

**Interim Consolidated Financial Statements of
(Unaudited)**

Brownstone Energy Inc.
(Formerly Brownstone Ventures Inc.)

December 31, 2010

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BROWNSTONE VENTURES INC.
(Formerly Brownstone Ventures Inc.)
Notice to Reader
December 31, 2010
(Unaudited)

Notice to reader pursuant to National Instrument 51-102

Responsibility for Consolidated Financial Statements:

The accompanying unaudited interim consolidated financial statements of Brownstone Energy Inc. ("Brownstone" or "the Company") as at and for the six months ended December 31, 2010 and 2009 have been prepared by the Company's management in accordance with Canadian generally accepted accounting principles applicable to interim financial statements (see note 2 to the interim consolidated financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the interim consolidated financial statements, management is satisfied that these interim consolidated financial statements have been fairly presented.

Auditors' involvement:

Ernst & Young LLP, Chartered Accountants, the external auditors of the Company, have not audited or performed review procedures applicable to auditor review of interim financial statements as at and for the six months ended December 31, 2010 and 2009 nor have they conducted any procedures with respect to the notes herein.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Balance Sheets
As at December 31, 2010 and June 30, 2010
(Unaudited)

	<u>Notes</u>	<u>December 31 2010</u>	<u>June 30, 2010</u>
Assets			
Current			
Cash and cash equivalents	13	\$ 8,700,056	\$ 1,832,230
Investments, at fair value	3, 4	14,458,169	17,174,119
Due from brokers		931,651	-
Prepays and other receivables	5(c)	408,298	102,893
Promissory note receivable	6	-	2,070,140
Income taxes receivable		1,806,740	1,328,276
		26,304,914	22,507,658
Oil & gas properties and related expenditures	5	40,134,618	36,167,168
Restricted cash	7	2,162,261	5,286,967
		\$ 68,601,793	\$ 63,961,793
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 302,037	\$ 2,113,363
Promissory note payable	8	3,000,000	-
		3,302,037	2,113,363
Shareholders' equity			
Share capital	10	65,356,015	65,017,344
Warrants	10(d)	3,918,662	4,028,875
Contributed surplus	10(e)	13,575,861	13,008,062
Deficit		(17,550,782)	(20,205,851)
		65,299,756	61,848,430
		\$ 68,601,793	\$ 63,961,793

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.**(Formerly Brownstone Ventures Inc.)****Consolidated Statements of Operations****Three And Six Months Ended December 31,****(Unaudited)**

		<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>Notes</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net investment gains					
Realized gains (losses) on disposal of investments, net		\$ 279,670	\$ 699,799	\$ (724,176)	\$ 777,355
Unrealized gains (losses) on investments, net		4,178,644	(968,470)	5,241,808	2,719,171
		4,458,314	(268,671)	4,517,632	3,496,526
Interest and other income	6, 9(c)	54,597	85,721	131,444	188,559
		4,512,911	(182,950)	4,649,076	3,685,085
Expenses					
Operating, general and administrative	9(a,b)	1,311,543	728,567	2,036,901	1,282,395
Foreign exchange loss		235,147	142,272	354,075	384,371
Write-off of oil and gas interests		-	-	-	3,334,247
Transaction costs		10,775	22,142	34,826	24,709
Interest expense	8	83,923	3,199	83,923	18,919
		1,641,388	896,180	2,509,725	5,044,641
Income (loss) before income taxes		2,871,523	(1,079,130)	2,139,351	(1,359,556)
Provision for (recovery of) income taxes		(245,869)	(316,656)	(515,718)	51,044
Net and comprehensive income (loss) for the period		\$ 3,117,392	\$ (762,474)	\$ 2,655,069	\$ (1,410,600)
Earnings (loss) per common share					
Basic		\$ 0.04	\$ (0.01)	\$ 0.03	\$ (0.02)
Diluted		\$ 0.03	\$ (0.01)	\$ 0.03	\$ (0.02)
Weighted average number of common shares outstanding					
Basic		88,783,581	65,463,989	88,737,342	65,414,746
Diluted		98,554,714	65,463,989	98,966,703	65,414,746

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Statements of Retained Earnings (Deficit)
Six Months Ended December 31,
(Unaudited)

