

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

Brownstone Energy Inc.
(Formerly Brownstone Ventures Inc.)

March 31, 2011

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BROWNSTONE VENTURES INC.
(Formerly Brownstone Ventures Inc.)
Notice to Reader
March 31, 2011
(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 three and nine months ended March 31, 2011 and 2010 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 three and nine months ended March 31, 2011 and 2010 nor have they conducted any procedures with respect to the notes herein.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Balance Sheets
As at March 31, 2011 and June 30, 2010
(Unaudited)

	<u>Notes</u>	<u>March 2011</u>	<u>June 30,</u> <u>2010</u>
Assets			
Current			
Cash and cash equivalents	13	\$ 30,372,364	\$ 1,832,230
Investments, at fair value	3, 4	13,575,445	17,174,119
Due from brokers		71,541	-
Prepays and other receivables	5(c)	451,158	102,893
Promissory note receivable	6	-	2,070,140
Income taxes receivable		976,858	1,328,276
		<u>45,447,366</u>	<u>22,507,658</u>
Oil & gas properties and related expenditures	5	45,485,321	36,167,168
Restricted cash	7	2,112,693	5,286,967
		<u>\$ 93,045,380</u>	<u>\$ 63,961,793</u>
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		\$ 231,847	\$ 2,113,363
		<u>231,847</u>	<u>2,113,363</u>
Shareholders' equity			
Share capital	10	89,832,743	65,017,344
Warrants	10(e)	8,169,750	4,028,875
Contributed surplus	10(f)	13,823,703	13,008,062
Deficit		(19,012,663)	(20,205,851)
		<u>92,813,533</u>	<u>61,848,430</u>
		<u>\$ 93,045,380</u>	<u>\$ 63,961,793</u>

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.

(Formerly Brownstone Ventures Inc.)

Consolidated Statements of Operations**Three And Nine Months Ended March 31,****(Unaudited)**

	Notes	Three Months Ended		Nine Months Ended	
		2011	2010	2011	2010
Net investment gains (losses)					
Realized gains (losses) on disposal of investments, net		\$ 111,277	\$ (206,693)	\$ (612,899)	\$ 570,662
Unrealized gains (losses) on investments, net		(256,829)	5,171,474	4,984,979	7,890,645
		(145,552)	4,964,781	4,372,080	8,461,307
Interest and other income	6, 9(c)	40,560	65,514	172,004	254,073
		(104,992)	5,030,295	4,544,084	8,715,380
Expenses					
Operating, general and administrative	9(a,b)	1,298,931	643,022	3,335,832	1,925,417
Foreign exchange loss		69,793	174,701	423,868	559,072
Write-off of oil and gas interests		-	235,503	-	3,569,750
Transaction costs		3,349	16,781	38,175	41,490
Interest expense	8	118,426	11,987	202,349	30,906
		1,490,499	1,081,994	4,000,224	6,126,635
Income (loss) before income taxes		(1,595,491)	3,948,301	543,860	2,588,745
Provision for (recovery of) income taxes		(133,610)	435,413	(649,328)	486,457
Net and comprehensive income (loss) for the period		\$ (1,461,881)	\$ 3,512,888	\$ 1,193,188	\$ 2,102,288
Earnings (loss) per common share					
Basic		\$ (0.01)	\$ 0.05	\$ 0.01	\$ 0.03
Diluted		\$ (0.01)	\$ 0.05	\$ 0.01	\$ 0.03
Weighted average number of common shares outstanding					
Basic		97,663,673	67,579,993	91,669,349	66,125,959
Diluted		97,663,673	68,401,652	100,411,046	66,823,098

See accompanying notes to the consolidated financial statements.

