Brownstone Energy Inc.
(Formerly Brownstone Ventures Inc.)
Management's Discussion and Analysis

For the quarter ended: December 31, 2010

Date of report: February 24, 2011

This management's discussion and analysis of the consolidated financial condition and results of operation ("MD&A") of Brownstone Energy Inc. ("Brownstone" or the "Company") should be read in conjunction with Brownstone's audited consolidated financial statements and notes thereto as at and for the years ended June 30, 2010 and 2009, and unaudited interim consolidated financial statements and notes thereto as at and for the six months ended December 31, 2010. The annual consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the interim consolidated financial statements have been prepared in accordance with GAAP for interim financial statements.

All financial data in this MD&A has been prepared in accordance with GAAP. 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 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, loss carry-forwards, and fees to be incurred by foreign subsidiaries.

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: 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, risks relating to oil and gas exploration activities generally, strength of the Canadian, U.S. and global economies, foreign exchange fluctuations, political and economic conditions in the countries in which the Company's property interests are located 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:

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 companies.

Highlights:

- In November 2010, the Company announced an oil discovery in the Lower Mirador formation at the well Canaguary-1 in the Canaguaro block in Colombia. Brownstone is earning a 25% working interest in the Canaguaro block.

- In November 2010, Export Development Canada (“EDC”), a federal government agency, provided a guarantee of US$4,984,883 to Royal Bank of Canada (“RBC”) for certain of the letters of guarantee issued by RBC to the Agencia Nacional de Hidrocarburos, thereby releasing some of the restricted cash in the amount of the guarantee provided by EDC.

- As at December 31, 2010, the Company has working capital of $23,002,877 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of 12.8%. The increase was primarily due to the release of restricted cash for letters of guarantee.

- As at December 31, 2010, oil & gas properties and related expenditures increased by 11.0% to $40,134,618 as compared to $36,167,168 as at June 30, 2010. The increase was due primarily to $2,606,516 in exploration of the Company’s Colombian properties.

- The Company has cash and cash equivalents, investments (at fair value) and due from brokers totalling $24,089,876 as at December 31, 2010 as compared to $19,006,349 as at June 30, 2010, a 26.7% increase.

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 meet such requirements in certain circumstances can result in a reduction or loss of the ownership interest.

The Company's accounts reflect only the Company's proportionate interest in these activities. The following is a summary of the Company’s oil & gas properties and related expenditures:

	June 30, 2010	December 31, 2010		
	Net Book Value	**Net Expenditures**	**Write-off**	**Net Book Value**
Joint ventures in Colombia (a)				
Acquisition	$ 2,850,040	**$ -**	**$ -**	**$ 2,850,040**
Exploration	7,997,964	**2,606,516**	**-**	**10,604,480**
	10,848,004	**2,606,516**	**-**	**13,454,520**
Joint ventures in U.S. (b)				
Acquisition	17,845,097	**(263,328)**	**-**	**17,581,769**
Exploration	2,342,454	**342,150**	**-**	**2,684,604**
	20,187,551	**78,822**	**-**	**20,266,373**
Joint ventures in Argentina				
Acquisition	4,128,331	**-**	**-**	**4,128,331**
	4,128,331	**-**	**-**	**4,128,331**
Joint ventures in Canada				
Acquisiton	797,353	**-**	**-**	**797,353**
Exploration	205,929	**8,965**	**-**	**214,894**
	1,003,282	**8,965**	**-**	**1,012,247**
Joint ventures in Israel (c)				
Exploration	-	**1,273,147**	**-**	**1,273,147**
	-	**1,273,147**	**-**	**1,273,147**
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.

The Company made an oil discovery in the Lower Mirador formation at the well Canaguay-1 on the Canaguaro block, in Colombia. Brownstone is earning a 25% working interest in the Canaguaro Block.

Canaguay - 1 is the first well to be drilled on the Canaguaro exploration drilling program. The well began drilling on June 3, 2010, and finished drilling at a final total depth ("TD") of 15,850 feet on August 4, 2010.

(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 licenses, 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.

Investments:

As at December 31, 2010, the Company held investments with a fair value of $14,458,169 as compared to $17,174,119 at June 30, 2010. The cost base of the Company's portfolio was $24,135,591 as at December 31, 2010 as compared to $32,093,349 as at June 30, 2010. As such, as at December 31, 2010, the cost of investments exceeded fair value by $9,677,422 as compared to $14,919,230 as at June 30, 2010. The improvement arose from the unrealized gains for the six months ended December 31, 2010 of $5,241,808 primarily due to the increase in the fair market value of these investments.

