Brownstone Energy Inc.
Management's Discussion and Analysis

For the year ended: **June 30, 2012**

Date of report: **September 28, 2012**

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Brownstone Energy Inc. ("Brownstone" or the "Company") should be read in conjunction with Brownstone's annual audited consolidated financial statements and notes thereto as at and for the years ended June 30, 2012 and 2011. See "Significant Accounting Policies" elsewhere in this MD&A.

On July 1, 2011, the Company transitioned from financial reporting under Canadian Generally Accepted Accounting Principles ("CGAAP") to the International Financial Reporting Standards ("IFRS"), for periods commencing on and after that date. Prior to the transition, the Company prepared its interim and annual consolidated financial statements in accordance with CGAAP. The consolidated financial statements as at and for the year ended June 30, 2012, which are discussed in this MD&A, including all comparative financial information contained in the statements which has been restated from CGAAP, are the first audited consolidated financial statements the Company has prepared in accordance with IFRS.

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All dollar amounts in this MD&A are reported in Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to the Company's expectations regarding its exploration and development activities, including expectations regarding the timing, costs and results of seismic acquisition, drilling and other activities, and future production volumes and sales, receipt of regulatory and governmental approvals, the Company's future working capital requirements, including its ability to satisfy such requirements, the exposure of its financial instruments to various risks and its ability to manage those risks, the Company's ability to use tax resource pools and loss carry-forwards, fees to be incurred by foreign subsidiaries and changes in accounting policies.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risks relating to oil and gas exploration activities generally, including the availability and cost of seismic, drilling and other equipment; our ability to complete our capital programs; geological, technical, drilling and processing problems, including the availability of equipment and access to properties; our ability to secure adequate transportation for our products; potential losses which would stem from any disruptions in production, including work stoppages or other labour difficulties, or disruptions in the transportation network on which we are reliant; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; our ability and the ability of our partners to attract and retain the necessary labour required to explore and develop our projects; potential conflicting interests with our joint venture partners; our failure or the failure of the holder(s) of licenses or leases to meet specific requirements of such licenses or leases; the failure by counterparties to make payments or perform their operational or other obligations in compliance with the terms of contractual arrangements between us and such counterparties; adverse claims made in respect of our properties or assets; operating hazards and other difficulties inherent in the exploration for and production and sale of crude oil and natural gas; political and economic conditions in the countries in which our property interests are located; obtaining the necessary financing for operations, our ability to generate taxable income from operations, fluctuations in the value of our portfolio investments due to market conditions and/or company-specific factors, fluctuations in prices of commodities underlying our interests and portfolio investments, and other risks included elsewhere in this MD&A under the heading “Risks” and in the Company’s public disclosure documents filed with certain Canadian securities regulatory authorities and available under the Company’s profile at www.sedar.com.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Nature of the Business:

Brownstone Energy Inc. (“Brownstone” or the “Company”) is a Canadian-based, energy focused company with direct interests in oil and gas exploration projects, including varying interests in three off-shore Israel concessions and four blocks in the Llanos Basin of Colombia. Its common shares are publicly traded on the TSX Venture Exchange (“TSXV”) under the symbol “BWN” and on the OTCQX under the symbol “BWSOF”.

Summary:

- As at June 30, 2012, the Company has working capital of $20,793,675 as compared to working capital of $46,507,056 as at June 30, 2011, a decrease of 55.3%, primarily due to the expenditures on exploration and evaluation assets and the decrease in the value of investments during the current year.

- As at June 30, 2012, exploration and evaluation assets increased by 7.3% to $45,141,148 as compared to $42,053,011 as at June 30, 2011. The increase includes exploration and evaluation expenses of $17,096,808 and a foreign currency translation gain of $2,287,770 offset by an impairment of exploration and evaluation assets of $16,292,799 during the year ended June 30, 2012.

Exploration and evaluation assets:

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

The Company's accounts reflect only 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. All of the Company's private participating interests in Colombia are subject to exploration commitments. 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 and 2011 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: The Company has 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. The sunk costs were for previously acquired 3D seismic on the block that was agreed to under a definitive agreement signed in 2010. 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 ("BOPD").

Canaguay-1 Well - Following a workover, cleanout and a pump replacement in late April 2012, the Canaguay-1 well has been put back on production and continues to produce approximately 1,000 BOPD with a watercut of approximately 42%. In September 2012, the well was shut-down for another workover which included a plan to increase perforating density to further increase fluid production rates. The well workover should be completed and back on line by the beginning of October 2012.

Canaguay-2 Well – In the second quarter of 2012, Brownstone and its partners received approval from the ANH for the Evaluation Program at the Canaguaro Block. The commitment under the Evaluation Program is to drill another well by June 15, 2013. Planning has also commenced to complete a 3D seismic survey over an additional exploration prospect on the block, scheduled for the fall of 2012, and plans are being made to drill the Canaguay-2 well in Q2 of fiscal 2013. These planned dates are subject to receipt of pending environment approvals from the Colombian government.

(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.

Mani-1 exploration well, as part of the extended test following the oil discovery, the operator has observed that total fluid production has continued to increase, with the watercut also continuing to increase and now exceeding 85% of production fluids. As a result, the operator is now investigating whether: a) the cement job from the original completion has failed to hold properly causing water to seep from lower zones; or b) if the water is being produced from the target reservoir. The operator has decided to suspend production of the well until the drilling of the Flami-2 well is completed, at which time the operator will review the option of carrying out another remedial cement job.