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

	<u>2011</u>	<u>2010</u>
Retained earnings (deficit), beginning of period	\$ (20,205,851)	\$ 1,863,153
Net income for the period	<u>1,193,188</u>	2,102,288
Retained earnings (deficit), end of period	\$ (19,012,663)	\$ 3,965,441

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended		Nine Months Ended		
	Notes	2011	2010	2011	2010
Cash flows from (used in) operating activities					
Net and comprehensive income (loss) for the period		\$ (1,461,881)	\$ 3,512,888	\$ 1,193,188	\$ 2,102,288
Items not affecting cash					
Realized losses (gains) on disposal of investments, net		(111,277)	206,693	612,899	(570,662)
Unrealized losses (gains) on investments, net		256,829	(5,171,474)	(4,984,979)	(7,890,645)
Write-off of oil & gas properties and related expenditures		-	235,503	-	3,569,750
Stock-based compensation expense		360,390	112,988	883,189	586,361
Future income tax provision		-	748,950	-	1,262,242
		(955,939)	(354,452)	(2,295,703)	(940,666)
Changes in non-cash working capital balances					
Prepays and other receivables		(42,860)	110,992	(348,265)	278,353
Income taxes receivable		829,882	1,076,270	351,418	637,931
Accounts payable and accrued liabilities		(70,190)	(29,946)	(1,881,516)	(165,179)
		(239,107)	802,864	(4,174,066)	(189,561)
Cash flows from financing activities					
Promissory note payable		(3,000,000)	-	-	-
Proceeds pursuant to private placement financing, net		26,551,241	1,600,800	26,551,241	1,600,800
Proceeds pursuant to exercise of stock options and warrants		2,064,027	-	2,337,485	176,632
Decrease (increase) in due from brokers		860,110	284,457	(71,541)	(151,140)
Decrease in due to brokers		-	-	-	(76,683)
		26,475,378	1,885,257	28,817,185	1,549,609
Cash flows from (used in) investing activities					
Expenditures on oil & gas properties and related explorations, net		(5,350,703)	(1,990,474)	(9,581,481)	(3,366,323)
Net proceeds from sale of mining properties	5(b)	-	-	263,328	-
Repayment of promissory note receivable		-	418,640	2,070,140	1,350,049
Decrease (increase) in restricted cash		49,568	194,091	3,174,274	(3,442,115)
Proceeds on disposal of investments		1,001,172	4,224,705	8,234,754	13,130,327
Purchases of investments		(264,000)	(765,716)	(264,000)	(6,310,231)
		(4,563,963)	2,081,246	3,897,015	1,361,707
Net increase in cash and cash equivalents, during the period		21,672,308	4,769,367	\$ 28,540,134	\$ 2,721,755
Cash and cash equivalents, beginning of period		8,700,056	240,163	1,832,230	2,287,775
Cash and cash equivalents, end of period		30,372,364	5,009,530	\$ 30,372,364	\$ 5,009,530
Supplemental cash flow information					
Income tax refunds		\$ 963,492	\$ -	\$ 1,000,745	\$ -
Cash paid for interest		118,356	11,987	202,201	30,906
Non-cash financing activities					
Issue of share capital pursuant to the acquisitions of interests in oil & gas properties		-	2,125,000	-	2,125,000

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Notes to Consolidated Financial Statements
March 31, 2011
(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 and gas exploration projects, including varying interests in 5 off-shore Israel concessions and in 4 Colombian blocks in the Llanos basin, as well as other oil and gas interests worldwide.

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 March 31, 2011 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 March 31, 2011:

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	\$ 4,635,833
Adira Energy Ltd.	2,000,000 common shares 1,000,000 warrants expire Aug 31, 2011	586,336	1,594,360
Mooncor Oil & Gas Corp.	8,500,000 common shares 2,500,000 warrants expire Jun 12, 2011	1,735,000	1,530,000
Enermad Corp.	2,000,000 common shares	1,500,000	1,500,000
Shoal Point Energy Ltd.	3,333,333 common shares 1,666,666 warrants expire Nov 23, 2012	1,000,000	1,133,333
Other investments(i)		8,479,323	3,181,919
Total investments (ii)		\$ 23,509,696	\$ 13,575,445

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Notes to Consolidated Financial Statements
March 31, 2011
(Unaudited)

3. Investments (continued):

- (i) Other investments represent all investments, other than the top five investments by fair value individually listed above as at March 31, 2011.
- (ii) As at March 31, 2011, 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 March 31, 2011 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	\$ 11,175,388	\$ 400,057	\$ 2,000,000	\$ 13,575,445

There were no transfers from Level 1 to 2 or Level 2 to 1 during the nine months ended March 11, 2011.