For details of the Company's accounting policies for investments, see note 2(b) in the Company's audited consolidated financial statements and notes thereto as at and for the years ended June 30, 2010 and 2009. The fair value of the Company's investments as reflected in its consolidated financial statements 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.

(a) Investments consist of the following as at 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**

(i) Other investments are 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 totalling $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 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 totalling $2,469,700 (cost of $3,000,000).

Results of Operations

The following is a summary of quarterly results:

	Quarter ended (unaudited)			
	December 31, 2010	**September 30, 2010**	June 30, 2010	March 31, 2010
Net investment gains (losses)	**4,458,314**	**59,318**	(3,865,090)	4,964,781
Net income (loss) for the period	**3,117,392**	**(462,323)**	(24,171,292)	3,512,888
Earnings (loss) per share – basic	**0.04**	**(0.01)**	(0.28)	0.05
Earnings (loss) per share – diluted	**0.03**	**(0.01)**	(0.28)	0.05
	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Net investment gains (losses)	(268,671)	3,765,197	2,383,099	(1,922,336)
Net income (loss) for the period	(762,474)	(648,126)	1,186,214	(2,048,301)
Earnings (loss) per share – basic	(0.01)	(0.01)	0.02	(0.04)
Earnings (loss) per share – diluted	(0.01)	(0.01)	0.02	(0.04)

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

Three months ended December 31, 2010 and 2009:

Certain financial information for the Company for the three and six months ended December 31, are provided below:

Operating Results (unaudited)	**Three months ended December 31,**		**Six months ended December 31,**	
	2010	2009	**2010**	2009
Realized gains 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
Net investment gains (losses)	**4,458,314**	(268,671)	**4,517,632**	3,496,526
Net and comprehensive loss for the period	**3,117,392**	(762,474)	**2,655,069**	(1,410,600)
Basic earnings (loss) per share	**0.04**	(0.01)	**0.03**	(0.02)
Diluted earnings (loss) per share	**0.03**	(0.01)	**0.03**	(0.02)

For the three months ended December 31, 2010, the Company generated net realized gains on disposal of investments of $279,670 compared to $699,799 for the three months ended December 31, 2009. For the three months ended December 31, 2010, the Company realized net gains primarily from the disposition of a portion of its holdings in Lynden Energy Corp. and Contact Exploration Inc. For the three months ended December 31, 2009, the Company generated realized gains primarily from the sale of a portion of its holdings in Vast Exploration Inc. and Alange Energy Corp.

For the three months ended December 31, 2010, the Company recorded net unrealized gains on investments of $4,178,644 versus unrealized losses on investments of $968,470 in the three months ended December 31, 2009. Of the net unrealized gains in the three months ended December 31, 2010, $4,002,484 was due to the net write-up to market on the Company's investments and $176,160 from the reversal of net unrealized losses on the disposal of investments. The net unrealized losses in the three months ended December 31, 2009, was due to the net write-down to market on the Company's investments of $1,587,757, offset by $619,287 due to the reversal of net unrealized losses on the disposal of investments.

For the three months ended December 31, 2010, the Company recorded interest and other income of $54,597 as compared to $85,721 for the three months ended December 31, 2009. Interest income is primarily composed of interest income earned on a promissory note. In the three months ended December 31, 2010, the promissory note was repaid in full.

For the three months ended December 31, 2010, operating, general and administrative expenses increased by $582,976 to $1,311,543 from $728,567 for the three months ended December 31, 2009. The increase was primarily due to an increase in office and general and professional fees as discussed below.

Following is the breakdown of the Company's operating, general and administrative expenses for the three months ended December 31. Details of the changes follow the table:

	Three months ended December 31,	
	2010	2009
Salaries, consulting and administrative fees (a)	**$ 236,346**	$ 268,151
Professional fees (b)	**107,026**	35,224
Stock-based compensation expense	**323,010**	300,550
Shareholder relations, transfer agent and filing fees (c)	**41,851**	56,016
Travel and promotion	**43,878**	46,708
Office and General (d)	**559,432**	21,918
	$ 1,311,543	$ 728,567

(a) Salaries, consulting and administrative fees decreased by $31,805 for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. The decrease was primarily due to a reduction in consultancy fees for the current period.

(b) Professional fees increased by $71,802 for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. The increase in professional fees was primarily from an increase in audit fee accruals and professional fees expensed in foreign subsidiaries.

