Consolidated Financial Statements of

Brownstone Energy Inc.

(Prepared in Canadian dollars)
For the years ended June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Brownstone Energy Inc.

We have audited the accompanying consolidated financial statements of **Brownstone Energy Inc.**, which comprise the consolidated statements of financial position as at June 30, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Brownstone Energy Inc.** as at June 30, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a history of operating losses. The Company has incurred a loss for the year ended June 30, 2013 of $40,860,181 (2012 - $27,053,898) and as at June 30, 2013 the Company has an accumulated deficit of $93,982,518. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP

Toronto, Canada
October 28, 2013

Chartered Accountants
Licensed Public Accountants

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at June 30,
(Prepared in Canadian dollars)

	Notes	2013	2012
Assets			
Current			
Cash and cash equivalents	6(a)	**$ 9,595,064**	$ 18,197,006
Prepaids and receivables	14(b)	**1,136,807**	976,068
Investments, at fair value	5, 6(a)	**1,667,208**	2,771,469
Income taxes receivable		**144,471**	-
		12,543,550	21,944,543
Restricted cash	7	**634,925**	564,581
Exploration and evaluation assets	4	**17,274,483**	45,141,148
		$ 30,452,958	$ 67,650,272
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities		**$ 3,478,478**	$ 1,150,868
Income taxes payable		**72,642**	-
		3,551,120	1,150,868
Equity			
Share capital	9(a)	**96,597,845**	96,597,845
Contributed surplus	9(c)	**21,806,275**	16,642,202
Warrants and broker warrants	9(d)	**2,559,317**	7,310,433
Foreign currency translation reserve		**(79,081)**	(928,739)
Deficit		**(93,982,518)**	(53,122,337)
		26,901,838	66,499,404
		$ 30,452,958	$ 67,650,272

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Steven Mintz" Director

"Michael Sweatman" Director

BROWNSTONE ENERGY INC.

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

	Notes	2013	2012
Net investment losses			
Net realized losses on disposal of investments		**$ -**	$ (5,008,726)
Net change in unrealized losses on investments		**(1,604,261)**	(610,098)
		(1,604,261)	(5,618,824)
Interest and other income	4(a)(iii)	**213,781**	302,955
		(1,390,480)	(5,315,869)
Expenses			
Operating, general and administrative	8, 9(b)	**2,691,218**	5,277,579
Impairment of exploration and evaluation assets	4	**36,394,392**	16,292,799
		39,085,610	21,570,378
Loss before income taxes		**(40,476,090)**	(26,886,247)
Income tax expense	10(a)(b)	**384,091**	167,651
Net loss for the year		**(40,860,181)**	(27,053,898)
Other comprehensive income			
Exchange differences on translation of foreign operations		**849,658**	2,236,275
Total comprehensive loss for the year		**$ (40,010,523)**	$ (24,817,623)
Loss per common share based on net loss for the year	9(e)		
Basic and diluted		**$ (0.31)**	$ (0.21)
Weighted average number of common shares outstanding	9(e)		
Basic and diluted		**129,794,289**	129,794,289

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.

Consolidated Statements of Changes in Equity
Years Ended June 30, 2013 and 2012
(Prepared in Canadian dollars)

	Notes	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 year		-	-	-	-	-	(27,053,898)	(27,053,898)
Exchange differences on translation of foreign operations		-	-	-	-	2,236,275	-	2,236,275
Total comprehensive loss for the year		-	-	-	-	2,236,275	(27,053,898)	(24,817,623)
Stock-based compensation expense	9(b)	-	-	-	1,412,741	-	-	1,412,741
Reallocation of expired warrants	9(d)	-	-	(372,948)	372,948	-	-	-
Cost of warrant expiry date extension	9(d)(i)	-	-	809,997	-	-	-	809,997
Balance at June 30, 2012		129,794,289	$ 96,597,845	$ 7,310,433	$ 16,642,202	$ (928,739)	$ (53,122,337)	$ 66,499,404
Net loss for the year		**-**	**-**	**-**	**-**	**-**	**(40,860,181)**	**(40,860,181)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**849,658**	**-**	**849,658**
Total comprehensive loss for the year		**-**	**-**	**-**	**-**	**849,658**	**(40,860,181)**	**(40,010,523)**
Stock-based compensation expense	9(b)	**-**	**-**	**-**	**412,957**	**-**	**-**	**412,957**
Reallocation of expired warrants	9(d)	**-**	**-**	**(4,751,116)**	**4,751,116**	**-**	**-**	**-**
Balance at June 30, 2013		**129,794,289**	**$ 96,597,845**	**$ 2,559,317**	**$ 21,806,275**	**$ (79,081)**	**$ (93,982,518)**	**$ 26,901,838**

See accompanying notes to the consolidated financial statements.

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

	Notes	2013	2012
Cash flows used in operating activities			
Net loss for the year		**$ (40,860,181)**	$ (27,053,898)
Items not affecting cash			
Net realized losses on disposal of investments		**-**	5,008,726
Net change in unrealized losses on investments		**1,604,261**	610,098
Impairment of exploration and evaluation assets	4	**36,394,392**	16,292,799
Stock-based compensation expense	9(b)	**412,957**	1,412,741
Cost of warrant expiry date extension	9(d)(i)	**-**	809,997
		(2,448,571)	(2,919,537)
Changes in non-cash working capital balances			
Prepaids and receivables		**(160,739)**	(604,495)
Income taxes receivable		**(144,471)**	1,053,614
Accounts payable and accrued liabilities		**(349,142)**	(726,001)
Income taxes payable		**72,642**	-
		(3,030,281)	(3,196,419)
Cash flows from financing activities			
Decrease in due from brokers		**-**	228,868
		-	228,868
Cash flows used in investing activities			
Expenditures on exploration and evaluation assets, net	4	**(10,935,983)**	(16,717,003)
Proceeds on sale of exploration and evaluation assets		**6,157,261**	3,642
Decrease (increase) in restricted cash		**(70,344)**	4,135,417
Proceeds on disposal of investments		**-**	4,010,190
Purchases of investments		**(500,000)**	(50,000)
		(5,349,066)	(8,617,754)
Net decrease in cash and cash equivalents during the year		**(8,379,347)**	(11,585,305)
Exchange rate changes on foreign currency cash balances		**(222,595)**	(51,495)
Cash and cash equivalents, beginning of year		**18,197,006**	29,833,806
Cash and cash equivalents, end of year		**$ 9,595,064**	$ 18,197,006
Supplemental cash flow information			
Income taxes paid		**$ 455,920**	$ 167,651
Income taxes refunded		**-**	1,053,614

See accompanying notes to the consolidated financial statements.

1. Nature of business:

Brownstone Energy Inc. ("Brownstone" or the "Company") was continued under the Canada Business Corporations Act on December 1, 2011 and its common shares are publicly-traded on the TSX Venture Exchange under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". The Company is domiciled in the Province of Ontario and its head office is located at 130 King St. West, Suite 2500, Toronto, Canada, M5X 2A2.

Brownstone is a Canadian-based, energy-focused company with direct interests in oil and gas exploration projects, including varying interests in offshore Israel and in the Llanos Basin, Colombia, as well as other oil and gas interests worldwide.

These consolidated financial statements were approved for issuance by the Company's board of directors on October 28, 2013.

These consolidated financial 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 for the year ended June 30, 2013 of $40,860,181 (2012 - $27,053,898) and has an accumulated deficit of $93,982,518 (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 June 30, 2013 will not be sufficient to meet the Company's potential capital expenditures through June 30, 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 June 30, 2013 and the continued estimated operating losses cast significant doubt on the Company's ability to continue as a going concern. The consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2. Basis of preparation (continued):

(b) Basis of presentation:

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

(c) Basis of consolidation:

These consolidated financial statements include the accounts of Brownstone and its wholly-owned subsidiaries: Brownstone Ventures (US) Inc., Brownstone Ventures (Barbados) Inc., Brownstone Comercializadora de Petroleo Ltda. and 2121197 Ontario Ltd. All inter-company account balances and transactions have been eliminated upon consolidation.

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

(d) Adoption of IFRS 9:

The effective date of IFRS 9, Financial Instruments ("IFRS 9"), is January 1, 2015. As permitted by the IASB, the Company has early adopted IFRS 9 in conjunction with the transition to IFRS on July 1, 2010. Specifically, the Company has adopted the recognition, de-recognition, and measurement of financial assets and liabilities. The Company's significant class of financial assets is investments (designated at fair value through profit or loss).

(e) Critical accounting judgments, estimates and assumptions:

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

2. Basis of preparation (continued):

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

(i) Impairment:

At the end of each financial reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss or reversal of previous impairment. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Refer to Note 4 for further details.

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

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Refer to Note 3(c)(iv) for further details.

(iii) Fair value of financial derivatives:

Investments in warrants that are not traded on a recognized securities exchange do not have a readily available market value. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants and options are valued at intrinsic value that approximates fair value. Refer to Note 3(c)(iv) for further details.

(iv) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to determine the fair value of options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life, and expected volatility. Certain of the inputs are estimates that involve considerable judgment and are or could be affected by significant factors that are out of the Company's control. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of stock-based compensation expense. Refer to Note 9(b) for further details.

2. Basis of preparation (continued):

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

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and the consolidated financial statements continue to be prepared on a going concern basis. However, management does not believe the Company has sufficient funds to meet the Company's potential capital expenditures through to June 30, 2014 which may cast doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Refer to Note 1.

(ii) Determination of functional currency:

The effects of Changes in Foreign Exchange Rates' (IAS 21) defines the functional currency as the currency of the primary economic environment in which an entity operates. The determination of functional currency, which is performed on an entity by entity basis, is based on various judgmental factors outlined in IAS 21. Based on assessment of the factors in IAS 21, primarily those that influence labour, material and other costs of goods or services received by its subsidiaries, management determined that the functional currency for the parent company is Canadian dollars, the US dollar for the Company's subsidiaries located in Barbados and the United States and the Brazilian real for the Company's subsidiary located in Brazil.

(iii) Deferred tax assets:

Deferred tax assets are recognized in respect of tax losses and other temporary differences to the extent it is probable that taxable income will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. Refer to Note 10 for further details.

3. Significant accounting policies:

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

3. Significant accounting policies (continued):

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

(i) Exploration and evaluation assets:

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

All costs incurred in connection with the Company's exploration and evaluation assets (acquisition and exploration for oil and gas reserves) including overhead and dry-holes are capitalized less accumulated impairment losses. Such amounts include land acquisition costs, geological and geophysical expenditures, cost of drilling both productive and non-productive wells, gathering production facilities and equipment, and overhead expenses directly related to exploration and development activities.

The Company capitalizes carrying costs directly attributable to its acquisition, exploration and development activities, such as interest costs.

Capitalized exploration and evaluation assets are assessed to determine whether it is likely such net costs may be recovered in the future. Assets that are unlikely to be recovered are written down to their recoverable amount. Impairment reviews take place where there is an indication of impairment or when an exploration and evaluation asset has been transferred into oil and gas properties. The Company considers both qualitative and quantitative factors when determining whether an exploration and evaluation asset may be impaired. Impairment reviews are based on each specific license or block. Each specific license or block has an operator (which may be similar) with different joint partners. Management may consider the following when reviewing an exploration and evaluation asset for impairment:

1. failure to receive approvals of or extensions of environmental/ drilling permits, aboriginal or similar approvals that allow the Company and its partners to proceed with a project;

2. valuations based on reserve or resource reports prepared by an independent engineering firm;

3. political changes in a country which the Company owns the exploration or evaluation asset;

4. seismic testing or drilling results;

5. the Company's intention of participating in a project;

6. management's estimate of the recoverable amount (fair value less costs to sell);

7. long-term oil and gas prices (considering current and historical prices, price trends and related factors);

3. Significant accounting policies (continued):

8. operating costs;

9. future capital requirements;

10. and the financial capability of a partner;

(ii) Joint oil and gas activities:

All of the Company's oil and gas activities are conducted jointly with others. The Company's accounts reflect only the Company's proportionate interest in these activities.

For interests in jointly controlled assets and operations, the Company's share of the jointly controlled assets are classified according to the nature of the assets, the Company's share of any liabilities incurred jointly with the other parties, and the Company's share of any income and expenses incurred jointly with the partners are recognized in the consolidated financial statements.

