Consolidated Financial Statements of

Brownstone Energy Inc.

(Prepared in Canadian dollars)
For the years ended June 30, 2012 and 2011

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Brownstone Energy Inc.

We have audited the accompanying consolidated financial statements of **Brownstone Energy Inc.**, which comprise the consolidated statements of financial position as at June 30, 2012 and 2011, and July 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended June 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Brownstone Energy Inc.** as at December 31, 2011 and 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada
September 28, 2012

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at June 30, 2012 and 2011 and July 1, 2010
(Prepared in Canadian dollars)

	Notes	June 30, 2012	June 30, 2011 [1]	July 1, 2010 [1]
Assets				
Current				
Cash and cash equivalents		**$ 18,197,006**	$ 29,833,806	$ 1,832,230
Due from broker		**-**	228,868	-
Restricted cash - current	7	**-**	4,165,776	-
Prepaids and receivables		**976,068**	371,573	102,893
Promissory note receivable	8	**-**	-	2,070,140
Investments, at fair value	5, 6(b)	**2,771,469**	12,350,483	17,174,119
Income taxes receivable		**-**	1,053,614	1,328,276
		21,944,543	48,004,120	22,507,658
Restricted cash	7	**564,581**	534,222	5,286,967
Exploration and evaluation assets	4	**45,141,148**	42,053,011	32,285,288
		$ 67,650,272	$ 90,591,353	$ 60,079,913
Liabilities and Equity				
Current				
Accounts payable and accrued liabilities		**$ 1,150,868**	$ 1,497,064	$ 2,113,363
		1,150,868	1,497,064	2,113,363
Equity				
Share capital	10	**96,597,845**	96,597,845	65,017,344
Warrants and broker warrants	10(f)	**7,310,433**	6,873,384	4,028,875
Contributed surplus	10(g)	**16,642,202**	14,856,513	13,407,473
Foreign currency translation reserve		**(928,739)**	(3,165,014)	-
Deficit		**(53,122,337)**	(26,068,439)	(24,487,142)
		66,499,404	89,094,289	57,966,550
		$ 67,650,272	$ 90,591,353	$ 60,079,913

1. Refer to note 16 for the effects of the adoption of IFRS.

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Steven Mintz" Director

"Michael Sweatman" Director

BROWNSTONE ENERGY INC.

Consolidated Statements of Comprehensive Loss
Years Ended June 30,
(Prepared in Canadian dollars)

	Notes	2012	2011 [1]
Net investment income (loss)			
Net realized losses on disposal of investments		**$ (5,008,726)**	$ (1,385,033)
Net change in unrealized gains (losses) on investments		**(610,098)**	5,050,138
		(5,618,824)	3,665,105
Interest and other income		**302,955**	260,513
		(5,315,869)	3,925,618
Expenses			
Operating, general and administrative	13	**5,277,579**	5,704,424
Impairment of exploration and evaluation assets	4	**16,292,799**	-
Finance expense		**-**	532,350
		21,570,378	6,236,774
Loss before income taxes		**(26,886,247)**	(2,311,156)
Income tax expense (recovery)		**167,651**	(729,859)
Loss for the year		**(27,053,898)**	(1,581,297)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		**2,236,275**	(3,165,014)
Total comprehensive loss for the year		**$ (24,817,623)**	$ (4,746,311)
Loss per common share based on loss for the year	10(h)		
Basic and diluted		**$ (0.21)**	$ (0.02)

1. Refer to note 16 for the effects of the adoption of IFRS.

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Changes in Equity
Years Ended June 30, 2012 and 2011
(Prepared in Canadian dollars)

	Number of shares	Share capital	Warrants and broker warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total equity
Balance at July 1, 2010 [1]	88,691,104	$ 65,017,344	$ 4,028,875	$ 13,407,473	$ -	$ (24,487,142)	$ 57,966,550
Loss for the year	-	-	-	-	-	(1,581,297)	(1,581,297)
Exchange differences on translation of foreign operations	-	-	-	-	(3,165,014)	-	(3,165,014)
Total comprehensive loss for the year	-	-	-	-	(3,165,014)	(1,581,297)	(4,746,311)
Stock-based compensation expense	-	-	-	1,545,978	-	-	1,545,978
Issued pursuant to exercise of stock options	440,520	423,783	-	(156,938)	-	-	266,845
Issued pursuant to exercise of warrants	10,399,507	9,386,361	(1,874,549)		-	-	7,511,812
Issuance of warrants	-	(27,942)	27,942	-	-	-	-
Reallocation of expired warrants	-	-	(60,000)	60,000	-	-	-
Issued pursuant to private placement	30,263,158	21,798,299	4,751,116	-	-	-	26,549,415
Balance at June 30, 2011 [1]	129,794,289	$ 96,597,845	$ 6,873,384	$ 14,856,513	$ (3,165,014)	$ (26,068,439)	$ 89,094,289
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(27,053,898)**	**(27,053,898)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**2,236,275**	**-**	**2,236,275**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**2,236,275**	**(27,053,898)**	**(24,817,623)**
Stock-based compensation expense	**-**	**-**	**-**	**1,412,741**	**-**	**-**	**1,412,741**
Reallocation of expired warrants	**-**	**-**	**(372,948)**	**372,948**	**-**	**-**	**-**
Cost of warrant expiry date extension	**-**	**-**	**809,997**	**-**	**-**	**-**	**809,997**
Balance at June 30, 2012	**129,794,289**	**$ 96,597,845**	**$ 7,310,433**	**$ 16,642,202**	**$ (928,739)**	**$ (53,122,337)**	**$ 66,499,404**

1. Refer to note 16 for the effects of the adoption of IFRS.

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Cash Flows
Years Ended June 30,
(Prepared in Canadian dollars)

