Brownstone Energy Inc.
Management's Discussion and Analysis

For the quarter ended: December 31, 2012

Date of report: February 28, 2013

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 unaudited interim condensed consolidated financial statements ("interim consolidated statements") and notes thereto as at and for the three and six months ended December 31, 2012 and the annual consolidated financial statements as at and for the year ended June 30, 2012. The same accounting policies and methods of computation were followed in the preparation of the interim consolidated statements as were followed in the preparation and described in note 3 of the annual consolidated financial statements as at and for the year ended June 30, 2012.

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with International Financial Reporting Standards ("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.

About Brownstone:

Brownstone 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 December 31, 2012, the Company has working capital of $9,975,993 as compared to working capital of $20,793,675 as at June 30, 2012, a decrease of 52.0%, primarily due to the expenditures on exploration and evaluation assets during the six months ended December 31, 2012.

- As at December 31, 2012, exploration and evaluation assets increased by 6.2% to $47,921,438 as compared to $45,141,148 as at June 30, 2012. The increase was due to the expenditures on the exploration and evaluation assets net of oil sales from production testing and reduced by an impairment on the Canaguaro Block in Colombia. See the Exploration and evaluation assets section.

Going concern uncertainty:

The Company has incurred a loss in the six months ended December 31, 2012 of $7,136,400 (six months ended December 31, 2011 - $2,449,468) and has an accumulated deficit of $60,258,737 (June 30, 2012 - $53,122,337). The Company is in the exploration stage and is subject to risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration and the ability to secure adequate financing to meet the minimum capital required to successfully complete the projects, political risk relating to maintaining property licenses in good standing and continuing as a going concern. Management estimates that the funds available as at December 31, 2012 will not be sufficient to meet the Company's obligation and budgeted expenditures through December 31, 2013. The Company will have to raise additional funds to continue operations. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available on terms acceptable to the Company. Failure to meet its funding commitments with its partners may result in the loss of the Company's exploration and evaluation interests.

These material uncertainties of successive operating losses, together with the challenges of securing requisite funding beyond December 31, 2012, cast significant doubt on the Company's ability to continue as a going concern. The interim consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

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, 2011	20,009,680	1,930,847	15,180,462	1,074,822	3,857,200	42,053,011
Net additions (a)	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
Net additions (a)	**4,669,739**	**2,522,500**	**1,183,949**	**13,710**	**-**	**8,389,898**
Impairment of exploration and evaluation assets	**(4,586,574)**	**-**	**-**	**-**	**-**	**(4,586,574)**
Foreign currency translation	**(827,277)**	**(107,943)**	**(63,614)**	**-**	**(24,200)**	**(1,023,034)**
Balance at December 31, 2012	**34,000,943**	**7,028,674**	**4,766,454**	**1,130,467**	**994,900**	**47,921,438**

(a) Colombia:

During the six months ended December 31, 2012, included in net additions was $4,688,291 (six months ended December 31, 2011 - $1,168,144) in oil sales from long-term production testing. During the year ended June 30, 2012, included in net additions was $4,515,621 in oil sales from long-term production testing. The Company has private participating interests in three blocks located in the Llanos Basin of Central Colombia and an option to acquire an interest in a fourth block exercisable following the satisfaction of certain funding obligations.

A summary of the Company's interests in the Colombian blocks as at December 31, 2012 is as follows:

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

(i) Canaguaro: The Company has a 25% private participating interest and is required to pay 25% of any costs relating to the wells on the Block. The Company also pays a 6% overriding royalty, proportional to its interest, to Concorcio Canaguaro on its share of production (in addition to 1.5% royalties payable to the Agencia Nacional de Hidrocarburos ("ANH")). The Canaguay-1 well is currently in long-term production testing, producing an average of approximately 550 gross barrels of oil per day.

During the six months ended December 31, 2012, the Company recorded an impairment charge of $4,586,574 on its Canaguaro Block. The impairment was recognized upon a review of the Block's oil production testing and based on the difference between the carrying value of the asset and its estimated recoverable amount of approximately US$6,000,000.