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

(b) Foreign currency:

(i) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the parent's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances:

Transactions in foreign currencies are initially recorded in the functional currency at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(iii) Translation of foreign operations:

The results and financial position of Brownstone's subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

3. Significant accounting policies (continued):

1. Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

The Company treats specific inter-company loan balances that are not intended to be repaid in the foreseeable future as part of its net investment in a foreign operation which is recorded as an exchange difference on translation of foreign operations in other comprehensive loss in the consolidated statements of comprehensive loss. When a foreign entity is sold, such exchange differences are reclassified to income or loss in the consolidated statements of comprehensive loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Financial investments:

(i) Classification:

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

(ii) Recognition, de-recognition and measurement:

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

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

Subsequent to initial recognition, all investments are measured at fair value. Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are presented in the consolidated statements of comprehensive loss within unrealized gains or losses on investments in the period in which they arise.

3. Significant accounting policies (continued):

(iii) Reclassification of investments:

The Company only reclassifies any financial assets when it changes its business model for managing the financial asset.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

(iv) Determination of fair value:

The determination of fair value requires judgment and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

The Company is also required to disclose details of its investments (and other financial assets and liabilities reported at fair value) within three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring the fair value, and to provide additional disclosure in connection therewith (see Note 6(b)).

1. Publicly-traded investments:

a. Securities, including shares, options, and warrants that are traded in an active market (such as on a recognized securities exchange) and for which no sales restrictions apply are presented at fair value based on quoted closing bid prices at the consolidated statement of financial position date or the closing bid price on the last day the security traded if there were no trades at the consolidated statement of financial position date. These investments are included in Level 1 in Note 6(b).

b. Securities that are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value to a maximum of 10%. In determining the discount for such investments, the Company considers the nature and length of the restriction. These investments are included in Level 2 in Note 6(b).

c. For options and warrants that are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available or reliable, the warrants and options are valued at intrinsic value, which is equal to the higher of the closing bid price at the consolidated statement of financial position date of the underlying security less the exercise price of the warrant or option, and zero, which approximates fair value. These investments are included in Level 2 in Note 6(b).

3. Significant accounting policies (continued):

2. Private company investments:

All privately-held investments (other than options and warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may, depending upon the circumstances, be adjusted using one or more of the valuation indicators described below. These investments are included in Level 3 in Note 6(b).

The determinations of fair value of the Company's privately-held investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

The following circumstances are used to determine if the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to the events described below, which may affect a specific investment, the Company will take into account general market conditions when valuing the privately-held investments in its portfolio. Absent the occurrence of any of these events or any significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

The fair value of a privately-held investment may be adjusted upward if:

a. there has been a significant subsequent equity financing provided by outside investors at a valuation above the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place; or

b. there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable.

3. Significant accounting policies (continued):

Such events include, without limitation:

i. political changes in a country in which the investee company operates which, for example, reduce the corporate tax burden, permit drilling where or to an extent that it was not previously allowed, or reduce or eliminate the need for permitting or approvals;

ii. receipt by the investee company of environmental, drilling, aboriginal or similar approvals that allow the investee company to proceed with its project(s);

iii. filing by the investee company of a National Instrument 51-101 technical report in respect of a previously non-compliant resource;

iv. release by the investee company of positive exploration results, which either proves or expands their resource prospects; and

v. important positive management changes by the investee company that the Company's management believes will have a very positive impact on the investee company's ability to achieve its objectives and build value for shareholders.

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

The fair value of a privately-held investment may be adjusted downward if:

a. there has been a significant subsequent equity financing provided by outside investors, at a valuation below the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

b. the investee company is placed into receivership or bankruptcy;

c. based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern; or

d. there have been significant corporate, political, or operating events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and therefore its fair value. The amount of the change to the fair value of the investment is based on management's judgment and any value estimated may not be realized or realizable.

3. Significant accounting policies (continued):

Such events include, without limitation:

i. political changes in a country in which the investee company operates that increase the tax burden on companies that prohibit drilling where it was previously allowed, that increase the need for permitting or approvals, etc.;

ii. denial of the investee company's application for environmental, drilling, aboriginal or similar approvals that prohibit the investee company from proceeding with its project(s);

iii. the investee company releases negative exploration results; and

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

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

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

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

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

Financial assets at amortized cost are measured at initial cost plus interest calculated using the effective interest rate method less cumulative repayments and cumulative impairment losses.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset. The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. For amounts deemed to be impaired, the impairment provision is based upon the expected loss.

3. Significant accounting policies (continued):

(e) Cash and cash equivalents:

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

(f) Restricted cash:

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

(g) Revenue recognition:

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of comprehensive loss.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed so as to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statements of comprehensive loss as incurred. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Interest income, other income, and income from securities lending are recorded on an accrual basis.

Interest and other income are recorded on an accrual basis.

Oil revenue:

The Company recognizes revenue from petroleum and natural gas production at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer and it can be reliably measured and only at such time as a project becomes commercially viable and development approval is received.

Prior to this stage, any production is considered test production and the related revenue is capitalized, net of applicable costs.

3. Significant accounting policies (continued):

(h) Offsetting of financial instruments:

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(i) Non-monetary transactions:

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

(j) Income taxes:

(i) Current income tax:

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

(ii) Deferred tax:

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary difference and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statements of comprehensive loss. Deferred tax assets and deferred tax liabilities are not offset unless a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies (continued):

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

(k) Stock-based compensation plans:

The Company has a stock option plan that is described in Note 9(b). Employees (including officers), directors, and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Any consideration received by Brownstone on the exercise of stock options is credited to share capital. The cost of options is recognized, together with a corresponding increase in contributed surplus, over the period in which the corresponding performance and/or service conditions are fulfilled, ending on the date on which the relevant optionee becomes fully entitled to the award ("the vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted, which represents the movement in cumulative expense recognized as at the beginning and end of that period.

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

Where the terms of a stock option award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the option or is otherwise beneficial to the optionee as measured at the date of modification.

Where an option is cancelled it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

3. Significant accounting policies (continued):

(l) Earnings (loss) per common share:

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

(m) Finance expense:

Interest expense is recorded on an accrual basis.

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

(n) Financial liabilities:

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

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

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

(o) Due from broker:

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

(p) Financial derivatives – options and warrants:

A financial derivative such as a warrant or option that will be settled with the issuing entity's own equity instruments will be classified as an equity instrument if the derivative is used to acquire a fixed number of the entity's own equity instruments for a fixed amount of Canadian dollars.

3. Significant accounting policies (continued):

A financial derivative will be considered as a financial liability at fair value through profit or loss if it is used to acquire either a variable number of equity instruments or consideration in a foreign currency and the options and warrants were not offered pro rata to all existing owners of the same class of non-derivative equity instruments.

(q) Segment reporting:

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

(r) Provisions:

(i) General:

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event that is independent of future action by the Company, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Asset retirement obligation:

Asset retirement obligation is the present value of estimated costs to restore operating locations in accordance with regulations and laws as defined by each oil and gas license.

4. Exploration and evaluation assets:

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

4. Exploration and evaluation assets (continued):

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

	Colombia (a)	Israel (b)	USA (c)	Canada (d)	Argentina (e)	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	**6,255,290**	**6,067,145**	**1,148,394**	**13,711**	**111,334**	**13,595,874**
Disposals	**(6,140,400)**	**-**	**-**	**-**	**-**	**(6,140,400)**
Impairment of exploration and evaluation assets	**(34,313,636)**	**(1,380,604)**	**(588,818)**	**-**	**(111,334)**	**(36,394,392)**
Foreign currency translation	**504,891**	**364,260**	**171,002**	**-**	**32,100**	**1,072,253**
Balance at June 30, 2013	**1,051,200**	**9,664,918**	**4,376,697**	**1,130,468**	**1,051,200**	**17,274,483**

(a) Colombia:

During the year ended June 30, 2013, the Company spent $6,255,290 (2012 - $13,309,405) on exploration and evaluation of the blocks located in the Llanos Basin of Central Colombia, net of $7,917,608 (2012 - $4,515,621) in revenue from the sale of oil generated from long-term production testing (Block 27(i) and Canaguaro Block (iii)). Included in the statement of cash flows is the cash spent on expenditures and evaluation net of oil sales from long-term production testing.

A summary of the Company's private participating interests in the Colombian blocks as at June 30, 2013 is as follows:

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

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

4. Exploration and evaluation assets (continued):

For the year ended June 30, 2013, the Company considered a reserve report prepared by an independent engineering firm, Petrotech Engineering Ltd., for the Company in respect of Block 27. Based upon the information contained in the report, management determined the recoverable amount of the Company's interest on Block 27 to be approximately US$1,000,000.

The recoverable amount was based on a 75% discount of the proved and probable amount of US$4,000,000 before accounting for tax losses (with an after-tax discount rate of 10%) based upon the information contained in the reserve report. The Company chose to use an after-tax discount rate of 10% which reflects the evaluation and risks associated with Brownstone's interest in the Llanos basin, Colombia. The future cash flows at an after-tax discount rate of 5% and 15% is US$6,007,100 and US$2,951,800, respectively, with an average of US$4,479,450. The Company reduced the amount by a further 75% discount based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell. As a result, for the year ended June 30, 2013, the Company recorded an impairment charge on Block 27 of $19,219,802 (2012 – nil) to its estimated recoverable amount of $1,051,200 (US$1,000,000).

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

For the year ended June 30, 2013, the Company recorded an impairment charge on Block 36 of $2,760,306 to its estimated recoverable amount of $0. The impairment was recognized upon a review of the private participating interest of the exploration license. The Company does not intend to participate further in the exploration of this Block and the Company does not believe its private participating interest can be sold for any value. (See Note 16(e))

(iii) Canaguay-1 Well: The Company had a 25% private participating interest and was required to pay 25% of any costs relating to the wells on the Block. The Company also had paid a 6% overriding royalty, proportional to its interest, to Concorcio Canaguaro on its share of production. During the year ended June 30, 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.

In June 2013, the Company sold its private participating interest to Petrominerales Ltd. for gross proceeds of US$6,000,000. Included in the consolidated statements of comprehensive loss for the year ended June 30, 2013 as other income is a gain of $77,567 from the sale of the Block.

4. Exploration and evaluation assets (continued):

(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 and testing of the wells, which were subsequently abandoned, Brownstone waived its rights to an income production participation going forward and thus, has no further financial obligations.

For the year ended June 30, 2013, the Company recorded an impairment charge on Block 21 of $7,746,954 to its estimated recoverable amount of $0. The impairment was recognized as the Company has abandoned the Block.

(b) Israel:

As at June 30, 2013 and 2012, the Company has participating interests in the following Israeli Blocks:

	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 Adira Energy Israel Ltd., the operator of the Israeli Blocks (the "Operator") 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.

During the year ended June 30, 2013, the milestone dates for certain work to maintain the license for the property were not met. On June 30, 2013, the Operator had applied to the Ministry of Energy and Water of the State of Israel (the "Ministry") for an extension of the milestone dates and approval was received in October 2013 with a new expiry date of the license of September 1, 2014. The following table sets out the work program that must be completed in order to maintain the Gabriella Block:

Gabriella Work Program	Milestone Dates
Submitting a request for approving an operator	February 28, 2014
Signing a rig contract	April 30, 2014
Submitting the results of an Anisotropic PSDM and coherent sub surface model	July 31, 2014
Spud the first well	August 31, 2014

(ii) During the current year, the Operator received an extension of the Yitzhak license to December 2013. On June 30, 2013, the Operator had applied to the Ministry for an extension of the milestone dates and approval was received in October 2013 with a new expiry date of the license of October 15, 2014.

4. Exploration and evaluation assets (continued):

The following table sets out the current work program that must be completed in order to maintain the Yitzhak Block:

Yitzhak Work Program	Milestone Dates
Submitting the Environmental Impact Assessment to the Central District Planning Committee	January 1, 2014
Execute a contract with a drilling contractor	September 30, 2014
Spud the first well	September 30, 2014

(iii) During the year ended June 30, 2013, the milestone dates for certain work on the property were not met. On March 27, 2013, the Operator had applied to the Ministry for an extension of the dates for the execution of a drilling contract on the Samuel Block to March 31, 2014, and for the spud of the first well to September 30, 2014. The Samuel license expired on July 31, 2013.

