651	**$ 1,193,466**	$ 953,083
Salaries and consulting fees	**391,742**	513,372	**1,053,293**	995,638
Cost of warrant extension	**809,997**	-	**809,997**	-
Other office and general	**143,978**	170,925	**475,454**	551,981
Travel and promotion	**159,433**	100,616	**324,929**	175,017
Professional fees	**31,284**	90,520	**154,352**	255,945
Shareholder relations, transfer agent and filing fees	**52,978**	54,551	**139,229**	125,513
Other employment benefits	**18,356**	8,557	**37,445**	18,549
Transaction costs	**15,008**	3,349	**19,546**	38,175
Foreign exchange loss (gain)	**31,080**	8,322	**(45,763)**	363,451
	$ 1,989,279	$ 1,178,863	**$ 4,161,948**	$ 3,477,352

12. Management of capital:

The Company includes the following in its capital:

	March 31, 2012	June 30, 2011
Equity comprised of		
Share capital	**$ 96,597,845**	$ 96,597,845
Warrants and broker warrants	**7,683,381**	6,873,384
Contributed surplus	**16,049,979**	14,856,513
Foreign currency translation reserve	**(1,715,710)**	(3,165,014)
Deficit	**(50,433,844)**	(26,068,439)
	$ 68,181,651	$ 89,094,289

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

12. Management of capital (continued):

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

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 ANH (note 6).

There were no changes in the Company's approach to capital management during the nine months ended March 31, 2012. 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 March 31, 2012.

13. 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 nine months ended March 31, 2012. 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)

13. Risk management (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the nine months ended March 31, 2012 from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2012:

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%	**$ 72,125**	**$ (72,125)**
4%	**144,251**	**(144,251)**
6%	**216,376**	**(216,376)**
8%	**288,501**	**(288,501)**
10%	**360,627**	**(360,627)**

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 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 March 31, 2012 and June 30, 2011, 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 nine months ended March 31, 2012. 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)

13. Risk management (continued):

The Company's maximum exposure to credit risk is:

	March 31, 2011	June 30, 2011
Cash and cash equivalents	**$ 20,603,312**	$ 29,833,806
Restricted cash	**2,401,836**	4,699,998
Due from brokers	**87,173**	228,868
Income taxes receivable	**327,531**	1,053,614
Other receivables	**549,175**	343,594
	$ 23,969,027	$ 36,159,880

As at March 31, 2012 and June 30, 2011, the Company had the following significant receivables:

(i) As at March 31, 2012, the Company had accrued income taxes receivable of $327,531 (June 30, 2011 - $1,053,614), 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 March 31, 2012, included in other receivables is $417,472 (June 30, 2011 - $255,911) relating to oil sales revenue. The Company is exposed to this credit risk since the amount is due from one counterparty.

(iii) As at March 31, 2012, included in other receivables is $43,169 (June 30, 2011 - $84,366) relating to Goods and Services Tax and Harmonized Sales Tax input sales tax refunds. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they become 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 nine months ended March 31, 2012. 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)

13. Risk management (continued):

As at March 31, 2012, the Company was not using any margin but had $87,173 (June 30, 2011 - $228,868) 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 March 31, 2012:

	Payments due by period				
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 776,021**	**$ 776,021**	**$ -**	**$ -**	**$ -**
	$ 776,021	**$ 776,021**	**$ -**	**$ -**	**$ -**

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

	Payments due by period				
Liabilities and obligations	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 source of liquidity by assets as at March 31, 2012:

	Liquidity by period				
Assets	**Total**	**Less than 1 year**	**1 – 3 years**	**After 4 years**	**Non-liquid assets**
Cash and cash equivalents	**$ 20,603,312**	**$ 20,603,312**	**$ -**	**$ -**	**$ -**
Due from brokers	**87,173**	**87,173**	**-**	**-**	**-**
Prepaids and other receivables	**571,031**	**571,031**	**-**	**-**	**-**
Investments, at fair value	**4,133,257**	**4,133,257**	**-**	**-**	**-**
Income taxes receivable	**327,531**	**327,531**	**-**	**-**	**-**
Restricted cash	**2,401,836**	**-**	**2,401,836**	**-**	**-**
Exploration and evaluation assets	**40,833,532**	**-**	**-**	**-**	**40,833,532**
	$ 68,957,672	**$ 25,722,304**	**$ 2,401,836**	**$ -**	**$ 40,833,532**

13. 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	$ 48,004,120	$ 534,222	$ -	$ 42,053,011

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at March 31, 2012 and June 30, 2011, 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. 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.

(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, Colombian pesos, and Argentinean pesos. 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.