(ii) Block 27: The Company has a 34.25% private 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.

Flami-1 Well – Subsequent to the completion of the initial testing, the Flami-1 well was shut-in until August 18, 2012 when regulatory approval to put the well back on production for long term testing was received. The well has produced continuously since that date with an average of approximately gross 500 barrels of oil per day.

Flami-2 Well – The Company and its partners have developed plans to drill the Flami-2 well into the Flami structure to continue development of the field and further evaluate the production potential of the Mirador and Une oil bearing formations encountered in the Flami-1 well. Timing of the well is subject to seasonal access and rig availability.

Mani-1 Exploration Well - as part of the extended test following the oil discovery, the operator had 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 well was shut-in on April 23, 2012 and has remained shut-in until the date of this

MD&A, 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.

(iii) Block 36: The Company has a 14% private 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.

(iv) Block 21: Under an amending agreement dated February 28, 2012 to the original participation agreement in respect to the Block LLA 21, the Company is obligated to provide US$3,875,000 in funds toward the drilling of two wells. Following the completion of the wells, Brownstone will then have the option to: a) waive any right to an income production participation going forward and have no further financial obligations; or b) retain a 24.75% income production participation in the block by reimbursing the operator of the Block for the difference between 50% of the costs of the two wells and the amounts already contributed prior to exercising the option. The Company has paid US$750,000 and has accrued US$1,250,000 toward its obligations under the amending agreement.

Subsequent to December 31, 2013, the operator of Block 21 has informed Brownstone that it had commenced drilling the Calacho No. 1 well. The Calacho well is the first well of the planned two well drilling program on the Block. The planned second well in the program is the Rocamao No. 1 well.

The Calacho well is being drilled to a planned total depth of 7,000 feet, and drilling is expected to take approximately 30 days. The Calacho well is programmed to test the hydrocarbon potential of the C7 and Une formations. The gross budget for drilling and testing of the well is approximately US$4,500,000.

The Rocamao well is planned to be drilled to a total depth of 6,900 feet and drilling is expected to take approximately 30 days. The Rocamao well is also programmed to test the hydrocarbon potential of the C7 and Une formations. The gross budget for drilling and testing the Rocamao well is approximately $5,100,000.

(a) Israel:

As at December 31, 2012, the Company has the following participating 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 was 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. In July 2012, Modi'in Energy LP ("Modi'in"), 70% interest partner of the Block, had 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.

Subsequent to December 31, 2012, Brownstone was informed by the operator of the Gabriella Block, Adira Energy Israel Ltd., that it had suspended all operations with regard to drilling the Gabriella well until further notice. The failure of Modi'in to finance its obligations under the joint operating agreement was given as the reason for the suspension. Brownstone has met its financing obligations under the joint operating agreement. As a result of the disputes amongst the parties, the Company has not provided funds in support of letters of credit to be posted by Modi'in Energy for the Gabriella rig contract. Brownstone will endeavour to continue discussions with its joint operating parties surrounding the drilling and financing of the well.

(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 was 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.

(b) USA:

The Company has participating interests of between 7.5% to 28.57% in various acreages in the Piceance/Uinta basin in the USA and is required to fund its proportionate share of the participating interests.

(c) Argentina:

Pursuant to a participation agreement with Petrolifera Petroleum Limited ("Petrolifera"), Brownstone has 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.

Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
December 31, 2012	**$ 2,309,469**	**$ 13,750,659**
June 30, 2012	2,771,469	13,250,659

As at December 31, 2012, the original cost of investments exceeded fair value by $11,441,190 as compared to $10,479,190 as at June 30, 2012. The decrease for the six months ended December 31, 2012 was due to the net change in unrealized losses on investments of $962,000.

