Interim Condensed Consolidated Financial Statements of

Brownstone Energy Inc.

March 31, 2013
(Unaudited - prepared in Canadian dollars)

Contents

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at March 31, 2013 and June 30, 2012
(Unaudited - prepared in Canadian dollars)

	Notes		March 31, 2013		June 30, 2012
Assets					
Current					
Cash and cash equivalents		$	**4,365,985**	$	18,197,006
Prepaids and receivables			**1,095,831**		976,068
Investments, at fair value	4		**1,899,157**		2,771,469
			7,360,973		21,944,543
Restricted cash			**613,422**		564,581
Exploration and evaluation assets	3		**51,813,808**		45,141,148
		$	**59,788,203**	$	67,650,272
Liabilities and Equity					
Current					
Accounts payable and accrued liabilities		$	**1,459,080**	$	1,150,868
Income taxes payable			**86,150**		-
			1,545,230		1,150,868
Equity					
Share capital	5		**96,597,845**		96,597,845
Contributed surplus			**21,743,071**		16,642,202
Warrants and broker warrants	5 (c)		**2,559,317**		7,310,433
Foreign currency translation reserve			**(1,071,410)**		(928,739)
Deficit			**(61,585,850)**		(53,122,337)
			58,242,973		66,499,404
		$	**59,788,203**	$	67,650,272

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Comprehensive Loss
Three And Nine Months Ended March 31,
(Unaudited - prepared in Canadian dollars)

	Notes	Three Months Ended 2013	Three Months Ended 2012	Nine Months Ended 2013	Nine Months Ended 2012
Net investment losses					
Net realized losses on disposal of investments		**$ -**	$ (3,185,515)	**$ -**	$ (5,008,726)
Net change in unrealized gains (losses) on investments		**(410,312)**	(662,909)	**(1,372,312)**	751,690
		(410,312)	(3,848,424)	**(1,372,312)**	(4,257,036)
Interest and other income		**29,884**	67,202	**128,385**	249,177
		(380,428)	(3,781,222)	**(1,243,927)**	(4,007,859)
Expenses					
Operating, general and administrative	7	**727,430**	1,989,279	**2,173,364**	4,161,948
Impairment of exploration and evaluation assets	3(a)(i), (c), (d)	**153,903**	16,112,785	**4,740,477**	16,112,785
		881,333	18,102,064	**6,913,841**	20,274,733
Loss before income taxes		**(1,261,761)**	(21,883,286)	**(8,157,768)**	(24,282,592)
Income tax expense		**65,352**	32,651	**305,745**	82,813
Net loss for the period		**$ (1,327,113)**	$ (21,915,937)	**(8,463,513)**	(24,365,405)
Other comprehensive income (loss)					
Exchange differences on translation of foreign operations		**947,096**	(814,684)	**(142,671)**	1,449,304
Total comprehensive loss for the period		**$ (380,017)**	$ (22,730,621)	**$ (8,606,184)**	$ (22,916,101)
Loss per common share based on net loss for the period	5(d)				
Basic and diluted		**$ (0.01)**	$ (0.17)	**$ (0.07)**	$ (0.19)
Weighted average number of common shares outstanding	5(d)				
Basic and diluted		**129,794,289**	129,794,289	**129,794,289**	129,794,289

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.
Consolidated Statements of Changes in Equity
Nine Months Ended March 31, 2013 and 2012
(Unaudited - prepared in Canadian dollars)