On April 23, 2012, exploration of the Flami-1 exploration well commenced. The well program was to test the hydrocarbons potential of the Mirador and Une formations with secondary targets being the Carbonera and Gacheta formations. The gross budget for drilling the well was gross US$10,000,000 with a testing budget of gross US$4,000,000. The well successfully reached the total depth of 9,300 feet on June 6, 2012. Well logs indicated an estimate 20 feet of potential gross pay in the Mirador formation and 22 feet in the Une formation.

Une formation test – testing operation commenced on June 13, 2012 with the Une formation. Phase 1 of the test involved producing out the drilling control fluids and cleaning the well bore. Over a 60 hour period, the well produced 1,514 BOPD of 15.5 degree API oil with and an average water cut of 13%. Cumulative oil production over those 60 hours was 3,786 barrels of oil. Phase 2 of the test involved periodically stepping up the total fluid production rate to observe watercut and overall fluid production. Cumulative production over a 73 hour period was 5,496 barrels of oil with an average watercut of approximately 12%. On July 1, 2012, testing operations commenced with the Mirador formation being perforated. Over a 48 hour period, the well produced 510 barrels of oil and 1,448 barrels of water (75% watercut). Given the lower productivity and higher watercut of the Mirador formation it was decided to terminate testing of the Mirador and move towards an application to place the Une formation of the well on extended production test. At that time, the well was suspended while Brownstone and its partners awaited regulatory approval to put the well back on production. Approval was received on August 17, 2012 and production commenced on August 18, 2012. Brownstone and its partners have brought the well back on at initial fluid production rates of 1,700 barrels of fluids per day from the Une formation. The intention is to increase the drawdown rate gradually while closely monitoring water cut to determine optimal production conditions. At present, the well has been producing approximately 800 BOPD at a 40%-50% water cut. Once the water cut has stabilized, incremental oil volumes may be obtained by increasing the total fluid rates from the well.

(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.

The Company has been advised by the operator of Block 36, that it has made an application to the Agencia Nacional de Hidrocarburos for an extension of the Phase 1 exploration deadline and is still awaiting a decision on that application.

(b) Israel:

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

	Gabriella Block (i)	Yitzhak Block (ii)	Samuel Block (iii)
Participating Interest	15%	15%	6.75%

(i) Gabriella Block: The partners of the Gabriella Block have engaged Halliburton affiliate, Universal Energy Services, to act as project manager for the drilling of the Gabriella well which was scheduled to begin drilling operations on or about December 1, 2012. Subsequently, a drilling extension has been granted on the block by the Ministry of Energy and Water of the State of Israel, with a new spud date of June 30, 2013. Work towards finalizing the drilling location, conceptual well design, and rig selection is proceeding. In July 2012, the Company and its partners executed a detailed drilling contract with Noble International Ltd. to drill the planned well. The agreement provides for the drilling of the Gabriella licence by the Noble Homer Farrington semi-submersible drilling rig prior to the government-regulated spud date of June 30, 2013.

(ii) Yitzhak Block: The partners of the Yitzhak Block have engaged AGR Energy AS of Norway, under its affiliate, AGR Well Management Limited, to act as operator for the drilling of the Yitzhak well which was scheduled to begin drilling operations on or about December 1, 2012. Subsequently, a drilling extension has been granted on the block by the Ministry of Energy and Water of the State of Israel, with a new spud date of October 30, 2013. Work towards finalizing the drilling location, conceptual well design, and rig selection is proceeding. The Company has been informed by the operator of the Block that there are currently no rigs available to drill the well within the required time frame and therefore drilling will most likely be delayed, subject to the approval of the Israeli government.

(iii) Samuel Block: The partners of the Samuel Block have engaged Halliburton affiliate, Universal Energy Services, to act as project manager for the drilling of the Samuel well which was scheduled to begin drilling operations on or about October 1, 2012. Subsequently, a drilling extension has been granted on the block by the Ministry of Energy and Water of the State of Israel, with a new spud date of April 30, 2013. Work towards finalizing the drilling location, conceptual well design, and rig selection is proceeding. The Company has been informed by the operator of the Block that there are currently no rigs available and therefore drilling will most likely be delayed, subject to the approval of the Israeli government.

(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.

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).

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.

The Company has commissioned an evaluation of its reserves in Colombia and USA as at June 30, 2012 and a reserves report (and other required information) will be filed on SEDAR.com when it is available.

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

As at June 30, 2012, the original cost of investments exceeded fair value by $10,479,190 as compared to $9,869,092 as at June 30, 2011. The decrease for the year ended June 30, 2012 was primarily due to the net change in unrealized gains on investments of $610,098.

For details of the Company's accounting policies for investments, see (b) under "Significant Accounting Policies" elsewhere in this MD&A. The fair value of the Company's investments as reflected in its consolidated financial statements and calculated in accordance with IFRS and its accounting policies may differ from the actual proceeds of disposition that would be realized by the Company. For example, the amounts at which the Company's publicly-traded investments could be disposed of currently may differ from fair values based on market quotes, as the value at which significant ownership positions are sold is often different than the quoted market price due to a variety of factors such as premiums paid for large blocks or discounts due to illiquidity.