(c) Shareholder relations, transfer agent and filing fees decreased by $14,165 for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. The decrease was primarily due to decrease in investor relations as compared to the investor relations costs in the prior year period.

(d) Office and general increased by $537,514 for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. The increase was primarily due to a financing fee of $330,000 paid to a third party for a loan received by the Company (see Liquidity and capital resources section elsewhere in this MD&A). The Company also paid $103,241 (US$100,449) to EDC in services charges relating to the release of restricted cash.

For the three months ended December 31, 2010, the Company had a foreign exchange loss of $235,147 as compared to $142,272 for the three months ended December 31, 2009. The current period loss arose primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the quarter, which decreased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the three months ended December 31, 2010, transaction costs decreased $11,367 to $10,775 from $22,142, due to a decrease in the volume of stock trading conducted by the Company. Transaction costs arise from purchases and dispositions of investments through brokers and are expense on settlement in accordance with the Company's accounting policy for investments.

For the three months ended December 31, 2010, the Company recorded a recovery of income taxes of $245,869 as compared to $316,656 for the three months ended December 31, 2009. The recovery of income taxes in the current period is primarily due to the expected income tax recoverable from taxable losses in the current period, which will be carried back to prior years.

Net and comprehensive income for the three months ended December 31, 2010 was $3,117,392 ($0.04 per share) as compared to net and comprehensive loss of $762,474 ($0.01 per share) for the three months ended December 31, 2009.

Six months ended December 31, 2010 and 2009:

For the six months ended December 31, 2010, the Company generated net realized losses on disposal of investments of $724,176 compared to net realized gains on disposal of investments of $777,355 for the six months ended December 31, 2009. For the six months ended December 31, 2010, the Company realized net losses primarily from the disposition of a portion of its holdings in Dejour Enterprises Ltd., GeoGlobal Resources Inc., Valeura Energy Inc., and James Bay Resources Limited, totalling $1,573,097 offset by net realized gains on the disposal of Lynden Ventures and Caza Oil & Gas Inc. For the six months ended December 31, 2009, the Company generated realized gains primarily from the sale of its holdings in Vast Exploration Inc. and Alange Energy Corp. totalling $837,075.

For the six months ended December 31, 2010, the Company recorded net unrealized gains on investments of $5,241,808 as compared to $2,719,171 for the six months ended December 31, 2009. Of the net unrealized gains in the six months ended December 31, 2010, $3,659,429 was due to the net write-up to market on the Company's investments and $1,582,379 from the reversal of net unrealized losses on the disposal of investments. The net unrealized gains in the six months ended December 31, 2009, was due to the net write-up to market on the Company's investments of $2,080,351 and $638,820 due to the reversal of net unrealized losses on the disposal of investments.

For the six months ended December 31, 2010, the Company recorded interest and other income of $131,444 as compared to $188,559 for the six months ended December 31, 2009. Interest income is primarily composed of interest income earned on a promissory note, which was repaid in full in December 2010.

For the six months ended December 31, 2010, operating, general and administrative expenses increased by $754,506 to $2,036,901 from $1,282,395 for the six months ended December 31, 2009. The increase was primarily due to an increase in office and general and professional fees as discussed below.

Following is the breakdown of the Company's operating, general and administrative expenses for the six months ended December 31. Details of the changes follow the table:

	Six months ended December 31, 2010	2009
Salaries, consulting and administrative fees (a)	**$ 492,258**	$ 472,479
Professional fees (b)	**165,425**	48,829
Stock-based compensation expense	**522,799**	473,373
Shareholder relations, transfer agent and filing fees (c)	**70,962**	147,451
Travel and promotion	**74,401**	54,708
Office and General (d)	**711,056**	85,555
	$ 2,036,901	$ 1,282,395

(a) Salaries, consulting and administrative fees increased by $19,779 for the six months ended December 31, 2010 as compared to the six months ended December 31, 2009. The increase was primarily due to an increase in the number of consultants and the appointment of a new President and Chief Operating Officer in March 2010.

(b) Professional fees increased by $116,596 for the six months ended December 31, 2010 as compared to the six months ended December 31, 2009. The increase in professional fees was primarily from an increase in audit fee accruals and professional fees expensed in foreign subsidiaries.

(c) Shareholder relations, transfer agent and filing fees decreased by $76,489 for the six months ended December 31, 2010 as compared to the six months ended December 31, 2009. The decrease was primarily due to decrease in investor relations as compared to the investor relations costs in the prior year period.