	2012	2011
Cash flows used in operating activities		
Loss for the year	**$ (27,053,898)**	$ (1,581,297)
Items not affecting cash		
Net realized losses on disposal of investments	**5,008,726**	1,385,033
Net change in unrealized losses (gains) on investments	**610,098**	(5,050,138)
Impairment of exploration and evaluation assets	**16,292,799**	-
Stock-based compensation expense	**1,412,741**	1,545,978
Cost of warrant expiry date extension	**809,997**	-
	(2,919,537)	(3,700,424)
Changes in non-cash working capital balances		
Prepaids and receivables	**(604,495)**	(268,680)
Income taxes receivable	**1,053,614**	274,662
Accounts payable and accrued liabilities	**(726,001)**	(1,016,714)
	(3,196,419)	(4,711,156)
Cash flows from financing activities		
Proceeds pursuant to private placement financing, net	**-**	26,549,415
Proceeds pursuant to exercise of stock options	**-**	266,845
Proceeds pursuant to exercise of warrants, broker warrants and underlying broker warrants	**-**	7,511,812
Proceeds from promissory note payable	**-**	3,000,000
Repayment of promissory note payable	**-**	(3,000,000)
Decrease (increase) in due from brokers	**228,868**	(228,868)
	228,868	34,099,204
Cash flows used in investing activities		
Expenditures on exploration and evaluation assets, net	**(16,717,003)**	(12,772,103)
Proceeds on sale of exploration and evaluation assets	**3,642**	263,328
Repayment of promissory note receivable	**-**	2,070,140
Decrease in restricted cash	**4,135,417**	586,969
Proceeds on disposal of investments	**4,010,190**	8,752,741
Purchases of investments	**(50,000)**	(264,000)
	(8,617,754)	(1,362,925)
Net increase (decrease) in cash and cash equivalents, during the year	**(11,585,305)**	28,025,123
Exchange rate changes on foreign currency cash balances	**(51,495)**	(23,547)
Cash and cash equivalents, beginning of year	**29,833,806**	1,832,230
Cash and cash equivalents, end of year	**18,197,006**	29,833,806
Supplemental cash flow information		
Income taxes paid	**$ 167,651**	$ -
Income taxes refunded	**1,053,614**	1,004,520
Finance expense paid	**-**	532,350

See accompanying notes to the 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 consolidated financial statements were approved for issuance by the Company's board of directors on September 28, 2012.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements are the first annual consolidated financial statements that the Company has prepared under IFRS. Previously, the Company prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). The significant accounting policies are presented in Note 3 and have been consistently applied in each of the years presented. Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these consolidated financial statements are presented below.

The Company's date of transition to IFRS and its opening IFRS consolidated statement of financial position are as at July 1, 2010 (the ''Transition Date''). 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 16, which includes reconciliations of the Company's consolidated statements of financial position, comprehensive loss and equity for comparative periods prepared and previously reported in accordance with CGAAP, to those prepared and reported in these consolidated financial statements in accordance with IFRS.

(b) Basis of presentation:

These consolidated financial statements have been prepared using the historical cost convention except for financial instruments which have been measured at fair value. All monetary references expressed in these notes are references to Canadian dollar amounts ("$").

2. Basis of preparation (continued):

(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. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses, have been eliminated on consolidation.

(d) Adoption of IFRS 9:

The effective date of IFRS 9, *Financial Instruments* ("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. Specifically, the Company has adopted the recognition, derecognition, and measurement of financial assets and liabilities. The Company's significant class of financial assets is investments (designated at fair value through profit or loss).

(e) Critical accounting judgments, estimates and assumptions:

The preparation of the consolidated financial statements 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 the reported amounts of 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. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

2. Basis of preparation (continued):

The information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are as follows:

(i) 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 or reversal of previous impairment. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

(ii) Fair value of investments in securities not quoted in an active market:

Where the fair values of financial assets and financial liabilities recorded on the consolidated 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. Refer to Note 3(c)(iv) for further details.

(iii) Fair value of financial derivatives:

Investments in 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 which approximates fair value. Refer to Note 3(c)(iv) for further details.

(iv) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to determine the fair value of 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. Refer to Note 10(e) for further details.

2. Basis of preparation (continued):

The information about significant areas of judgment considered by management in preparing the consolidated financial statements are 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 continue to be prepared on a going concern basis.

(ii) Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income, together with future tax planning strategies. Refer to Note 11 for further details.

3. Significant accounting policies:

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

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

(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 exploration and evaluation assets (acquisition, exploration for and development of oil and gas reserves) including 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.

3. Significant accounting policies (continued):

Capitalized exploration and evaluation assets are assessed whether it is likely such net costs, may be recovered in the future. Assets that are unlikely to be recovered are written down to their recoverable amount. Impairment reviews take place where there is an indication of impairment or when an exploration and evaluation asset has been transferred into oil and gas properties. Impairment reviews are based on blocks.

(ii) Oil and gas properties:

Non-operating expenditures relating to producing properties will be included in oil and gas properties.

Capitalized oil and gas properties are depleted using the unit-of-production method based on net proved reserves for each cash generating unit. 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, the cost of the property and related expenditures or the impairment is added to the depletion base. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the property for which the estimates of future cash flows have not been adjusted. If the recoverable amount of a property is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in income.

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the property is increased to the revised estimate of its recoverable amount that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the property in prior years. A reversal of an impairment loss is recognized immediately in income.

(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.

3. Significant accounting policies (continued):

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

(b) Foreign currency:

(i) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the parent's functional and presentation currency. Each entity in the 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 in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date.

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. All exchange differences are recorded in the consolidated statements of comprehensive loss.

(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 consolidated statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

2. Share capital is translated using the exchange rate at the date of the transaction;

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

4. All resulting exchange differences are recognized as a separate component of equity and as an exchange difference on translation of foreign operations in other comprehensive loss in the consolidated statements of comprehensive loss.

3. Significant accounting policies (continued):

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 in a foreign operation which is recorded as an exchange difference on translation of foreign operations in other comprehensive loss in the consolidated statements of comprehensive loss. When a foreign entity is sold, such exchange differences are reclassified to income or loss in the consolidated statements of comprehensive 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.

