BROWNSTONE
-ENERGY INC-

Brownstone Energy Inc.

Management's Discussion and Analysis

For the quarter ended: March 31, 2013

Date of report: May 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 nine months ended March 31, 2013 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 March 31, 2013, the Company had working capital of $5,815,743 as compared to working capital of $20,793,675 as at June 30, 2012, a decrease of 72%, primarily due to the expenditures on exploration and evaluation assets during the nine months ended March 31, 2013.

- As at March 31, 2013, exploration and evaluation assets increased by 15% to $51,813,808 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.

- Subsequent to March 31, 2013, the Company announced that the sale of its private participating interest in the Canaguaro Block 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.

Going concern uncertainty:

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 early 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.

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	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	**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) Colombia:

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 of two Colombian oil wells (Canaguaro Block and Block 27).

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 and satisfactory drilling results from two commitment exploration wells to be drilled on the block. A summary of the Company's interests in the Colombian blocks as at March 31, 2013 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 at a current monthly average of approximately 399 gross barrels of oil per day with a 63% watercut. Based on a US$95.00 per barrel oil sales price the Company is currently receiving a netback of approximately US$63.58 per barrel at Canagauro. The high netback is a result of the Company receiving a reasonable sales price for the medium quality oil and lower water handling costs at the site, and the Company owns the facilities through which the oil is produced.

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.

On May 9, 2013, the Company announced the sale of its private participating interest in the Canaguaro Block for total consideration of US$6,000,000 with closing anticipated to take place by mid-June 2013.

(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 programs 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 Discovery Well – Subsequent to 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 a current monthly average of approximately 328 gross barrels of oil per day from the Une formation. Based on a US$73.00 per barrel sales price the Company is currently receiving a netback of approximately US$18.45 per barrel at Flami. The low netback is primarily the result of the lower oil sales price the Company receives for the lower quality oil during the current long term testing phase, the high water handling and disposal costs incurred at Flami-1 due to the current lack of water disposal facilities, and that the oil is currently produced through leased facilities which adds approximately US$7,000 per day or US$21.34 per barrel of additional equipment and personnel costs. The operator is actively pursuing a field development plan which will include drilling of additional wells into the field, obtaining regulatory approval to dispose of water at the site, and purchasing production facilities for the field.

Proposed Flami-2 Development 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 and already tested in the Flami-1 well. Timing of the well is subject to all partners committing the necessary capital to carry out the full drilling, testing and completion operations on the project, as well as issues of seasonal access and rig availability.

Mani-1 Discovery Well - During testing operations of the Mirador formation following the oil discovery, the operator observed that total fluid production had continued to increase, with the water cut also continuing to increase until it exceeded 85% of produced fluids. As a result of this rapid water increase and additional down hole pressure information, 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 encroachment from lower zones; or b) if the water is being produced solely from the target reservoir that could indicate a smaller oil accumulation. Currently, no remedial activities are planned for the well. The operator is currently negotiating with the ANH to determine other courses of action for the well that could include abandonment should the well continue to remain suspended for an indefinite period.

The Company and its partners have successfully met the Phase 1 work commitments to process and interpret 474 km of 2D seismic and drill one exploration well for Block 27. It has entered the second exploration phase which carries a commitment to drill two more exploration wells and acquire, process and interpret 20 km of 2D seismic by February 2015.

(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.

The operator of Block 36, Montecz S.A., has advised the Company that it has received a temporary extension on the block subject to the operator advancing the exploration activities relating to the remainder of the commitments on the block that includes the drilling of one exploratory well.

The parties are currently evaluating the results of the latest technical interpretation to determine if a viable drilling target exists on the block. Should the results of the evaluation prove negative, there exists a mechanism within the exploration contract to return the block to the ANH with minimal capital exposure to the parties.

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

On February 25, 2013, the operator of Block 21 informed Brownstone that it had commenced drilling the Calacho-1 well. The Calacho well is the first well of a planned two well drilling program on the Block. The planned second well in the program is the Rocamao-1 well.

The Calacho well is being drilled to a planned total depth of 7,000 feet and is programmed to test the hydrocarbon potential of the C7 and Une formations. The Rocamao well is being drilled to a planned total depth of 7,800 feet and is also programmed to test the hydrocarbon potential of the C7 and Une formations.