	Number of shares	Share capital	Warrants and broker warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total equity
Balance at June 30, 2011	129,794,289	$ 96,597,845	$ 6,873,384	$ 14,856,513	$ (3,165,014)	$ (26,068,439)	$ 89,094,289
Net loss for the period	-	-	-	-	-	(24,365,405)	(24,365,405)
Exchange differences on translation of foreign operations	-	-	-	-	1,449,304	-	1,449,304
Total comprehensive loss for the period	-	-	-	-	1,449,304	(24,365,405)	(22,916,101)
Stock-based compensation expense	-	-	-	1,193,466	-	-	1,193,466
Cost of warrant expiry date extension	-	-	809,997	-	-	-	809,997
Balance at March 31, 2012	129,794,289	$ 96,597,845	$ 7,683,381	$ 16,049,979	$ (1,715,710)	$ (50,433,844)	$ 68,181,651
Balance at June 30, 2012	129,794,289	$ 96,597,845	$ 7,310,433	$ 16,642,202	$ (928,739)	$ (53,122,337)	$ 66,499,404
Net loss for the period	**-**	**-**	**-**	**-**	**-**	**(8,463,513)**	**(8,463,513)**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**(142,671)**	**-**	**(142,671)**
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**(142,671)**	**(8,463,513)**	**(8,606,184)**
Stock-based compensation expense	**-**	**-**	**-**	**349,753**	**-**	**-**	**349,753**
Reallocation of expired warrants	**-**	**-**	**(4,751,116)**	**4,751,116**	**-**	**-**	**-**
Balance at March 31, 2013	**129,794,289**	**$ 96,597,845**	**$ 2,559,317**	**$ 21,743,071**	**$ (1,071,410)**	**$ (61,585,850)**	**$ 58,242,973**

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Cash Flows
Nine Months Ended March 31,
(Unaudited - prepared in Canadian dollars)

	2013	2012
Cash flows used in operating activities		
Net loss for the period	**$ (8,463,513)**	$ (24,365,405)
Items not affecting cash		
Net realized losses on disposal of investments	**-**	5,008,726
Net change in unrealized losses (gains) on investments	**1,372,312**	(751,690)
Impairment of exploration and evaluation assets	**4,740,477**	16,112,785
Stock-based compensation expense	**349,753**	1,193,466
Cost of warrant expiry date extension	**-**	809,997
	(2,000,971)	(1,992,121)
Changes in non-cash working capital balances		
Prepaids and receivables	**(119,763)**	(199,458)
Income taxes receivable	**-**	726,083
Accounts payable and accrued liabilities	**(269,475)**	(721,043)
Income taxes payable	**86,150**	-
	(2,304,059)	(2,186,539)
Cash flows from financing activities		
Decrease in due from brokers	**-**	141,695
	-	141,695
Cash flows used in investing activities		
Expenditures on exploration and evaluation assets, net	**(10,891,926)**	(13,443,910)
Proceeds on sale of exploration and evaluation assets	**16,861**	3,642
Decrease (increase) in restricted cash	**(48,841)**	2,298,162
Proceeds on disposal of investments	**-**	4,010,190
Purchases of investments	**(500,000)**	(50,000)
	(11,423,906)	(7,181,916)
Net decrease in cash and cash equivalents, during the period	**(13,727,965)**	(9,226,760)
Exchange rate changes on foreign currency cash balances	**(103,056)**	(3,734)
Cash and cash equivalents, beginning of period	**18,197,006**	29,833,806
Cash and cash equivalents, end of period	**$ 4,365,985**	$ 20,603,312
Supplemental cash flow information		
Income taxes paid	**$ 219,595**	$ 82,813
Income taxes refunded	**-**	726,083

See accompanying notes to the interim condensed consolidated financial statements.

1. Nature of business and going concern uncertainty:

Brownstone Energy Inc. ("Brownstone" or the "Company") was continued under the Canada Business Corporations Act on December 1, 2011 and its common shares are publicly traded on the TSX Venture Exchange under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". The Company is domiciled in the Province of Ontario and its head office is located at 130 King St. West, Suite 2500, Toronto, Ontario, Canada.

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

These interim condensed consolidated financial statements ("interim consolidated statements") were approved for issuance by the Company's board of directors on May 28, 2013.