	<u>2010</u>	<u>2009</u>
Retained earnings (deficit), beginning of period	\$ (20,205,851)	\$ 1,863,153
Net income (loss) for the period	2,655,069	(1,410,600)
Retained earnings (deficit), end of period	\$ (17,550,782)	\$ 452,553

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Statements of Cash Flows
Three And Six Months Ended December 31,
(Unaudited)

	Notes	Three Months Ended		Six Months Ended	
		2010	2009	2010	2009
Cash flows used in operating activities					
Net and comprehensive income (loss) for the period		\$ 3,117,392	\$ (762,474)	\$ 2,655,069	\$ (1,410,600)
Items not affecting cash					
Realized losses (gains) on disposal of investments, net		(279,670)	(699,799)	724,176	(777,355)
Unrealized losses (gains) on investments, net		(4,178,644)	968,470	(5,241,808)	(2,719,171)
Write-off of oil & gas properties and related expenditures		-	-	-	3,334,247
Stock-based compensation expense		323,010	300,550	522,799	473,373
Future income tax provision		-	(84,231)	-	513,292
		(1,017,912)	(277,484)	(1,339,764)	(586,214)
Changes in non-cash working capital balances					
Prepays and other receivables		(270,532)	(77,342)	(305,405)	167,361
Income taxes receivable		(245,868)	(241,903)	(478,464)	(438,339)
Accounts payable and accrued liabilities		167,453	(84,159)	(1,811,326)	(135,233)
		(1,366,859)	(680,888)	(3,934,959)	(992,425)
Cash flows from (used in) financing activities					
Promissory note payable		3,000,000	-	3,000,000	-
Proceeds pursuant to exercise of stock options and warrants		273,458	176,632	273,458	176,632
Increase in due from brokers		(739,966)	(387,477)	(931,651)	(435,597)
Decrease in due to brokers		-	-	-	(76,683)
		2,533,492	(210,845)	2,341,807	(335,648)
Cash flows from (used in) investing activities					
Expenditures on oil & gas properties and related explorations, net		(2,648,932)	(981,304)	(4,230,778)	(1,375,849)
Net proceeds from sale of mining properties	5(b)	263,328	-	263,328	-
Repayment of promissory note receivable		1,950,000	10,240	2,070,140	931,409
Decrease (increase) in restricted cash		5,209,957	(5,057,044)	3,124,706	(3,636,206)
Proceeds on disposal of investments		2,300,791	7,533,217	7,233,582	8,905,622
Purchases of investments		-	(1,416,154)	-	(5,544,515)
		7,075,144	88,955	8,460,978	(719,539)
Net increase (decrease) in cash and cash equivalents, during the period		8,241,777	(802,778)	\$ 6,867,826	\$ (2,047,612)
Cash and cash equivalents, beginning of period		458,279	1,042,941	1,832,230	2,287,775
Cash and cash equivalents, end of period		8,700,056	240,163	\$ 8,700,056	\$ 240,163
Supplemental cash flow information					
Income tax refunds		\$ -	\$ -	\$ 37,253	\$ -
Cash paid for interest		83,923	3,199	83,923	18,919

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Notes to Consolidated Financial Statements
December 31, 2010
(Unaudited)

1. Nature of business:

On January 18, 2011, Brownstone Ventures Inc. changed its name to Brownstone Energy Inc. ("Brownstone" or the "Company"). Brownstone was incorporated in 1987 under the laws of the Province of British Columbia and its common shares are publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "BWN". Brownstone is a Canadian-based, energy-focused company with direct interests in oil & gas exploration projects, investments in oil & gas lands and portfolio investments in energy-focused issuers.

2. Significant accounting policies:

Management has prepared the unaudited consolidated financial statements of the Company in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2010 and the notes thereto. Accounting policies followed in the preparation of the annual consolidated financial statements are consistent with those used in the preparation of the December 31, 2010 interim consolidated financial statements.