These two wells completed drilling operations in March 2013 and the Company believes that the work commitments for the Block have been met. However, as at the date of this MD&A, testing of the wells have not been completed and the Company does not have the information necessary for it to make its option election under the amended agreement.

(b) Israel:

As at March 31, 2013, 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: On February 11, 2013, the Company was informed by the operator of the Gabriella licence offshore Israel, Adira Energy Israel Ltd., that it had suspended all operations with regard to drilling the Gabriella well until further notice. The failure of the 70% party, Modi'in Energy LP, to finance its obligations under the joint operating agreement was given as the reason for the suspension.

Brownstone has met its share of the financing obligations under the joint operating agreement. Because of disputes amongst the parties, the Company has not provided funds in support of letters of credit to be posted by Modi'in Energy LP for the Gabriella rig contract.

Brownstone continues to discuss alternative financing and farm-out opportunities with its joint operating partners and interested third parties surrounding the drilling of the Gabriella well.

The Gabriella license remains in good standing with a required spud date of June 30, 2013 and an expiration date of September 1, 2013. The operator is working with the Ministry of

Energy and Water of the State of Israel towards receiving additional extensions on the Gabriella Block and all of the Company's other Israeli blocks.

(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 drilling activities on the block.

Currently, the Yitzhak license expires on December 1, 2013 and a drilling extension has been granted on the block by the Ministry of Energy and Water of the State of Israel, with a new spud date of October 30, 2013. Work towards finalizing the drilling location, conceptual well design, and rig selection is proceeding. However, the operator of the block has informed the Company that there are currently no suitable rigs available to drill the well within the required time frame and therefore drilling will most likely be delayed, subject to the approval of an extension on the block by 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 that 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 has been proceeding. However, the operator of the Block has informed the Company that there are currently no suitable rigs available and therefore drilling has been delayed. An application for an extension on the Block has been submitted on March 27, 2013 for a spud date of April 30, 2014 and is currently subject to formal approval by the Israeli government. There are no assurances that approval will be granted.

(c) USA:

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

The Company's most significant asset is a 28% interest in 2,200 gross acres in the Kokopelli field that is a tight gas resource play with associated liquids in the Williams Fork formation. According to the operator, Dejour Energy Inc., 220 development wells can be drilled into the Williams Fork formation on the Company's acreage that is directly offset by more than 600 Williams Fork wells already drilled by industry operators and currently on production in the Kokopelli field.

To date, Brownstone has participated for its share in drilling the initial title preserving well on the acreage. This well will be completed and tested for Brownstone's benefit along with an additional three wells drilled by the operator in which the Company has chosen not to participate which will cause the Company to go penalty. By going penalty, the Company will forgo spending any additional capital on the three new wells and therefore forgo any interest in the three wells, but the Company will retain its proportional 28% interest in the initial well and the remaining 216 drilling locations on the lands. The Company believes maintaining capital discipline and having outside interests successfully demonstrate the upside potential of the lands will outweigh any lost production value, and in the near to medium term significantly increase the value of the remaining lands to the Company.

Brownstone retains the opportunity to deploy significant capital at Kokopelli if the Company determines that the capital and fiscal environment will provide an acceptable return commensurate with a large, low risk resource play.

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 earned the right to a 25% interest in Petrolifera's Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement, Brownstone was required to fund 50% of the costs to be incurred in the conduct of the work program on the property. The work plan was completed with the subsequent discovery of several minor gas wells on the block.

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

The operator of the block, Gran Tierra, has informed Brownstone that it has submitted an evaluation program for the block to the Province of Rio Negro for their approval that is expected to be received before December 31, 2013.

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.

Investments:

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

As at March 31, 2013, the original cost of investments exceeded fair value by $11,851,502 as compared to $10,479,190 as at June 30, 2012. The decrease for the nine months ended March 31, 2013 was due to the net change in unrealized losses on investments of $1,372,312.