For the year ended June 30, 2013, the Company recorded an impairment charge on the Samuel Block of $1,380,604 to its estimated recoverable amount of $0. The impairment was recognized upon a review of the participating interest of the exploration licenses in Israel. The Company believes there is a low probability of realization of the asset from the successful development and the Company has decided not to proceed with the development of the license. (See Note 16(c))

(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 costs in proportion to its participating interests. For the year ended June 30, 2013, the Company recorded an impairment charge of $588,818 on certain of its USA properties upon the abandonment of certain of its leases. The Company has satisfied its financial obligations in respect to the USA properties.

For the year ended June 30, 2012, the Company recorded an impairment charge on its USA exploration and evaluation assets in the Piceance/Uinta basin, USA, of $12,699,480 to its estimated recoverable amount of approximately $3,057,300 (US$3,000,000) (2011 – nil) and impaired other USA exploration and evaluation assets by $588,819 to a net balance of $3,646,119. The impairment was recognized upon a review of the exploration licenses to confirm whether the Company intends further appraisal activity or to otherwise extract value from the property. The impairment was recognized based on the difference between the carrying value of the assets and their recoverable amounts. The recoverable amount was determined based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

For the year ended June 30, 2012, the Company considered reserve data prepared by an independent engineering firm, Gustavson Associates, for the Company in respect to its USA property in the Piceance/Uinta basin. Based upon the data, management determined that the recoverable amount of the USA exploration and evaluation assets in the Piceance/Uinta basin was approximately US$3,000,000 (with a pre-tax discount rate of 25%).

4. Exploration and evaluation assets (continued):

The Company chose to use pre-tax discount rate of 25% due to the risks associated with the properties such as:

(i) the Company's minority participation interest;

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

(iii) non-operatorship of the properties;

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

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

(d) Canada:

The Company has a 50% interest in the exploration licenses of the Rimouski, Rimouski North, Trois-Pistoles and Shawinigan properties in the St. Laurent Lowlands, Quebec. The Company is required to fund its share of the costs incurred on the properties. The properties are in an area where there is a moratorium on drilling pending the results of the government of Quebec's review of fracing.

During 2013, the Company spent $13,711 (2012 - $41,935) to keep the properties in good standing and management believes there is no impairment.

(e) Argentina:

The Company has a 25% interest in the Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement governing Brownstone's interest, the Company is required to fund 50% of the costs to be incurred in the conduct of the work program on the property.

During the year ended June 30, 2012, the Company considered a reserve report prepared by an independent engineering firm, GLJ Petroleum Consultants. Based upon the information contained in the report, management determined the recoverable amount of the Company's interest in Argentina to be approximately US$1,000,000 as at June 30, 2013 and 2012. The future cash flows were discounted using a pre-tax discount rate of 10% that reflects current market assessments of the time value of money and the risk specific to the Company's asset in Argentina. The future cash flows at a pre-tax discount rate of 5% and 15% is US$1,266,000 and US$786,000, respectively, with an average of US$1,026,000. In addition, the Argentinean government nationalized certain local oil assets controlled by a Spanish company, which creates an uncertainty for foreign investors investing in Argentina.

4. Exploration and evaluation assets (continued):

As a result, for the year ended June 30, 2013 and 2012, the Company recorded an impairment charge on its Argentinean exploration and evaluation assets to its estimated recoverable amount of $1,051,200 and $1,019,100, respectively. The recoverable amount was determined based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

5. Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
June 30, 2013	**$ 1,667,208**	**$ 13,750,659**
June 30, 2012	2,771,469	13,250,659

6. Financial instruments carrying amount and fair value:

(a) Financial instruments carrying amounts are as follows as at June 30:

	2013	2012
Investments	**$ 1,667,208**	$ 2,771,469
Cash and cash equivalents		
- Cash on hand	**8,498,195**	3,185,666
- Short-term investments with maturities of less than three months (i)	**1,096,869**	15,011,340
Restricted cash, long-term	**634,925**	564,581
Receivables	**1,117,211**	951,153
Accounts payable and accrued liabilities	**(3,478,478)**	(1,150,868)
	$ 9,535,930	$ 21,333,341

(i) As at June 30, 2013, short-term investments with maturities of less than three months consisted of banker's acceptance notes with an average annual yield of 1.09% (2012 – 1.11%).

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

(b) Financial instruments hierarchy:

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

6. Financial instruments carrying amount and fair value (continued):

The fair value hierarchy has the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

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

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**
2013	**$ 917,208**	**$ -**	**$ 750,000**	**$ 1,667,208**
2012	$ 1,746,469	$ -	$ 1,025,000	$ 2,771,469

There were no transfers from Level 1 to 2 or Level 2 to 1 during the years ended June 30, 2013 and 2012.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the years ended June 30, 2013 and 2012. These financial instruments are measured at fair value utilizing non-observable market inputs. The net change in unrealized gains (losses) are recognized in the consolidated statements of comprehensive loss.

Investments, at fair value	**Opening balance**	**Purchases**	**Net unrealized losses**	**Net transfer out of Level 3**	**Ending balance**
2013	**$ 1,025,000**	**$ -**	**$ (275,000)**	**$ -**	**$ 750,000**
2012	$ 4,150,000	$ 50,000	$ (3,175,000)	$ -	$ 1,025,000

7. Restricted cash:

As at June 30, 2013, the Company had restricted cash totaling $634,925 (US$604,000) (2012 - $564,581 (US$554,000) as collateral to the Royal Bank of Canada ("RBC") for letters of guarantee issued by RBC. The restricted cash is held in GICs, which are renewed on a monthly basis at the prevailing interest rate (0.02% per annum as at June 30, 2013 (2012 – 0.02%)). The GICs are held as collateral by RBC for letters of guarantee issued by RBC to Agencia Nacional de Hidrocarburos ("ANH"), a Colombian government agency, the oil and gas agency of the Colombian government. As at June 30, 2013, the Company has letters of guarantee totaling US$5,700,000 (2012 – US$7,388,883). The letters of guarantee are provided to secure Brownstone's interests and exploration in Colombia Llanos exploration Blocks 21, 27, and 36 and to ensure that the Company fulfills its commitments under those blocks.

Export Development Canada ("EDC"), a Canadian federal government agency, has issued three Performance Security Guarantees ("PSG") totaling US$5,096,000 (2012 – four PSGs totaling US$6,834,883) to secure certain of the letters of guarantee issued by RBC to ANH as at June 30, 2013.

8. 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 years ended June 30 were as follows:

Type of expense	2013	2012
Salaries and consulting fees	**$ 776,750**	$ 806,750
Other short-term benefits	**22,536**	51,420
Stock-based compensation expense	**305,607**	1,038,269
	$ 1,104,893	$ 1,896,439

Key management personnel are the Chairman and Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer and Vice President, Corporate & Legal Affairs.

(b) During the year ended June 30, 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 28, 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.

9. Equity:

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

(b) Stock options granted:

The Company grants stock options to eligible directors, officers, key employees and consultants under its 2006 stock option plan to enable them to purchase common shares of the Company. Under the terms of the plan, the number of common shares that may be issued pursuant to the exercise of options granted under the plan may not exceed 10% of the number of common shares outstanding at the time of grant.

The exercise price of an option granted under the plan cannot be less than the closing price of the common shares on the last day on which the common shares trade prior to the grant date of the option. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding five years. Stock options granted vest at the rate of 1/6 of the grant every three months over an 18-month period.

Options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense and credits contributed surplus for all options granted.

During the year ended June 30, 2013, the Company granted 2,390,000 options exercisable at $0.17 per share expiring on November 28, 2017.

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, 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	104.7%
Expected dividend yield	0%
Risk-free interest rate	1.2%
Expected option life in years	3.7 years
Expected forfeiture rate	5.5%
Fair value per stock option granted on November 29, 2012	$ 0.12

9. Equity (continued):

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	115.7%
Expected dividend yield	0%
Risk-free interest rate	1.3%
Expected option life in years	3.6 years
Expected forfeiture rate	6.8%
Fair value per stock option granted on October 11, 2011	$ 0.29
Fair value per stock option granted on February 8, 2012	$ 0.41

The expected volatility is based on the historical volatility over the life of the option of Brownstone's share price. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk free interest rate is based on the yield of Canadian Benchmark Bond with equivalent terms. The expected option life in years represents the period of time that options granted are expected to be outstanding based on historical options granted.

For the year ended June 30, 2013, included in operating, general and administrative expenses was stock-based compensation expense of $412,957 (2012 - $1,412,741) 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 and changes during the years ended June 30, 2013 and 2012 is presented below:

	2013		2012	
Stock options	**# of options**	**Weighted average exercise price**	# of options	Weighted average exercise price
Outstanding, at beginning of year	**8,925,080**	**$ 0.72**	8,425,080	$ 1.21
Granted	**2,390,000**	**0.17**	2,405,000	0.41
Forfeited	**(8,334)**	**0.40**	-	-
Expired	**(1,331,666)**	**1.25**	(1,905,000)	2.47
Outstanding, at end of year	**9,975,080**	**$ 0.52**	8,925,080	$ 0.72
Exercisable, at end of year	**8,344,232**	**$ 0.59**	7,006,731	$ 0.78

9. Equity (continued):

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2013:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
100,000	**100,000**	**$ 0.50**	August 10, 2014
1,133,400	**1,133,400**	**0.52**	August 12, 2014
10,000	**10,000**	**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
1,136,680	**1,136,680**	**0.51**	September 20, 2015
1,340,000	**1,340,000**	**1.20**	March 29, 2016
2,130,000	**2,130,000**	**0.40**	October 10, 2016
225,000	**187,500**	**0.56**	February 7, 2017
2,390,000	**796,652**	**0.17**	November 28, 2017
9,975,080	**8,344,232**		

(c) Contributed surplus comprised the following as at June 30:

	2013	2012
Stock-based compensation	**$ 9,923,008**	$ 9,510,051
Expired warrants and broker warrants	**11,857,003**	7,105,887
Cancellation of common shares under normal course issuer bid	**20,639**	20,639
Value of cancelled escrowed shares	**5,625**	5,625
	$ 21,806,275	$ 16,642,202

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

	June 30, 2013		
	# of warrants and broker warrants	**Weighted average exercise price**	**Amount**
Outstanding, at beginning of year	**25,201,454**	**$ 1.09**	**$ 7,310,433**
Expired	**(17,250,000)**	**1.25**	**(4,751,116)**
Outstanding, at end of year	**7,951,454**	**$ 0.75**	**$ 2,559,317**

	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

9. Equity (continued):

The following table summarizes information about warrants outstanding as at June 30, 2013:

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

The following table summarizes information about warrants and broker warrants outstanding as at June 30, 2012:

Number of warrants and broker warrants		Exercise price	Expiry date	Warrants and broker warrants value
7,951,454	(i)	$ 0.75	April 13, 2014	$ 2,559,317
15,131,579		1.25	September 11, 2012	4,167,645
2,118,421		1.25	September 11, 2012	583,471
25,201,454				$ 7,310,433

(i) During the year ended June 30, 2012, 7,951,454 warrants expiring April 13, 2012 were extended to April 13, 2014. The fair value of these warrants immediately after the modification was $809,998 using the Black-Scholes option pricing model with the following assumptions: expected volatility of 102.2%; dividend yield of 0%; risk-free interest rate of 1.2%; and an expected life of 1.77 years. The fair value of these warrants immediately prior to the extension was $1. Accordingly, the incremental fair value of the warrants resulting from this modification of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss reflected in operating, general and administrative expenses.

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

Numerator:	**2013**	2012
Loss for the year	**$ (40,860,181)**	$ (27,053,898)

Denominator:	**2013**	2012
Weighted average number of common shares outstanding – basic	**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

Loss per common share based on loss for the year:	**2013**	2012
Basic and diluted	**$ (0.31)**	$ (0.21)

9. Equity (continued):

(i) The determination of the weighted average number of common shares outstanding – diluted excludes 17,926,534 shares related to stock options, warrants, and broker warrants that were anti-dilutive for the year ended June 30, 2013 (2012 – 34,126,534 shares).