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

3. Investments:

(a) Investments consist of the following as December 31, 2010:

Investments	Security Description	Cost	Fair Value
Dejour Enterprises Ltd.	11,446,500 common shares 2,000,000 warrants expire Jun 22, 2011 3,333,333 warrants expire Jun 22, 2014	\$ 10,209,037	\$ 3,548,415
Adira Energy Ltd.	2,000,000 common shares 1,000,000 warrants expire Aug 31, 2011	544,100	2,095,622
Mooncor Oil & Gas Corp.	8,500,000 common shares 2,500,000 warrants expire Jun 12, 2011	1,735,000	1,870,000
Enermad Corp.	2,000,000 common shares	1,500,000	1,500,000
Stealth Ventures Ltd.	6,278,983 common shares 166,666 warrants expire May 30, 2011 1,500,000 warrants expire Dec 10, 2011	552,555	1,136,322
Other investments(i)		9,594,899	4,307,810
Total investments (ii)		\$ 24,135,591	\$ 14,458,169

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
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December 31, 2010
(Unaudited)

3. Investments (continued):

- (i) Other investments represent all investments, other than the top five investments by fair value individually listed above as at December 31, 2010.
- (ii) As at December 31, 2010, included in total investments were securities of private companies with a fair value totaling \$2,000,000 (cost of \$2,000,000).

(b) Investments consist of the following as at June 30, 2010:

Investments	Security Description	Cost	Fair Value
Dejour Enterprises Ltd.	12,509,771 common shares 2,000,000 warrants expire Jun 22, 2011 3,333,333 warrants expire Jun 22, 2014	\$ 11,157,360	\$ 3,690,382
Lynden Energy Corp.	3,328,500 commons shares	1,031,835	1,830,675
James Bay Resource Limited	2,579,000 common shares	1,655,757	1,805,300
Enermad Corp.	2,000,000 common shares	1,500,000	1,500,000
Mooncor Oil & Gas Corp.	8,500,000 common shares	1,735,000	1,317,500
Other equity investments (i)		15,013,397	7,030,262
Total investments (ii)		\$ 32,093,349	\$ 17,174,119

- (i) Other investments represent all investments, other than the top five investments by fair value individually listed above as at June 30, 2010.
- (ii) As at June 30, 2010, included in total investments were securities of private companies with a fair value totaling \$2,469,700 (cost of \$3,000,000).

4. Financial instruments hierarchy:

The following table presents the Company's financial instruments, measured at fair value on the consolidated balance sheet as at December 31, 2010 and categorized into levels of the fair value hierarchy:

	Level 1	Level 2	Level 3	
	Quoted market price	Valuation technique – observable market inputs	Valuation technique – non-observable market inputs	Total
Assets				
Investments, at fair value	\$ 12,458,169	\$ -	\$ 2,000,000	\$ 14,458,169

There were no transfers from Level 1 to 2 or Level 2 to 1 during the six months ended December 31, 2010.

BROWNSTONE ENERGY INC.
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4. Financial instruments hierarchy (continued):

The following table presents the Company's financial instruments, measured at fair value on the consolidated balance sheet as at June 30, 2010 and categorized into levels of the fair value hierarchy:

	Level 1	Level 2	Level 3	
	Quoted market price	Valuation technique – observable market inputs	Valuation technique – non-observable market inputs	Total
Assets				
Investments, at fair value	\$ 14,704,419	\$ -	\$ 2,469,700	\$ 17,174,119

There were no transfers from Level 1 to 2 or Level 2 to 1 during the year ended June 30, 2010. During the year ended June 30, 2010, \$2,056,721 of restricted investments in Level 2 were transferred to Level 1 as a result of these companies becoming freely tradable.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the six months ended December 31, 2010. These financial instruments are measured at fair value utilizing non-observable market inputs. The realized losses and net unrealized gains are recognized in the consolidated statements of operations.

	Opening balance, June 30, 2010	Net purchases	Realized losses	Net unrealized gains	Net transfer out of Level 3	Ending balance, December 31, 2010
Investments, at fair value	\$ 2,469,700	\$ -	\$ -	\$ 530,300	\$ (1,000,000)	\$ 2,000,000

The net transfer out of Level 3 consists of investments in private companies as at June 30, 2010 which became publicly-traded investments during the six months ended December 31, 2010.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the year ended June 30, 2010:

	Opening balance, June 30, 2009	Net purchases	Realized losses	Net unrealized gains	Net transfer out of Level 3	Ending balance, June 30, 2010
Investments, at fair value	\$ 2,266,033	\$ -	\$ -	\$ 203,667	\$ -	\$ 2,469,700

BROWNSTONE ENERGY INC.
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5. Oil & gas properties and related expenditures:

All of the Company's oil & 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 oil & gas properties 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 ownership interests.