Results of Operations

Selected financial information for the Company for its three most recently completed financial years as at and for the years ending June 30 is provided below (information from 2010 consolidated financial statement of comprehensive loss is reported under CGAAP):

	2012	2011	2010 (CGAAP)
Total revenue	**$ (5,315,869)**	$ 3,925,618	$ 4,938,260
Comprehensive loss for the year	**(24,817,623)**	(4,746,311)	(22,069,004)
Loss per common share – basic and diluted	**(0.21)**	(0.02)	(0.31)
			(IFRS)
Exploration and evaluation assets	**45,141,148**	42,053,011	32,285,288
Total assets	**67,650,272**	90,591,353	60,079,913
Total liabilities	**1,150,868**	1,497,064	2,113,363
Equity	**66,499,404**	89,094,289	57,966,550

No dividends were declared by the Company during any of the years indicated.

The Company's selected quarterly results for the eight most recently completed interim financial periods are as follows. The financial results for the periods ending on September 30, 2010 to June 30, 2011 have been restated to IFRS.

	Quarter ended			
	June 30, 2012	**March 31, 2012**	**December 31, 2011**	**September 30, 2011**
Net investment gains (losses)	**$ (1,361,788)**	**$ (3,848,424)**	**$ 2,154,987**	**$(2,563,599)**
Profit (loss) for the period	**(2,688,493)**	**(21,915,937)**	**893,858**	**(3,343,326)**
Total comprehensive loss for the period	**(1,901,522)**	**(22,730,621)**	**(53,707)**	**(131,773)**
Earnings (loss) per share based on profit (loss) for the period – basic and diluted	**(0.02)**	**(0.17)**	**0.01**	**(0.03)**
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Net investment gains (losses)	$ (706,975)	$ (145,552)	$ 4,458,314	$ 59,318
Profit (loss) for the period	(2,765,008)	(1,268,671)	3,046,580	(594,198)
Total comprehensive income (loss) for the period	(3,042,664)	(2,155,777)	1,902,039	(1,449,909)
Earnings (loss) per share based on profit (loss) for the period – basic and diluted	(0.02)	(0.01)	0.03	(0.01)

No dividends were declared by the Company during any of the periods indicated.

Three months ended June 30, 2012 and 2011:

The effect on the Company's results of operations from the changeover to IFRS from CGAAP was significant, primarily due to the accounting treatment of the functional currency (the effects of foreign exchange rates) and treatment of stock options under IFRS as compared to CGAAP (see the "Transition to IFRS" section). However, there was no material change to earnings (loss) per share from the changeover as previously reported. The results for the three months ended June 30, 2011 have been restated to reflect the adoption of IFRS. A reconciliation of the restated amounts can be found in Note 16 of the notes to the consolidated financial statements as at and for the year ended June 30, 2012.

For the three months ended June 30, 2012, the Company had no disposal of investments as compared to generating net realized losses of $772,134 for the three months ended June 30, 2011. For the three months ended June 30, 2011, the Company realized net losses from the disposition of a portion of its holdings in Dejour Energy Inc.

For the three months ended June 30, 2012, the Company recorded a net change in unrealized losses on investments of $1,361,788 as compared to a net change in unrealized gains on investments of $65,159 for the three months ended June 30, 2011. Of the net change in unrealized losses in the three months ended June 30, 2012, $1,361,788 was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the three months ended June 30, 2011, $1,235,451 was due from the reversal of net unrealized losses on the disposal of investments offset by net write-down to market on the Company's investments of $1,170,292.

For the three months ended June 30, 2012, the Company recorded interest and other income of $53,778 as compared to $88,509 for the three months ended June 30, 2011. Interest income is primarily composed of interest income earned on investments in banker's acceptances and cash deposits.

For the three months ended June 30, 2012, operating, general and administrative expenses decreased by $1,111,441 to $1,115,631 from $2,227,072 for the three months ended June 30, 2011. The decrease was primarily due to a decrease in Colombian equity tax expense, consulting expense and stock-based compensation expense as discussed below.

The following is the breakdown of the Company's operating, general and administrative expenses for the indicated three month periods ended June 30. Details of the changes follow the table:

	2012	2011
Salaries, consulting and administrative fees (a)	**$ 372,086**	748,299
Stock-based compensation expense (b)	**219,275**	592,895
Professional fees (c)	**207,127**	73,490
Travel and promotion	**164,914**	111,374
Other office and general	**163,363**	31,023
Shareholder relations, transfer agent and filing fees	**23,101**	50,760
Other employment benefits	**17,753**	6,468
Colombian equity tax (d)	**-**	588,578
Transaction costs	**-**	1,591
Foreign exchange loss (gain)	**(51,988)**	22,594
	$ 1,115,631	$ 2,227,072

(a) Salaries, consulting and administrative fees decreased by $376,213 for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. The decrease was primarily due to bonuses of $475,000 paid to officers of the Company during the three months ended June 30, 2011, partially offset by an increase in consultancy fees.

(b) Stock-based compensation expense decreased by $373,620 for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. The decrease was due to a decrease in the number of stock options which vested during the current period as compared to the prior year period. Stock options granted during the current and prior year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods based on the graded method. Unvested forfeited stock options are not expensed during the period.

(c) Professional fees increased by $133,637 for the three months ended June 30, 2012 as compared to the three months ended June 30, 2011. The increase in professional fees was primarily due to the full accrual of audit and tax consultancy fees for the year-ended June 30, 2012 in the period as compared to the prior year period which was accrued throughout the year.

(d) In December 2010, the Colombian government implemented a new equity tax, which Brownstone is required to pay based on the net equity of its Colombian branch office, subject to certain adjustments. As at June 30, 2011, the full equity tax payable was expensed and will be paid over seven instalments ending in September 2014.