These interim consolidated statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss in the nine months ended March 31, 2013 of $8,463,513 (nine months ended March 31, 2012 - $24,365,405) and has an accumulated deficit of $61,585,850 (June 30, 2012 - $53,122,337). The Company is in the exploration and development 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 March 31, 2013 will not be sufficient to meet the Company's potential capital expenditures through March 31, 2014. 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.

The challenges of securing requisite funding beyond March 31, 2013 and the continued estimated operating losses, 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.

2. Basis of preparation:

(a) Statement of compliance:

These interim consolidated statements are unaudited and have been prepared on a condensed basis in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee using accounting policies consistent with International Financial Reporting Standards which the Company adopted in its 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 these interim consolidated statements as were followed in the preparation of and as described in note 3 to the annual consolidated financial statements as at and for the year ended June 30, 2012. Accordingly, these interim consolidated statements for the three and nine months ended March 31, 2013 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2012.

(b) Basis of presentation:

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

(c) Basis of consolidation:

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

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

3. Exploration and evaluation assets:

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

(Unaudited - prepared in Canadian dollars)

3. Exploration and evaluation assets (continued):

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

	Colombia	Israel	USA	Canada	Argentina	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)	**5,872,580**	**4,308,871**	**1,183,948**	**13,710**	**73,643**	**11,452,752**
Impairment of exploration and evaluation assets	**(4,586,574)**	**-**	**(80,260)**	**-**	**(73,643)**	**(4,740,477)**
Foreign currency translation	**(140,038)**	**80,611**	**23,312**	**-**	**(3,500)**	**(39,615)**
Balance at March 31, 2013	**35,891,023**	**9,003,599**	**4,773,119**	**1,130,467**	**1,015,600**	**51,813,808**

(a) During the nine months ended March 31, 2013, included in net additions was $6,384,923 (nine months ended March 31, 2012 - $2,094,196) of oil sales from long-term production testing (Canaguaro Block and Block 27). During the year ended June 30, 2012, included in net additions was $4,515,621 of oil sales from test production. Included in the cash flow is the cash spent on expenditures and evaluation, net of oil sales from long-term production testing.

A summary of the Company's interests in the Colombian blocks as at March 31, 2013 and June 30, 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%

As at March 31, 2013, the Company has indemnified Economic Development Canada ("EDC"), a Canadian federal government agency, for the full amount of the US$5,096,000 (June 30, 2012 - US$6,834,883) performance security guarantees provided by the EDC to the Royal Bank of Canada for letters of guarantee totaling US$5,700,000 (June 30, 2012 - US$7,388,883) given to the Agencia Nacional de Hidrocarburos ("ANH"), a Colombian government agency, for Block 21, 27 and 36.

(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 ANH). During the nine months ended March 31, 2013, the Company recorded an impairment charge of $4,586,574 on the Block. The impairment was recognized upon a review of the Block's long-term 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. See note 10(a).

(Unaudited - prepared in Canadian dollars)

3. Exploration and evaluation assets (continued):

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

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

(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 has paid US$3,875,000 towards 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.

(b) Israel:

As at March 31, 2013, the Company has the following participating interests in Israel and is required to fund its share of participating interest:

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

(c) 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 share of the participating interests. During the nine months ended March 31, 2013, the Company recorded an impairment charge of $80,260 on its USA properties. The impairment was recognized upon an abandonment of some of its leases.

(d) 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.

(Unaudited - prepared in Canadian dollars)

3. Exploration and evaluation assets (continued):

During the year ended June 30, 2011, Petrolifera's interests and operatorship in the block were acquired by Gran Tierra Energy Inc.

During the nine months ended March 31, 2013, the Company recorded an impairment charge of $73,643 on its Argentina property. The impairment was recognized upon a review of the property's work program and based on the difference between the carrying value of the asset and its estimated recoverable amount of approximately US$1,000,000.