(c) Financial investments:

(i) Classification:

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

(ii) Recognition, derecognition and measurement:

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 where reliable basis for determination exists. Transaction costs are expensed as incurred in the consolidated statements of comprehensive loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Company has transferred the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9.

Subsequent to initial recognition, all investments 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 consolidated statements of comprehensive loss within unrealized gains or losses on investments in the period in which they arise.

(iii) Reclassification of investments:

The Company only reclassifies any financial assets when it 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.

3. Significant accounting policies (continued):

(iv) Determination of fair value:

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 disclose details of its investments (and other financial assets and liabilities reported at fair value) within 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 Note 6(b)).

1. Publicly-traded investments:

   a. Securities, including shares, options, and warrants which are traded in an active market, such as 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 or reliable, 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 which approximates fair value. These are included in Level 2 in Note 6(b).

2. Private company investments:

   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

3. Significant accounting policies (continued):

valuation indicators described below. These are included in Level 3 in Note 6(b). Options and warrants of private companies are carried at nil which approximates fair value.

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.

   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);

3. Significant accounting policies (continued):

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.

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 project(s);

3. Significant accounting policies (continued):

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.

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

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

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.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of 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.

(f) Restricted cash:

Restricted cash represents cash in the form of Guaranteed Investment Certificates (each, a "GIC") deposited with the Company's bank as collateral for letters of guarantee provided by the bank.

3. Significant accounting policies (continued):

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.

(g) Revenue recognition:

Purchases and sales of investments are recognized on the settlement date. 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.

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. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Interest income, other income, and income from securities lending are recorded on an accrual basis.

Interest and other income are recorded on an accrual basis.

Revenues from the sale of oil and gas produced from exploration and evaluation assets are netted against exploration and evaluation assets, together with the associated operating expenses because the revenue is generated from a process bringing the property to the location and condition for its intended use.

Revenues from the sale of oil and gas produced from commercial oil and gas properties are recognized as sales revenue to the extent it is provided that the economic benefit will flow to the Company and the revenue can be reliably measured. Revenues are recognized when the risks 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.

(h) Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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.

(i) 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):

(j) 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 through profit or loss.

(ii) Deferred tax:

Deferred tax is provided using the liability 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 are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits, and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary difference and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities 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 consolidated statement of financial position date. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statements of comprehensive loss. Deferred tax assets and deferred tax liabilities 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.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statements of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. The Company does not record deferred tax assets to the extent that it considers deductible temporary differences, the carry-forward of unused tax credits, and unused tax losses cannot be utilized.

3. Significant accounting policies (continued):

(k) Stock-based compensation plans:

The Company has a stock option plan which is described in Note 10(e). Employees (including officers), directors, and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Any consideration received by Brownstone on the exercise of stock options is credited to share capital. The cost of options is recognized, together with a corresponding increase in contributed surplus, over the period in which the corresponding performance and/or service conditions are fulfilled, ending on the date on which the relevant optionee becomes fully entitled to the award ("the vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest on the vesting date. 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.

Stock options granted during the period are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model. The Company is also required to estimate the expected future forfeiture rate of options in its calculation of stock-based compensation expense.

Where the terms of a stock option 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 option, or is otherwise beneficial to the optionee as measured at the date of modification.

Where an option 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.

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.

(l) Earnings (loss) per common share:

Basic earnings (loss) per common share is determined by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period, excluding shares securing employee share purchase loans and shares in escrow. Diluted earnings (loss) per common share is calculated in accordance with the treasury stock method and based on the weighted average number of common shares and dilutive common share equivalents outstanding.

3. Significant accounting policies (continued):

(m) Finance expense:

Interest expense is recorded on an accrual basis.

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

(n) Financial liabilities:

Financial liabilities are presented at amortized cost except for financial derivatives and certain financial liabilities that from inception were designated at fair value through profit or loss. All financial liabilities are recognized initially at fair value net of directly attributable transaction costs, except for those designated at fair value through profit or loss. Financial liabilities at fair value through profit or loss are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of comprehensive loss.

Other financial liabilities are subsequently recognized at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

(o) Due from broker:

Amounts due from broker represent receivables for securities sold that have been contracted for but not yet settled or delivered, respectively, as reflected on the consolidated statements of financial position date.

(p) Financial derivatives – options and warrants:

A financial derivative such as a warrant or option which will be settled with the issuing entity's own equity instruments will be classified as an equity instrument if the derivative is used 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 used to acquire either a variable number of equity instruments or consideration in a foreign currency and the options and warrants were not offered pro rata to all existing owners of the same class of non-derivative equity instruments.

3. Significant accounting policies (continued):

(q) Segment reporting:

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

(r) 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.

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 and maintain 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.

(Prepared in Canadian dollars)

4. Exploration and evaluation assets (continued):

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

	Colombia (a)	Israel (b)	USA (c)	Canada	Argentina (d)	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	**13,309,405**	**2,575,117**	**1,170,351**	**41,935**	**-**	**17,096,808**
Disposals	**-**	**-**	**(3,642)**	**-**	**-**	**(3,642)**
Impairment of exploration and evaluation assets	**-**	**-**	**(13,288,299)**	**-**	**(3,004,500)**	**(16,292,799)**
Foreign currency translation	**1,425,970**	**108,153**	**587,247**	**-**	**166,400**	**2,287,770**
Balance at June 30, 2012	**34,745,055**	**4,614,117**	**3,646,119**	**1,116,757**	**1,019,100**	**45,141,148**

(a) Colombia:

During the year ended June 30, 2012, the Company spent $13,309,405 (2011 - $10,225,359) on exploration and evaluation of the blocks in Colombia, net of $4,515,621 (2011 - $259,228) in oil sales revenue. The Company has private participating interests in four blocks located in the Llanos Basin of Central Colombia.