For the three months ended June 30, 2012, the Company recorded an impairment on exploration and evaluation assets totalling $180,014 as compared to nil for the three months ended June 30, 2011.

The Company recorded impairments on its U.S.A. properties. See “Exploration and evaluation assets” section.

For the three months ended June 30, 2012, the Company recorded an income tax expense of $84,838 as compared to an income tax recovery of $80,531 for the three months ended June 30, 2011. The income tax expense in the current period is due to the recording of a 3.5% withholding tax payable in Colombia on sales of crude oil. The withholding tax can be used to offset any future tax payable but the Company does not foresee sufficient taxable profit in the near future. In the prior year period, the Company recorded an income tax recovery attributable to the expected income tax recoverable from taxable losses in that period, carried back to prior years.

Loss for the three months ended June 30, 2012 was $2,688,493 ($0.02 per share) as compared to $2,765,008 ($0.02 per share) for the three months ended June 30, 2011. The loss in the current period was primarily due to the change in unrealized losses on investments.

For the three months ended June 30, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $786,971 resulting in total comprehensive loss for the period of $1,901,522. The gain from the exchange differences on translation of foreign operations was primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company’s U.S. dollar denominated exploration and evaluation assets held by foreign subsidiaries. For the three months ended June 30, 2011, the Company recorded a loss from the exchange differences on translation of foreign operations of $277,656 resulting in total comprehensive loss for the period of $3,042,664.

Year ended June 30, 2012 and 2011:

For the year ended June 30, 2012, the Company generated net realized losses on disposal of investments of $5,008,726 as compared to $1,385,033 for the year ended June 30, 2011. For the year ended June 30, 2012, the Company realized net losses from the disposition of its holdings in Dejour Energy Inc. For the year ended June 30, 2011, the Company realized net losses primarily from the disposition of a portion of several of its holdings.

For the year ended June 30, 2012, the Company recorded a net change in unrealized losses on investments of $610,098 as compared to $5,050,138 in the year ended June 30, 2011. Of the net change in unrealized gains in the year ended June 30, 2012, $6,439,014 was due to the net write-down to market on the Company’s investments offset by the reversal of net unrealized losses on the disposal of investments of $5,828,916. Of the net unrealized gains in the year ended June 30, 2011, $3,105,516 was due to the reversal of net unrealized losses on the disposal of investments and $1,944,622 from the net write-up to market on the Company’s investments.

For the year ended June 30, 2012, the Company recorded interest and other income of $302,955 as compared to $260,513 for the year ended June 30, 2011. Interest income is primarily composed of interest income earned on investments in banker’s acceptances and cash deposits.

For the year ended June 30, 2012, operating, general and administrative expenses decreased by $426,845 to $5,277,579 from $5,704,424 for the year ended June 30, 2011. The following is the breakdown of the Company's operating, general and administrative expenses for the year ended June 30. Details of the changes follow the table:

	2012	2011
Salaries, consulting and administrative fees (a)	**$ 1,425,379**	$ 1,743,937
Stock-based compensation expense (b)	**1,412,741**	1,545,978
Cost of warrant expiry date extension (c)	**809,997**	-
Other office and general	**638,817**	498,919
Travel and promotion (d)	**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 (e)	**-**	672,663
Foreign exchange loss (gain) (f)	**(97,751)**	386,045
	$ 5,277,579	$ 5,704,424

(a) Salaries, consulting and administrative fees decreased by $318,558 for the year ended June 30, 2012 as compared to the year ended June 30, 2011. The decrease was primarily due to bonuses of $475,000 paid to officers of the Company during the three months ended June 30, 2011, partially offset by an increase in consultancy fees and bonus of $50,000 paid during the year ended June 30, 2012.

(b) Stock-based compensation expense decreased by $133,237 for the year ended June 30, 2012 as compared to the year ended June 30, 2011. The decrease was due to a decrease in the number of stock options which vested during the current period as compared to the prior year period. Stock options granted during the current and prior year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods based on the graded method. Unvested forfeited stock options are not expensed during the period.

(c) As a result of an extension by the Company of the expiry date of 7,951,454 warrants from April 13, 2012 to April 13, 2014, during the year ended June 30, 2012, the Company recorded an expense of $809,997. The fair value of the warrants immediately after the extension 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 the extension of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss as an operating, general and administrative expense.

(d) Travel and promotion increased by $203,452 for the year ended June 30, 2012 as compared to the year ended June 30, 2011. The increase was due to the increase in traveling related to the Company's oil and gas activities in Colombia and Israel.

(e) In December 2010, the Colombian government implemented a new equity tax, which Brownstone is required to pay based on the net equity of its Colombian branch office, subject to certain adjustments. As at June 30, 2011, the full equity tax payable was expensed and will be paid over seven instalments ending in September 2014.

(f) Foreign exchange gain increased by $483,796 for the year ended June 30, 2012 as compared to a foreign exchange loss for the year ended June 30, 2011. The foreign exchange gain was due to the increase in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the year ended June 30, 2012, the Company recorded an impairment on exploration and evaluation assets totalling $16,292,799 as compared to nil for the year ended June 30, 2011. The Company recorded impairments on its properties in U.S.A. and Argentina. See "Exploration and evaluation assets" section.