(f) Maximum share dilution:

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

	2013	2012
Common shares outstanding	**129,794,289**	129,794,289
Stock options to purchase common shares	**9,975,080**	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	**147,720,823**	163,920,823

10. Income tax expense and deferred taxes:

(a) Income tax expense attributable to loss before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 26.50% (2012 – 27.25%) of pre-tax income as a result of the following:

	2013	2012
Loss before income taxes	**$ (40,860,181)**	$ (26,886,247)
Computed "expected" income tax recovery	**$ (10,827,948)**	$ (7,326,502)
Non-taxable portion of capital losses	**-**	682,439
Non-taxable portion of unrealized losses	**212,565**	83,126
Expenses not deductible for income tax purposes	**88,257**	613,112
Impairment of exploration and evaluation assets not tax benefited	**9,644,514**	4,439,788
Net deferred tax assets not recognized	**882,612**	1,508,037
Minimum tax and income tax withheld in foreign jurisdictions	**384,091**	167,651
Income tax expense	**$ 384,091**	$ 167,651

The 2013 statutory tax rate of 26.50% differs from the 2012 statutory tax rate of 27.25% because of a reduction in the Canadian federal tax rate.

10. Income tax expense and deferred taxes (continued):

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

	2013	2012
Current income tax expense		
Tax withheld in foreign jurisdiction	**$ 384,091**	$ 167,651
	384,091	167,651
Deferred taxes		
Income taxes – origination and reversal of temporary differences	**(10,527,126)**	(5,947,825)
Relating to unrecognized temporary differences	**10,527,126**	5,947,825
	-	-
Income tax expense	**$ 384,091**	$ 167,651

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

	2013	2012
Non-capital losses carry-forward	**$ 4,637,322**	$ 2,061,206
Exploration and evaluation assets tax pools	**4,767,118**	5,619,009
Investments	**1,470,512**	1,257,948
Share issuance costs and other differences	**1,039,979**	1,226,217
Capital losses carry-forward	**666,403**	666,403
	$ 12,581,334	$ 10,830,783

As at June 30, 2013, the Company has approximately $821,000 (2012 - $899,000) of Canadian resource deductions and $18,298,000 (2012 - $22,095,000) of foreign resource deductions available that have an unlimited carry-forward period to reduce future years' income for tax purposes, the benefit of which has not been recorded in the accounts.

As at June 30, 2013, the Company has approximately $5,029,000 of capital losses (2012 - $5,029,000) and $12,465,000 (2012 - $6,144,000) of Canadian non-capital losses available to reduce future years' income for tax purposes, the benefit of which has not been recorded in the accounts.

The non-capital losses will expire as follows:

2028	$ 73,100
2031	2,327,800
2032	5,506,500
2033	4,557,600
	$ 12,465,000

In addition, the Company has unclaimed non-capital losses of approximately $53,365,000 in Barbados that expires from 2017 to 2022 and $66,000 in U.S. that expires from 2015 to 2019.

11. Segmented information:

Reportable segments are defined as components of an enterprise about which separate financial information is available, that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the oil and gas sector. The Company's significant segments include six distinct geographic areas: Colombia, Israel, Canada, United States, Argentina and Brazil. There were no changes in the reportable segments during the year ended June 30, 2013. The accounting policies applied to Brownstone's operating segments are the same as those described in the summary of significant accounting policies, except that certain expenses and other items are not allocated to the individual operating segments when determining income or loss, but are attributed to the Canadian operations where the corporate head office is located.

The following is segmented information as at and for the year ended June 30, 2013:

	Year ended June 30, 2013		**As at June 30, 2013**		
	Interest and other income	**Loss for the year**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 73,819**	**$ 3,768,674**	**$ 1,130,468**	**$ 11,443,473**	**$ 12,573,941**
Israel	**-**	**1,529,724**	**9,664,918**	**78,918**	**9,743,836**
United States	**16,861**	**571,957**	**4,376,697**	**18,814**	**4,395,511**
Colombia	**123,101**	**34,829,460**	**1,051,200**	**1,488,705**	**2,539,905**
Argentina	**-**	**160,366**	**1,051,200**	**14,622**	**1,065,822**
Brazil	**-**	**-**	**-**	**133,943**	**133,943**
	$ 213,781	**$ 40,860,181**	**$ 17,274,483**	**$ 13,178,475**	**$ 30,452,958**

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

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

12. Expenses by nature:

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

	2013	2012
Salaries and consulting fees	**$ 1,485,341**	$ 1,425,379
Other office and general	**414,176**	638,817
Stock-based compensation expense	**412,957**	1,412,741
Professional fees	**327,553**	361,479
Travel and promotion	**286,373**	489,843
Shareholder relations, transfer agent and filing fees	**113,902**	162,330
Other employment benefits	**28,654**	55,198
Cost of warrant extension	**-**	809,997
Transaction costs	**-**	19,546
Foreign exchange gain	**(377,738)**	(97,751)
	$ 2,691,218	$ 5,277,579

13. Management of capital:

The Company includes the following in its capital as at June 30:

	2013	2012
Equity comprising:		
Share capital	**$ 96,597,845**	$ 96,597,845
Warrants and broker warrants	**2,559,317**	7,310,433
Contributed surplus	**21,806,275**	16,642,202
Foreign currency translation reserve	**(79,081)**	(928,739)
Deficit	**(93,982,518)**	(53,122,337)
	$ 26,901,838	$ 66,499,404

The Company's objectives when managing capital are:

(a) to ensure that the Company maintains the level of capital necessary to meet the requirements of cash calls for the exploration of properties and from operators in joint venture properties;

(b) to ensure that the Company maintains the level of capital necessary to meet the requirements of its broker;

(c) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments and acquisitions of exploration properties;

(d) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and

(e) to maintain a flexible capital structure that optimizes the cost of capital at acceptable levels of risk.

13. Management of capital (continued):

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) realizing proceeds from the disposition of its investments; and

(b) raising capital through equity or debt financings.

The Company is not subject to any capital requirements imposed by a regulator, except to the extent that it has pledged cash as collateral for certain letters of guarantee issued to ANH (note 7).

There were no changes in the Company's approach to capital management during the year ended June 30, 2013. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's current working capital is sufficient to discharge its liabilities as at June 30, 2013.

14. Risk management:

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

(a) Market risk:

Market risk is the risk that the fair value of or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Brownstone's financial position.

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

14. Risk management (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2013 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 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%	**$ 28,926**	**$ (28,926)**
4%	**57,852**	**(57,852)**
6%	**86,778**	**(86,778)**
8%	**115,704**	**(115,704)**
10%	**144,630**	**(144,630)**

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

Percentage of change in closing bid price	Decrease in net after-tax loss from % increase in closing bid price	Increase in net after-tax loss from % decrease in closing bid price
2%	$ 48,085	$ (48,085)
4%	96,170	(96,170)
6%	144,255	(144,255)
8%	192,340	(192,340)
10%	240,425	(240,425)

(b) Credit risk:

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties owing it money or securities will not perform their underlying obligations and for funds held with banks for cash and cash equivalents. The Company may, from time to time, invest in debt obligations. As at June 30, 2013 and 2012, the Company did not hold any debt obligations. All funds in cash and cash equivalents are held in financial institutions that have a credit rating above AA and the Company believes it is not exposed to any significant loss.

There were no changes to the way the Company manages credit risk during the year ended June 30, 2013. The Company is also exposed in the normal course of business to credit risk from the sale of its investments and advances to investee and joint venture companies.

14. Risk management (continued):

The following is the Company's maximum exposure to credit risk as at June 30:

	2013	2012
Cash and cash equivalents	**$ 9,595,064**	$ 18,197,006
Restricted cash	**634,925**	564,581
Receivables	**1,117,211**	951,153
Income taxes receivable	**144,471**	-
	$ 11,491,671	$ 19,712,740

As at June 30, 2013 and 2012, the Company had the following significant receivables:

(i) As at June 30, 2013, included in receivables is $1,047,044 (2012 - $734,096) relating to oil sales revenue. The Company is exposed to this credit risk since the amount is due from three counterparties.

(ii) As at June 30, 2013, included in receivables is $35,026 (2012 - $52,448) relating to Goods and Services Tax and Harmonized Sales Tax input sales tax refunds. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they become due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. The Company generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest earned on its investments.

There were no changes to the way that the Company manages liquidity risk during the year ended June 30, 2013. The Company manages liquidity risk by reviewing the amount of margin available on a daily basis and managing its cash flow. The Company holds investments that can be converted into cash when required.

As at June 30, 2013 and 2012, the Company was not using any margin.

14. Risk management (continued):

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2013:

	Payments due by period				
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 3,478,478**	**$ 3,478,478**	**$ -**	**$ -**	**$ -**
Income taxes payable	**72,642**	**72,642**			
	$ 3,551,120	**$ 3,551,120**	**$ -**	**$ -**	**$ -**

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2012:

	Payments due by period				
Liabilities and obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,150,868	$ 1,150,868	$ -	$ -	$ -
	$ 1,150,868	$ 1,150,868	$ -	$ -	$ -

The following table shows the Company's source of liquidity by assets as at June 30, 2013:

	Liquidity by period				
Assets	**Total**	**Less than 1 year**	**1 – 3 years**	**After 4 years**	**Non-liquid assets**
Cash and cash equivalents	**$ 9,595,064**	**$ 9,595,064**	**$ -**	**$ -**	**$ -**
Prepaids and receivables	**1,136,807**	**1,136,807**	**-**	**-**	**-**
Investments, at fair value	**1,667,208**	**1,667,208**	**-**	**-**	**-**
Income taxes receivable	**144,471**	**144,471**	**-**	**-**	**-**
Restricted cash	**634,925**	**-**	**634,925**	**-**	**-**
Exploration and evaluation assets	**17,274,483**	**-**	**-**	**-**	**17,274,483**
	$ 30,452,958	**$ 12,543,550**	**$ 634,925**	**$ -**	**$ 17,274,483**

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

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

14. Risk management (continued):

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at June 30, 2013 and 2012, the Company did not have any interest rate risk liabilities. The Company holds a significant portion of cash equivalents in interest-bearing instruments and is exposed to the risk of changing interest rates.

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income it receives from its investments without significantly increasing risk. To minimize interest rate risk, the Company maintains its portfolio of cash equivalents in GICs and bankers' acceptances with maturities of less than one year. The Company does not use any derivative instruments to reduce exposure to interest rate fluctuations.

(e) Currency risk:

Currency risk is the risk that the fair value of or future cash flows from the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time.

The Company presently holds funds in Canadian dollars but a significant amount of its costs are denominated in U.S. dollars, Colombian pesos, and Argentinean pesos. The Company does not engage in any hedging activities to mitigate its foreign exchange risk.

A change in the foreign exchange rate of the Canadian dollar versus another currency may increase or decrease the value of the Company's financial instruments. The Company does not hedge its foreign currency exposure.

The following assets and liabilities were denominated in foreign currencies:

	2013	2012
Denominated in U.S. dollars:		
Cash and cash equivalents	**$ 8,014,927**	$ 2,066,666
Restricted cash	**634,925**	564,581
Prepaids and receivables	**1,089,282**	888,304
Income tax receivable	**144,471**	-
Exploration and evaluation assets	**16,144,015**	44,024,390
Accounts payable and accrued liabilities	**(3,338,441)**	(965,440)
Net assets denominated in U.S. dollars	**22,689,179**	46,578,501
Denominated in Brazilian reals:		
Cash and cash equivalents	**133,943**	142,662
Net assets denominated in Brazilian reals	**133,943**	142,662

14. Risk management (continued):

	2013	2012
Denominated in Argentinean pesos:		
Cash and cash equivalents	**14,622**	63,639
Prepaids and receivables	**-**	21,027
Accounts payable and accrued liabilities	**(53,469)**	-
Income taxes payable	**(72,642)**	-
Net assets denominated in Argentinean pesos	**(111,489)**	84,666
Denominated in Colombian pesos:		
Cash and cash equivalents	**282,773**	902,211
Net assets denominated in Colombian pesos	**282,773**	902,211

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 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 June 30, 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%	**$ 333,531**	**$ (333,531)**
4%	**667,062**	**(667,062)**
6%	**1,000,593**	**(1,000,593)**
8%	**1,334,124**	**(1,334,124)**
10%	**1,667,655**	**(1,667,655)**

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)

15. Future accounting changes:

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

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

(b) Investment Entities: IFRS 10, *Consolidated Financial Statements,* IFRS 12, *Disclosure of Interests in Other Entities,* and IAS 27, *Separate Financial Statements* – effective for annual periods beginning on or after January 1, 2014, with early adoption permitted - define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

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

(d) IFRS 11, *Joint Arrangements* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS removes the option to account for jointly controlled entities ("JCEs") using the proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

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

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

15. Future changes in accounting policies (continued):

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

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

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

(j) IAS 32, *Financial instruments, Presentation* – in December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

16. Subsequent events:

(a) Subsequent to June 30, 2013, 178,332 options at a weighted average exercise price of $0.53 per share expired and 16,668 options exercisable at $0.17 per share were forfeited.