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

The Company's selected quarterly results for the eight most recently completed interim financial periods are as follows:

	Quarter ended			
	December 31, 2012	**September 30, 2012**	June 30, 2012	March 31, 2012
Net investment losses	**$ (674,534)**	**$ (287,466)**	$ (1,361,788)	$ (3,848,424)
Net loss for the period	**(6,040,709)**	**(1,095,691)**	(2,688,493)	(21,915,937)
Total comprehensive loss for the period	**(5,488,984)**	**(2,737,183)**	(1,901,522)	(22,730,621)
Loss per share based on net loss for the period – basic and diluted	**(0.05)**	**(0.01)**	(0.02)	(0.17)
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Net investment gains (losses)	$ 2,154,987	$(2,563,599)	$ (706,975)	$ (145,552)
Net profit (loss) for the period	893,858	(3,343,326)	(2,765,008)	(1,268,671)
Total comprehensive loss for the period	(53,707)	(131,773)	(3,042,664)	(2,155,777)
Earnings (loss) per share based on net profit (loss) for the period – basic and diluted	0.01	(0.03)	(0.02)	(0.01)

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

Three months ended December 31, 2012 and 2011:

For the three months ended December 31, 2012, the Company had no disposal of investments as compared to generating net realized losses of $1,631,880 for the three months ended December 31, 2011. For the three months ended December 31, 2011, the Company realized net losses from the disposition of a portion of its holdings in Dejour Energy Inc.

For the three months ended December 31, 2012, the Company recorded a net change in unrealized losses on investments of $674,534 as compared to a net change in unrealized gains on investments of $3,786,867 for the three months ended December 31, 2011. The net change in unrealized losses in the three months ended December 31, 2012 was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the three months ended December 31, 2011, $2,223,370 resulted from the net write-up to market on the Company's investments of $2,223,370 and $1,563,497 from the reversal of net unrealized losses on the disposal of investments.

For the three months ended December 31, 2012, the Company recorded interest and other income of $50,043 as compared to $96,802 for the three months ended December 31, 2011. Interest income is primarily composed of interest income earned on investments in bankers' acceptances and cash deposits. In the current period, the cash deposits were much lower which decreases the interest earned. Other income in the current period included a gain of $12,704 on the dispositions of U.S. properties.

For the three months ended December 31, 2012, operating, general and administrative expenses decreased by $611,056 to $725,175 from $1,336,231 for the three months ended December 31, 2011. The decrease was primarily due to a decrease in stock-based compensation expense and foreign exchange 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 December 31. Details of the changes follow the table:

	2012	2011
Salaries and consulting fees	**$ 391,948**	$ 319,773
Stock-based compensation expense (a)	**97,142**	470,192
Travel and promotion	**86,954**	157,532
Shareholder relations, transfer agent and filing fees	**58,125**	58,053
Professional fees	**46,831**	59,879
Other office and general (b)	**33,375**	140,910
Other employment benefits	**5,839**	4,975
Transaction costs	**-**	4,538
Foreign exchange loss (c)	**4,961**	120,379
	$ 725,175	$ 1,336,231

(a) Stock-based compensation expense decreased by $373,050 for the three months ended December 31, 2012 as compared to the three months ended December 31, 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. 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.

(b) Other office and general expense decreased by $107,602 for the three months ended December 31, 2011. The decrease was primarily due to a decrease of the Company's office expenses related to foreign operations and a decrease of bank service charges and fees relating to the Company's outstanding letters of guarantee for its Colombia properties. During the three months ended December 31, 2012, the Company also received a refund of US$34,927 for fees paid to the Export Development Canada ("EDC").

(c) Foreign exchange loss decreased by $115,418 for the three months ended December 31, 2012 as compared to the three months ended December 31, 2011 primarily due to the foreign exchange rates of the Canadian dollar versus the U.S. dollar during the quarter was stable as compared to the three months ended December 31, 2011.

For the three months ended December 31, 2012, the Company recorded an impairment of exploration and evaluation assets of $4,586,574 relating to the valuation of the estimated recoverable amount of the Company's private participating interest in the Canaguaro Block.