(d) Office and general increased by $625,501 for the six months ended December 31, 2010 as compared to the six months ended December 31, 2009. The increase was primarily due to a financing fee of $330,000 paid to a third party for loan received by the Company (see Liquidity and capital resources section elsewhere in this MD&A). The Company also paid $103,241 (US$100,449) to EDC in services charges relating to the release of restricted cash. The Company also had an increase in bank charges consisting of bank fees charged on letter of credits guaranteed by the Company's bank and office and general expenses relating to foreign subsidiaries.

For the six months ended December 31, 2010, the Company had a foreign exchange loss of $354,075 as compared to $384,371 for the six months ended December 31, 2009. The current period loss arose primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the quarter, which decreased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the six months ended December 31, 2010, the Company had no write-off of oil & gas interest as compared to a write-off of oil and gas interests of $3,334,247 in the six months ended December 31, 2009. The Company wrote-off some of its interests in Brazil, which had unsuccessful drill results.

For the six months ended December 31, 2010, transaction costs increased $10,117 to $34,826 from $24,709, due to an increase in the volume of stock trading conducted by the Company. Transaction costs arise from purchases and dispositions of investments through brokers and are expense on settlement in accordance with the Company's accounting policy for investments.

For the six months ended December 31, 2010, the Company recorded a recovery of income taxes of $515,718 as compared to a provision for income taxes of $51,044 for the six months ended December 31, 2009. The recovery of income taxes in the current period is primarily due to the expected income tax recoverable from taxable losses in the current period, which will be carried back to prior years. For the six months ended December 31, 2009, the provision for income taxes was primarily due to the decrease in future income tax assets arising from the tax effect of the decrease in the excess of tax cost over fair value on investments and other long-term assets held at December 31, 2009.

Net and comprehensive income for the six months ended December 31, 2010 was $2,655,069 ($0.03 per share) as compared to net and comprehensive loss of $1,410,600 ($0.02 per share) for the six months ended December 31, 2009.

Cash Flows
Three months ended December 31 2010 and 2009:

During the three months ended December 31, 2010, the Company used cash of $1,366,859 in operating activities as compared to $680,888 in the three months ended December 31, 2009, an increase of $685,971.

During the three months ended December 31, 2010, the Company generated net cash in financing activities of $2,533,492 as compared to cash used of $210,845 during the three months ended December 31, 2009. The increase was primarily from a $3,000,000 loan to the Company and proceeds of $273,458 from the exercise of stock options and warrants offset by cash held at brokers of $739,966. The cash used in the three months ended December 31, 2009 was a result of an increase in due from brokers (cash held in margin accounts) of $387,477 offset by proceeds from the exercise of stock options and broker warrants totalling $176,632.

During the three months ended December 31, 2010, net cash generated in investing activities was $7,075,144 as compared to $88,955 during the three months ended December 31, 2009. During the three months ended December 31, 2010, the Company had proceeds from its disposition of investments of $2,300,791 as compared to $7,533,217 during the three months December 31, 2009. During the three months ended December 31, 2010, the Company did not purchase any investments as compared to $1,416,154 during the three months ended December 31, 2009. During the three months ended December 31, 2010, the Company had cash expenditures on oil & gas properties and related expenditures of $2,648,932 as compared to cash expenditures of $981,304 during the three months ended December 31, 2009, an increase that reflects the Company's increased oil & gas activities, primarily in Colombia and Israel. The Company also had cash released from restricted cash in the amount of the guarantee provided by EDC (US$4,984,883) while during the three months ended December 31, 2009, an additional $5,057,044 was placed in restricted cash (see Liquidity and Capital Resources section elsewhere in this MD&A).

For the three months ended December 31, 2010, the Company had a net increase in cash and cash equivalents of $8,241,777 leaving a cash and cash equivalents balance of $8,700,056 as at December 31, 2010. For the three months ended December 31, 2009, the Company had a net decrease in cash and cash equivalents of $802,778, leaving a cash and cash equivalents balance of $240,163 as at December 31, 2009.

Six months ended December 31 2010 and 2009:

During the six months ended December 31, 2010, the Company used cash of $3,934,959 in operating activities as compared to $992,425 in the six months ended December 31, 2009, an increase of $2,942,534.

During the six months ended December 31, 2010, the Company generated net cash in financing activities of $2,341,807 as compared to cash used of $335,648 during the six months ended December 31, 2009. The increase was primarily from a $3,000,000 loan to the Company and proceeds of $273,458 from the exercise of stock options and warrants offset by cash held at brokers of $931,651. The cash used in the six months ended December 31, 2009 was a result of an increase in due from brokers (cash held in margin accounts) of $435,597 offset by proceeds from the exercise of stock options and broker warrants totalling $176,632.