(b) Subsequent to June 30, 2013, 2,980,000 options were granted at an exercise price of $0.10 per share and expiring on September 9, 2018.

(c) Subsequent to June 30, 2013, the Operator of the Israeli licenses receive milestone dates and license extensions for the Gabriella and Yitzhak Block. Also, Brownstone and the other license holders of the Samuel Block have relinquished their interests back to the State of Israel. (See Note 4(b))

(d) Subsequent to June 30, 2013, the ANH called US$567,027 of the US$2,700,000 letter of guarantee on Block 21. The ANH informed the Company that the operator of the block breached their commitment to the ANH by not delivering certain information on an agreed date. The operator has denied this breach and the Company and the operator are currently negotiating with the ANH to return the funds to the Company.

16. Subsequent events (continued):

(e) Subsequent to June 30, 2013, the Company relinquished its private participating interest in Block 36 located in the Llanos Basin of Central Colombia. The Company has no further obligations or liabilities in respect of the Block subject to the release of the letters of credit associated with the Block. The operator of the block has submitted to the ANH a letter of guarantee to replace the Company's obligations totaling US$1,100,000 of which US$554,000 is held in restricted cash and US$546,000 is guaranteed by a PSG from the EDC. (See Note 7)

Brownstone Energy Inc.
Management's Discussion and Analysis

For the year ended: **June 30, 2013**

Date of report: **October 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 annual audited consolidated financial statements and notes thereto as at and for the years ended June 30, 2013 and 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.

Nature of the Business:

Brownstone Energy Inc. ("Brownstone" or the "Company") is a Canadian-based, energy-focused company with direct interests in oil and gas exploration projects, including varying interests in offshore Israel and in the Llanos Basin, Colombia, as well as other oil and gas interests worldwide. Its common shares are publicly-traded on the TSX Venture Exchange ("TSXV") under the symbol "BWN" and on the OTCQX under the symbol "BWSOF".

Summary:

- As at June 30, 2013, the Company has working capital of $8,992,430 as compared to working capital of $20,793,675 as at June 30, 2012, a decrease of 56.8%, primarily due to the expenditures on exploration and evaluation assets and the decrease in the value of investments during the current year.
- As at June 30, 2013, exploration and evaluation assets decreased to $17,274,483 as compared to $45,141,148 as at June 30, 2012. The decrease was due to impairment charges of $36,394,392 and the sale of the Company's 25% private participating interest in the Canagauro Block for gross cash proceeds of US$6,000,000, offset by expenditures on the exploration and evaluation assets net of oil sales from production testing. See the Exploration and evaluation assets section.

Going concern uncertainty:

The Company has incurred a loss in the year ended June 30, 2013 of $40,860,181 (2012 - $27,053,898) and has an accumulated deficit of $93,982,518 (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 June 30, 2013 will not be sufficient to meet the Company's potential capital expenditures through June 30, 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 June 30, 2013 and the continued estimated operating losses cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial 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 (d)	Argentina (e)	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	**6,255,290**	**6,067,145**	**1,148,394**	**13,711**	**111,334**	**13,595,874**
Disposals	**(6,140,400)**	**-**	**-**	**-**	**-**	**(6,140,400)**
Impairment of exploration and evaluation assets	**(34,313,636)**	**(1,380,604)**	**(588,818)**	**-**	**(111,334)**	**(36,394,392)**
Foreign currency translation	**504,891**	**364,260**	**171,002**	**-**	**32,100**	**1,072,253**
Balance at June 30, 2013	**1,051,200**	**9,664,918**	**4,376,697**	**1,130,468**	**1,051,200**	**17,274,483**

(a) Colombia:

During the year ended June 30, 2013, the Company spent $6,255,290 (2012 - $13,309,405) on exploration and evaluation of the blocks located in the Llanos Basin of Central Colombia, net of $7,917,608 (2012 - $4,515,621) in revenue from the sale of oil generated from long-term production testing (from Block 27(i) and the Canaguaro Block(iii)).

A summary of the Company's private participating interests in the Colombian blocks as at June 30, 2013 is as follows:

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

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

For the year ended June 30, 2013, the Company considered a reserve report prepared by an independent engineering firm, Petrotech Engineering Ltd., for the Company in respect of Block 27. Based upon the information contained in the report, management determined the recoverable amount of the Company's interest on Block 27 to be approximately US$1,000,000.

The recoverable amount was based on a 75% discount of the proved and probable amount of US$4,000,000 before accounting for tax losses (with an after-tax discount rate of 10%) based upon the information contained in the reserve report. The Company chose to use an after-tax discount rate of 10% which reflects the evaluation and risks associated with Brownstone's interest in the Llanos basin, Colombia. The future cash flows at an after-tax discount rate of 5% and 15% is US$6,007,100 and US$2,951,800, respectively, with an average of US$4,479,450. The Company reduced the amount by a further 75% discount based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell. As a result, for the year ended June 30, 2013, the Company recorded an impairment charge on Block 27 of $19,219,802 (2012 – nil) to its estimated recoverable amount of $1,051,200 (US$1,000,000).

Flami-1 Discovery Well – The Flami-1 well is now currently producing on a monthly average of approximately 248 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 to date. The operator has informed the Agencia Nacional de Hidrocarburos ("ANH"), a Colombian government agency that the well is not commercially viable but is currently negotiating with the ANH to keep the well as a water injector to dispose of the water produced from the Flam-1 Discovery well. The joint venture may be required to relinquish the well and surrounding area from its exploration area and the exploration and development rights of that area will be return to the ANH if the ANH denies the operator to keep the well as a water injector well.

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 and the operator has submitted to the ANH an Extension Application for the Flami-1 Evaluation Program.

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

For the year ended June 30, 2013, the Company recorded an impairment charge on Block 36 of $2,760,306 to its estimated recoverable amount of $0. The impairment was recognized upon a review of the private participating interest of the exploration license. The Company does not intend to participate further in the exploration of this Block and the Company does not believe its private participating interest can be sold for any value.

Subsequent to June 30, 2013, the Company relinquished for no consideration, its private participating interest in Block 36 located in the Llanos Basin of Central Colombia. The Company has no further obligations or liabilities in respect of the Block subject to the release of the letters of credit associated with the Block. The operator of the block has submitted to the ANH a letter of guarantee to replace the Company's obligations totaling US$1,100,000 of which US$554,000 is held in restricted cash and US$546,000 is guaranteed by a Performance Security Guarantee ("PSG") from Export Development Canada ("EDC"), a Canadian federal government agency,

(iii) Canaguay-1 Well: The Company had a 25% private participating interest and was required to pay 25% of any costs relating to the wells on the Block. The Company also had paid a 6% overriding royalty, proportional to its interest, to Concorcio Canaguaro on its share of production. During the year ended June 30, 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.

In June 2013, the Company sold its private participating interest to Petrominerales Ltd. for gross proceeds of US$6,000,000. Included in the consolidated statements of comprehensive loss for the year ended June 30, 2013 as other income is a gain of $77,567 from the sale of the Block.

(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 and testing of the wells, which were subsequently abandoned, Brownstone waived its rights to an income production participation going forward and thus, has no further financial obligations.

For the year ended June 30, 2013, the Company recorded an impairment charge on Block 21 of $7,746,954 to its estimated recoverable amount of $0. The impairment was recognized as the Company has abandoned the Block.

Subsequent to June 30, 2013, the ANH called US$567,027 of the US$2,700,000 letter of guarantee on Block 21. The ANH informed the Company that the operator of the block breached their commitment to the ANH by not delivering certain information on an agreed date. The operator has denied this breach and the Company and the operator is currently negotiating with the ANH to return the funds to the Company.

(b) Israel:

As at June 30, 2013, the Company has participating interests in the following Israeli Blocks:

	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 Adira Energy Israel Ltd., the operator of the Israeli Blocks (the "Operator") 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.

On June 30, 2013, the Company and its license partners entered into a settlement and release agreement. Pursuant to the agreement, Brownstone's net share of the costs total US$3,504,579, which has been recorded in exploration and evaluation assets on the consolidated statements of financial position as at June 30, 2013. The costs are Brownstone's proportionate share of all costs associated with the Gabriella Block that have been incurred in connection with the drilling of the first well.

During the year ended June 30, 2013, the milestone dates for certain work to maintain the license for the property were not met. On June 30, 2013, the Operator had applied to the Ministry of Energy and Water of the State of Israel (the "Ministry") for an extension of the milestone dates and approval was received in October 2013 with a new expiry date of the license of September 1, 2014. The following table sets out the work program that must be completed in order to maintain the Gabriella Block:

Gabriella Work Program	Milestone Dates
Submitting a request for approving an operator	February 28, 2014
Signing a rig contract	April 30, 2014
Submitting the results of an Anisotropic PSDM and coherent sub surface model	July 31, 2014
Spud the first well	August 31, 2014

(ii) During the current year, the Operator received an extension of the Yitzhak license to December 2013. On June 30, 2013, the Operator had applied to the Ministry for an extension of the milestone dates and approval was received in October 2013 with a new expiry date of the license of October 15, 2014.

The following table sets out the current work program that must be completed in order to maintain the Yitzhak Block:

Yitzhak Work Program	Milestone Dates
Submitting the Environmental Impact Assessment to the Central District Planning Committee	January 1, 2014
Execute a contract with a drilling contractor	September 30, 2014
Spud the first well	September 30, 2014

(iii) During the year ended June 30, 2013, the milestone dates for certain work on the property were not met. On March 27, 2013, the Operator had applied to the Ministry for an extension of the dates for the execution of a drilling contract on the Samuel Block to March 31, 2014, and for the spud of the first well to September 30, 2014. The Samuel license expired on July 31, 2013.

For the year ended June 30, 2013, the Company recorded an impairment charge on the Samuel Block of $1,380,604 to its estimated recoverable amount of $0. The impairment was recognized upon a review of the participating interest of the exploration licenses in Israel. The Company believes there is a low probability of realization of the asset from the successful development and the Company has decided not to proceed with the development of the license.

Subsequent to June 30, 2013, Brownstone and the other license holders of the Samuel Block have relinquished their interests back to the State of Israel.

(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 costs in proportion to its participating interests. For the year ended June 30, 2013, the Company recorded an impairment charge of $588,818 on certain of its USA properties upon the

abandonment of certain of its leases. The Company has satisfied its financial obligations in respect to the USA properties.

For the year ended June 30, 2012, the Company recorded an impairment charge on its USA exploration and evaluation assets in the Piceance/Uinta basin, USA, of $12,699,480 to its estimated recoverable amount of approximately $3,057,300 (US$3,000,000) and impaired other USA exploration and evaluation assets by $588,819 to a net balance of $3,646,119. The impairment was recognized upon a review of the exploration licenses to confirm whether the Company intends further appraisal activity or to otherwise extract value from the property. The impairment was recognized based on the difference between the carrying value of the assets and their recoverable amounts. The recoverable amount was determined based on the amount for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

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

(i) the Company's minority participation interest;

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

(iii) non-operatorship of the properties;

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

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

(d) Argentina:

The Company has a 25% interest in the Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement governing Brownstone's interest, the Company is required to fund 50% of the costs to be incurred in the conduct of the work program on the property.