4. Investments at fair value and financial instruments hierarchy:

(a) The fair value and cost of investments are as follows:

	Fair Value	Cost
March 31, 2013	**$ 1,899,157**	**$ 13,750,659**
June 30, 2012	2,771,469	13,250,659

(b) Financial instruments hierarchy:

The following table presents the Company's financial instruments, measured at fair value and categorized into levels of the fair value hierarchy on the consolidated statements of financial position as at March 31, 2013 and June 30, 2012:

Investments, at fair value	Level 1 Quoted market price	Level 2 Valuation technique – observable market inputs	Level 3 Valuation technique – non-observable market inputs	Total
March 31, 2013	**$ 1,124,157**	**$ -**	**$ 775,000**	**$ 1,899,157**
June 30, 2012	1,746,469	-	1,025,000	2,771,469

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the nine months ended March 31, 2013 or for the year ended June 30, 2012.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3. These financial instruments are measured at fair value utilizing non-observable market inputs. The net change in unrealized losses are recognized in the consolidated statements of comprehensive loss.

	Opening balance at July 1	Purchases	Net unrealized losses	Net transfer out of Level 3	Ending balance
March 31, 2013	**$ 1,025,000**	**$ -**	**$ (250,000)**	**$ -**	**$ 775,000**
June 30, 2012	4,150,000	50,000	(3,175,000)	-	1,025,000

(Unaudited - prepared in Canadian dollars)

5. Equity:

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

(b) During the nine months ended March 31, 2013, the Company granted 2,390,000 options exercisable at $0.17 per share expiring on November 28, 2017.

Stock options granted vest at the rate of 1/6th of the grant at the end of each three-month period over an 18-month period. Options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense over the vesting period and credits contributed surplus for all options granted.

The fair value of the options granted during the nine months ended March 31, 2013 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
Fair value per stock option granted on November 29, 2012	$ 0.12

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

For the three months ended March 31, 2013, included in operating, general and administrative expenses is stock-based compensation expense of $124,639 (three months ended March 31, 2012 - $335,423) relating to the stock options granted to directors, officers, employees and consultants of the Company.

For the nine months ended March 31, 2013, included in operating, general and administrative expenses is stock-based compensation expense of $349,753 (nine months ended March 31, 2012 - $1,193,466) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at March 31, 2013 and June 30, 2012 and changes during the periods then ended is presented below:

	March 31, 2013		June 30, 2012	
Stock options	**# of options**	**Weighted average exercise price**	# of options	Weighted average exercise price
Outstanding, at beginning of period	**8,925,080**	**$ 0.72**	8,425,080	$ 1.21
Granted	**2,390,000**	**0.17**	2,405,000	0.41
Expired	**(350,000)**	**0.99**	(1,905,000)	2.47
Outstanding, at end of period	**10,965,080**	**$ 0.60**	8,925,080	$ 0.72
Exercisable, at end of period	**8,535,066**	**$ 0.70**	7,006,731	$ 0.78

(Unaudited - prepared in Canadian dollars)

5. Equity (continued):

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2013:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
840,000	840,000	$ 1.48	June 25, 2013
100,000	100,000	0.50	August 10, 2014
1,133,400	1,133,400	0.52	August 12, 2014
35,000	35,000	0.61	October 5, 2014
50,000	50,000	0.75	November 26, 2014
200,000	200,000	0.75	November 30, 2014
500,000	500,000	0.65	March 2, 2015
630,000	630,000	0.65	April 14, 2015
130,000	130,000	0.43	May 25, 2015
1,186,680	1,186,680	0.51	September 20, 2015
1,365,000	1,365,000	1.20	March 29, 2016
2,180,000	1,816,660	0.40	October 10, 2016
225,000	150,000	0.56	February 7, 2017
2,390,000	398,326	0.17	November 28, 2017
10,965,080	8,535,066		