The Company's accounts reflect only the Company's proportionate interest in these activities. The following is a detailed list of the Company's oil & gas properties and related expenditures as at December 31, 2010 and June 30, 2010:

	June 30, 2010	December 31, 2010		
	Net Book Value	Net Expenditures	Write-off	Net Book Value
Joint ventures in Colombia (a), note 9(d)				
Acquisition	\$ 2,850,040	\$ -	\$ -	\$ 2,850,040
Exploration	7,997,964	2,606,516	-	10,604,480
	<u>10,848,004</u>	<u>2,606,516</u>	<u>-</u>	<u>13,454,520</u>
Joint ventures in U.S. (b), (note 9(d))				
Acquisition	17,845,097	(263,328)	-	17,581,769
Exploration	2,342,454	342,150	-	2,684,604
	<u>20,187,551</u>	<u>78,822</u>	<u>-</u>	<u>20,266,373</u>
Joint ventures in Argentina				
Acquisition	4,128,331	-	-	4,128,331
	<u>4,128,331</u>	<u>-</u>	<u>-</u>	<u>4,128,331</u>
Joint ventures in Canada (note 9(d))				
Acquisition	797,353	-	-	797,353
Exploration	205,929	8,965	-	214,894
	<u>1,003,282</u>	<u>8,965</u>	<u>-</u>	<u>1,012,247</u>
Joint ventures in Israel (c)				
Exploration	-	1,273,147	-	1,273,147
	<u>-</u>	<u>1,273,147</u>	<u>-</u>	<u>1,273,147</u>
Total oil & gas properties	\$ 36,167,168	\$ 3,967,450	\$ -	\$ 40,134,618

(a) During the six months ended December 31, 2010, the Company has spent \$2,606,516 on its oil & gas properties and related expenditures in Colombia, primarily relating to the drilling of a well on the Canaguaro block and seismic testing on Block 27.

BROWNSTONE ENERGY INC.
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5. Oil & gas properties and related expenditures (continued):

- (b) The Company owns a joint venture interest with Dejour Energy (USA) in certain oil and gas prospective acreage in the Piceance and Uinta Basins of Colorado and Utah, U.S. ("Piceance Lands"). In November 2010, the Company and its joint venture partner sold its interest in approximately 3,000 gross acres in Mesa County for \$263,328 (US\$260,000) net to the Company.
- (c) The Company has an option to acquire a 15% interest in the Gabriella and Yitzhak offshore Israel license, with Adira Energy Corp. ("Adira"), an oil & gas exploration company listed on the TSXV under the symbol "ADL". To acquire the 15% interest, the Company will contribute 15% of all costs associated with the exploration of the properties. In June 2010, the Company, through a consortium which includes Adira, was awarded a petroleum license offshore Israel (the "Samuel License"). Brownstone owns a 6.75% interest in the Samuel License. The Company also owns a 15% interest in Adira's 5% (0.75% net to Brownstone) interest in Myra and Sara petroleum licenses which are located in the Lavantine Basin offshore of Israel.

During the six months ended December 31, 2010, the Company spent \$1,140,374 on the earn-in on the Gabriella offshore block and \$132,773 on the Yitzak offshore block. The Company also advanced \$303,368 (US\$305,015) on the Samuel License for seismic testing which is included in prepaids and other receivables on the consolidated balance sheet as at December 31, 2010.

6. Promissory note receivable:

As at June 30, 2010, the Company held a promissory note totaling \$2,070,140 from Dejour Enterprises Ltd., an oil & gas exploration company and reporting issuer listed on the Toronto Stock Exchange ("TSX") under the symbol "DEJ", ("Dejour"). The Company and Dejour's wholly owned subsidiary Dejour Energy (USA) Corp., own joint interests in certain oil and gas prospective acreage in the Piceance and Uinta Basins of Colorado and Utah, U.S. The Dejour promissory note is secured by a general security agreement ("GSA") between the Company and Dejour, bears interest at 12% per annum, payable quarterly, and due to mature on January 1, 2011. Included in the consolidated statements of operations is \$108,645 (six months ended December 31, 2009 - \$125,229) of interest income earned by Brownstone relating to the promissory note (note 9(c)). During the six months ended December 31, 2010, the total amounts outstanding under the promissory note were repaid in full.