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 year ended June 30, 2013, the Company recorded an impairment charge of $111,334 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. The recoverable amount was determined based on the amount for which management believes

the assets could be sold in a comparable arm's length transaction, less estimated costs to sell.

Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
June 30, 2013	**$ 1,667,208**	**$ 13,750,659**
June 30, 2012	2,771,469	13,250,659

As at June 30, 2013, the original cost of investments exceeded fair value by $12,083,451 as compared to $10,479,190 as at June 30, 2012. The increase for the year ended June 30, 2013 was primarily due to the net change in unrealized losses on investments of $1,604,261.

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

Results of Operations

Selected financial information for the Company for its three most recently completed financial years as at and for the years ending June 30 is provided below:

	2013	2012	2011
Net investment losses, interest and other income	**$ (1,390,480)**	$ (5,315,869)	$ 3,925,618
Comprehensive loss for the year	**(40,010,523)**	(24,817,623)	(4,746,311)
Loss per common share – basic and diluted	**(0.31)**	(0.21)	(0.02)
Exploration and evaluation assets	**17,274,483**	45,141,148	42,053,011
Total assets	**30,452,958**	67,650,272	90,591,353
Total liabilities	**3,551,120**	1,150,868	1,497,064
Equity	**26,901,838**	66,499,404	89,094,289

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

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

	Quarter ended			
	June 30, 2013	**March 31, 2013**	**December 31, 2012**	**September 30, 2012**
Net investment losses	**$ (231,949)**	**$ (410,312)**	**$ (674,534)**	**$ (287,466)**
Net loss for the period	**(32,396,668)**	**(1,327,113)**	**(6,040,709)**	**(1,095,691)**
Total comprehensive loss for the period	**(31,404,339)**	**(380,017)**	**(5,488,984)**	**(2,737,183)**
Loss per share based on loss for the period – basic and diluted	**(0.25)**	**(0.01)**	**(0.05)**	**(0.01)**

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Net investment gains (losses)	$ (1,361,788)	$ (3,848,424)	$ 2,154,987	$(2,563,599)
Net profit (loss) for the period	(2,688,493)	(21,915,937)	893,858	(3,343,326)
Total comprehensive loss for the period	(1,901,522)	(22,730,621)	(53,707)	(131,773)
Earnings (loss) per share based on profit (loss) for the period – basic and diluted	(0.02)	(0.17)	0.01	(0.03)

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

Three months ended June 30, 2013 and 2012:

For the three months ended June 30, 2013, the Company recorded a net change in unrealized losses on investments of $231,949 as compared to $1,361,788 for the three months ended June 30, 2012. The net change in unrealized losses in both years related to the net write-down to market on the Company's investments.

For the three months ended June 30, 2013, the Company recorded interest and other income of $85,396 as compared to $53,778 for the three months ended June 30, 2012. Interest income is primarily composed of interest income earned on investments in banker's acceptances and cash deposits.

For the three months ended June 30, 2013, operating, general and administrative expenses decreased by $597,777 to $517,854 from $1,115,631 for the three months ended June 30, 2012. The decrease was primarily due to a decrease in stock-based compensation expense and an increase in foreign exchange gain as discussed below.

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

	2013	2012
Salaries, consulting and administrative fees	**$ 359,907**	$ 372,086
Professional fees (a)	**137,863**	207,127
Other office and general (b)	**94,466**	163,363
Travel and promotion (c)	**89,943**	164,914
Stock-based compensation expense (d)	**63,204**	219,275
Shareholder relations, transfer agent and filing fees	**14,248**	23,101
Other employment benefits	**5,783**	17,753
Foreign exchange gain (e)	**(247,560)**	(51,988)
	$ 517,854	$ 1,115,631

(a) Professional fees decreased by $69,264 for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The decrease in professional fees was primarily due to the reduction of audit and tax consulting fees for the year-ended June 30, 2013 in the period as compared to the prior year period.

(b) Other office and general expenses decreased by $68,897 for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012, due to a decrease in fees relating to letters of credit for Company's Colombian properties.

(c) Travel and promotion decreased by $74,971 for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012, due to a decrease in traveling related to the Company's oil and gas activities in Colombia and Israel in the current period.

(d) Stock-based compensation expense decreased by $156,071 for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The decrease was due to a decrease in the number of stock options which vested during the current period as compared to the prior year period. Stock options granted during the current and prior year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods based on the graded method. Unvested forfeited stock options are not expensed during the period.

(e) Foreign exchange gain increased by $195,572 for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012. The foreign exchange gain was due to the decrease in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the three months ended June 30, 2013, the Company recorded an impairment on exploration and evaluation assets totalling $31,653,915 as compared to $180,014 for the three months ended June 30, 2012. The Company recorded impairments on its Colombia, Israel, U.S.A., and Argentinean properties. See "Exploration and evaluation assets" section.

For the three months ended June 30, 2013, the Company recorded an income tax expense of $78,346 as compared to $84,838 for the three months ended June 30, 2012. The income tax expense in the current period is due to the recording of an alternative minimum income tax in Colombia and a reassessment of income tax in Argentina of US$69,104.

Loss for the three months ended June 30, 2013 was $32,396,668 ($0.25 per share) as compared to $2,688,493 ($0.02 per share) for the three months ended June 30, 2012. The loss in the current period was primarily due to the impairments recorded against its exploration and evaluation assets.

For the three months ended June 30, 2013, the Company recorded a gain from the exchange differences on translation of foreign operations of $992,329 resulting in total comprehensive loss for the period of $31,404,339. The gain from the exchange differences on translation of foreign operations was primarily due to the decrease in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated exploration and evaluation assets held by foreign subsidiaries. For the three months ended June 30, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $786,971 resulting in total comprehensive loss for the period of $1,901,522.

Year ended June 30, 2013 and 2012:

For the year ended June 30, 2013, the Company had no disposal of investments as compared to generating net realized losses of $5,008,726 for the year ended June 30, 2012. For the year ended June 30, 2012, the Company realized net losses from the disposition of its holdings in Dejour Energy Inc.

For the year ended June 30, 2013, the Company recorded a net change in unrealized losses on investments of $1,604,261 as compared to $610,098 in the year ended June 30, 2012. The net change in unrealized losses in the year ended June 30, 2013 was due to the net write-down to market on the Company's investments. Of the net unrealized losses in the year ended June 30, 2012, $6,439,014 was due to the net write-down to market on the Company's investments offset by the reversal of net unrealized losses on the disposal of investments of $5,828,916.

For the year ended June 30, 2013, the Company recorded interest and other income of $213,781 as compared to $302,955 for the year ended June 30, 2012. Interest income is primarily composed of interest income earned on investments in banker's acceptances and cash deposits.

For the year ended June 30, 2013, operating, general and administrative expenses decreased by $2,586,361 to $2,691,218 from $5,277,579 for the year ended June 30, 2012, primarily from the decreased in stock-based compensation expense and a non-recurring expense in the prior period of $809,997 for the extension of the expiry of certain warrants. The following is the breakdown of the Company's operating, general and administrative expenses for the year ended June 30.

Details of the changes follow the table:

	2013	2012
Salaries, consulting and administrative fees	**$ 1,485,341**	$ 1,425,379
Other office and general	**414,176**	638,817
Stock-based compensation expense (a)	**412,957**	1,412,741
Cost of warrant expiry date extension (b)	**-**	809,997
Professional fees	**327,553**	361,479
Travel and promotion	**286,373**	489,843
Shareholder relations, transfer agent and filing fees	**113,902**	162,330
Other employment benefits	**28,654**	55,198
Transaction costs	**-**	19,546
Foreign exchange gain (c)	**(377,738)**	(97,751)
	$ 2,691,218	$ 5,277,579

(a) Stock-based compensation expense decreased by $999,784 for the year ended June 30, 2013 as compared to the year ended June 30, 2012. The decrease was due to a decrease in the number of stock options which vested during the current period as compared to the prior year period. Stock options granted during the current and prior year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods based on the graded method. Unvested forfeited stock options are not expensed during the period.

(b) As a result of an extension by the Company of the expiry date of 7,951,454 warrants from April 13, 2012 to April 13, 2014, during the year ended June 30, 2012, the Company recorded an expense of $809,997. The fair value of the warrants immediately after the extension was $809,998 using the Black-Scholes option pricing model with the following assumptions: expected

volatility of 102.2%; dividend yield of 0%; risk-free interest rate of 1.2%; and an expected life of 1.77 years. The fair value of these warrants immediately prior to the extension was $1. Accordingly, the incremental fair value of the warrants resulting from the extension of $809,997 was credited to warrants and charged to the consolidated statements of comprehensive loss as an operating, general and administrative expense.

(c) Foreign exchange gain increased by $279,987 for the year ended June 30, 2013 as compared to the year ended June 30, 2012. The foreign exchange gain was due to the decrease in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the year ended June 30, 2013, the Company recorded an impairment on exploration and evaluation assets totalling $36,394,392 as compared to $16,292,799 for the year ended June 30, 2012. The Company recorded impairments on its properties in Colombia, Israel, U.S.A. and Argentina. See "Exploration and evaluation assets" section.

For the year ended June 30, 2013, the Company recorded an income tax expense of $384,091 as compared to $167,651 for the year ended June 30, 2012. The income tax expense in the current period is due to the recording of an alternative minimum income tax in Colombia and a reassessment of income tax in Argentina of US$69,104.

Loss for the year ended June 30, 2013 was $40,860,181 ($0.31 per share) as compared to $27,053,898 ($0.21 per share). The loss in the current year was primarily due to the impairment of exploration and evaluation assets. The loss last year was primarily due to the impairment of exploration and evaluation assets and the net realized losses on disposal of investments.

For the year ended June 30, 2013, the Company recorded a gain from the exchange differences on translation of foreign operations of $849,658 resulting in total comprehensive loss for the year of $40,010,523. The gain from the exchange differences on translation of foreign operations was primarily due to the decrease in the value of the Canadian dollar versus the U.S. dollar during the year, which increased the Canadian dollar value of the Company's U.S. dollar denominated exploration and evaluation assets held by foreign subsidiaries. For the year ended June 30, 2012, the Company recorded a gain from the exchange differences on translation of foreign operations of $2,236,275 resulting in total comprehensive loss for the year of $24,817,623.

Cash Flows
Year ended June 30, 2013 and 2012:

During the year ended June 30, 2013, the Company used cash of $3,030,281 in operating activities as compared to $3,196,419 in the year ended June 30, 2012.

During the year ended June 30, 2013, the Company had no cash transactions in financing activities as compared to generating cash of $228,868 during the year ended June 30, 2012. During the year ended June 30, 2012, the net cash generated in financing activities was from a decrease in cash held at brokers.

During the year ended June 30, 2013, net cash used in investing activities was $5,349,066 as compared to $8,617,754 during the year ended June 30, 2012. During the year ended June 30, 2013, the Company spent cash on expenditures on exploration and evaluation assets of $10,935,983 as compared to cash expenditures of $16,717,003 during the year ended June 30, 2012, net of oil revenues. The

expenditures were primarily on the Colombian and Israeli properties. In the year ended June 30, 2013, the Company had proceeds of $6,157,261 from the sale of exploration and evaluation assets as compared to $3,642 during the year end June 30, 2012. During the year ended June 30, 2013, the Company had proceeds from dispositions of investments of nil as compared to $4,010,190 during the year ended June 30, 2012. During the year ended June 30, 2013, the Company purchased $500,000 of investments as compared to $50,000 during the year ended June 30, 2012. During the year ended June 30, 2013, restricted cash increased by $70,344 as compared to a decrease of $4,135,417 in the prior year. The restricted cash is collateral to the Company's bank for the ANH, a Colombian government agency, letters of guarantee. During the year ended June 30, 2013, the Company provided an additional letter of guarantee in the amount of US$50,000. During the year ended June 30, 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 year ended June 30, 2013, the Company had a net decrease in cash and cash equivalents of $8,379,347 as compared to $11,585,305 for the year ended June 30, 2012. For the year ended June 30, 2013, the Company also had a loss from the exchange rate changes on its foreign operations' cash balances of $222,595, leaving a cash and cash equivalents balance of $9,595,064 as at June 30, 2013 as compared to an exchange loss of $51,495, leaving a cash and cash equivalents balance of $18,197,006 as at June 30, 2012.