During the six months ended December 31, 2010, net cash generated in investing activities was $8,460,978 as compared to cash used of $719,539 during the six months ended December 31, 2009. During the six months ended December 31, 2010, the Company had proceeds from its disposition of investments of $7,233,582 as compared to $8,905,622 during the six months December 31, 2009. During the six months ended December 31, 2010, the Company did not purchase any investments as compared to $5,544,515 during the six months ended December 31, 2009. During the six months ended December 31, 2010, the Company had cash expenditures on oil & gas properties and related expenditures of $4,230,778 as compared to cash expenditures of $1,375,849 during the six months ended December 31, 2009, an increase that reflects the Company's increased oil & gas activities, primarily in Colombia and Israel. The Company also had cash released from restricted cash in the amount of the guarantee provided by EDC (US$4,984,883) while during the six months ended December 31, 2009, an additional $3,636,206 was placed in restricted cash (see Liquidity and Capital Resources section elsewhere in this MD&A).

For the six months ended December 31, 2010, the Company had a net increase in cash and cash equivalents of $6,867,826 leaving a cash and cash equivalents balance of $8,700,056 as at December 31, 2010. For the six months ended December 31, 2009, the Company had a decrease in cash and cash equivalents of $2,047,612, leaving a cash and cash equivalents balance of $240,163 as at December 31, 2009.

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.

(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

Liquidity and capital resources:

Balance Sheet Highlights	**December 31, 2010**	June 30, 2010
Cash and cash equivalents	**$ 8,700,056**	$ 1,832,230
Investments, at fair value	**14,458,169**	17,174,119
Oil & gas properties and related expenditures	**40,134,618**	36,167,168
Total assets	**68,601,793**	63,961,793
Total liabilities	**3,302,037**	2,113,363
Share capital, shares to be issued warrants and contributed surplus	**82,850,538**	82,054,281
Retained earnings (deficit)	**(17,550,782)**	(20,205,851)
Working Capital	**23,002,877**	20,394,295

Accounts payable and accrued liabilities decreased by $1,811,326 to $302,037 as at December 31, 2010 as compared to $2,113,363 as at June 30, 2010. As at December 31, 2010, the accounts payable and accrued liabilities decreased primarily due to the payment of $1,855,495 of accrued liabilities for seismic work on LLA-27 in Colombia, which was accrued as at June 30, 2010.

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 & gas properties. These oil & gas expenditure obligations are not fixed and cannot be pre-determined with certainty. Failure to meet the obligations may result in the loss of the Company's ownership interests.

The Company has cash and cash equivalents, investments (at fair value) and due from brokers (cash held at brokers) totalling $24,089,876 as at December 31, 2010 as compared to $19,006,349 as at June 30, 2010, a 26.7% increase. The Company's cash and cash equivalents, investments, and due from brokers as at December 31, 2010 would be sufficient to meet the Company's current financial obligations as they become due.

As at December 31, 2010, the Company has working capital of $23,002,877 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of $2,608,582.

In October 2010, the 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 general security agreement 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 will be used for working capital purposes.

The Company continues to have no long-term debt.

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.

In November 2010, EDC 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 guarantee provided 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.

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.

Investor relations:

During the three months ended December 31, 2010, Brownstone's management and Brisco Capital Partners Corp. ("Brisco") handled the Company's investor relations activities. Brisco is an investor relations consultancy firm located in Calgary, Alberta.

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 provide advice to Brownstone with respect to corporate development, producing and distributing effective marketing communication tools, and increasing investor awareness.

Related party transactions:

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

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". 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.

(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.

(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.

Off-Balance sheet arrangements:

As at December 31, 2010, the Company holds restricted cash of $2,162,261 (US$2,174,000) (June 30, 2010 - $5,286,967 (US$4,984,883)) which is used as collateral for the contingent liability associated with the Company's interests in Colombia. See "Liquidity and capital resources" for additional information regarding this contingent liability.

In connection with EDC's guarantee to RBC as discussed under the "Liquidity and capital resources" section of this MD&A, the Company has indemnified EDC for the guarantee of US$4,984,883 to RBC if the ANH calls EDC's letters of guarantee issued by RBC.

Risks:

Brownstone's financial condition, results of operation and business are subject to certain risks, which may negatively affect them. Certain of these risks are described below in addition to elsewhere in this MD&A.