A summary of the Company's interests in the Colombian blocks as at June 30, 2012 is as follows:

	Canaguaro Block (i)	Block 21 (ii)	Block 27 (iii)	Block 36 (iv)
Private participation interest	25%	24.75%	34.25%	14%
Increased costs assumed	31.25%	50%	50%	20%
Increased participation interest	25%	24.75%	45.275%	18.2%

(i) Canaguay-1 Well: The Company has earned a 25% participating interest by paying 31.25% of the first US$10,000,000 in total costs incurred to drill one exploratory well, 25% of any remaining costs exceeding US$10,000,000, and US$1,250,000 in sunk costs. If commercial production occurs on the block, the Company will be required to pay a 6% overriding royalty to Concorcio Canaguaro on its share of production (in addition to 1.5% royalties payable to the Agencia Nacional de Hidrocarburos ("ANH")), and a one-time success fee to Concorcio Canaguaro of up to US$1,000,000, payable following the completion of the first 12 months of commercial production from the Canaguay-1 well and determined based upon the average daily production of the well during that first year in excess of 351 barrels of oil per day.

(Prepared in Canadian dollars)

4. Exploration and evaluation assets (continued):

(ii) Block 21: Under an amending agreement dated February 28, 2012 to the original participation agreement, the Company's obligation to fund Phase I work commitments is limited to US$3,875,000. Upon completion of the two Phase I exploration wells, the Company has an option to share in production revenue to a maximum of 24.75% by contributing in aggregate 50% of all Phase I costs (inclusive of US$3,875,000) and assuming 24.75% of the future work obligations under the exploration and production contract.

(iii) Block 27: The Company has a 34.25% participating interest on the block and is required to pay 50% of the capital cost of the work program incurred during the exploration and production phases of the block, and will be entitled to receive 45.275% of all net production revenue, until all aggregate costs have been recouped, following which the Company will be obligated to fund 34.25% of any ongoing costs in order to be entitled to receive 34.25% of any further net production revenue.

(iv) Block 36: The Company has a 14% participating interest on the block and is required to pay 20% of the capital cost of the work program incurred during the exploration and production phases of the block, and will be entitled to receive 18.2% of all net production revenue, until all aggregate costs have been recouped, following which the Company will be obligated to fund 14% of any ongoing costs in order to be entitled to receive 14% of any further net production revenue.

(b) Israel:

As at June 30, 2012 and 2011, the Company has the following participating interests in Israel:

	Gabriella Block	Yitzhak Block	Samuel Block
Participating Interest	15%	15%	6.75%

(c) USA:

The Company has interests in the Piceance/Uinta basin in the USA. For the year ended June 30, 2012, the Company recorded an impairment charge on its USA exploration and evaluation assets in the Piceance/Uinta basin, USA, of $12,699,480 to its estimated recoverable amount of approximately $3,057,300 (US$3,000,000) (2011 – nil) and impaired other USA exploration and evaluation assets by $588,819 to a net balance of $3,646,119.

The impairment was recognized upon a review of the exploration licenses, to confirm whether the Company intends further appraisal activity or to otherwise extract value from the property. The impairment was recognized base on the difference between the carrying value of the assets and their recoverable amounts.

4. Exploration and evaluation assets (continued):

For the year ended June 30, 2012, the Company considered reserve data prepared by an independent engineering firm, Gustavson Associates. Based upon the data, management determined that the recoverable amount of the USA exploration and evaluation assets in the Piceance/Uinta basin is approximately US$3,000,000 (with a pre-tax discount rate of 25%). The Company has chosen to use pre-tax discount rate of 25% due to the present risks associated with the properties such as:

(i) the Company's minority participation interest;

(ii) the large upfront capital expenditures, their timing, and unknown gathering processing and transportation fees;

(iii) non-operatorship of the properties;

(iv) there is no certainty that the price of gas will be high enough to make the properties economically viable in the near future;

(v) nor is there any certainty that the flat natural gas liquid price strip and oil price will remain consistent over the next several years.

The recoverable amount was determined based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

(d) Argentina:

In July 2007, the Company signed a participation agreement with Petrolifera Petroleum Limited ("Petrolifera"), whereby Brownstone has earned a 25% interest in Petrolifera's Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement, Brownstone is required to fund 50% of the costs to be incurred in the conduct of the work program on the property. During the year ended June 30, 2011, Petrolifera's interests and operatorship in the block were acquired by Gran Tierra Energy Inc.

During the year ended June 30, 2012, the Company considered a reserve report prepared by an independent engineering firm, GLJ Petroleum Consultants. Based upon the information contained in the report, management determined the recoverable amount of the Company's interest in Argentina to be approximately US$1,000,000. The future cash flows were discounted using a pre-tax discount rate of 10% that reflects current market assessments of the time value of money and the risk specific to the Company's asset in Argentina. The future cash flows at a pre-tax discount rate of 5% and 15% is US$1,266,000 and US$786,000, respectively, with an average of US$1,026,000. In addition, the Argentinean government nationalized certain local oil assets controlled by a Spanish company which creates an uncertainty for foreign investors investing in Argentina. As a result, for the year ended June 30, 2012, the Company recorded an impairment charge on its Argentinean exploration and evaluation assets of $3,004,500 (2011 – nil) to its estimated recoverable amount of $1,019,100 (US$1,000,000).

(Prepared in Canadian dollars)

4. Exploration and evaluation assets (continued):

The recoverable amount was determined based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

5. Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
June 30, 2012	**$ 2,771,469**	**$ 13,250,659**
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:

	June 30, 2012	June 30, 2011	July 1, 2010
Investments	**$ 2,771,469**	$ 12,350,483	$ 17,174,119
Cash and cash equivalents			
- Cash on hand	**3,185,666**	447,721	1,279,961
- Short-term investments with maturities of less than three months (i)	**15,011,340**	29,386,085	552,269
Due from broker	**-**	228,868	-
Restricted cash, current	**-**	4,165,776	-
Restricted cash, long-term	**564,581**	534,222	5,286,967
Receivables	**951,153**	343,594	78,545
Promissory note receivable	**-**	-	2,070,140
Accounts payable and accrued liabilities	**(1,150,868)**	(1,497,064)	(2,113,363)
	$ 21,333,341	$ 45,959,685	$ 24,328,638

(i) As at June 30, 2012, short-term investments with maturities of less than three months consisted of banker's acceptance notes with an average annual yield of 1.11% (June 30, 2011 – 1.16%; July 1, 2010 – 0.80%).