For the three months ended December 31, 2012, the Company recorded an income tax expense of $104,469 as compared to $21,700 for the three months ended December 31, 2011. The income tax expense is due to the recording of a 3.5% withholding tax in Colombia on sales of crude oil offset by a reduction of an accrual of minimum income tax payable due in Colombia that was recorded in the prior quarter.

Net loss for the three months ended December 31, 2012 was $6,040,709 ($0.05 per share) as compared to net profit of $893,858 ($0.01 per share) for the three months ended December 31, 2011.

For the three months ended December 31, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $551,725 resulting in total comprehensive loss for the period of $5,488,984. For the three months ended December 31, 2011, the Company recorded a loss from the exchange differences on translation of foreign operations of $947,565 resulting in total comprehensive loss for the period of $53,707.

Six months ended December 31, 2012 and 2011:

For the six months ended December 31, 2012, the Company had no disposal of investments as compared to generating net realized losses of $1,823,211 for the six months ended December 31, 2011. For the six months ended December 31, 2011, the Company realized net losses from the disposition of a portion of its holdings in Dejour Energy Inc.

For the six months ended December 31, 2012, the Company recorded a net change in unrealized losses on investments of $962,000 as compared to a net change in unrealized gains on investments of $1,414,599 for the six months ended December 31, 2011. Of the net change in unrealized losses in the six months ended December 31, 2012, all was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the six months ended December 31, 2011, $1,745,675 was due from the reversal of net unrealized losses on the disposal of investments offset by $331,076 from the net write-down to market on the Company's investments.

For the six months ended December 31, 2012, the Company recorded interest and other income of $98,501 as compared to $181,975 for the six months ended December 31, 2011. Interest income is primarily composed of interest income earned on investments in bankers' acceptances and cash deposits. In the current period, the cash deposits were much lower which decreases the interest earned. Other income in the current period included a gain of $12,704 on the dispositions of U.S. properties.

For the six months ended December 31, 2012, operating, general and administrative expenses decreased by $726,735 to $1,445,934 from $2,172,669 for the six months ended December 31, 2011. The decrease was primarily due to a decrease in stock-based compensation as discussed below.

The following is the breakdown of the Company's operating, general and administrative expenses for the indicated six month periods ended December 31. Details of the significant changes follow the table:

	2012	2011
Salaries and consulting fees	**$ 752,523**	$ 661,551
Other office and general	**231,927**	331,476
Stock-based compensation expense (a)	**225,114**	858,043
Travel and promotion	**102,270**	165,496
Professional fees	**98,541**	123,068
Shareholder relations, transfer agent and filing fees	**69,558**	86,251
Other employment benefits	**12,584**	19,089
Transaction costs	**-**	4,538
Foreign exchange gain	**(46,583)**	(76,843)
	$ 1,445,934	$ 2,172,669

(a) Stock-based compensation expense decreased by $632,929 for the six months ended December 31, 2012 as compared to the six months ended December 31, 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. 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.

For the six months ended December 31, 2012, the Company recorded an impairment of exploration and evaluation assets of $4,586,574 relating to the valuation of the estimated recoverable amount of the Company's private participating interest in the Canaguaro Block.

For the six months ended December 31, 2012, the Company recorded an income tax expense of $240,393 as compared to $50,162 for the six months ended December 31, 2011. The income tax expense is due to the recording of a 3.5% withholding tax in Colombia on sales of crude oil and an accrual of minimum income tax payable due in Colombia.

Net loss for the six months ended December 31, 2012 was $7,136,400 ($0.05 per share) as compared to net loss of $2,449,468 ($0.02 per share) for the six months ended December 31, 2011.

For the six months ended December 31, 2012, the Company recorded a loss from the exchange differences on translation of foreign operations of $1,089,767 resulting in total comprehensive loss for the period of $8,226,167. For the six months ended December 31, 2011, the Company recorded a gain from the exchange differences on translation of foreign operations of $2,263,988 resulting in total comprehensive loss for the period of $185,480.

Cash Flows
Six months ended December 31, 2012 and 2011:

During the six months ended December 31, 2012, the Company used cash of $1,548,600 in operating activities as compared to $542,749 during the six months ended December 31, 2011.