(a) Exploration and Development

The business of exploring for, developing and producing oil and gas involves a high degree of risk. Oil and gas reserves may never be found or, if discovered, may not be result in production at reasonable costs or profitability. The business of exploring, developing and producing is also capital intensive and, to the extent that cash flows from operating activities and external sources become limited or unavailable, the ability of Brownstone and of its operating partners to meet their respective financial obligations which are necessary to maintain their interests in the underlying properties could be impaired, resulting in those of the interests.

(b) Investment Risks

The Company acquires securities of public companies from time to time, which are primarily junior or small-cap resource companies. The market values of these securities can experience significant fluctuations in the short and long term due to factors beyond the Company's control. Market value can be reflective of the actual or anticipated operating results of the companies and/or the general market conditions that affect the oil & gas sector as a whole, such as fluctuations in commodity prices and global political and economical conditions. The Company's investments are carried at fair value, and unrealized gains/losses on the securities and realized losses on the securities sold could have a material adverse impact on the Company's operating results. The recent decline in stock prices of the types of companies in which the Company invests have been very significant and such prices might take an extended time, to recover if they do at all.

(c) Dependence Upon Operating Partners

Brownstone's oil and gas activities are conducted through partners in respect of which the Company is not the operator. Brownstone is dependent upon its operating partners for the financial and technical support, which they contribute to the Company's oil and gas properties. If Brownstone's operating partners are unable to fulfill their own contractual obligations, the Company's interests could be jeopardized, resulting in project delays, additional costs and loss of the interests.

(d) Environmental

The Company's oil and gas operations are subject to environmental regulations in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will likely require stricter standards and enforcement, increased costs, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties in which the Company holds interests which are presently unknown to the Company and which have been caused by previous or existing owners or operators of the properties or by illegal mining activities.

(e) Governmental

Government approvals and permits are often generally required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be delayed or prohibited from proceeding with planned exploration or development of properties. Amendments to current laws, regulations and permits governing operations and activities of oil and gas companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in development of new properties. Although the governments of the various countries in which Brownstone operates have been stable recently, there is no assurance that political and economic conditions will remain stable. Political and economic instability may impede the Company's ability to continue its exploration activities in the manner currently contemplated.

(f) Foreign Operations

The Company is exposed to risks of political instability and changes in government policies, laws and regulations in every country in which the Company has oil & gas interests. The Company holds interests in India, Brazil, 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.

Changes in accounting policies:

Details of the Company's accounting policies are provided in Note 2 to its audited consolidated financial statements as at and for the year ended June 30, 2010. Since June 30, 2010, there have been no changes to the Company's accounting policies, except for the following policy, which the Company expects to adopt:

On February 13, 2008, the Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to begin using international financial reporting standards ("IFRS") in place of Canadian GAAP as the basis for preparation of financial statements. Brownstone will adopt IFRS commencing with financial statements for periods ending after July 1, 2011, with comparatives for the same periods in the prior year.

The Company has begun the process to transition from GAAP to IFRS. The initial analysis of IFRS in comparison with GAAP has identified a number of differences. Management has not assessed the impact of differences, on the Company's reported results and financial position. There may be significant changes in certain areas following the adoption of IFRS.

IFRS 1, "First Time Adoption Of International Financial Reporting Standards" provides entities which are adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions to certain of the IFRS requirements for retrospective application of IFRS. The Company is analyzing the various choices and will implement those which are determined to be most appropriate to the Company's particular circumstances. Once these decisions are made, and their expected impact on the Company's reported results and financial position are able to be quantified, those impacts will be described in a future MD&A.

Below are the key areas where accounting policy changes that are implemented as a result of the transition to IFRS are most likely to impact the Company's reported results. Since management's analysis of the changes is still in progress, and IFRS 1 decisions have not yet been made, the final impacts may ultimately differ from those below, and the expected impact has not yet been quantified. There are additional IFRS changes that will have an effect on the amount and types of disclosure made by the Company; these are not included since they will have no impact on the Company's reported results.

(i) IFRS 2 - Share Based Payments:

IFRS 2 prescribes different methods for valuing options which vest at different time periods. As well, IFRS 2 specifies when the use of the Black-Scholes option valuation model might not be appropriate. These changes may have an effect on the amount of stock-based compensation expense the Company records for future option grants.

(ii) IFRS 6 – Exploration for and evaluation of mineral resources:

IFRS 6 provides guidance during the exploration and the evaluation of mineral resources up to the point that technical feasibility and commercial viability of extracting is demonstrated. IFRS 6 would permit a form of full cost accounting only during the exploration and evaluation phases, but the full cost accounting model cannot be extended to development and production phases. Accounting during these phases will generally be under IAS 16 and IAS 36.