Segmented information:

Reporting segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the oil and gas sector. The Company's significant segments include six distinct geographic areas: Colombia, Israel, Canada, United States, Argentina and Brazil. There were no changes in the reportable segments during the year ended June 30, 2013.

The accounting policies applied to Brownstone's operating segments are the same as those described in the summary of significant accounting policies, except that certain expenses and other items are not allocated to the individual operating segments when determining income or loss, but are attributed to the Canadian operations where the corporate head office is located.

The following is segmented information as at and for the year ended June 30, 2013:

	Year ended June 30, 2013		As at June 30, 2013		
	Interest and other income	**Loss for the year**	**Exploration and evaluation assets**	**Other assets**	**Total assets**
Canada and other	**$ 73,819**	**$ 3,768,674**	**$ 1,130,468**	**$ 11,443,473**	**$ 12,573,941**
Israel	**-**	**1,529,724**	**9,664,918**	**78,918**	**9,743,836**
United States	**16,861**	**571,957**	**4,376,697**	**18,814**	**4,395,511**
Colombia	**123,101**	**34,829,460**	**1,051,200**	**1,488,705**	**2,539,905**
Argentina	**-**	**160,366**	**1,051,200**	**14,622**	**1,065,822**
Brazil	**-**	**-**	**-**	**133,943**	**133,943**
	$ 213,781	**$ 40,860,181**	**$ 17,274,483**	**$ 13,178,475**	**$ 30,452,958**

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

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

Liquidity and capital resources:

Consolidated statements of financial position highlights	**June 30, 2013**	June 30, 2012
Cash and cash equivalents	**$ 9,595,064**	$ 18,197,006
Investments, at fair value	**1,667,208**	2,771,469
Exploration and evaluation assets	**17,274,483**	45,141,148
Total assets	**30,452,958**	67,650,272
Total liabilities	**3,551,120**	1,150,868
Share capital, warrants and broker warrants, contributed surplus	**120,963,437**	120,550,480
Foreign currency translation reserve	**(79,081)**	(928,739)
Deficit	**(93,982,518)**	(53,122,337)
Working Capital	**8,992,430**	20,793,675

Accounts payable and accrued liabilities increased by $2,327,610 to $3,478,478 as at June 30, 2013 as compared to $1,150,868 as at June 30, 2012. The increase was primarily due to the timing of the accrual of liabilities of $2,907,683 for exploration and evaluation cash calls as compared to $376,480 as at June 30, 2012. As at June 30, 2013, included in accounts payable and accrued liabilities is $240,501 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 June 30, 2013, the Company had accrued income taxes payable of $72,642 (2012 – nil) for the reassessment of income taxes in Argentina for the years 2010 to 2012.

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

The Company's cash and cash equivalents and investments as at June 30, 2013 would be sufficient to meet the Company's current liabilities.

As at June 30, 2013, the Company had working capital of $8,992,430 as compared to working capital of $20,793,675 as at June 30, 2012. The decrease in working capital since June 30, 2012 was primarily due to the expenditures on exploration and evaluation assets.

The Company has no long-term debt. The Company is currently generating cash from the sale of crude oil produced from Block 27 in Colombia, 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 potential capital expenditures in Colombia and Israel through to June 30, 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 have 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 raise funds and/or reduce its capital expenditure requirements. The Company's ability to access the debt and equity markets and sell property interests 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 Company's inability to raise sufficient capital to fund its operations and growth may result in the loss of some or all of the Company's interests and, accordingly, could have a material adverse effect on the Company's business, financial condition, and results of operations, and its ability to continue as a going concern.

As at June 30, 2013, the Company had restricted cash totaling $634,925 (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 June 30, 2013 and 2012.

As at June 30, 2013, the Company also has US$5,096,000 (2012 – US$6,834,883) Performance Security Guarantees ("PSG") from EDC as collateral for letters of guarantee issued by RBC. The letters of guarantee are provided to ANH to secure Brownstone's private participating interests and exploration in Colombia Llanos exploration Blocks 21, 27, and 36 and to ensure that the Company fulfill its commitments under the blocks. Of the US$5,096,000, US$2,700,000 are in respect of the work commitment for Block 21 that was completed by the drilling of two exploration wells in the third quarter of 2013.

As noted in the exploration and evaluation assets section, subsequent to June 30, 2013, the ANH called US$567,027 of the US$2,700,000 letter of guarantee on Block 21 and the Company and the operator are currently negotiating with the ANH to return the funds to the Company.

Subsequent to June 30, 2013, the Company relinquished its private participating interest in Block 36 located in the Llanos Basin of Central Colombia. The Company has no further obligations or liabilities in respect of the Block subject to the release of the letters of credit associated with the Block. The operator of the block has submitted to the ANH a letter of guarantee to replace the Company's obligations totaling US$1,100,000 of which US$554,000 is held in restricted cash and US$546,000 is guaranteed by a PSG from the EDC.

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 years ended June 30 were as follows:

Type of expense	2013	2012
Salaries and consulting fees	**$ 776,750**	$ 806,750
Other short-term benefits	**22,536**	51,420
Stock-based compensation expense	**305,607**	1,038,269
	$ 1,104,893	$ 1,896,439

Key management personnel are the Chairman and Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer and Vice President, Corporate & Legal Affairs.

(b) During the year ended June 30, 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 28, 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:

The Company has indemnified EDC for the full amount of the US$5,096,000 (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:

The Company includes the following in its capital as at June 30:

	2013	2012
Equity comprised of		
Share capital	**$ 96,597,845**	$ 96,597,845
Contributed surplus	**21,806,275**	16,642,202
Warrants and broker warrants	**2,559,317**	7,310,433
Foreign currency translation reserve	**(79,081)**	(928,739)
Deficit	**(93,982,518)**	(53,122,337)
	$ 26,901,838	$ 66,499,404

The Company's objectives when managing capital are:

(a) to ensure that the Company maintains the level of capital necessary to meet the requirements of cash calls for the exploration of properties and from operators in joint venture properties;

(b) to ensure that the Company maintains the level of capital necessary to meet the requirements of its broker;

(c) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments and acquisitions of exploration properties;

(d) to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and

(e) to maintain a flexible capital structure that optimizes the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

(a) realizing proceeds from the disposition of its investments; and

(b) raising capital through equity or debt financings.

The Company is not subject to any capital requirements imposed by a regulator, except to the extent that it has pledged cash as collateral for certain letters of guarantee issued to ANH.

There were no changes in the Company's approach to capital management during the year ended June 30, 2013. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's current working capital is sufficient to discharge its liabilities as at June 30, 2013.

Risk management:

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

(a) Market risk:

Market risk is the risk that the fair value of or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value at the end of each reporting period. This process could result in significant write-downs of the Company's

investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Brownstone's financial position.

There were no changes to the way the Company manages market risk during the year ended June 30, 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 year ended June 30, 2013 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 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%	**$ 28,926**	**$ (28,926)**
4%	**57,852**	**(57,852)**
6%	**86,778**	**(86,778)**
8%	**115,704**	**(115,704)**
10%	**144,630**	**(144,630)**

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

Percentage of change in closing bid price	Decrease in net after-tax loss from % increase in closing bid price	Increase in net after-tax loss from % decrease in closing bid price
2%	$ 48,085	$ (48,085)
4%	96,170	(96,170)
6%	144,255	(144,255)
8%	192,340	(192,340)
10%	240,425	(240,425)

(b) Credit risk:

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties owing it money or securities will not perform their underlying obligations and for funds held with banks for cash and cash equivalents. The Company may, from time to time, invest in debt obligations. As at June 30, 2013 and 2012, the Company did not hold any debt obligations. All funds in cash and cash equivalents are held in financial institutions that have a credit rating above AA and the Company believes it is not exposed to any significant loss.

There were no changes to the way the Company manages credit risk during the year ended June 30, 2013. The Company is also exposed in the normal course of business to credit risk from the sale of its investments and advances to investee and joint venture companies.

The following is the Company's maximum exposure to credit risk as at June 30:

	2013	2012
Cash and cash equivalents	**$ 9,595,064**	$ 18,197,006
Restricted cash	**634,925**	564,581
Receivables	**1,117,211**	951,153
Income taxes receivable	**144,471**	-
	$ 11,491,671	$ 19,712,740

As at June 30, 2013 and 2012, the Company had the following significant receivables:

(i) As at June 30, 2013, included in receivables is $1,047,044 (2012 - $734,096) relating to oil sales revenue. The Company is exposed to this credit risk since the amount is due from three counterparties.

(ii) As at June 30, 2013, included in receivables is $35,026 (2012 - $52,448) relating to Goods and Services Tax and Harmonized Sales Tax input sales tax refunds. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they become due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. The Company generates cash flow primarily from its financing activities and proceeds from the disposition of its investments, in addition to interest earned on its investments.

There were no changes to the way that the Company manages liquidity risk during the year ended June 30, 2013. The Company manages liquidity risk by reviewing the amount of margin available on a daily basis and managing its cash flow. The Company holds investments that can be converted into cash when required.

As at June 30, 2013 and 2012, the Company was not using any margin.

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2013:

	Payments due by period				
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 3,478,478**	**$ 3,478,478**	**$ -**	**$ -**	**$ -**
Income taxes payable	**72,642**	**72,642**			
	$ 3,551,120	**$ 3,551,120**	**$ -**	**$ -**	**$ -**

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2012:

	Payments due by period				
Liabilities and obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued liabilities	$ 1,150,868	$ 1,150,868	$ -	$ -	$ -
	$ 1,150,868	$ 1,150,868	$ -	$ -	$ -

The following table shows the Company's source of liquidity by assets as at June 30, 2013:

	Liquidity by period				
Assets	**Total**	**Less than 1 year**	**1 – 3 years**	**After 4 years**	**Non-liquid assets**
Cash and cash equivalents	**$ 9,595,064**	**$ 9,595,064**	**$ -**	**$ -**	**$ -**
Prepaids and receivables	**1,136,807**	**1,136,807**	**-**	**-**	**-**
Investments, at fair value	**1,667,208**	**1,667,208**	**-**	**-**	**-**
Income taxes receivable	**144,471**	**144,471**	**-**	**-**	**-**
Restricted cash	**634,925**	**-**	**634,925**	**-**	**-**
Exploration and evaluation assets	**17,274,483**	**-**	**-**	**-**	**17,274,483**
	$ 30,452,958	**$ 12,543,550**	**$ 634,925**	**$ -**	**$ 17,274,483**

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

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

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at June 30, 2013 and 2012, the Company did not have any interest rate risk liabilities. The Company holds a significant portion of cash equivalents in interest-bearing instruments and is exposed to the risk of changing interest rates.

The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income it receives from its investments without significantly increasing risk. To minimize interest rate risk, the Company maintains its portfolio of cash equivalents in GICs and bankers' acceptances with maturities of less than one year. The Company does not use any derivative instruments to reduce exposure to interest rate fluctuations.

(e) Currency risk:

Currency risk is the risk that the fair value of or future cash flows from the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's

operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its consolidated results of operations from time to time.

The Company presently holds funds in Canadian dollars but a significant amount of its costs are denominated in U.S. dollars, Colombian pesos, and Argentinean pesos. The Company does not engage in any hedging activities to mitigate its foreign exchange risk. A change in the foreign exchange rate of the Canadian dollar versus another currency may increase or decrease the value of the Company's financial instruments. The Company does not hedge its foreign currency exposure.