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

(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 June 30, 2012 and 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
June 30, 2012	**$ 1,746,469**	**$ -**	**$ 1,025,000**	**$ 2,771,469**
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 years ended June 30, 2012 and 2011.

(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 years ended June 30, 2012 and 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 unrealized gains (losses)	Net transfer out of Level 3	Ending balance
June 30, 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.

7. Restricted cash:

As at June 30, 2012, the Company had restricted cash totaling $564,581 (US$554,000) as collateral to the Royal Bank of Canada ("RBC") for letters of guarantee issued by RBC of which nil was current. 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) all of which was non-current). 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 June 30, 2012 (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 ANH, the oil and gas agency of the Colombian government. As at June 30, 2012, the Company has letters of guarantee totaling US$7,388,883. 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.

Export Development Canada ("EDC"), a Canadian federal government agency, has issued four Performance Security Guarantees ("PSG") totaling US$6,834,883 to secure certain of the letters of guarantee issued by RBC to ANH as at June 30, 2012. In November 2010, EDC had issued three of the PSGs totaling US$4,984,883 to RBC. As a result, the Company's restricted cash held at June 30, 2011, associated with the PSGs was released.

8. 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 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 year ended June 30, 2011, included in the consolidated statements of comprehensive loss was $108,645 of interest income earned by Brownstone relating to the promissory note.

(Prepared in Canadian dollars)

9. Related party transactions:

(a) Compensation to key management personnel and directors during the years ended June 30 were as follows:

Type of expense	2012	2011
Salaries and consulting fees	**$ 806,750**	$ 1,179,458
Other short-term benefits	**51,420**	22,941
Stock-based compensation expense	**1,038,269**	1,120,839
	$ 1,896,439	$ 2,323,238

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 year ended June 30, 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		

10. Share capital:

(a) Authorized: unlimited number of common shares (no par value).

(b) During the year ended June 30, 2012, 1,905,000 options exercisable at prices ranging from $1.80 to $2.60 per share expired unexercised and no stock options were exercised.

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.

(c) During the year ended June 30, 2012, no warrants or broker warrants were exercised. During the year ended June 30, 2012, 1,347,589 broker warrants exercisable at $0.55 per share and 46,773 warrants exercisable at $0.75 per share expired unexercised.

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.

10. Share capital (continued):

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.

(d) 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.

(e) 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.

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.

(Prepared in Canadian dollars)

10. Share capital (continued):

During the year ended June 30, 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 forfeited.

The fair value of the options granted during the year ended June 30, 2012 was estimated at the date of grant using the Black-Scholes option valuation model with the following assumptions:

Black-Scholes option valuation model assumptions used (weighted average)	
Expected volatility (i)	115.7%
Expected dividend yield	0%
Risk-free interest rate	1.3%
Expected option life in years	3.6 years
Expected forfeiture rate	6.8%
Fair value per stock option granted on October 11, 2011	$ 0.29
Fair value per stock option granted on February 8, 2012	$ 0.41

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 valuation model with the following assumptions:

Black-Scholes option valuation model assumptions used (weighted average)	
Expected volatility (i)	114.6%
Expected dividend yield	0%
Risk-free interest rate	2.1%
Expected option life in years	3.5 years
Expected forfeiture rate	3.5%
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

(Prepared in Canadian dollars)

10. Share capital (continued):

(i) Based on the historical volatility of Brownstone's share price.

For the year ended June 30, 2012, included in operating, general and administrative expenses was stock-based compensation expense of $1,412,741 (2011 - $1,545,978) 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 end of the year and changes during those years are as follows:

	June 30, 2012		June 30, 2011	
Stock options	**# of options**	**Weighted average exercise price**	# of options	Weighted average exercise price
Outstanding, at beginning of year	**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
Forfeited	**(1,905,000)**	**2.47**	(2,136,200)	1.30
Outstanding, at end of year	**8,925,080**	**$ 0.72**	8,425,080	$ 1.21
Exercisable, at end of year	**7,006,731**	**$ 0.78**	6,100,657	$ 1.32

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2012:

Number of options outstanding	**Number of options exercisable**	**Exercise price**	**Expiry date**
300,000	**250,000**	**$ 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	**1,137,491**	**1.20**	March 29, 2016
2,180,000	**726,660**	**0.40**	October 10, 2016
225,000	**37,500**	**0.56**	February 7, 2017
8,925,080	**7,006,731**		

(Prepared in Canadian dollars)

10. Share capital (continued):

(f) A summary of the status of the Company's warrants and broker warrants at the reporting dates and the changes during the years then ended are as follows:

	June 30, 2012		
Warrants and broker warrants	**# of warrants and broker warrants**	**Weighted average exercise price**	**Amount**
Outstanding, at beginning of year	**26,595,816**	**$ 1.06**	**$ 6,873,384**
Expired	**(1,394,362)**	**0.56**	**(372,948)**
Cost of warrant expiry extension (i)	**-**	**-**	**809,997**
Outstanding, at end of year	**25,201,454**	**$ 1.09**	**$ 7,310,433**

	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 June 30, 2012:

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**
15,131,579		1.25	September 11, 2012	**4,167,645**
2,118,421	(ii)	1.25	September 11, 2012	**583,471**
25,201,454				**$ 7,310,433**

(i) During the year ended June 30, 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 expenses.