(iii) IAS 12 – Income Tax:

The Company is continuing to evaluate the impact of IAS 12 on its reported results.

(iv) IAS 16 – Property, plant and equipment

IAS 16 permits the revaluation of property, plant and equipment to fair value; IAS 16 requires the depreciable amount to be the asset cost less its residual value, rather than using the greater of the asset cost less its residual value or asset cost less its salvage value. There might be significant differences when the Company is currently using full cost accounting in the development and production phases.

(v) IAS 36 – Impairment of assets:

Under IFRS 1 a transition date impairment test will need to be carried out on all indefinite lived intangible assets and goodwill balances as at that date. Any impairments identified at this date will be written off to retained earnings. Impairment tests will only be required on other assets where there is an indicator of impairment or the full cost exemption has been applied.

As part of the IFRS transition from GAAP, the Company will be reviewing the effects of IFRS adoption on the Company's ICFR and DC&P and implement all necessary changes prior to the changeover date. The Company has not finalized the impact of IFRS on its consolidated financial statements but anticipates that any changes in accounting policies could result in additional controls and procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. The Company does not anticipate IFRS to significantly impact other elements of a changeover plan such as its accounting system or investment management system.

Summary of IFRS Transition Plan:

The Company has implemented a transition plan which addresses the impact of IFRS on Accounting Policies, ICFR, DC&P, Business Activities, Information Technology Infrastructure and Financial Reporting Expertise. Following is a summary of the key elements of the transition plan:

	Key Activities	Status
Accounting Policies	Identification of differences between GAAP and IFRS.	Underway. Will be completed by end of Q4 2011.
	Quantification of impact of the differences identified.	Underway. Will be completed by end of Q4 2011.
	Completion of Company's IFRS 1 decisions and quantification of the impacts of those decisions.	To begin in Q2 2011. Will be completed by end of Q4 2011.
	Development of financial statement format and related disclosure.	To begin in Q2 2011. Will be completed by end of Q4 2011.
ICFR	For all changes made to Company's accounting policies, review the design and effectiveness implications on ICFR.	Review to begin at start of Q3 2011 and will be completed before end of Q4 2011. Not anticipated to be significant due to small size of Company's finance group.
DC&P	For all changes made to Company's accounting policies, review the design and effectiveness implications on DC&P.	Review to begin at start of Q3 2011 and will be completed before end of Q4 2011. Not anticipated to be significant due to small size of Company's finance group.
Business Activities	Review potential impacts of IFRS on financial covenants.	Initial review completed and no significant impacts expected. Final review to be completed by end of Q3 2011.
	Review potential impacts of IFRS on compensation arrangements.	Only one compensation arrangement is directly dependent upon the Company's financial results. After all accounting policies have been finalized, management will assess its impact on the compensation arrangement.
IT Infrastructure	Development of new systems or changes to existing systems required for the transition and post implementation timeframes.	A preliminary review of systems has determined that the impacts on the current IT infrastructure is not likely to be significant. A final review will take place once all accounting policy decisions have been made and necessary changes will then be made.
Financial Reporting Expertise	Development of internal IFRS expertise.	The Company will use outside training resources to develop the necessary expertise within the finance department

		and audit committee as needed. Training will continue throughout 2011 leading up to full IFRS implementation in 2012.

Critical accounting estimates:

The preparation of the consolidated financial statements in conformity with GAAP 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 consolidated financial statements include the Company's valuation of its privately-held investments, estimate of recoverable fair value on oil & gas properties and related expenditures, the valuation allowance related to the Company's future income tax asset ("FTA") 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.

Valuation of privately-held investments:

The method used by the Company to value its privately-held investments (being securities of issuers that are not public) is described under "Significant accounting policies" elsewhere in this MD&A. The valuation of these investments ("private investments") requires management to assess the current financial status and prospects of private investments based upon potentially incomplete or unaudited financial information provided by the investee company, on management's general knowledge of the private investment's activities, and on any political or economic events that may impact upon the private investment specifically, and to attempt to quantify the impact of such events on the fair value of the investment. In addition to any events or circumstances that may affect the fair value of a particular private investment, management can consider general market conditions that may affect the fair value of either a particular private investment or of a group, segment or complete portfolio of private investments.

Changes in the fair value of our private investments for company-specific reasons have tended to be infrequent. Changes as a result of general market conditions may be more frequent from period to period during times of significant volatility, however, given the relatively small size of our private investment portfolio, such changes are not expected to have a material impact on our financial condition or operating results. For the six months ending December 31, 2010, the Company recorded unrealized gains of $530,300 attributable to the write-up of private company investments.