7. Restricted cash:

In October 2009, the Company pledged US\$4,866,000 of cash held in a Guarantee Investment Certificate ("GIC") as collateral to the Royal Bank of Canada ("RBC") for three letters of guarantee issued by RBC to Agencia Nacional de Hidrocarburos ("ANH"), the oil and gas agency of the Colombian government. The letters of guarantee secure Brownstone's interest and exploration in Colombia Llanos exploration Blocks 21, 27, and 36 and to ensure that the Company and its partner fulfills its commitments under the exploration blocks. In June 2010, the Company pledged an additional US\$118,883 to increase the letter of guarantee to ANH for Block 27. In September 2010, the Company pledged an additional US\$2,174,000 to increase the letter of guarantee to ANH for Blocks 27 and 36.

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7. Restricted cash (continued):

In November 2010, Export Development Canada ("EDC"), a federal government agency, provided a guarantee of US\$4,984,883 to RBC for certain of the letters of guarantee issued by RBC to the ANH, thereby releasing some of the restricted cash in the amount of the approved guarantee by EDC.

As at December 31, 2010, the Company held restricted cash totaling \$2,162,261 (US\$2,174,000) (June 30, 2010 - \$5,286,967 (US\$4,984,883)) as collateral for the RBC letters of guarantee. The restricted cash is held in GICs which earn interest at a rate of 0.03% annually, and is renewed on a monthly basis at the prevailing interest rate.

8. Promissory note payable:

In October 2010, Company received gross proceeds of \$3,000,000 in the form of a one-year loan from an arm's-length private company. The loan is evidenced by a promissory note, secured by a GSA over the Company's personal property, due on October 7, 2011 and bears interest at a rate of 12% per annum, payable monthly. As consideration for the loan, the Company paid a cash bonus of \$300,000 and a facility fee of \$30,000. Proceeds of the loan are used for working capital purposes. Included in the consolidated statements of operations is \$83,836 of interest expense charged to the Company relating to the promissory note payable.

9. 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.

Related party transactions during the six months ended December 31, were as follows:

Type of transaction	Nature of relationship	2010	2009
Consulting fees	Director and officers (a)	293,583	234,806
Cost sharing arrangement	Affiliated company (b)	72,000	75,600
Interest income	Affiliated company (c)	108,645	125,229
Promissory note repayment	Affiliated company (c)	2,070,140	-

(a) Consulting agreements are with the Chairman and Chief Executive Officer ("CEO"), Chief Financial Officer and Vice President, Corporate & Legal Affairs. The costs relating to these agreements are included in operating, general and administrative expenses. The Company's consulting agreement with the CEO provides for an annual bonus payable to him equal to 10% of the Company's pre-tax realized profit. No bonus was accrued to the CEO for the six months ended December 31, 2010 and 2009.

(b) The Company is a party to a services agreement with Pinetree Capital Ltd. ("Pinetree"). Pinetree is a shareholder of the Company with a common director and common officers of the Company and a reporting issuer trading on the TSX under the symbol "PNP".

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9. Related party transactions (continued):

The services agreement provides for monthly payments by the Company of \$12,000 plus HST, in exchange for certain administrative services and facilities provided by Pinetree to the Company. The services agreement is automatically renewed annually, unless otherwise terminated by either party upon giving 90 days prior written notice.

- (c) As at June 30, 2010, the Company held a promissory note totaling \$2,070,140 from Dejour, a company with a director who is also an officer of Brownstone. During the six months ended December 31, 2010, the Company has received repayment of the promissory note in full from Dejour. Included in the consolidated statements of operations is \$108,645 (six months ended December 31, 2009 - \$125,229) of interest income earned by Brownstone relating to the promissory note (note 6).
- (d) The Company has joint ventures on oil & gas properties and related exploration with related parties which have a common director or a director who is also an officer of Brownstone (note 5).
- (e) During the six months ended December 31, 2010, the Company granted to directors and officers, 1,000,000 stock options exercisable at \$0.51 per share and expiring on September 20, 2015.