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

	Nine months ended March 31, 2013		
	# of warrants and broker warrants	Weighted average exercise price	Amount
Outstanding, at beginning of period	25,201,454	$ 1.09	$ 7,310,433
Expired	(17,250,000)	1.25	(4,751,116)
Outstanding, at end of period	7,951,454	$ 0.75	$ 2,559,317

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

The following table summarizes information about warrants outstanding as at March 31, 2013:

Number of warrants	Exercise price	Expiry date	Warrants value
7,951,454	$ 0.75	April 13, 2014	$ 2,559,317

(Unaudited - prepared in Canadian dollars)

5. Equity (continued):

(d) Basic and diluted loss per common share based on loss for the period ended March 31:

	Three months ended March 31,		Nine months ended March 31,	
Numerator:	**2013**	2012	**2013**	2012
Net loss for the period	**$ 1,327,113**	$ 21,915,937	**$ 8,463,513**	$ 24,365,405

	Three months ended March 31,		Nine months ended March 31,	
Denominator:	**2013**	2012	**2013**	2012
Weighted average number of common shares outstanding - basic	**129,794,289**	129,794,289	**129,794,289**	129,794,289
Weighted average effect of diluted stock options and warrants (i)	**-**	-	**-**	-
Weighted average number of common shares outstanding – diluted	**129,794,289**	129,794,289	**129,794,289**	129,794,289

	Three months ended March 31,		Nine months ended March 31,	
Loss per common share based on net loss for the period:	**2013**	2012	**2013**	2012
Basic and diluted	**$ 0.01**	$ 0.17	**$ 0.07**	$ 0.19

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 18,916,534 shares related to stock options, warrants and broker warrants that were anti-dilutive for the three and nine months ended March 31, 2013 (three and nine months ended March 31, 2012 – 35,920,896 shares).

(e) Maximum share dilution:

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options, warrants and broker warrants were exercised as at March 31, 2013 and June 30, 2012:

	March 31, 2013	June 30, 2012
Common shares outstanding	**129,794,289**	129,794,289
Stock options to purchase common shares	**10,965,080**	8,925,080
Warrants to purchase common shares	**7,951,454**	23,083,033
Broker warrants to purchase common shares	**-**	2,118,421
Fully diluted common shares outstanding	**148,710,823**	163,920,823

(Unaudited - prepared in Canadian dollars)

6. Segmented information:

Reportable segments are defined as components of an enterprise about which separate financial information is available that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the oil and gas sector. The Company's significant segments consist of 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 nine months ended March 31, 2013:

	Nine months ended March 31, 2013		**As at March 31, 2013**		
	Interest and other income	**Net loss for the period**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 70,011**	**$ 3,295,349**	**$ 1,130,467**	**$ 6,195,658**	**$ 7,326,125**
Colombia	**41,513**	**4,937,634**	**35,891,023**	**1,303,755**	**37,194,778**
Israel	**-**	**93,488**	**9,003,599**	**118,814**	**9,122,413**
United States	**16,861**	**63,399**	**4,773,119**	**196,780**	**4,969,899**
Argentina	**-**	**73,643**	**1,015,600**	**17,738**	**1,033,338**
Brazil	**-**	**-**	**-**	**141,650**	**141,650**
	$ 128,385	**$ 8,463,513**	**$ 51,813,808**	**$ 7,974,395**	**$ 59,788,203**

The following is segmented information for the nine months ended March 31, 2012 and as at June 30, 2012:

	Nine months ended March 31, 2012		As at June 30, 2012		
	Interest and other income	Net Loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 213,555	$ 8,123,481	$ 1,116,757	$ 20,288,293	$ 21,405,050
Colombia	35,622	3,217,726	34,745,055	1,779,469	36,524,524
Israel	-	47,221	4,614,117	177,012	4,791,129
United States	-	12,976,977	3,646,119	37,022	3,683,141
Argentina	-	-	1,019,100	84,666	1,103,766
Brazil	-	-	-	142,662	142,662
	$ 249,177	$ 24,365,405	$ 45,141,148	$ 22,509,124	$ 67,650,272