13. Risk management (continued):

The following financial assets and liabilities were denominated in foreign currencies:

	March 31, 2012	June 30, 2011
Denominated in U.S. dollars:		
Cash and cash equivalents	**$ 1,865,470**	$ 69,779
Due from brokers	**-**	157,095
Restricted cash	**2,401,836**	4,699,998
Prepaids and other receivables	**485,395**	260,309
Exploration and evaluation assets	**39,716,773**	40,978,189
Accounts payable and accrued liabilities	**(744,383)**	(1,397,055)
Net assets denominated in U.S. dollars	**43,725,091**	44,768,315
Denominated in Brazilian reals:		
Cash and cash equivalents	**154,307**	173,855
Net assets denominated in Brazilian reals	**154,307**	173,855
Denominated in Argentinean pesos:		
Cash and cash equivalents	**9,696**	1,538
Prepaids and other receivables	**20,611**	19,393
Net assets denominated in Argentinean pesos	**30,307**	20,931
Denominated in Colombian pesos:		
Cash and cash equivalents	**299,168**	96,949
Net assets denominated in Colombian pesos	**299,168**	96,949

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the nine months ended March 31, 2012 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 March 31, 2012:

Percentage change in U.S. dollar	**Decrease in total comprehensive loss from an increase in % in the U.S. dollar exchange rate**	**Increase in total comprehensive loss from a decrease in % in the U.S. dollar exchange rate**
2%	**$ 651,504**	**$ (651,504)**
4%	**1,303,008**	**(1,303,008)**
6%	**1,954,512**	**(1,954,512)**
8%	**2,606,015**	**(2,606,015)**
10%	**3,257,519**	**(3,257,519)**

13. Risk management (continued):

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 total comprehensive loss from an increase in % in the U.S. dollar exchange rate	Increase in total comprehensive 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)

14. 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 interim financial statements for the three months ended September 30, 2011 were the first financial statements that the Company has prepared in accordance with IFRS, which contain certain disclosures not included in these interim financial statements. Accordingly, these interim financial statements as at and for the three and nine months ended March 31, 2012 should be read in conjunction with the interim financial statements as at and for the three months ended September 30, 2011.

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 March 31, 2011; and

(ii) reconciliation of the consolidated statement of comprehensive loss for the three and nine months ended March 31, 2011.

No reconciliation is required for the consolidated statement of cash flows as there are no significant differences.

(Unaudited – prepared in Canadian dollars)

14. Transition to IFRS (continued):

(i) The following is a reconciliation of the consolidated statement of financial position and equity as at March 31, 2011:

	Notes	CGAAP	IFRS Adjust.	IFRS
Assets				
Current				
Cash and cash equivalents		$ 30,372,364	$ -	$ 30,372,364
Due from brokers		71,541	-	71,541
Prepaids and other receivables		451,158	-	451,158
Investments, at fair value		13,575,445	-	13,575,445
Income taxes receivable		976,858	-	976,858
		45,447,366	-	45,447,366
Restricted cash		2,112,693	-	2,112,693
Exploration and evaluation assets	1.	45,485,321	(6,708,821)	38,776,500
		$ 93,045,380	$ (6,708,821)	$ 86,336,559
Liabilities and Equity				
Current				
Accounts payable and accrued liabilities		$ 231,847	$ -	$ 231,847
		231,847	-	231,847
Equity				
Share capital	2.	89,832,743	4,620	89,837,363
Warrants and broker warrants		8,169,750	-	8,169,750
Contributed surplus	2.	13,823,703	464,685	14,288,388
Foreign currency translation reserve	1.	-	(2,887,358)	(2,887,358)
Deficit	1., 3.	(19,012,663)	(4,290,768)	(23,303,431)
		92,813,533	(6,708,821)	86,104,712
		$ 93,045,380	$ (6,708,821)	$ 86,336,559

(Unaudited – prepared in Canadian dollars)

14. Transition to IFRS (continued):

(ii) The following is a reconciliation of the consolidated statement of comprehensive loss for the three and nine months ended March 31, 2011:

		Three Months Ended			Nine Months Ended		
	Notes	CGAAP	IFRS Adjust.	IFRS	CGAAP	IFRS Adjust.	IFRS
Net investment gains (losses)							
Realized gains (losses) on disposal of investments, net		$ 111,277	$ -	$ 111,277	$ (612,899)	$ -	$ (612,899)
Unrealized gains on investments, net		(256,829)	-	(256,829)	4,984,979	-	4,984,979
		(145,552)	-	(145,552)	4,372,080	-	4,372,080
Interest and other income		40,560	-	40,560	172,004	-	172,004
		(104,992)	-	(104,992)	4,544,084	-	4,544,084
Expenses							
Operating, general and administrative	2., 4.	1,372,073	(193,210)	1,178,863	3,797,875	(320,523)	3,477,352
Finance expense	4.	118,426	-	118,426	202,349	330,000	532,349
		1,490,499	(193,210)	1,297,289	4,000,224	9,477	4,009,701
Profits (loss) before income taxes		(1,595,491)	193,210	(1,402,281)	543,860	(9,477)	534,383
Income tax benefit		(133,610)	-	(133,610)	(649,328)	-	(649,328)
Profits (loss) for the period		$ (1,461,881)	$ 193,210	$ (1,268,671)	$ 1,193,188	$ (9,477)	$ 1,183,711
Other comprehensive loss							
Exchange differences on translation of foreign operation:	1.	-	(887,106)	(887,106)	-	(2,887,358)	(2,887,358)
Total comprehensive income (loss) for the period		$ (1,461,881)	$ (693,896)	$ (2,155,777)	$ 1,193,188	$ (2,896,835)	$ (1,703,647)
Loss per common share based on loss for the period							
Basic and diluted		$ (0.01)		$ (0.01)	$ 0.01		$ 0.01
Weighted average number of common shares outstanding							
Basic		97,663,673		97,663,673	91,669,349		91,669,349
Diluted		97,663,673		97,663,673	100,411,046		100,411,046

(Unaudited – prepared in Canadian dollars)

14. Transition to IFRS (continued):

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.

   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.

   The following is a summary of the adjustments as at March 31, 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	(2,826,941)
	$ (6,708,821)
Net adjustment to foreign currency translation reserve (exchange differences on translation of foreign operations:	
Exchange loss on exploration and evaluation assets due to change to functional currency	$ (2,826,941)
Exchange loss on intragroup long-term monetary balances reflected in the nine months ended March 31, 2011	(3,990,417)
Exchange gains on translating foreign operations reflected in the nine months ended March 31, 2011	3,930,000
	$ (2,887,358)
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 nine months ended March 31, 2011	3,990,417
Exchange gains on translating foreign operations reflected in the nine months ended March 31, 2011	(3,930,000)
	$ (3,821,463)

(Unaudited – prepared in Canadian dollars)

14. Transition to IFRS (continued):

A summary of the adjustments for the three months ended March 31, 2011 is as follows:

Net adjustment to foreign currency translation reserve (exchange differences on translation of foreign operations:	
Exchange loss on exploration and evaluation assets due to change to functional currency	$ (825,635)
Exchange loss on intragroup long-term monetary balances reflected in the three months ended March 31, 2011	(1,174,970)
Exchange gains on translating foreign operations reflected in the three months ended March 31, 2011	1,113,499
	$ (887,106)

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.

   For the three months ended March 31, 2011, the adjustment was to decrease the stock-based compensation expense (included in operating, general and administrative expenses) by $131,739.

   For the nine months ended March 31, 2011, the adjustment was to increase the stock-based compensation expense (included in operating, general and administrative expenses) by $69,894.

   The following is a summary of the adjustments to the consolidated statement of financial position as at March 31, 2011:

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 nine months ended March 31, 2011	69,894
Adjustment for the exercise of options during the nine months ended March 31, 2011	(4,620)
	$ 464,685

(Unaudited – prepared in Canadian dollars)

14. Transition to IFRS (continued):

3. The following is a reconciliation of the accumulated deficit balance as at March 31, 2011:

Deficit as reported under CGAAP as at March 31, 2011	$ (19,012,663)
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 nine months ended March 31, 2011	3,990,417
Exchange gains on translating foreign operations reflected in the nine months ended March 31, 2011	(3,930,000)
Adjustment for stock options in the nine months ended March 31, 2011	(69,894)
Deficit as reported under IFRS as at March 31, 2011	$ (23,303,431)

4. 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 expenses to finance expense.

The following is a summary of the adjustment to operating, general and administrative expenses for the three months ended March 31, 2011:

Adjustment to operating, general and administrative expenses:	
Exchange gains on translating foreign operations reflected in the three months ended March 31, 2011	$ 1,113,499
Exchange loss on intragroup long-term monetary balances reflected in the three months ended March 31, 2011	(1,174,970)
Adjustment for stock-based compensation expense during the three months ended March 31, 2011	(131,739)
	$ (193,210)

The following is a summary of the adjustment to operating, general and administrative expenses for the nine months ended March 31, 2011:

Adjustment to operating, general, and administrative expenses:	
Exchange gains on translating foreign operations reflected in the nine months ended March 31, 2011	$ 3,930,000
Exchange loss on intragroup long-term monetary balances reflected in the nine months ended March 31, 2011	(3,990,417)
Adjustment for stock-based compensation expense during the nine months ended March 31, 2011	69,894
Finance expense	(330,000)
	$ (320,523)

15. Subsequent events:

(a) Subsequent to March 31, 2012, 1,347,589 broker warrants exercisable at $0.55 per share and 46,773 warrants exercisable at $0.75 per share expired unexercised.

(b) Subsequent to March 31, 2012, 400,000 options exercisable at $2.60 per share expired unexercised.