The following assets and liabilities were denominated in foreign currencies:

	2013	2012
Denominated in U.S. dollars:		
Cash and cash equivalents	**$ 8,014,927**	$ 2,066,666
Restricted cash	**634,925**	564,581
Prepaids and receivables	**1,089,282**	888,304
Income tax receivable	**144,471**	-
Exploration and evaluation assets	**16,144,015**	44,024,390
Accounts payable and accrued liabilities	**(3,338,441)**	(965,440)
Net assets denominated in U.S. dollars	**22,689,179**	46,578,501
Denominated in Brazilian reals:		
Cash and cash equivalents	**133,943**	142,662
Net assets denominated in Brazilian reals	**133,943**	142,662
Denominated in Argentinean pesos:		
Cash and cash equivalents	**14,622**	63,639
Prepaids and receivables	**-**	21,027
Accounts payable and accrued liabilities	**(53,469)**	-
Income taxes payable	**(72,642)**	-
Net assets denominated in Argentinean pesos	**(111,489)**	84,666
Denominated in Colombian pesos:		
Cash and cash equivalents	**282,773**	902,211
Net assets denominated in Colombian pesos	**282,773**	902,211

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 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 June 30, 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%	**$ 333,531**	**$ (333,531)**
4%	**667,062**	**(667,062)**
6%	**1,000,593**	**(1,000,593)**
8%	**1,334,124**	**(1,334,124)**
10%	**1,667,655**	**(1,667,655)**

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 and private 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.

Significant Accounting Policies:

Refer to note 2 of the Notes to the consolidated financial statements as at and for the year ended June 30, 2013 for details of the Company's basis of preparation of the consolidated financial statements.

Some significant accounting polices used in the presentation of the consolidated financial statements are as follows.

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

(i) Exploration and evaluation assets:

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

All costs incurred in connection with the Company's exploration and evaluation assets (acquisition and exploration for oil and gas reserves) including overhead and dry-holes are capitalized less accumulated impairment losses. Such amounts include land acquisition costs, geological and geophysical expenditures, cost of drilling both productive and non-productive wells, gathering production facilities and equipment, and overhead expenses directly related to exploration and development activities. The Company capitalizes carrying costs directly attributable to its acquisition, exploration and development activities, such as interest costs.

Capitalized exploration and evaluation assets are assessed to determine whether it is likely such net costs may be recovered in the future. Assets that are unlikely to be recovered are written down to their recoverable amount. Impairment reviews take place where there is an indication of impairment or when an exploration and evaluation asset has been transferred into oil and gas properties. The Company considers both qualitative and quantitative factors when determining whether an exploration and evaluation asset may be impaired. Impairment reviews are based on each specific license or block. Each specific license or block has an operator (which may be similar) with different joint partners.

Management may consider the following when reviewing an exploration and evaluation asset for impairment:

1. failure to receive approvals of or extensions of environmental/ drilling permits, aboriginal or similar approvals that allow the Company and its partners to proceed with a project;

2. valuations based on reserve or resource reports prepared by an independent engineering firm;

3. political changes in a country which the Company owns the exploration or evaluation asset;

4. seismic testing or drilling results;

5. the Company's intention of participating in a project;

6. management's estimate of the recoverable amount (fair value less costs to sell);

7. long-term oil and gas prices (considering current and historical prices, price trends and related factors);

8. operating costs;

9. future capital requirements;

10. and the financial capability of a partner;

(ii) Joint oil and gas activities:

All of the Company's oil and gas activities are conducted jointly with others. The Company's accounts reflect only the Company's proportionate interest in these activities.

For interests in jointly controlled assets and operations, the Company's share of the jointly controlled assets are classified according to the nature of the assets, the Company's share of any liabilities incurred jointly with the other parties, and the Company's share of any income and expenses incurred jointly with the partners are recognized in the consolidated financial statements.

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

(b) Financial investments:

(i) Classification:

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

(ii) Recognition, de-recognition and measurement:

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

Investments at fair value through profit or loss are initially recognized at fair value where a reliable basis for determination exists. Transaction costs are expensed as incurred in the statement of comprehensive loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all investments at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss category are presented in the statements of comprehensive loss within unrealized gains or losses on investments in the period in which they arise.

(iii) Reclassification of investments:

The Company only reclassifies any financial assets when the Company changes its business model for managing the financial asset. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new carrying value.

(iv) Determination of fair value:

The determination of fair value requires judgment and is based on market information where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

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

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

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

   b. Securities that are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value to a maximum of 10%. In determining the discount for such investments, the Company considers the nature and length of the restriction.

   c. For options and warrants that are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants and options are valued at intrinsic value, which is equal to the higher of the closing bid price at the consolidated

statement of financial position date of the underlying security less the exercise price of the warrant or option, and zero, which approximates fair value.

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

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

The determinations of fair value of the Company's privately-held investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable.

Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

The following circumstances are used to determine if the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to the events described below which may affect a specific investment, the Company will take into account general market conditions when valuing the privately-held investments in its portfolio.

Absent the occurrence of any of these events or any significant change in general market conditions indicates generally that the fair value of the investment has not materially changed.

The fair value of a privately-held investment may be adjusted upward if:

a. there has been a significant subsequent equity financing provided by outside investors at a valuation above the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place; or

b. there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a positive impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgment and any value estimated may not be realized or realizable.

   Such events include, without limitation:

   i. political changes in a country in which the investee company operates which, for example, reduce the corporate tax burden, permit drilling where or to an extent that it was not previously allowed, or reduce or eliminate the need for permitting or approvals;

ii. receipt by the investee company of environmental, drilling, aboriginal or similar approvals that allow the investee company to proceed with its project(s);

iii. filing by the investee company of a National Instrument 51-101 technical report in respect of a previously non-compliant resource;

iv. release by the investee company of positive exploration results, which either proves or expands their resource prospects; and

v. important positive management changes by the investee company that the Company's management believes will have a very positive impact on the investee company's ability to achieve its objectives and build value for shareholders.

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

The fair value of a privately-held investment may be adjusted downward if:

a. there has been a significant subsequent equity financing provided by outside investors, at a valuation below the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;

b. the investee company is placed into receivership or bankruptcy;

c. based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern; or

d. there have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a negative impact on the investee company's prospects and therefore its fair value. The amount of the change to the fair value of the investment is based on management's judgment and any value estimated may not be realized or realizable.

Such events include, without limitation:

i. political changes in a country in which the investee company operates that increase the tax burden on companies that prohibit drilling where it was previously allowed, that increase the need for permitting or approvals, etc.;

ii. denial of the investee company's application for environmental, drilling, aboriginal or similar approvals that prohibit the investee company from proceeding with its projects;

iii. the investee company releases negative exploration results; and

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

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

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

(c) Cash and cash equivalents:

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

(d) Restricted cash:

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

(e) Revenue recognition:

Purchases and sales of investments are recognized on the settlement date. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of comprehensive loss.

Upon disposal of an investment, previously recognized unrealized gains or losses are reversed so as to recognize the full realized gain or loss in the period of disposition. All transaction costs associated with the acquisition and disposition of investments are expensed to the consolidated statements of comprehensive loss as incurred. Dividend income is recorded on the ex-dividend date and when the right to receive the dividend has been established. Interest income, other income, and income from securities lending are recorded on an accrual basis.

Interest and other income are recorded on an accrual basis.

Oil revenue:

The Company recognizes revenue from petroleum and natural gas production at the fair value of the consideration received or receivable when the significant risks and rewards of ownership are transferred to the buyer and it can be reliably measured and only at such time as a project becomes commercially viable and development approval is received.

Prior to this stage, any production is considered test production and the related revenue is capitalized, net of applicable costs.

(f) Segment reporting:

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

(g) Foreign currency translation:

(i) Functional currency:

These consolidated financial statements are presented in Canadian dollars, which is the parent's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(ii) Transactions and balances:

Transactions in foreign currencies are initially recorded in the functional currency at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange in effect at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(iii) Translation of foreign operations:

The results and financial position of Brownstone's subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

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

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

The Company treats specific inter-company loan balances that are not intended to be repaid in the foreseeable future as part of its net investment in a foreign operation which is recorded as an exchange difference on translation of foreign operations in other comprehensive loss in the consolidated statements of comprehensive loss. When a foreign entity is sold, such exchange differences are reclassified to income or loss in the consolidated statements of comprehensive loss as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the

acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(h) Non-monetary transactions:

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

(i) Income taxes:

(i) Current income tax:

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

(ii) Deferred tax:

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary difference and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date. Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statements of comprehensive loss. Deferred tax assets and deferred tax liabilities are not offset unless a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

(j) Stock-based compensation:

The Company has a stock option plan that is described in Note 9(b) of the Company's consolidated financial statements as at and for the year ended June 30, 2013. Employees (including officers), directors, and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Any consideration received by Brownstone on the exercise of stock options is credited to share capital. The cost of options is recognized, together with a corresponding increase in contributed surplus, over the period in which the corresponding performance and/or service conditions are fulfilled, ending on the date on which the relevant optionee becomes fully entitled to the award ("the vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records compensation expense and credits contributed surplus for all stock options granted, which represents the movement in cumulative expense recognized as at the beginning and end of that period.

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

Where the terms of a stock option award are modified, the minimum expense recognized in compensation expense is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the option or is otherwise beneficial to the optionee as measured at the date of modification.

Where an option is cancelled it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

(k) Earnings (loss) per share:

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

Future changes in accounting policies:

At the date of authorization of these consolidated financial statements, the IASB and the International Financial Reporting Interpretations Committee has issued the following new and revised Standards and Interpretations that are not yet effective for the relevant reporting periods and the Company has not early adopted these standards, amendments and interpretations. However, the Company is currently

assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

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

(b) Investment Entities: IFRS 10, *Consolidated Financial Statements,* IFRS 12, *Disclosure of Interests in Other Entities,* and IAS 27, *Separate Financial Statements* – effective for annual periods beginning on or after January 1, 2014, with early adoption permitted - define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9, *Financial Instruments* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

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

(d) IFRS 11, *Joint Arrangements* - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS removes the option to account for jointly controlled entities ("JCEs") using the proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

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

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

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

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

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

(j) IAS 32, *Financial instruments, Presentation* – in December 2011, effective for annual periods beginning on or after January 1, 2014, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

Critical accounting estimates:

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

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

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

The valuation of these investments ("private investments") requires management to assess the current financial status and prospects of private investments based upon potentially incomplete or unaudited financial information provided by the investee company, on management's general knowledge of the private investment's activities, and on any political or economic events that may impact upon the private investment specifically, and to attempt to quantify the impact of such events on the fair value of the investment. In addition to any events or circumstances that may affect the fair value of a particular private investment, management can consider general market conditions that may affect the fair value of either a particular private investment or of a group, segment or complete portfolio of private investments.

Changes in the fair value of our private investments for company-specific reasons have tended to be infrequent. Changes as a result of general market conditions may be more frequent from period to period during times of significant volatility, however, given the relatively small size of our private investment portfolio, such changes are not expected to have a material impact on our financial condition or operating results. For the year ended June 30, 2013, the Company had a change in unrealized losses on investments of $275,000 (2012 –$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 year ended June 30, 2013, the Company recorded an impairment of exploration and evaluation assets of $36,394,392 (2012 – $16,292,799) on its exploration and evaluation assets.

<u>Deferred tax assets:</u>

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

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

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

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

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

During the year ended June 30, 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 year ended June 30, 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	104.7%
Expected dividend yield	0%
Risk-free interest rate	1.2%
Expected option life in years	3.7 years
Expected forfeiture rate	5.5%
Fair value per stock option granted on November 29, 2012	$ 0.12

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	115.7%
Expected dividend yield	0%
Risk-free interest rate	1.3%
Expected option life in years	3.6 years
Expected forfeiture rate	6.8%
Fair value per stock option granted on October 11, 2011	$ 0.29
Fair value per stock option granted on February 8, 2012	$ 0.41

The expected volatility is based on the historical volatility over the life of the option of Brownstone's share price. The Company has not paid any cash dividends historically and has no plans to pay cash dividends in the foreseeable future. The risk free interest rate is based on the yield of Canadian Benchmark Bond with equivalent terms. The expected option life in years represents the period of time that options granted are expected to be outstanding based on historical options granted.

<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 June 30, 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 June 30, 2013, 178,332 options at a weighted average exercise price of $0.53 per share expired and 16,668 options exercisable at $0.17 per share were forfeited.

Subsequent to June 30, 2013, 2,980,000 options were granted at an exercise price of $0.10 per share and expiring on September 9, 2018.

As at September 30, 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	**12,760,080**
Issuable under warrants	**7,951,454**
Total diluted common shares	**150,505,823**

Refer to note 9 of the notes to the consolidated financial statements as at and for the year ended June 30, 2013 for details of the Company's share capital as at June 30, 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.