During the six months ended December 31, 2012, the Company had no cash transactions in financing activities as compared to generating cash of $164,408 during the six months ended December 31, 2011. During the six months ended December 31, 2011the cash generated was from a decrease in due from brokers.

During the six months ended December 31, 2012, net cash used in investing activities was $6,388,890 as compared to $1,934,292 during the six months ended December 31, 2011. During the six months ended December 31, 2012, the Company spent cash on expenditures on exploration and evaluation assets of $5,865,255 as compared to cash expenditures of $6,873,335 during the six months ended December 31, 2011, net of oil revenues. During the six months ended December 31, 2012, the Company had proceeds from dispositions of investments of nil as compared to $852,463 during the six months ended December 31, 2011. During the six months ended December 31, 2012, the Company purchased $500,000 of investments as compared to $50,000 during the six months ended December 31, 2011. During the six months ended December 31, 2012, the Company had an decrease in restricted cash of $49,185 offset by an unrealized foreign exchange loss of $12,846 as compared to decreased of $4,136,580 from the release of 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 EDC, a federal government agency, to the Company's bank in support of other letters of guarantee given to ANH.

For the six months ended December 31, 2012, the Company had a net decrease in cash and cash equivalents of $7,937,490 as compared to $2,312,633 for the six months ended December 31, 2011. For the six months ended December 31, 2012, the Company also had a loss from the exchange rate changes on its foreign operations' cash balances of $66,733, leaving a cash and cash equivalents balance of $10,192,783 as at December 31, 2012 as compared to an exchange loss of $285,121, leaving a cash and cash equivalents balance of $27,236,052 as at December 31, 2011.

Segmented information:

Reporting segments are define 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 since 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 six months ended December 31, 2012:

	Six months ended December 31, 2012		**As at December 31, 2012**		
	Interest and other income	**Net profit (loss) for the period**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 61,112**	**$ (2,278,765)**	**$ 1,130,467**	**$ 11,555,349**	**$ 12,685,816**
Colombia	**24,685**	**(4,839,959)**	**34,000,943**	**2,780,357**	**36,781,300**
Israel	**-**	**(30,327)**	**7,028,674**	**8,418**	**7,037,092**
United States	**12,704**	**12,651**	**4,766,454**	**17,725**	**4,784,179**
Argentina	**-**	**-**	**994,900**	**20,573**	**1,015,473**
Brazil	**-**	**-**	**-**	**136,671**	**136,671**
	$ 98,501	**$ (7,136,400)**	**$ 47,921,438**	**$ 14,519,093**	**$ 62,440,531**

The following is segmented information for the six months ended December 31, 2011 and as at June 30, 2012:

	Six months ended December 31, 2011		As at June 30, 2012		
	Interest and other income	Loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 152,704	$ 2,218,778	$ 1,116,757	$ 20,288,293	$ 21,405,050
Colombia	29,271	199,765	34,745,055	1,779,469	36,524,524
Israel	-	30,925	4,614,117	177,012	4,791,129
United States	-	-	3,646,119	37,022	3,683,141
Argentina	-	-	1,019,100	84,666	1,103,766
Brazil	-	-	-	142,662	142,662
	$ 181,975	$ 2,449,468	$ 45,141,148	$ 22,509,124	$ 67,650,272

Liquidity and capital resources:

Consolidated statements of financial position highlights	**December 31, 2012**	June 30, 2012
Cash and cash equivalents	**$ 10,192,783**	$ 18,197,006
Investments, at fair value	**2,309,469**	2,771,469
Exploration and evaluation assets	**47,921,438**	45,141,148
Total assets	**62,440,531**	67,650,272
Total liabilities	**3,942,180**	1,150,868
Share capital, warrants and broker warrants, contributed surplus	**120,775,594**	120,550,480
Foreign currency translation reserve	**(2,018,506)**	(928,739)
Deficit	**(60,258,737)**	(53,122,337)
Working Capital	**15,945,393**	20,793,675