For the year ended June 30, 2012, the Company had no finance expenses, as compared to $532,350 for the year ended June 30, 2011. In the prior year, finance expenses consisted of a financing fee of $330,000 and interest of $202,350 paid to a lender for a loan provided to the Company, which was repaid in March 2011.

For the year ended June 30, 2012, the Company recorded an income tax expense of $167,651 as compared to an income tax recovery of $729,859 for the year ended June 30, 2011. The income tax expense in the current period is due to the recording of a 3.5% withholding tax in Colombia from the sales of crude oil. The withholding tax can be used to offset any future tax payable but the Company does not foresee sufficient taxable profit in the near future. In the prior year period, the Company recorded an income tax recovery attributable to the expected income tax recoverable from taxable losses in that period, which would be carried back to prior years.

Loss for the year ended June 30, 2012 was $27,053,898 ($0.21 per share) as compared to $1,581,297 ($0.02 per share). The loss in the current year was primarily due to the impairment of exploration and evaluation assets and the net realized losses on disposal of investments.

For the year ended June 30, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $2,236,275 resulting in total comprehensive loss for the year of $24,817,623. The gain from the exchange differences on translation of foreign operations was primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the nine months period, which increased the Canadian dollar value of the Company's U.S. dollar denominated exploration and evaluation assets held by foreign subsidiaries. For the year ended June 30, 2011, the Company recorded a loss from the exchange differences on translation of foreign operations of $3,165,014 resulting in total comprehensive loss for the year of $4,746,311.

Cash Flows
Year ended June 30, 2012 and 2011:

During the year ended June 30, 2012, the Company used cash of $3,196,419 in operating activities as compared to $4,711,156 in the year ended June 30, 2011. For the year ended June 30, 2012, the Company received income tax refunds of $1,503,614.

During the year ended June 30, 2012, the Company generated net cash in financing activities of $228,868 as compared to $34,099,204 during the year ended June 30, 2011. During the year ended June 30, 2012, the net cash generated in financing activities was primarily from a decrease of $228,868 in cash held at broker as compared to an increase of $228,868 during the year ended June 30, 2011. During the year ended June 30, 2011, the Company also received net proceeds of

$26,549,415 from a private placement financing and proceeds of $7,511,812 from the exercise of stock options, broker warrants and warrants.

During the year ended June 30, 2012, net cash used in investing activities was $8,617,754 as compared to $1,362,925 during the year ended June 30, 2011. During the year ended June 30, 2012, $4,165,776 of cash was released from restricted cash following the return by the Agencia Nacional de Hidrocarburos ("ANH"), a Colombian government agency, of a letter of guarantee in the amount of US$1,620,000 provided by the Company and the extension of a US$2,700,000 Performance Security Guarantee ("PSG") by Export Development Canada ("EDC"), a federal government agency, to the Company's bank in support of other letters of guarantee given to ANH. During the year ended June 30, 2012, the Company also pledged an additional US$1,850,000 to increase the letter of guarantee to ANH for Block 27 in Colombia which was fully offset by a PSG from EDC. During the year ended June 30, 2011, the Company decreased its restricted cash by $586,969. The Company spent cash on expenditures on exploration and evaluation assets of $16,717,003 as compared to cash expenditures of $12,772,103 during the year ended June 30, 2011, an increase that reflects the Company's increased oil and gas activities, primarily in Colombia and Israel. During the year ended June 30, 2012, the Company had proceeds from dispositions of investments of $4,010,190 as compared to $8,752,741 during the year ended June 30, 2011. During the year ended June 30, 2011, the Company received the full repayment of the $2,070,140 promissory note due from Dejour Enterprises Ltd.

For the year ended June 30, 2012, the Company had a net decrease in cash and cash equivalents of $11,585,305 as compared to a net increase in cash and cash equivalents of $28,025,123 for the year ended June 30, 2011. For the year ended June 30, 2012, the Company also had a loss from the exchange rate changes on its foreign operations' cash balances of $51,495, leaving a cash and cash equivalents balance of $18,197,006 as at June 30, 2012 as compared to an exchange loss of $23,547, leaving a cash and cash equivalents balance of $29,833,806 as at June 30, 2011.

Segmented information:

Reporting segments are defined as components of an enterprise about which separate financial information is available, that is 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.

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 year	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

Liquidity and capital resources:

Consolidated statements of financial position highlights		June 30, 2012	June 30, 2011	July 1, 2010
Cash and cash equivalents	$	**18,197,006**	$ 29,833,806	$ 1,832,230
Investments, at fair value		**2,771,469**	12,350,483	17,174,119
Exploration and evaluation assets		**45,141,148**	42,053,011	32,285,288
Total assets		**67,650,272**	90,591,353	60,079,913
Total liabilities		**1,150,868**	1,497,064	2,113,363
Share capital, warrants and broker warrants, contributed surplus		**120,550,480**	118,327,742	82,453,692
Foreign currency translation reserve		**(928,739)**	(3,165,014)	-
Deficit		**(53,122,337)**	(26,068,439)	(24,487,142)
Working Capital		**20,793,675**	46,507,056	20,394,295

Accounts payable and accrued liabilities decreased by $346,196 to $1,150,868 as at June 30, 2012 as compared to $1,497,064 as at June 30, 2011 and decreased by $962,495 as compared to $2,113,363 as at July 1, 2010. During the year ending June 30, 2012, the Company paid US$875,000 in success fees due on the sale of petroleum of which US$265,385 was accrued as at June 30, 2011. As at June 30, 2012, included in accounts payable and accrued liabilities is $428,493 for a Colombian equity tax as compared to $566,779 as at June 30, 2011. The Colombian government implemented a new equity tax in December 2010, which Brownstone is required to pay based on the net equity of its Colombian branch office, subject to certain adjustments. As at June 30, 2012, the accounts payable and accrued liabilities included $376,480 for exploration and evaluation cash calls as compared to $400,415 (which was paid during fiscal 2012) for the Canaguaro property and $1,855,495 as at July 1, 2010.