(Unaudited - prepared in Canadian dollars)

7. Expenses by nature:

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

	Three months ended March 31,		Nine months ended March 31,	
	2013	2012	**2013**	2012
Salaries and consulting fees	**$ 372,911**	$ 391,742	**$ 1,125,434**	$ 1,053,293
Stock-based compensation expense	**124,639**	335,423	**349,753**	1,193,466
Other office and general	**87,783**	143,978	**319,710**	475,454
Travel and promotion	**94,160**	159,433	**196,430**	324,929
Professional fees	**91,149**	31,284	**189,690**	154,352
Shareholder relations, transfer agent and filing fees	**30,096**	52,978	**99,654**	139,229
Other employment benefits	**10,287**	18,356	**22,871**	37,445
Cost of warrant extension	**-**	809,997	**-**	809,997
Transaction costs	**-**	15,008	**-**	19,546
Foreign exchange loss (gain)	**(83,595)**	31,080	**(130,178)**	(45,763)
	$ 727,430	$ 1,989,279	**$ 2,173,364**	$ 4,161,948

8. Management of capital:

There were no changes in the Company’s approach to capital management during the nine months ended March 31, 2013. 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.

9. Risk management:

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

(a) Market risk:

There were no changes in the way that the Company manages market risk during the nine months ended March 31, 2013. 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.

9. Risk management (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the nine months ended March 31, 2013 from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2013:

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%	**$ 32,950**	**$ (32,950)**
4%	**65,901**	**(65,901)**
6%	**98,851**	**(98,851)**
8%	**131,802**	**(131,802)**
10%	**164,752**	**(164,752)**

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

Percentage of change in closing bid 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%	$ 72,125	$ (72,125)
4%	144,251	(144,251)
6%	216,376	(216,376)
8%	288,501	(288,501)
10%	360,627	(360,627)

(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.

9. Risk management (continued):

The following assets and liabilities were denominated in foreign currencies:

	March 31, 2013	June 30, 2012
Denominated in U.S. dollars:		
Cash and cash equivalents	**$ 1,992,479**	$ 2,066,666
Restricted cash	**613,422**	564,581
Prepaids and receivables	**1,026,711**	888,304
Exploration and evaluation assets	**50,683,341**	44,024,390
Accounts payable and accrued liabilities	**(1,394,681)**	(965,440)
Net assets denominated in U.S. dollars	**52,921,272**	46,578,501
Denominated in Brazilian reals:		
Cash and cash equivalents	**141,650**	142,662
Net assets denominated in Brazilian reals	**141,650**	142,662
Denominated in Argentinean pesos:		
Cash and cash equivalents	**-**	63,639
Prepaids and receivables	**17,738**	21,027
Net assets denominated in Argentinean pesos	**17,738**	84,666
Denominated in Colombian pesos:		
Cash and cash equivalents	**474,657**	902,211
Income taxes payable	**(86,150)**	-
Net assets denominated in Colombian pesos	**388,507**	902,211

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the nine months ended March 31, 2013 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at March 31, 2013:

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%	**$ 777,943**	**$ (777,943)**
4%	**1,555,885**	**(1,555,885)**
6%	**2,333,828**	**(2,333,828)**
8%	**3,111,771**	**(3,111,771)**
10%	**3,889,713**	**(3,889,713)**

9. Risk management (continued):

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)

10. Subsequent events:

(a) On May 9, 2013, the Company announced the sale of its 25% private participating interest in the Canaguaro Block in Colombia to Petrominerales Ltd. for gross cash proceeds of US$6,000,000. The sale will provide the Company with additional working capital and is anticipated to take place by mid-June 2013.

(b) Subsequent to March 31, 2013, 160,000 options with a weighted average exercise price of $0.66 per share expired unexercised.