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			
	March 31, 2013	**December 31, 2012**	**September 30, 2012**	June 30, 2012
Net investment losses	**$ (410,312)**	**$ (674,534)**	**$ (287,466)**	$ (1,361,788)
Net loss for the period	**(1,327,113)**	**(6,040,709)**	**(1,095,691)**	(2,688,493)
Total comprehensive loss for the period	**(380,017)**	**(5,488,984)**	**(2,737,183)**	(1,901,522)
Loss per share based on net loss for the period – basic and diluted	**(0.01)**	**(0.05)**	**(0.01)**	(0.02)
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Net investment gains (losses)	$(3,848,424)	$ 2,154,987	$(2,563,599)	$ (706,975)
Net profit (loss) for the period	(21,915,937)	893,858	(3,343,326)	(2,765,008)
Total comprehensive loss for the period	(22,730,621)	(53,707)	(131,773)	(3,042,664)
Earnings (loss) per share based on net profit (loss) for the period – basic and diluted	(0.17)	0.01	(0.03)	(0.02)

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

Three months ended March 31, 2013 and 2012:

For the three months ended March 31, 2013, the Company had no disposal of investments as compared to generating net realized losses of $3,185,515 for the three months ended March 31, 2012. For the three months ended March 31, 2012, the Company realized net losses from the disposition of its remaining holdings in Dejour Energy Inc.

For the three months ended March 31, 2013, the Company recorded a net change in unrealized losses on investments of $410,312 as compared to $662,909 for the three months ended March 31, 2012. The net change in unrealized losses in the three months ended March 31, 2013 was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the three months ended March 31, 2012, $4,746,150 resulted from the net write-down to market on the Company's investments offset by the reversal of net unrealized losses on the disposal of investments of $4,083,241.

For the three months ended March 31, 2013, the Company recorded interest and other income of $29,884 as compared to $67,202 for the three months ended March 31, 2012. 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 $4,157 on the dispositions of U.S. properties.

For the three months ended March 31, 2013, operating, general and administrative expenses decreased by $1,261,849 to $727,430 from $1,989,279 for the three months ended March 31, 2012. The decrease was primarily due to a cost recorded for extending the expiry date of warrants in the same period last year and 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 March 31. Details of the changes follow the table:

	2013	2012
Salaries and consulting fees	**$ 372,911**	$ 391,742
Stock-based compensation expense (a)	**124,639**	335,423
Travel and promotion	**94,160**	159,433
Professional fees	**91,149**	31,284
Other office and general	**87,783**	143,978
Shareholder relations, transfer agent and filing fees	**30,096**	52,978
Other employment benefits	**10,287**	18,356
Transaction costs	**-**	15,008
Cost of warrant expiry date extension (b)	**-**	809,997
Foreign exchange loss (c)	**(83,595)**	31,080
	$ 727,430	$ 1,989,279

(a) Stock-based compensation expense decreased for the three months ended March 31, 2013 due to a decrease in the number of stock options which vested during the 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) During the three months ended March 31, 2012, 7,951,454 warrants expiring April 13, 2012 were extended to April 13, 2014. The fair value of these warrants immediately after the modification was $809,998 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 102.2%; dividend yield of 0%; risk-free interest rate of 1.2%; and an expected life of 1.77 years. The fair value of these warrants immediately prior to the extension was $1. Accordingly, the incremental fair value of the warrants resulting from this modification of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss as an operating, general and administrative expense for the three months ended March 31, 2012.

(c) Foreign exchange loss decreased for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012 primarily due to the foreign exchange rates of the Canadian dollar versus the U.S. dollar decreasing during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the three months ended March 31, 2013, the Company recorded an impairment of exploration and evaluation assets of $153,903 as compared to $16,112,785 for the three months ended March 31, 2012, relating to the valuation of the estimated recoverable amount of the Company's participating interests in Argentina and USA.

For the three months ended March 31, 2013, the Company recorded an income tax expense of $65,352 as compared to $32,651 for the three months ended March 31, 2012. 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 March 31, 2013 was $1,327,113 ($0.01 per share) as compared to $21,915,937 ($0.17 per share) for the three months ended March 31, 2012.

For the three months ended March 31, 2013, the Company recorded a gain from the exchange differences on translation of foreign operations of $947,096 resulting in total comprehensive loss for the period of $380,017. For the three months ended March 31, 2012, the Company recorded a loss from the exchange differences on translation of foreign operations of $814,684 resulting in total comprehensive loss for the period of $22,730,621.

Nine months ended March 31, 2013 and 2012:

For the nine months ended March 31, 2013, the Company had no disposal of investments as compared to generating net realized losses of $5,008,726 for the nine months ended March 31, 2012. For the nine months ended March 31, 2012, the Company realized net losses from the disposition of its holdings in Dejour Energy Inc.