The Company has committed and is required to meet all of its drilling and related expenditures as they become due to maintain the Company's interests in its oil and gas properties (see "Exploration and evaluation assets" section). These exploration and evaluation assets obligations are not fixed and cannot be pre-determined with certainty. Failure to meet the obligations may result in the loss of the Company's interests.

The Company's cash and cash equivalents and investments as at June 30, 2012 would be sufficient to meet the Company's current financial obligations as they become due.

As at June 30, 2012, the Company had working capital of $20,793,675 as compared to working capital of $46,507,056 as at June 30, 2011. The decrease in working capital since June 30, 2011 was primarily due to the expenditures on exploration and evaluation assets.

The Company has no long-term debt.

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 a letter of guarantee issued by RBC for Block 36 in Colombia. As at June 30, 2011, the Company had restricted cash totaling $4,699,998 (US$4,874,000) of which $4,165,776 (US$4,320,000) was current. The restricted cash is held in Guaranteed Investment Certificates ("GICs"), which are renewed on a monthly basis at the prevailing interest rate (0.02% per annum as at June 30, 2012 (June 30, 2011 and July 1, 2010 – 0.03%)).

As at June 30, 2012, the Company also has US$6,834,883 PSGs (from EDC) as collateral for letters of guarantee issued by RBC. The letters of guarantee are provided to ANH to secure Brownstone's interests and exploration in Colombia Llanos exploration Blocks 21, 27, and 36 and to ensure that the Company and its partners fulfill their commitments under the blocks.

Investor relations:

During the three months ended June 30, 2012, Brownstone's management and Contact Financial Corp. ("Contact") handled the Company's investor relations activities. Contact is a strategic marketing and communications firm located in Vancouver, British Columbia. Contact provides advice to Brownstone with respect to corporate development, producing and distributing effective marketing communication tools, and increasing investor awareness.

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		

Off-Balance sheet arrangements:

The Company has indemnified EDC for the full amount of the US$6,834,883 PSGs provided by the EDC. See "Liquidity and capital resources" for additional information regarding this contingent liability.

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

(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 the 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 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.

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.

Risk management:

The investments operation of Brownstone's business involves the purchase and sale of securities and, accordingly, a significant 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.

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.

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 Energy Ltd., 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.

(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.

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	$ -	$ -	$ -

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

(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
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)

Risks:

Brownstone's financial condition, results of operation and business are subject to certain risks, which may negatively affect them. Certain of these risks are described below in addition to elsewhere in this MD&A.

(a) Exploration and Development

The business of exploring for, developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not be result in production at reasonable costs or profitability. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operating activities and external sources become limited or unavailable, the ability of Brownstone and of its operating partners to meet their respective financial obligations which are necessary to maintain their interests in the underlying properties could be impaired, resulting in those of the interests.

(b) Investment Risks:

The Company acquires securities of public companies from time to time, which are primarily junior or small-cap resource companies. The market values of these securities can experience significant fluctuations in the short and long term due to factors beyond the Company's control. Market value can be reflective of the actual or anticipated operating results of the companies and/or the general market conditions that affect the oil & gas sector as a whole, such as fluctuations in commodity prices and global political and economical conditions. The Company's investments are carried at fair value, and unrealized gains/losses on the securities and realized losses on the securities sold could have a material adverse impact on the Company's operating results. The recent decline in stock prices of the types of companies in which the Company invests have been very significant and such prices might take an extended time, to recover if they do at all.

(c) Dependence Upon Operating Partners:

Brownstone's oil and gas activities are conducted through partners in respect of which the Company is not the operator. Brownstone is dependent upon its operating partners for the financial and technical support, which they contribute to the Company's oil and gas properties. If Brownstone's operating partners are unable to fulfill their own contractual obligations, the Company's interests could be jeopardized, resulting in project delays, additional costs and loss of the interests.

(d) Environmental:

The Company's oil and gas operations are subject to environmental regulations in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased costs, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are presently unknown to the Company and which have been caused by previous or existing owners or operators of the properties or by illegal mining activities.

(e) Governmental:

Government approvals and permits are often generally required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of properties. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in development of new properties. Although the governments of the various countries in which Brownstone operates have been stable recently, there is no assurance that political and economic conditions will remain stable. Political and economic instability may impede the Company's ability to continue its exploration activities in the manner currently contemplated.

(f) Foreign Operations:

The Company is exposed to risks of political instability and changes in government policies, laws and regulations in every country in which the Company has oil & gas interests. The Company holds interests in Argentina, Colombia, Israel and in other jurisdictions that may be affected in varying degrees by political stability, government regulations relating to the oil & gas industry and foreign investment therein. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect the Company's business. The

Company's operations may be affected in varying degrees by government regulations, including those with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, employment, land use, water use, environmental legislation and mine safety. There is no assurance that permits can be obtained, or that delays will not occur in obtaining all necessary permits or renewals of such permits for existing properties or additional permits required in connection with future exploration and development programs. In the event of a dispute arising at the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada. The Company may also be hindered or prevented from enforcing its rights with respect to a government entity or instrumentality because of the doctrine of sovereign immunity.