Accounts payable and accrued liabilities increased by $2,712,210 to $3,863,078 as at December 31, 2012 as compared to $1,150,868 as at June 30, 2012. As at December 31, 2012, the accounts payable and accrued liabilities included $2,917,152 for exploration and evaluation cash calls as compared to $376,480. As at December 31, 2012, included in accounts payable and accrued liabilities is $324,544 for a Colombian equity tax as compared to $428,493 as at June 30, 2012. 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 December 31, 2012, the Company had accrued income taxes payable of $79,102 (2011 – nil) for the alternative minimum tax payable in Colombia. The income tax payable in Colombia is calculated annually at a rate of 3% of the Company's net worth held at the end of the prior year with certain adjustments.

The Company's cash and cash equivalents and investments as at December 31, 2012 are sufficient to meet the Company's current financial obligations. As at December 31, 2012, the Company had working capital of $9,975,993 as compared to working capital of $20,793,675 as at June 30, 2012, a decrease which was primarily due to the expenditures on exploration and evaluation assets and purchase of investments totalling $500,000.

The Company has no long-term debt but has committed and is required to meet all of its drilling and related expenditures as they become due to maintain its oil and gas interests (see "Exploration and evaluation assets" section). These obligations are not fixed and cannot be pre-determined with certainty.

The Company is currently generating cash from the sale of crude oil produced from two of its Colombian Blocks, however, its existing cash reserves and anticipated ongoing cash flow from Colombia's long-term production testing (based on current production levels and crude oil prices, both of which may decline) will not be sufficient to fund planned capital expenditures in Colombia and Israel through to December 31, 2013. In order to meet its operating and capital expenditure obligations as they become due, and until such time, if any, that the Company generates sufficient cash from the sale of crude oil to do so, Brownstone will have to rely on external sources of capital. The Company expects to raise additional funds through debt and/or equity financings to meet its obligations and will consider, where warranted, strategic dispositions of certain of its interests in order to reduce its capital expenditure requirements). The Company's ability to access the debt and equity markets when required will depend upon factors beyond its control, such as economic and political conditions that may affect the capital markets generally and the oil and gas industry specifically, including conditions pertaining to the countries in which it operates. The inability of the Company to raise sufficient capital to fund its operations and growth may result in the loss of some or all of the Company's interests and accordingly could have a material adverse effect on the Company's business, financial condition, and results of operations, and its ability to continue as a going concern.

As at December 31, 2012, the Company had restricted cash totaling $600,920 (US$604,000), as collateral to the Royal Bank of Canada ("RBC") for a letter of guarantee issued by RBC for Blocks in Colombia. As at June 30, 2012, the Company had restricted cash totaling $564,581 (US$554,000). 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 December 31, 2012 and June 30, 2012.

As at December 31, 2012, the Company also has US$5,096,000 (June 30, 2012 – 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 December 31, 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:

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

(a) Compensation to key management personnel and directors during the six months ended December 31 were as follows:

Type of expense	2012	2011
Salaries and consulting fees	**$ 388,375**	$ 418,375
Other short-term benefits	**11,637**	17,847
Stock-based compensation expense	**159,134**	644,247
	$ 294,085	$ 644,247

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 six months ended December 31, 2012, the Company granted 1,950,000 options to directors and officers of the Company, with an exercise price of $0.17 per share and expiring on November 17, 2017.

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.

Off-Balance sheet arrangements:

As at December 31, 2012, the Company has indemnified EDC for the full amount of the US$5,096,000 (June 30, 2012 - US$6,834,883) PSGs provided by the EDC. See "Liquidity and capital resources" for additional information regarding this contingent liability.

Management of capital:

There were no changes in the Company's approach to capital management during the six months ended December 31, 2012. The Company's capital includes equity comprised of share capital, warrants and broker warrants, contributed surplus, foreign currency translation reserve, and deficit. To date, the

Company has not declared any cash dividends to its shareholders as part of its capital management program.