10. Share capital:

Authorized: Unlimited number of common shares
 Issued and outstanding:

	# of Shares	Amount
Balance, June 30, 2009	65,365,504	\$ 54,661,985
Issued pursuant to exercise of stock options	301,600	258,285
Issued pursuant to exercise of broker warrants	24,000	14,400
Issued pursuant to interests in oil & gas property acquisition	3,000,000	2,388,000
Issued pursuant to private placement financing, net	20,000,000	7,694,674
Balance, June 30, 2010	88,691,104	\$ 65,017,344
Issued pursuant to exercise of stock options (a)	100,000	65,000
Issued pursuant to exercise of broker warrants (b)	304,635	273,671
Balance, December 31, 2010	89,095,739	\$ 65,356,015

- (a) During the six months ended December 31, 2010, 100,000 stock options were exercised at \$0.50 per share for total proceeds of \$50,000. Pursuant to the exercise of stock options, amounts of \$15,000 in contributed surplus were reallocated to share capital.
- (b) During the six months ended December 31, 2010, 304,635 warrants, broker warrants, and underlying broker warrants were exercised at a prices ranging from \$0.55 and \$0.75 per share for total proceeds of \$223,458. Amounts of \$54,729 in warrants were reallocated to share

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10. Share capital (continued):

capital. Pursuant to the exercise of broker warrants, 12,545 purchase warrants were issued exercisable at \$0.75 per share and expiring on April 13, 2012. The purchase warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 96.9%; dividend yield of 0%; risk-free interest rate of 3.00%; and an expected life of 1.5 year. The value assigned to the purchase warrants was \$4,516.

(c) 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 which 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 during fiscal 2011 vest at the rate of 1/6 of the grant every three months over an 18-month period. Stock options granted to consultants for investor relations vest at the rate of 1/4 of the grant every four months over a 1 year period.

In accordance with CICA Handbook Section 3870, 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. The following options were granted during the six months ended December 31, 2010:

Date granted	Options granted	Exercise price	Expiry
September 21, 2010	1,195,000	\$ 0.51	September 20, 2015
December 17, 2010	500,000	0.80	December 16, 2015
	1,695,000		

The fair value of the options granted during the six months ended December 31, 2010, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes weighted average assumptions used	
Expected volatility	94.3% - 96.9%
Expected dividend yield	0%
Risk-free interest rate	3.0%
Expected option life in years	3.5
Fair value per stock option granted on September 21, 2010	\$ 0.33
Fair value per stock option granted on December 17, 2010 (consultant)	0.52

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10. Share capital (continued):

The fair value of the options granted during the year ended June 30, 2010, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used	
Expected volatility	95-98.9%
Expected dividend yield	0%
Risk-free interest rate	2.25%
Expected option life in years	1.5 to 3.5
Fair value per stock option granted on August 11, 2009	\$ 0.30
Fair value per stock option granted on August 13, 2009	\$ 0.33
Fair value per stock option granted on September 8, 2009	\$ 0.15
Fair value per stock option granted on October 6, 2009	\$ 0.39
Fair value per stock option granted on November 27, 2009	\$ 0.48
Fair value per stock option granted on December 1, 2009	\$ 0.48
Fair value per stock option granted on March 3, 2010	\$ 0.49
Fair value per stock option granted on April 15, 2010	\$ 0.43
Fair value per stock option granted on April 15, 2010 (consultant)	\$ 0.30
Fair value per stock option granted on May 26, 2010	\$ 0.28

For the six months ended December 31, 2010, included in operating, general and administrative expenses was stock-based compensation expense of \$522,799 (six months ended December 31, 2009 - \$473,373) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at December 31, 2010 and June 30, 2010 and changes during the periods then ended is presented below:

	December, 2010		June 30, 2010	
	# of options	Weighted average exercise price	# of Options	Weighted average exercise price
Outstanding, at beginning of period	7,641,800	\$ 1.35	5,120,080	\$ 1.83
Granted	1,695,000	0.60	3,745,000	0.59
Exercised	(100,000)	0.50	(301,600)	0.55
Forfeited/cancelled/expired	(408,400)	1.09	(921,680)	1.24
Outstanding, at end of period	8,828,400	\$ 1.22	7,641,800	\$ 1.35
Exercisable, at end of period	6,001,619	\$ 1.51	5,006,993	\$ 1.73