(g) Fluctuations in Crude Oil Prices:

The price of the Company's common shares, and consolidated financial results and exploration, development and other oil and gas activities may in the future be significantly and adversely affected by declines in the price of crude oil. The price of oil fluctuates widely and is affected by numerous factors beyond the Company's control, such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the US dollar and foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future material price declines could cause continued development of and commercial production from the properties in which the Company holds an interest to be impracticable. Depending on the price of oil, cash flow from the Company's operations may not be sufficient and the Company could be forced to discontinue production and may lose the Company's interest in, or may be forced to sell, some of the Company's properties. Future production from the Company's properties is dependent upon the price of oil being adequate to make these properties economic.

Transition to IFRS:

For all periods up to and including the year ended June 30, 2011, the Company prepared its interim and annual consolidated financial statements in accordance with CGAAP. The consolidated financial statements as at and for the year ended June 30, 2012 are the first audited consolidated financial statements which the Company has prepared in accordance with IFRS. In preparing the consolidated financial statements as at and for the year ended June 30, 2012, the opening consolidated statement of financial position was prepared as at July 1, 2010, the Company's date of transition to IFRS (the "Transition Date").

(a) Transition to IFRS Reconciliations:

The Company has disclosed the following CGAAP to IFRS reconciliations in note 16 of the notes to the consolidated financial statements as at and for the year ended June 30, 2012 (refer to that note for details):

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

(ii) reconciliation of the consolidated statement of financial position and equity as at 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.

(b) Significant Accounting Policy Changes and Exemptions Applied:

The following explains the principal adjustments made in restating the previous CGAAP consolidated balance sheet as at July 1, 2010 and its previously published CGAAP consolidated financial statements as at and for the year ended June 30, 2011. 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.

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 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.

As at July 1, 2010, the adjustment was to increase contributed surplus by $399,411 and the corresponding entry to increase deficit.

As at June 30, 2011, the adjustment was to increase contributed surplus by $305,831 and the corresponding entry to increase deficit. As a result of the exercise of stock options, there was an adjustment to decrease contributed surplus by $7,144 and a corresponding entry to increase share capital.

(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.

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

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

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

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

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)

(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.

(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.

Significant Accounting Policies:

Refer to note 2 of the Notes to the consolidated financial statements as at and for the year ended June 30, 2012 for details of the Company's basis of preparation of the consolidated financial statements.

Some significant accounting polices used in the presentation of the consolidated financial statements are as follows. Complete details of the Company's significant accounting policies which the Company has adopted in its annual consolidated financial statements as at and for the year ended June 30, 2011 are provided in Note 3 to its consolidated financial statements.

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

(i) Exploration and evaluation assets:

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

All costs incurred in connection with the Company's 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.

For preproduction cost centres, 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:

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

For production cost centres, capitalized oil and gas properties are depleted using the unit-of-production method based on net proved reserves for each 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, or the property is considered to be impaired, the cost of the property and related expenditures or the impairment is added to the depletion base. 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.

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

(b) 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:

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

Investments at fair value through profit or loss are initially recognized at fair value. Transaction costs are expensed as incurred in the statement of comprehensive loss.

Investments are derecognized when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all investments at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are presented in the 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 the Company changes its business model for managing the financial asset. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

(iv) Determination of fair 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 present its investments (and other financial assets and liabilities reported at fair value) into three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring the fair value, and to provide additional disclosure in connection therewith.

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

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

   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.

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

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

   All privately-held investments (other than options and warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may, depending upon the circumstances, be adjusted using one or more of the valuation indicators described below. 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);

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 projects;

iii. the investee company releases negative exploration results; and

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

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

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

(c) Cash and cash equivalents:

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

(d) Restricted cash:

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

(e) 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.

(f) Segment reporting:

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

(g) Foreign currency translation:

(i) Functional currency:

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.

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.

(h) Non-monetary transactions:

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

(i) Income taxes:

(i) Current income tax:

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

(j) Stock-based compensation:

The Company has a stock option plan which is described in Note 10(e) of the Company's consolidated financial statements as at and for the year ended June 30, 2012. 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.

(k) Earnings (loss) per 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.

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.

(h) IAS 19, *Employee Benefit*s - 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.

Critical accounting estimates:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical accounting estimates used in the preparation of the Company's interim financial statements include the Company's valuation of its privately-held investments, estimate of recoverable fair value on exploration assets, the valuation related to the Company's deferred tax assets ("DTA") and deferred tax liabilities ("DTL"), and the Company's estimate of inputs for the calculation of the fair value of stock-based compensation expense, the Company's own warrants and broker warrants, and unlisted warrants of public companies held by Brownstone.

<u>Valuation of privately-held investments:</u>

The method used by the Company to value its privately-held investments (being securities of issuers that are not public) is described under "Significant accounting policies" elsewhere in this MD&A. The valuation of these investments ("private investments") requires management to assess the current financial status and prospects of private investments based upon potentially incomplete or unaudited financial information provided by the investee company, on management's general knowledge of the private investment's activities, and on any political or economic events that may impact upon the private investment specifically, and to attempt to quantify the impact of such events on the fair value of the investment. In addition to any events or circumstances that may affect the fair value of a particular private investment, management can consider general market conditions that may affect the fair value of either a particular private investment or of a group, segment or complete portfolio of private investments.