Estimate of recoverable fair value on oil & gas properties and related expenditures:

The costs of acquiring interests in oil & gas properties 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 & gas reserves. The Company's recorded value of oil & gas properties and related expenditures 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 oil & gas properties and related expenditures.

At each reporting period, the Company's management reviews the status of all of its exploration properties (by country basis), taking into account all of the factors noted above, in order to make an estimate of the recoverable value of each property. When management believes that the value of a property has been impaired, the Company will write down the value of the property to management's estimate of its recoverable value. As well, if the Company determines that an exploration project is not viable due to the risks described above or to unsatisfactory drill results, the Company will write-off the carrying value of the property. During the six months ended December 31, 2010, the Company had no wrote-down oil and gas properties and related expenditures. During the six months ended December 31, 2009, the Company wrote-down oil and gas interests totalling $3,334,247. The Company wrote-off those of its interests in Brazil which had unsuccessful drill results.

Allowance for future income tax assets:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

As at December 31, 2010, the full value of the net future income tax assets ("FTA"), based on the tax benefit that would arise from the application of resource tax pools and other FTAs is $6,954,901 (June 30, 2010 - $7,518,708). However, management determined, based upon expectations for future taxable income, that it believes that it is more likely than not realize the tax benefits of the FTA during the next several years. As such, the Company has a valuation allowance equal to 100% of the FTA, resulting in a valuation allowance of $6,954,901 as at December 31, 2010 (June 30, 2010 - $7,518,708).

Stock-based Compensation Expense/Warrants and Broker Warrants:

The Company uses the Black-Scholes option pricing model to calculate stock-based compensation expense and the fair value of the warrants and broker warrants issued under the Company's private placements. The model requires nine 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 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. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

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		

In accordance with CICA Handbook Section 3870, options granted are accounted for by the fair value method of accounting for stock-based compensation. The fair value of the options granted during the three 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**

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**

Valuation of Unlisted Warrants of Public Companies:

The Company uses the Black-Scholes option pricing model to calculate the fair value of unlisted warrants of public companies if there are sufficient and reliable observable market inputs; if no such market inputs are available, the warrants are valued at intrinsic value. The model requires nine 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. During the six months ended December 31, 2010, 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 December 31, 2010, 2,072,500 warrants were exercised at $0.75 per share for total proceeds of $1,554,375.

Subsequent to December 31, 2010, 580,000 options exercisable at prices ranging from $1.91 to $2.00 per share expired unexercised.

Subsequent to December 31, 2010, 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.

As at February 24, 2010, 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	**91,168,239**
Issuable under options	**8,548,400**
Issuable under warrants	**14,287,499**
Issuable under broker warrants (a)	**2,502,989**
Total diluted common shares	**116,507,127**

(a) Of the 2,502,989 broker warrants, 1,034,400 broker warrants are each exercisable for one unit of the Company at $0.50 per unit on or before May 28, 2011. Upon exercise, each unit will be 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. Of the 2,502,989 broker warrants, 1,468,589 broker warrants are each exercisable for one unit of the Company at $0.55 per unit on or before April 13, 2012. Upon exercise, each unit will be 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.

Refer to note 10 of the notes to the interim consolidated financial statements as at and for the three and six months ended December 31, 2010 and 2009 for details of the Company's share capital as at December 31, 2010.

Pending Transaction:

The Company qualified for and bid for onshore land blocks offered by the ANP in Brazil's Round 8 land auction held on November 28 and 29, 2006 ("Round 8 Bid"). Brownstone and its partners in the Round 8 Bid, Canacol and W.Washington, were successful in winning and being awarded 5 separate blocks, each block totaling 180 square kilometers of exploration lands ("Round 8 Bid Lands") in the Tucano Basin which lies directly West of the Reconcova Basin. However, the Round 8 Bid is the subject of a court injunction granted in Brasilia against the ANP. The grounds for the injunction are that the restriction for any one exploration & production company to purchase more than 4 blocks of land in any one area in any given Bid Round of land is unconstitutional. As of the date of this MD&A,

the court injunction had yet to be lifted and Brownstone and its partners in the Round 8 Bid have no information indicating that their Round 8 Bid Lands will not be retained by them.

Additional Information:

Additional information relating to Brownstone may be found on the Company's website at www.brownstoneventures.com or under the Company's profile on SEDAR at www.sedar.com.