For the nine months ended March 31, 2013, the Company recorded a net change in unrealized losses on investments of $1,372,312 as compared to a net change in unrealized gains on investments of $751,690 for the nine months ended March 31, 2012. The net change in unrealized losses in the nine months ended March 31, 2013 was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the nine months ended March 31, 2012, $5,828,916 was a result of the reversal of net unrealized losses on the disposal of investments offset by $5,077,226 from the net write-down to market on the Company's investments.

For the nine months ended March 31, 2013, the Company recorded interest and other income of $128,385 as compared to $249,177 for the nine months ended March 31, 2012. 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 $16,861 on the dispositions of U.S. properties.

For the nine months ended March 31, 2013, operating, general and administrative expenses decreased by $1,988,584 to $2,173,364 from $4,161,948 for the nine months ended March 31, 2012. 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 nine month periods ended March 31. Details of the significant changes follow the table:

		2013		2012
Salaries and consulting fees	**$**	**1,125,434**	$	1,053,293
Stock-based compensation expense (a)		**349,753**		1,193,466
Other office and general (b)		**319,710**		475,454
Travel and promotion (c)		**196,430**		324,929
Professional fees		**189,690**		154,352
Shareholder relations, transfer agent and filing fees		**99,654**		139,229
Other employment benefits		**22,871**		37,445
Cost of warrant extension (d)		**-**		809,997
Transaction costs		**-**		19,546
Foreign exchange gain		**(130,178)**		(45,763)
	$	**2,173,364**	$	4,161,948

(a) Stock-based compensation expense decreased 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 expenses decreased primarily due to a decrease of bank services charges by $100,139 associated with letters of credits and wire transfer activities and a decrease in office and general expenses in the Company foreign subsidiaries.

(c) Travel and promotion decreased as a result of reduced travel relating to the Company's oil and gas activities in Colombia and Israel.

(d) As discussed previously, during the nine months ended March 31, 2012, 7,951,454 warrants expiring April 13, 2012 were extended to April 13, 2014. The incremental fair value of the warrants resulting from this modification of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss as an operating, general and administrative expense for the nine months ended March 31, 2012.

For the nine months ended March 31, 2013, the Company recorded an impairment of exploration and evaluation assets of $4,740,477 as compared to $16,112,785 for the nine months ended March 31, 2012, relating to the valuation of the estimated recoverable amount of certain of the Company's private participating interests in Colombia, Argentina and USA.

For the nine months ended March 31, 2013, the Company recorded an income tax expense of $305,745 as compared to $82,813 for the nine months ended March 31, 2012. 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 nine months ended March 31, 2013 was $8,463,513 ($0.07 per share) as compared to net loss of $24,365,405 ($0.19 per share) for the nine months ended March 31, 2012.

For the nine months ended March 31, 2013, the Company recorded a loss from the exchange differences on translation of foreign operations of $142,671 resulting in total comprehensive loss for the period of $8,606,184. For the nine months ended March 31, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $1,449,304 resulting in total comprehensive loss for the period of $22,916,101.

Cash Flows
Nine months ended March 31, 2013 and 2012:

During the nine months ended March 31, 2013, the Company used cash of $2,304,059 in operating activities as compared to $2,186,539 during the nine months ended March 31, 2012.

During the nine months ended March 31, 2013, the Company had no cash transactions in financing activities as compared to generating cash of $141,695 during the nine months ended March 31, 2012. During the nine months ended March 31, 2012, the cash generated was from a decrease in due from brokers.

During the nine months ended March 31, 2013, net cash used in investing activities was $11,423,906 as compared to $7,181,916 during the nine months ended March 31, 2012. During the nine months ended March 31, 2013, the Company spent cash on expenditures on exploration and evaluation assets of $10,891,926 as compared to cash expenditures of $13,443,910 during the nine months ended March 31, 2012, net of oil revenues. During the nine months ended March 31, 2013, the Company had proceeds from dispositions of investments of nil as compared to $4,010,190 during the nine months ended March 31, 2012. During the nine months ended March 31, 2013, the Company purchased

$500,000 of investments as compared to $50,000 during the nine months ended March 31, 2012. During the nine months ended March 31, 2013, restricted cash increased by $48,841 from $564,581 from providing the ANH, a Colombian government agency, an additional letter of guarantee in the amount of US$50,000. During the nine months ended March 31, 2012, $4,165,776 of cash was released from restricted cash following the return by the ANH 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 by Export Development Canada, a federal government agency, to the Company's bank in support of other letters of guarantee given to ANH. The release of restricted cash was offset by an additional US$1,850,000 pledged to increase the letter of guarantee to ANH for Block 27 in Colombia.