Risk management:

(a) Market risk:

There were no changes in the way that the Company manages market risk during the six months ended December 31, 2012. The Company manages market risk by having a portfolio that 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 six months ended December 31, 2012 from a change in the closing bid price of the Company's investments with all other variables held constant as at December 31, 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%	**$ 40,069**	**$ (40,069)**
4%	**80,139**	**(80,139)**
6%	**120,208**	**(120,208)**
8%	**160,277**	**(160,277)**
10%	**200,346**	**(200,346)**

The following table shows the estimated sensitivity of the Company's after-tax net loss for the six months ended December 31, 2011 from a change in the closing bid price of the Company's investments with all other variables held constant as at December 31, 2011:

Percentage of change in closing bid prices	Decrease in net after-tax loss from % increase in closing bid price	Increase in net after-tax loss from % decrease in closing bid price
2%	$ 194,383	$ (194,383)
4%	388,765	(388,765)
6%	583,148	(583,148)
8%	777,531	(777,531)
10%	971,913	(971,913)

(b) Currency risk:

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:

	December 31, 2012	June 30, 2012
Denominated in U.S. dollars:		
Cash and cash equivalents	**$ 85,971**	$ 2,066,666
Restricted cash	**600,920**	564,581
Prepaids and receivables	**1,333,735**	888,304
Exploration and evaluation assets	**46,790,971**	44,024,390
Accounts payable and accrued liabilities	**(3,795,932)**	(965,440)
Net assets denominated in U.S. dollars	**45,015,665**	46,578,501
Denominated in Brazilian reals:		
Cash and cash equivalents	**136,671**	142,662
Net assets denominated in Brazilian reals	**136,671**	142,662
Denominated in Argentinean pesos:		
Cash and cash equivalents	**-**	63,639
Prepaids and receivables	**20,573**	21,027
Net assets denominated in Argentinean pesos	**20,573**	84,666
Denominated in Colombian pesos:		
Cash and cash equivalents	**1,455,608**	902,211
Income taxes payable	**(79,102)**	-
Net assets denominated in Colombian pesos	**(1,376,506)**	902,211

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the six months ended December 31, 2012 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at December 31, 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%	**$ 661,730**	**$ (661,730)**
4%	**1,323,460**	**(1,323,460)**
6%	**1,985,190**	**(1,985,190)**
8%	**2,646,920**	**(2,646,920)**
10%	**3,308,650**	**(3,308,650)**

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)

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.

Changes in Accounting Policies:

There were no changes to the Company's accounting policies since June 30, 2012. Details of the Company's significant accounting policies can be found in Note 3 to the Company's annual consolidated financial statements as at and for the year ended June 30, 2012.

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 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 six months ended December 31, 2012, the Company had a change in unrealized losses on investments of $250,000 (six months ended December 31, 2012 – nil) relating to its private company investments.

<u>Estimate of recoverable fair value on exploration and evaluation assets:</u>

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 six months ended December 31, 2012, the Company recorded an impairment of exploration and evaluation assets of $4,586,574 (six months ended December 31, 2011 – nil) on its exploration and evaluation assets.

<u>Deferred tax assets:</u>

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.

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.

<u>Stock-based Compensation Expense/Warrants and Broker Warrants:</u>

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 six months ended December 31, 2012, the Company granted 2,390,000 options exercisable at $0.17 per share expiring on November 28, 2017.

The fair value of the options granted during the six months ended December 31, 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)	104.7%
Expected dividend yield	0%
Risk-free interest rate	1.2%
Expected option life in years	3.7 years
Expected forfeiture rate	5.5%
Fair value per stock option granted on November 29, 2012	$ 0.12

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

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

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

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. As at December 31, 2012 and June 30, 2012, 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:

As at February 28, 2013, 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	**11,005,080**
Issuable under warrants	**7,951,454**
Total diluted common shares	**148,750,823**

Refer to note 5 of the notes to the consolidated financial statements as at and for the three and six months ended December 31, 2012 for details of the Company's share capital as at December 31, 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.