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 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 nine months ended March 31, 2011. 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, March 31, 2011
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 nine months ended March 31, 2011.

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 March 31, 2011 and June 30, 2010:

	June 30, 2010	March 31, 2011		
	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	7,654,879	-	15,652,843
	<u>10,848,004</u>	<u>7,654,879</u>	<u>-</u>	<u>18,502,883</u>
Joint ventures in U.S. (b), (note 9(d))				
Acquisition	17,845,097	(263,328)	-	17,581,769
Exploration	2,342,454	486,412	-	2,828,866
	<u>20,187,551</u>	<u>223,084</u>	<u>-</u>	<u>20,410,635</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	71,335	-	277,264
	<u>1,003,282</u>	<u>71,335</u>	<u>-</u>	<u>1,074,617</u>
Joint ventures in Israel (c)				
Exploration	-	1,368,855	-	1,368,855
	<u>-</u>	<u>1,368,855</u>	<u>-</u>	<u>1,368,855</u>
Total oil & gas properties	\$ 36,167,168	\$ 9,318,153	\$ -	\$ 45,485,321

BROWNSTONE ENERGY INC.
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Notes to Consolidated Financial Statements
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5. Oil & gas properties and related expenditures (continued):

- (a) During the nine months ended March 31, 2011, the Company has spent \$7,654,879 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.
- (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) Until July 2012, Brownstone has the option to farm into 15% of each interest acquired by Adira Energy Corp. ("Adira") in any oil and gas blocks located offshore in Israel. Brownstone has acquired a 6.75% participating interest in the Samuel license and, subject to receipt of Israeli regulatory approvals, a 15% participating interest in each of the Gabriella and Yitzak licenses. Additionally, if Adira acquires its participating interests in the Myra and Sarah licenses, Brownstone can acquire a 0.75% participating interest in each license.

During the nine months ended March 31, 2011, the Company spent \$1,236,082 on the earn-in on the Gabriella offshore block and \$132,773 on the Yitzak offshore block. The Company also advanced \$341,443 (US\$351,351) on the Samuel license for seismic testing which is included in prepaids and other receivables on the consolidated balance sheet as at March 31, 2011.

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 was secured by a general security agreement ("GSA") between the Company and Dejour, bear interest at 12% per annum, payable quarterly, and was due to mature on January 1, 2011. During the nine months ended March 31, 2011, the total amounts outstanding under the promissory note were repaid in full. Included in the consolidated statements of operations is \$108,645 (nine months ended March 31, 2010 - \$186,483) of interest income earned by Brownstone relating to the promissory note (note 9(c)).

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 fulfill 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.

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7. Restricted cash (continued):

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, 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 March 31, 2011, the Company held restricted cash totaling \$2,112,693 (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 was evidenced by a promissory note, secured by a general security agreement over the Company’s personal property, due on October 7, 2011 and bore 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 were used for working capital purposes. In March 2011, the loan was repaid in full. For the nine months ended March 31, 2011, included in the consolidated statements of operations is \$202,192 of interest expense incurred by the Company on the loan.

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 nine months ended March 31, were as follows:

Type of transaction	Nature of relationship	2011	2010
Consulting fees	Director and officers (a)	427,771	425,709
Cost sharing arrangement	Affiliated company (b)	108,000	108,000
Interest income	Affiliated company (c)	108,645	183,709
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 nine months ended March 31, 2011 and 2010.

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9. Related party transactions (continued):

- (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 common director who is also an officer of Brownstone. During the nine months ended March 31, 2011, the Company has received repayment of the promissory note in full from Dejour. Included in the consolidated statements of operations is \$108,645 (nine months ended March 31, 2010 - \$186,483) of interest income earned by Brownstone relating to the promissory note (note 6).
- (d) The Company has joint ventures in 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 nine months ended March 31, 2011, the Company granted the following options to directors and officers of the Company:

Date Granted	Options Granted	Exercise Price	Expiry
September 21, 2010	1,000,000	\$ 0.51	September 20, 2015
March 30, 2011	1,050,000	1.20	March 29, 2016
Total granted	2,050,000		