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

(Prepared in Canadian dollars)

10. Share capital (continued):

(g) As at June 30, 2012 and 2011 and July 1, 2010, contributed surplus was comprised of the following:

	June 30, 2012	June 30, 2011	July 1, 2010
Stock-based compensation	**$ 9,510,051**	$ 8,097,310	$ 6,708,270
Expired warrants and broker warrants	**7,105,887**	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
	$ 16,642,202	$ 14,856,513	$ 13,407,473

(h) Basic and diluted loss per common share based on loss for the years ended June 30:

Numerator:	**2012**	2011
Loss for the year	**$ (27,053,898)**	$ (1,581,297)

Denominator:	**2012**	2011
Weighted average number of common shares outstanding – basic	**129,794,289**	100,279,183
Weighted average effect of diluted stock options and warrants (i)	**-**	-
Weighted average number of common shares outstanding – diluted	**129,794,289**	100,279,183

Loss per common share based on loss for the year:	**2012**	2011
Basic and diluted	**$ (0.21)**	$ (0.02)

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 34,126,534 shares related to stock options, warrants, and broker warrants that were anti-dilutive for the year ended June 30, 2012 (2011 – 35,694,691 shares).

(i) 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 June 30:

	2012	2011
Common shares outstanding	**129,794,289**	129,794,289
Stock options to purchase common shares	**8,925,080**	8,425,080
Warrants to purchase common shares	**23,083,033**	23,129,806
Broker warrants to purchase common shares	**2,118,421**	3,466,010
Underlying broker warrants to purchase common shares	**-**	673,795
Fully diluted common shares outstanding	**163,920,823**	165,488,980

(Prepared in Canadian dollars)

11. Income tax expense (recovery) and deferred taxes:

(a) Income tax expense (recovery) attributable to loss before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 27.25% (2011 – 29.25%) of pre-tax income as a result of the following:

		2012		2011
Loss before income taxes	**$**	**(26,886,247)**	$	(2,311,156)
Computed "expected" income tax recovery	**$**	**(7,326,502)**	$	(676,013)
Non-taxable portion of capital losses		**682,439**		202,561
Non-taxable portion of unrealized losses (gains)		**83,126**		(738,583)
Expenses not deductible for income tax purposes		**613,112**		724,604
Impairment of exploration and evaluation assets not tax benefited		**4,439,788**		-
Recognition of losses carried back		**-**		(729,859)
Net deferred tax assets not recognized		**1,508,037**		487,431
Tax withheld in foreign jurisdiction		**167,651**		-
Income tax expense (recovery)	**$**	**167,651**	$	(729,859)

The 2012 statutory tax rate of 27.25% differs from the 2011 statutory tax rate of 29.25% because of the reduction in both federal and Ontario substantively enacted tax rates.

(b) Significant components of the income tax expense (recovery) for the years ended June 30, are as follows:

		2012		2011
Current income tax expense (recovery)				
Tax withheld in foreign jurisdiction	**$**	**167,651**	$	-
Recovery of tax losses carried back		**-**		(729,859)
		167,651		(729,859)
Deferred taxes				
Income taxes – origination and reversal of temporary differences		**(5,947,825)**		(487,431)
Relating to unrecognized temporary differences		**5,947,825**		487,431
		-		-
Income tax expense (recovery)	**$**	**167,651**	$	(729,859)

(Prepared in Canadian dollars)

11. Income tax expense (recovery) and deferred taxes:

(c) The following deferred tax assets are not recognized in the consolidated financial statements due to the unpredictability of future income.

		2012		2011
Non-capital losses carry-forward	**$**	**2,061,206**	$	945,230
Exploration and evaluation assets tax pools		**5,619,009**		4,475,361
Investments		**1,257,948**		1,159,496
Share issuance costs and other differences		**1,892,620**		1,398,721
	$	**10,830,783**	$	7,978,808

As at June 30, 2012, the Company has approximately $899,000 (2011 - $961,600) of Canadian resource deductions and $22,095,000 (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 benefit of which has not been recorded in the accounts.

As at June 30, 2012, the Company has approximately $5,029,000 of capital losses (2011 - nil) and $6,144,000 (2011 - $2,400,900) of Canadian non-capital losses available to reduce future years' income for tax purposes, the benefit 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		3,743,100
	$	6,144,000

In addition, the Company has unclaimed non-capital losses of approximately $4,294,000 in Barbados that expires from 2017 to 2021 and $66,000 in U.S. that expires from 2015 to 2019.

12. Segmented information:

Reportable segments are defined as components of an enterprise about which separate financial information is available, that are evaluated regularly by the chief operating decision maker 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 year ended June 30, 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 income or loss, but are attributed to the Canadian operations where the corporate head office is located.

(Prepared in Canadian dollars)

12. Segmented information:

The following is segmented information as at and for the year ended June 30, 2012:

	Year ended June 30, 2012		As at June 30, 2012		
	Interest and other income	**Loss for the year**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 258,136**	**$ 10,441,224**	**$ 1,116,757**	**$ 20,288,293**	**$ 21,405,050**
Colombia	**44,819**	**393,278**	**34,745,055**	**1,779,469**	**36,524,524**
Israel	**-**	**57,150**	**4,614,117**	**177,012**	**4,791,129**
United States	**-**	**13,157,746**	**3,646,119**	**37,022**	**3,683,141**
Argentina	**-**	**3,004,500**	**1,019,100**	**84,666**	**1,103,766**
Brazil	**-**	**-**	**-**	**142,662**	**142,662**
	$ 302,955	**$ 27,053,898**	**$ 45,141,148**	**$ 22,509,124**	**$ 67,650,272**

The following is segmented information as at and for the year ended June 30, 2011:

	Year ended June 30, 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	$ 231,815	$ (5,081,854)	$ 1,074,822	$ 47,982,817	$ 49,057,639
Colombia	28,698	(761,745)	20,009,680	352,860	20,362,540
United States	-	4,289,515	15,180,462	6,227	15,186,689
Argentina	-	-	3,857,200	20,931	3,878,131
Israel	-	(35,078)	1,930,847	1,652	1,932,499
Brazil	-	7,865	-	173,855	173,855
	$ 260,513	$ (1,581,297)	$ 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