Changes in the fair value of our private investments for company-specific reasons have tended to be infrequent. Changes as a result of general market conditions may be more frequent from period to period during times of significant volatility, however, given the relatively small size of our private investment portfolio, such changes are not expected to have a material impact on our financial condition or operating results. For the year ended June 30, 2012, the Company had a net change in unrealized losses of $3,175,000 (2011 – net change in unrealized gains of $2,680,300) on private company investments.

Estimate of recoverable fair value on exploration and evaluation assets:

The costs of acquiring interests in exploration and evaluation assets are carried at cost until they are brought into production, at which time they are depleted on a unit-of-production method based on estimated recoverable proven oil and gas reserves. The Company's recorded value of exploration assets is based on historical costs that it expects to be recoverable in the future. The Company operates in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, political, ownership, funding, and currency risks, as well as environmental risk and overall economic conditions. All of these factors are potentially subject to significant change, out of the Company's control, and such changes are not determinable. Additionally, failure to conduct additional work on the Company's exploration properties may result in their loss. Accordingly, there is always the potential for a material adjustment to the value assigned to exploration assets.

At each reporting period, the Company's management reviews the status of all of its exploration properties, taking into account all of the factors noted above, in order to make an estimate of the recoverable value of each property. When management believes that the value of a property has been impaired, the Company will write down the value of the property to management's estimate of its recoverable value. As well, if the Company determines that an exploration project is not viable due to the risks described above or to unsatisfactory drill results, the Company will write-off the carrying value of the property. During the year ended June 30, 2012, the Company wrote-off $16,292,799 (2011 – nil) of its exploration and evaluations assets in the U.S.A and Argentina.

Deferred tax assets:

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

DTL are recognized for all taxable temporary differences and DTA are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. The Company does not record DTA to the extent that it considers deductible temporary differences, the carry forward of unused tax credits and unused tax losses cannot be utilized.

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 tax effect 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 tax effect of which has not been recorded in the accounts.

The non-capital losses will expire as follows:

2028	$ 73,100
2031	2,327,800
2032	3,743,100
	$ 6,144,000

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

Management determined, based upon expectations for future taxable income, that it believes that it is more likely than not realize the tax benefits of the DTA during the next several years.

Stock-based Compensation Expense/Warrants and Broker Warrants:

The Company uses the Black-Scholes option pricing model to calculate stock-based compensation expense and the fair value of the warrants and broker warrants issued under the Company's private placements. The model requires six key inputs: exercise price, market price at date of issue, risk free interest rate, expected dividend yield, expected life and expected volatility. The first two inputs are facts rather than estimates, while the risk free interest rate, expected life, expected volatility and expected dividend yield (estimated at 0% based on the Company's history of not paying any dividends) are based on the Company's estimates. A shorter expected life of the option, lower volatility number or higher dividend yield used would result in a decrease in stock-based compensation expense. A longer expected life of the option or a higher volatility number used would result in an increase in stock-based compensation expense. 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. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

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 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 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	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		

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

As previously discussed, during the year ended June 30, 2012, the expiry date of 7,951,454 warrants was extended from April 13, 2012 to April 13, 2014. The fair value of these warrants immediately after the extension was $809,998 calculated 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 the extension of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss as an operating, general and administrative expense.

During the year ended June 30, 2011, 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. The warrants expired on April 13, 2012.

During the year ended June 30, 2011, the Company closed a brokered private placement financing and issued 15,131,579 purchase warrants and 2,118,421 broker warrants. The purchase warrants and broker warrants were exercisable at $1.25 per share and expired on September 11, 2012. The fair value of the purchase warrants were estimated at the date of issue using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used for stock-based compensation expense	
Expected volatility	**83.3%**
Expected dividend yield	**0.0%**
Risk-free interest rate	**3.0%**
Expected warrant life in years	**1.5**

Fair value per warrant issued	**$ 0.275**

Valuation of Unlisted Warrants of Public Companies:

The Company uses the Black-Scholes option pricing model to calculate the fair value of unlisted warrants of public companies if there are sufficient and reliable observable market inputs; if no such market inputs are available, the warrants are valued at intrinsic value. The model requires six key inputs: risk free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. The first four inputs are facts rather than estimates, while the expected life, expected volatility and expected dividend yield (estimated at 0% based on the Company's history of not paying any dividends) are based on the Company's estimates. A shorter expected life of the warrant, lower volatility number or higher dividend yield used would result in a decrease in the fair value of the warrant. A longer expected life of the warrant or a higher volatility number used would result in an increase in the fair value of the warrant. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. During the year ended June 30, 2012 and 2011, there were not sufficient reliable observable market inputs and thus, the Company valued the warrants in its portfolio using their intrinsic value.

Outstanding Share Data:

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.

As at September 30, 2012, the number of common shares of the Company outstanding and the number of common shares issuable pursuant to other outstanding securities of Brownstone are as follows:

Common shares	Number
Outstanding	129,794,289
Issuable under options	8,925,080
Issuable under warrants	7,951,454
Total diluted common shares	**146,670,823**

Refer to note 10 of the notes to the consolidated financial statements as at and for the year ended June 30, 2012 for details of the Company's share capital as at June 30, 2012.

Additional Information:

Additional information relating to Brownstone may be found on the Company's website at www.brownstoneenergy.com or under the Company's profile on SEDAR at www.sedar.com.