During the nine months ended March 31, 2010, the Company granted the following options to directors and officers of the Company:

Date Granted	Options Granted	Exercise Price	Expiry
August 13, 2009	1,300,000	\$ 0.52	August 12, 2014
November 27, 2009	50,000	0.75	November 26, 2014
December 1, 2009	200,000	0.75	November 30, 2014
March 3, 2010	500,000	0.65	March 2, 2015
Total granted	2,050,000		

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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)	382,200	359,650
Issued pursuant to exercise of warrants and broker warrants (b)	2,818,135	2,655,624
Issued pursuant to private placement financing, net (c)	30,263,158	21,800,125
Balance, March 31, 2011	122,154,597	\$ 89,832,743

- (a) During the nine months ended March 31, 2011, 382,200 stock options were exercised at prices ranging from \$0.50 and \$0.65 per share for total proceeds of \$232,102. Pursuant to the exercise of stock options, amounts of \$127,548 in contributed surplus were reallocated to share capital.
- (b) During the nine months ended March 31, 2011, 2,818,135 warrants, broker warrants, and underlying broker warrants were exercised at prices ranging from \$0.55 and \$0.75 per share for total proceeds of \$2,105,383. Amounts of \$554,757 in warrants were reallocated to share 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) In March 2011, the Company completed a brokered private placement financing raising gross proceeds of \$28,750,000 through the issuance and sale of 30,263,158 units at a price of \$0.95 per unit. Each unit was 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 on or before September 11, 2012. In connection with the private placement, the Company paid cash commissions and other expenses of \$2,198,759, and issued an aggregate of 2,118,421 broker warrants. Each broker warrant entitles the holder to acquire one common share at an exercise price of \$1.25 per unit September 11, 2012.

The purchase warrants and broker warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 83.3%; dividend yield of 0%; risk-free interest rate of 3.0%; and an expected life of 1.5 years. The value assigned to the purchase warrants and broker warrants was \$4,751,116.

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10. Share capital (continued):

(d) 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 nine months ended March 31, 2011:

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
February 17, 2011	300,000	0.95	February 17, 2013
March 30, 2011	1,365,000	1.20	March 29, 2016
	3,360,000		

The fair value of the options granted during the nine months ended March 31, 2011, 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% - 101.2%
Expected dividend yield	0%
Risk-free interest rate	3.0%
Expected option life in years	3.5-4.7
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
Fair value per stock option granted on February 17, 2011 (consultant)	0.62
Fair value per stock option granted on March 30, 2011	0.80

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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 nine months ended March 31, 2011, included in operating, general and administrative expenses was stock-based compensation expense of \$883,189 (nine months ended March 31, 2010 - \$586,361) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at March 31, 2011 and June 30, 2010 and changes during the periods then ended is presented below:

	March 31, 2011		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	3,360,000	0.79	3,745,000	0.59
Exercised	(382,200)	0.61	(301,600)	0.55
Forfeited/cancelled/expired	(1,488,400)	1.32	(921,680)	1.24
Outstanding, at end of period	9,131,200	\$ 1.21	7,641,800	\$ 1.35
Exercisable, at end of period	5,805,292	\$ 1.40	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 March 31, 2011:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
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	100,000	0.50	August 10, 2014
1,133,400	1,133,400	0.52	August 12, 2014
101,800	79,020	0.61	October 5, 2014
50,000	41,600	0.75	November 26, 2014
200,000	166,600	0.75	November 30, 2014
500,000	333,332	0.65	March 2, 2015
630,000	313,770	0.65	April 4, 2015
251,000	-	0.65	April 14, 2012
130,000	64,770	0.43	May 25, 2015
1,195,000	397,800	0.51	September 20, 2015
300,000	-	0.95	December 16, 2015
1,365,000	-	1.20	
9,131,200	5,805,292		

(e) Warrants

A summary of the status of the Company's warrants and broker warrants as at March 31, 2011 and June 30, 2010 and the changes during the periods then ended are presented below:

	March 31, 2011		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	(2,818,135)	0.75	(24,000)	0.50
Expired	(2,000,000)	2.00	-	-
Issued	17,262,545	1.25	11,505,678	0.72
Outstanding, at end of period	33,599,488	\$ 0.99	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 March 31, 2011:

Number of warrants and broker warrants	Exercise price	Expiry date	Warrant/broker warrant value (\$)
5,252,500	0.75	May 28, 2011	894,005
1,034,400 (i)	0.50	May 28, 2011	237,912
8,609,999	0.75	April 13, 2012	1,894,518
1,452,589 (ii)	0.55	April 13, 2012	392,199
15,131,579	1.25	September 11, 2012	4,167,645
2,118,421 (iii)	1.25	September 11, 2012	583,471
33,599,488			\$ 8,169,750

- (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.
- (iii) Each broker warrant is exercisable for one common share of the Company at \$1.25 per share on or before September 11, 2012.
- (f) 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	(127,548)
Stock-based compensation (note 10(c))	883,189
Expiration of warrants	60,000
Balance, March 31, 2011	\$ 13,823,703

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10. Share capital (continued):

As at March 31, 2011 and June 30, 2010, contributed surplus comprised of the following:

	March 31, 2011	June 30, 2010
Fair value of stock-based compensation	\$ 7,064,500	\$ 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
	\$ 13,823,703	\$ 13,008,062

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:

	March 31, 2011	June 30, 2010
Future income tax assets		
Oil & gas properties and related expenditures	\$ 5,003,941	\$ 5,050,263
Investments – differences in accounting carrying value and tax cost	1,166,109	1,875,767
Corporate minimum tax credits	847,085	282,273
Share issuance costs	695,592	310,301
Other differences	78	104
Total future income tax assets	7,712,805	7,518,708
Less: valuation allowance (i)	(7,712,805)	(7,518,708)
Net future income tax assets	\$ -	\$ -

- (i) 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 nine months ended March 31, 2011:

	Nine months ended March 31, 2011		As at March 31, 2011	
	Interest and other income	Net loss	Oil & gas properties and related expenditures	Other assets
Canada and other	\$ 147,412	\$ 1,540,535	\$ 1,074,617	\$ 46,768,644
Colombia	24,592	(319,811)	18,502,883	238,968
United States	-	-	20,410,635	21,931
Argentina	-	-	4,128,331	21,282
Israel	-	(27,536)	1,368,855	341,443
Brazil	-	-	-	167,791
	\$ 172,004	\$ 1,193,188	\$ 45,485,321	\$ 47,560,059

The following is segmented information for the nine months ended March 31, 2010 and as at June 30, 2010:

	Nine months ended March 31, 2010		As at June 30, 2010	
	Interest and other income	Net income (loss)	Oil & gas properties and related expenditures	Other assets
Canada and other	\$ 249,267	\$ 1,875,879	\$ 1,003,281	\$ 26,517,343
Colombia	2,908	(23,061)	10,848,004	18,108
United States	-	2,005,603	20,187,551	1,063,027
Argentina	-	1,426,587	4,128,331	30,157
Brazil	1,898	(3,182,720)	-	165,990
	\$ 254,073	\$ 2,102,288	\$ 36,167,168	\$ 27,794,625

13. Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	March 31, 2011	June 30, 2010
Cash	\$ 1,086,466	\$ 1,279,961
Cash equivalents (a)	29,285,898	552,269
	\$ 30,372,364	\$ 1,832,230

(a) As at March 31, 2011, cash equivalents consisted of banker's acceptance notes with an average annual yield of 1.16% (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 March 31, 2011 interim consolidated financial statements.

15. Subsequent events:

- (a) Subsequent to March 31, 2011, 6,215,372 warrants and broker warrants were exercised for an equivalent number of common shares at prices ranging from \$0.50 and \$0.75 per share for total proceeds of \$4,402,929.
- (b) Subsequent to March 31, 2011, 58,320 options were exercised for an equivalent number of common shares at prices ranging from \$0.51 and \$0.61 per share for total proceeds of \$34,743.
- (c) Subsequent to March 31, 2011, 100,000 options exercisable at \$2.08 per share expired unexercised.
- (d) Subsequent to March 31, 2011, 267,800 options at prices ranging from \$0.61 and \$0.65 per share were cancelled unexercised.