(Prepared in Canadian dollars)

13. Expenses by nature:

Included in operating, general, and administrative expenses for the years ended June 30 are the following expenses:

		2012		2011
Salaries and consulting fees	**$**	**1,425,379**	$	1,743,937
Stock-based compensation expense		**1,412,741**		1,545,978
Cost of warrant extension		**809,997**		-
Other office and general		**638,817**		498,919
Travel and promotion		**489,843**		286,391
Professional fees		**361,479**		329,435
Shareholder relations, transfer agent and filing fees		**162,330**		176,273
Other employment benefits		**55,198**		25,017
Transaction costs		**19,546**		39,766
Colombian equity tax		**-**		672,663
Foreign exchange loss (gain)		**(97,751)**		386,045
	$	**5,277,579**	$	5,704,424

14. Management of capital:

The Company includes the following in its capital:

		June 30, 2012		June 30, 2011		July 1, 2010
Equity comprised of						
Share capital	**$**	**96,597,845**	$	96,597,845	$	65,017,344
Warrants and broker warrants		**7,310,433**		6,873,384		4,028,875
Contributed surplus		**16,642,202**		14,856,513		13,407,473
Foreign currency translation reserve		**(928,739)**		(3,165,014)		-
Deficit		**(53,122,337)**		(26,068,439)		(24,487,142)
	$	**66,499,404**	$	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 broker;

(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

14. 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 7).

There were no changes in the Company's approach to capital management during the year ended June 30, 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 June 30, 2012.

15. 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 year ended June 30, 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.

(Prepared in Canadian dollars)

15. Risk management (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2012 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 2012:

Percentage of change in closing bid price	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%	$ 48,085	$ (48,085)
4%	96,170	(96,170)
6%	144,255	(144,255)
8%	192,340	(192,340)
10%	240,425	(240,425)

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 price	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 June 30, 2012 and 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 year ended June 30, 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.

(Prepared in Canadian dollars)

15. Risk management (continued):

The following is the Company's maximum exposure to credit risk:

	June 30, 2012	June 30, 2011	July 1, 2010
Cash and cash equivalents	**$ 18,197,006**	$ 29,833,806	$ 1,832,230
Restricted cash	**564,581**	4,699,998	5,286,967
Due from broker	**-**	228,868	-
Promissory note receivable	**-**	-	2,070,140
Income taxes receivable	**-**	1,053,614	1,328,276
Receivables	**951,153**	343,594	102,893
	$ 19,712,740	$ 36,159,880	$ 10,620,506

As at June 30, 2012 and 2011 and July 1, 2010, the Company had the following significant receivables:

(i) As at June 30, 2012, included in receivables is $734,096 (June 30, 2011 - $255,911; July 1, 2010 - nil) relating to oil sales revenue. The Company is exposed to this credit risk since the amount is due from two counterparties.

(ii) As at June 30, 2011, the Company had accrued income taxes receivable of $1,053,614 (July 1, 2010 - $1,328,276) relating to refunds of taxes previously paid, from taxable losses carried back to prior years. During the year ended June 30, 2012, the Company received the full amount from the Canadian government.

(iii) As at June 30, 2012, included in receivables is $52,448 (June 30, 2011 - $84,366; July 1, 2010 - $16,161) 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.

(iv) 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 had received repayment of the promissory note in full from Dejour (note 8).

(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 cash and cash equivalents and investments which primarily consist of freely tradable and relatively liquid equity securities to fund its obligations as they become due under normal operating conditions.

(Prepared in Canadian dollars)

15. Risk management (continued):

There were no changes to the way the Company manages liquidity risk during the year ended June 30, 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.

As at June 30, 2012, the Company was not using any margin. As at June 30, 2011, the Company had $228,868 (July 1, 2010 – nil) 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 June 30, 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	**$ 1,150,868**	**$ 1,150,868**	**$ -**	**$ -**	**$ -**
	$ 1,150,868	**$ 1,150,868**	**$ -**	**$ -**	**$ -**

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 liabilities and potential due dates related to liquidity risk as at July 1, 2010:

	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	$ 2,113,363	$ 2,113,363	$ -	$ -	$ -
	$ 2,113,363	$ 2,113,363	$ -	$ -	$ -

(Prepared in Canadian dollars)

15. Risk management (continued):

The following table shows the Company's source of liquidity by assets as at June 30, 2012:

	Liquidity by period				
Assets	**Total**	**Less than 1 year**	**1 – 3 years**	**After 4 years**	**Non-liquid assets**
Cash and cash equivalents	**$ 18,197,006**	**$ 18,197,006**	**$ -**	**$ -**	**$ -**
Prepaids and receivables	**976,068**	**976,068**	**-**	**-**	**-**
Investments, at fair value	**2,771,469**	**2,771,469**	**-**	**-**	**-**
Restricted cash	**564,581**	**-**	**564,581**	**-**	**-**
Exploration and evaluation assets	**45,141,148**	**-**	**-**	**-**	**45,141,148**
	$ 67,650,272	**$ 21,944,543**	**$ 564,581**	**$ -**	**$ 45,141,148**

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 broker	228,868	228,868	-	-	-
Restricted cash – current	4,165,776	4,165,776	-	-	-
Prepaids and 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

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 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	$ 22,507,658	$ 5,286,967	$ -	$ 32,285,288

15. Risk management (continued):

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at June 30, 2012 and 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. To minimize interest rate risk, the Company maintains its portfolio of cash equivalents in GICs 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.