For the nine months ended March 31, 2013, the Company had a net decrease in cash and cash equivalents of $13,727,965 as compared to $9,226,760 for the nine months ended March 31, 2012. For the nine months ended March 31, 2013, the Company also had a loss from the exchange rate changes on its foreign operations' cash balances of $103,056, leaving a cash and cash equivalents balance of $4,365,985 as at March 31, 2013 as compared to an exchange loss of $3,734, leaving a cash and cash equivalents balance of $20,603,312 as at March 31, 2012.

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 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	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

Liquidity and capital resources:

Consolidated statements of financial position highlights	**March 31, 2013**	June 30, 2012
Cash and cash equivalents	**$ 4,365,985**	$ 18,197,006
Investments, at fair value	**1,899,157**	2,771,469
Exploration and evaluation assets	**51,813,808**	45,141,148
Total assets	**59,788,203**	67,650,272
Total liabilities	**1,545,230**	1,150,868
Share capital, warrants and broker warrants, contributed surplus	**120,900,233**	120,550,480
Foreign currency translation reserve	**(1,071,410)**	(928,739)
Deficit	**(61,585,850)**	(53,122,337)
Working Capital	**5,815,743**	20,793,675

Accounts payable and accrued liabilities increased by $308,212 to $1,459,080 as at March 31, 2013 as compared to $1,150,868 as at June 30, 2012. As at March 31, 2013, the accounts payable and accrued liabilities included $1,001,814 for exploration and evaluation cash calls as compared to $376,480 as at June 30, 2012. As at March 31, 2013, included in accounts payable and accrued liabilities is $331,297 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 March 31, 2013, the Company had accrued income taxes payable of $86,150 (2012 – 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 March 31, 2013 are sufficient to meet the Company's current payables. As at March 31, 2013, the Company had working capital of $5,815,743 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 March 31, 2014. 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 and raise funds. 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. Subsequent to March 31, 2013, the Company announced the sale of one of its oil producing Blocks (Canaguaro) for gross cash proceeds of US$6,000,000 with closing of the sale by mid-June 2013. These proceeds will be used in the general working capital of the Company.

As at March 31, 2013, the Company had restricted cash totaling $613,422 (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 March 31, 2013 and June 30, 2012.

As at March 31, 2013, 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 March 31, 2013, Brownstone's management handled the Company's investor relations activities.

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 nine months ended March 31 were as follows:

	Three months ended March 31,		Nine Months ended March 31,	
	2013	2012	**2013**	2012
Salaries and consulting fees	**$ 194,188**	$ 194,188	**$ 582,563**	$ 612,563
Other short-term benefits	**5,399**	17,092	**17,036**	34,939
Stock based compensation expense	**96,205**	244,497	**255,339**	888,744
	$ 295,792	$ 455,777	**$ 854,938**	$ 1,536,246

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 nine months ended March 31, 2013, 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 March 31, 2013, 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 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.

Risk management:

(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.

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.

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)**

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 nine months ended March 31, 2013, the Company had a change in unrealized losses on investments of $250,000 (nine months ended March 31, 2012 – net change in unrealized losses of $3,175,000) 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 nine months ended March 31, 2013, the Company recorded an impairment of exploration and evaluation assets of $4,740,477 (nine months ended March 31, 2012 – $16,112,785) on its exploration and evaluation assets.

Deferred tax assets:

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

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

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

Stock-based Compensation Expense/Warrants and Broker Warrants:

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

During the nine months ended March 31, 2013, 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
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
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

<u>Valuation of Unlisted Warrants of Public Companies:</u>

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 March 31, 2013 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:

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

As at May 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	**10,805,080**
Issuable under warrants	**7,951,454**
Total diluted common shares	**148,550,823**

Refer to note 5 of the notes to the consolidated financial statements as at and for the three and nine months ended March 31, 2013 for details of the Company's share capital as at March 31, 2013.

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.