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10. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2010:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
150,000	150,000	2.00	January 2, 2011
430,000	430,000	1.91	January 18, 2011
100,000	100,000	2.08	April 10, 2011
280,000	280,000	1.50	June 18, 2011
200,000	200,000	2.20	July 9, 2011
1,255,000	1,255,000	2.50	September 13, 2011
50,000	50,000	1.80	February 4, 2012
400,000	400,000	2.60	April 1, 2012
10,000	10,000	1.25	February 21, 2013
40,000	40,000	1.20	March 19, 2013
840,000	840,000	1.48	June 25, 2013
100,000	83,200	0.50	August 10, 2014
1,133,400	915,320	0.52	August 12, 2014
135,000	89,440	0.61	October 5, 2014
50,000	33,200	0.75	November 26, 2014
200,000	133,200	0.75	November 30, 2014
500,000	249,999	0.65	March 2, 2015
630,000	209,180	0.65	April 4, 2015
500,000	166,000	0.65	April 14, 2012
130,000	43,180	0.43	May 25, 2015
1,195,000	198,900	0.51	September 20, 2015
500,000	125,000	0.80	December 16, 2015
8,828,400	6,001,619		

(d) Warrants

A summary of the status of the Company's warrants and broker warrants as at December 31, 2010 and June 30, 2010 and the changes during the periods then ended are presented below:

	December 31, 2010		June 30, 2010	
	# of warrants and broker warrants	Weighted average exercise price	# of warrants and broker warrants	Weighted average exercise price
Warrants and Broker Warrants				
Outstanding, at beginning of period	21,155,078	\$ 0.84	9,673,400	\$ 0.98
Exercised	(304,635)	0.73	(24,000)	0.50
Expired	(2,000,000)	2.00	-	-
Issued	12,545	0.75	11,505,678	0.72
Outstanding, at end of period	18,862,988	\$ 0.72	21,155,078	\$ 0.84

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10. Share capital (continued):

The following table summarizes information about warrants and broker warrants outstanding as at December 31, 2010:

Number of warrants and broker warrants	Exercise price	Expiry date	Warrant/broker warrant value (\$)
6,349,728	0.75	May 28, 2011	1,080,554
1,034,400 (i)	0.50	May 28, 2011	237,912
10,010,271	0.75	April 13, 2012	2,203,698
1,468,589 (ii)	0.55	April 13, 2012	396,519
18,862,988			\$ 3,918,663

(i) Each broker warrant is exercisable for one unit of the Company at \$0.50 per unit on or before May 28, 2011. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.75 per share on or before May 28, 2011.

(ii) Each broker warrant is exercisable for one unit of the Company at \$0.55 per unit on or before April 13, 2012. Each unit is comprised of one common share of the Company and one-half common share purchase warrant of the Company, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.75 per share on or before April 13, 2012.

(e) Contributed surplus transactions for the respective periods are as follows:

	Amount
Balance, June 30, 2009	\$ 12,318,310
Stock-based compensation	586,361
Exercise of stock options	(93,623)
Balance, June 30, 2010	13,008,062
Exercise of options	(15,000)
Stock-based compensation (note 10(c))	522,799
Expiration of warrants	60,000
Balance, December 31, 2010	\$ 13,575,861

As at December 31, 2010 and June 30, 2010, contributed surplus comprised of the following:

	December 31, 2010	June 30, 2010
Fair value of stock-based compensation	\$ 6,816,658	\$ 6,308,859
Fair value of expired warrants and broker warrants	6,732,939	6,672,939
Cancellation of common shares under normal course issuer bid	20,639	20,639
Value of cancelled escrowed shares	5,625	5,625
	\$ 13,575,861	\$ 13,008,062

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11. Income taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	December 31, 2010	June 30, 2010
Future income tax assets		
Oil & gas properties and related expenditures	\$ 4,951,869	\$ 5,050,263
Investments – differences in accounting carrying value and tax cost	1,134,834	1,875,767
Share issuance costs and other differences	868,198	592,678
Total future income tax assets	6,954,901	7,518,708
Less: valuation allowance (i)	(6,954,901)	(7,518,708)
Net future income tax assets	\$ -	\$ -

- (i) The future income tax assets (“FTA”) primarily relate to the tax benefit that would arise from the application of non-capital losses and tax resource pools carried forward against future taxable income and the disposition of investments from the differences in carrying value and tax cost. A valuation allowance against the FTA is recorded to the extent that the Company considers it more likely than not that all or a portion of the FTA will not be realized in the foreseeable future.