The following assets and liabilities were denominated in foreign currencies:

	June 30, 2012	June 30, 2011	July 1, 2010
Denominated in U.S. dollars:			
Investments	**$ -**	$ -	$ 890,313
Cash and cash equivalents	**2,066,666**	69,779	1,063,028
Due from broker	**-**	157,095	-
Restricted cash	**564,581**	4,699,998	5,286,967
Prepaids and receivables	**888,304**	260,309	3,202
Exploration and evaluation assets	**44,024,390**	40,978,189	31,282,006
Accounts payable and accrued liabilities	**(965,440)**	(1,397,055)	(85,629)
Net assets denominated in U.S. dollars	**46,578,501**	44,768,315	38,439,887
Denominated in Brazilian reals:			
Cash and cash equivalents	**142,662**	173,855	165,990
Net assets denominated in Brazilian reals	**142,662**	173,855	165,990

15. Risk management (continued):

	June 30, 2012	June 30, 2011	July 1, 2010
Denominated in Argentinean pesos:			
Cash and cash equivalents	**63,639**	1,538	9,363
Prepaids and receivables	**21,027**	19,393	20,794
Net assets denominated in Argentinean pesos	**84,666**	20,931	30,157
Denominated in Colombian pesos:			
Cash and cash equivalents	**902,211**	96,949	17,736
Prepaids and receivables	**-**	-	372
Net assets denominated in Colombian pesos	**902,211**	96,949	18,108

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 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 June 30, 2012:

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%	**$ 684,704**	**$ (684,704)**
4%	**1,369,408**	**(1,369,408)**
6%	**2,054,112**	**(2,054,112)**
8%	**2,738,816**	**(2,738,816)**
10%	**3,423,520**	**(3,423,520)**

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%	$ 633,472	$ (633,472)
4%	1,266,943	(1,266,943)
6%	1,900,415	(1,900,415)
8%	2,533,887	(2,533,887)
10%	3,167,358	(3,167,358)

16. 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. These consolidated financial statements as at and for the year ended June 30, 2012 are the first annual consolidated financial statements which the Company has prepared in accordance with IFRS.

In preparing these consolidated financial statements, the opening consolidated 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 as at and for the year ended June 30, 2011.

(a) Exemptions applied:

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

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 on January 1, 2015. All previously recognized financial assets and financial liabilities are designated as either amortized cost or at fair value through profit or 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 Transition Date 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 the Transition Date.

16. Transition to IFRS (continued):

(vi) Designation of previously recognized financial instruments - IFRS 1 provides an exemption that permits a first-time adopter to designate financial assets and liabilities as at fair value through profit or loss or as available-for-sale at the date of transition to IFRS. The Company has elected to use this option and has classified all its investments as carried at fair value through profit or loss.

(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, 2011;

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

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

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

(Prepared in Canadian dollars)

16. Transition to IFRS (continued):

(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 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 Equity				
Current				
Accounts payable and accrued liabilities		$ 2,113,363	$ -	$ 2,113,363
		2,113,363	-	2,113,363
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
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

(Prepared in Canadian dollars)

16. Transition to IFRS (continued):

(ii) 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 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 Equity				
Current				
Accounts payable and accrued liabilities		$ 1,497,064	$ -	$ 1,497,064
		1,497,064	-	1,497,064
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

(Prepared in Canadian dollars)

16. Transition to IFRS (continued):

(iii) 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				
Net realized losses on disposal of investments		$ (1,385,033)	$ -	$ (1,385,033)
Net change in unrealized gains on investments		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	2., 4.	5,752,140	(47,716)	5,704,424
Finance expense	4.	202,350	330,000	532,350
		5,954,490	282,284	6,236,774
Loss before income taxes		(2,028,872)	(282,284)	(2,311,156)
Income tax benefit		(729,859)	-	(729,859)
Loss for the year		(1,299,013)	(282,284)	(1,581,297)
Other comprehensive loss				
Exchange differences on translation of foreign operations	1.	-	(3,165,014)	(3,165,014)
Total comprehensive loss for the year		$ (1,299,013)	$ (3,447,298)	$ (4,746,311)
Loss per common share based on loss for the year				
Basic and diluted		$ (0.01)		$ (0.02)
Weighted average number of common shares outstanding				
Basic and diluted		100,279,183		100,279,183

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.

(Prepared in Canadian dollars)

16. 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 deemed cost 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 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)

(Prepared in Canadian dollars)

16. Transition to IFRS (continued):

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)
Net adjustment to 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 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

(Prepared in Canadian dollars)

16. Transition to IFRS (continued):

3. The following is a reconciliation of the 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 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 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)
Adjustment for stock options in the year ended June 30, 2011	(305,831)
Deficit as reported under IFRS as at June 30, 2011	$ (26,068,439)

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 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)

17. Future changes in accounting policies:

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted these standards, amendments and interpretations. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

(a) IFRS 7, *Financial Instruments, Disclosures* - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the consolidated statement of financial position or that are subject to enforceable master netting similar arrangements.

(b) IFRS 10, *Consolidated Financial Statements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

(c) IFRS 11, *Joint Arrangements* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.

(d) IFRS 12, *Disclosure of Interests in Other Entities* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

(e) IFRS 13, *Fair Value Measurement* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

(f) IAS 1, *Presentation of Financial Statements* - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive loss on the basis of whether they are potentially reclassifiable to profit or loss.

(g) IAS 12, *Income Taxes* – In December 2010, effective for annual periods beginning on or after January 1, 2012, IAS 12 was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

As a result of the amendments, SIC 21, *Income Taxes – Recovery of Revalued Non-depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

17. Future changes in accounting policies (continued):

(h) IAS 19, *Employee Benefits* - effective for annual periods beginning on or after January 1, 2013, a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in other comprehensive income. The standard also includes amendments related to termination benefits as well as enhanced disclosures.

(i) IAS 27, *Separate Financial Statements* - effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

(j) IAS 28, *Investments in Associates and Joint Ventures* - effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

(k) IAS 32, *Financial instruments, Presentation* – In December 2011, effective for annual periods beginning on or after January 1, 2013, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

18. Subsequent event:

Subsequent to June 30, 2012, 15,131,579 warrants exercisable at $1.25 per share and 2,118,421 broker warrants exercisable at $1.25 per share expired unexercised.