12. Segmented information:

- (a) Industry information:

Operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. All of the Company’s operations relate to direct and indirect investments in the resource sector. The Company’s significant segments include six distinct geographic areas: Colombia, Canada, United States, Argentina, Israel, and Brazil.

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 profit or loss, but are attributed to the Canadian operations where the corporate head office is located.

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12. Segmented information (continued):

(b) Geographic information:

The following is segmented information as at and for the six months ended December 31, 2010:

	Six months ended December 31, 2010		As at December 31, 2010	
	Interest and other income	Net loss	Oil & gas properties and related expenditures	Other assets
Canada and other	\$ 112,655	\$ 2,577,869	\$ 1,012,247	\$ 27,930,342
Colombia	18,789	77,200	13,454,520	39,713
United States	-	-	20,266,373	19,601
Argentina	-	-	4,128,331	5,545
Israel	-	-	1,273,147	303,368
Brazil	-	-	-	168,606
	\$ 131,444	\$ 2,655,069	\$ 40,134,618	\$ 28,467,175

The following is segmented information for the six months ended December 31, 2009 and as at June 30, 2010:

	Six months ended December 31, 2009		As at June 30, 2010	
	Interest and other income	Net income (loss)	Oil & gas properties and related expenditures	Other assets
Canada and other	\$ 187,256	\$ (924,177)	\$ 1,003,281	\$ 26,517,343
Colombia	-	-	10,848,004	18,108
United States	-	1,575,607	20,187,551	1,063,027
Argentina	-	1,041,647	4,128,331	30,157
Brazil	1,303	(3,103,677)	-	165,990
	\$ 188,559	\$ (1,410,600)	\$ 36,167,168	\$ 27,794,625

13. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	December 31, 2010	June 30, 2010
Cash	\$5,702,576	\$ 1,279,961
Cash equivalents (a)	2,997,480	552,269
	\$ 8,700,056	\$ 1,832,230

(a) As at December 31, 2010, cash equivalents consisted of banker's acceptance notes with an average annual yield of 1.01% (June 30, 2010 – 0.80%).

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14. Comparative consolidated financial statements:

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the December 31, 2010 consolidated financial statements.

15. Subsequent events:

- (a) Subsequent to December 31, 2010, 2,072,500 warrants were exercised at \$0.75 per share for total proceeds of \$1,554,375.
- (b) Subsequent to December 31, 2010, 580,000 options exercisable at prices ranging from \$1.91 to \$2.00 per share expired unexercised.
- (c) Subsequent to December 31, 2010, the Company announced a bought deal underwritten private placement financing to issue and sell 26,315,790 units at a price of \$0.95 per unit for gross proceeds of \$25,000,000. Each unit will be comprised of one common share of the Company and one-half common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at \$1.25 per share for a period of 18 months from the closing date. The Company also granted the underwriters an over-allotment option to increase the size of the private placement by up to an additional 3,947,368 units. In connection with the private placement, the Company has agreed to pay to the underwriters a cash commission equal to 6.0% of the gross proceeds raised and issue to them broker warrants equal to 6.0% of the number of units sold, including pursuant to the exercise of the over-allotment option. Each broker warrant will entitle the holder to acquire one common share at an exercise price of \$1.25 per share for a period of 18 months from the closing. The closing of the offering is scheduled to occur on or about March 9, 2011 and is subject to certain customary conditions and regulatory approvals of the TSXV.
- (d) Subsequent to December 31, 2010, the Company retained Contact Financial Corp. ("Contact"), a strategic marketing and communications firm located in Vancouver, British Columbia. Contact will be paid \$6,000 per month and will provide advice to Brownstone with respect to corporate development, producing and distributing effective marketing communication tools, and increasing investor awareness. In connection with retaining Contact, 300,000 options were granted to Contact. The options are exercisable at \$0.95 per share expiring at the earlier of 30 days after termination of service or two years from the date of issuance.