For the quarter ended: **March 31, 2011**

Date of report: **May 26, 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 the unaudited interim consolidated financial statements and notes thereto as at and for the nine months ended March 31, 2011. 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, fees to be incurred by foreign subsidiaries, and the impact of the transition from GAAP to International Financial Reporting Standards ("IFRS") and changes in accounting policies.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: 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 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. By owning and managing a diversified portfolio of energy-based projects, Brownstone provides shareholders with a unique energy alternative.

Highlights since December 31, 2010:

- In February 2011, 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.

- In March 2011, the Company met its obligations to earn its 25% working interest in the Canaguaro block in Colombia. Subsequent to March 31, 2011, the installation of long-term production testing equipment at the Canaguay No. 1 well was completed and long-term production testing of the well commenced. The optimal production rate for the Mirador reservoir and facilities will be determined by the results of the long-term production test. The operator of the Canaguay No. 1 operation has signed certain sale agreements for the oil produced at the well.

- 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.

- As at March 31, 2011, the Company has working capital of $45,215,519 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of 121.7%, primarily due to the proceeds raised in the March 2011 private placement.

- As at March 31, 2011, oil & gas properties and related expenditures increased by 25.8% to $45,485,321 as compared to $36,167,168 as at June 30, 2010, primarily from exploration of the Company's Colombian properties.

- On May 17, 2011, the Company commenced trading in the U.S. on OTCQX (international tier), under the symbol "BWSOF".

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

(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.

A summary of the Company's interests in the four blocks in the Llanos basin in Colombia is as follows:

	Canaguaro	**LLA-21**	**LLA-27**	**LLA-36**
Participation interest	25%	35%	34.25%	14%
Increased costs assumed	31.25%	50%	50%	20%
Increased participation interest	25%	45.5%	45.275%	18.2%

The Company has agreed to assume an increased share of the exploration and production costs on these blocks, and will be entitled to an increased share of net revenue generated (except on the Canaguaro Block) until the costs incurred have been fully recouped from production. Thereafter, production participation shares will revert to the initial interest percentages.

Canaguaro Block

The Canaguay-1 discovery well has begun long-term production test of the Mirador formation during the week of May 16, 2011. Long-term test results will facilitate understanding and optimizing the reservoir production and performance characteristics for optimal production of the well. The operator of the block has signed a short-term sales agreement for oil produced from the Canaguro-1 well, and is currently negotiating longer-term sales and trucking agreements for the sale of the oil.

Future plans in 2012 are to drill a development well to produce additional Mirador oil and to properly test the Une sands which, based on drill stem test results and log information, appear to contain 37 degree API oil in several sands. Exact timing and budgets have not yet been formalized.

Block LLA-21

Field operations are underway to acquire approximately 71 square km of 3D seismic data over this blck, at a cost of $2,100,000 gross ($1,050,000 net to Brownstone which has already been paid). Under the Company's agreement with ANH, two wells are required to be drilled by the end of September 2012, at an estimated cost of $7,000,000 each ($3,500,000 net to Brownstone). Exact timing for drilling these wells will be determined in late Fall of 2011.

Block LLA-27

The 220 square km 3D seismic program has been shot, processed and interpreted by a Calgary consultant and a local Colombian consultant with identical results. Several prospects and leads have been identified. Current plans are to drill two exploratory wells at an approximate cost of $9,100,000 gross each ($4,050,000 net to Brownstone) commencing as soon as approvals from the ANH are received. Environmental approval is anticipated over the next several months.

Block 36

Field operations to acquire 109 square km of foothills 3D seismic data have been underway since the beginning of 2011 for total costs of approximately $11,050,000 ($2,200,000 net to Brownstone, which has already been paid). Data acquisition has been slowed due to the exceptional amounts of rain in Colombia this season and data acquisition is now expected to take until the end of June 2011 to complete, at the earliest. The Company has a commitment

with the ANH to drill one well on this block before March 2012. The budget for this well has not yet been determined.

(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.

For the Samuel license, acquisition is underway to acquire approximately 74 square km of 3D seismic data over the southern geophysical lead using ocean bottom acquisition, at a cost of approximately $4,000,000 gross, $270,000 net to Brownstone. It will take until the end of July 2011 to complete the seismic acquisition. It is anticipated that drilling a well will not start before the summer of 2012.

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.

For the remainder of 2011, a total discretionary budget of approximately $20,000,000 has been primarily allocated to the most advanced projects discussed above as well as head office costs. Management may increase or decrease the budget depending on exploration results and in response to ongoing volatility in the capital markets. The Company believes its focused exploration strategy will make efficient use of cash while maintaining momentum on key projects. Brownstone is adequately financed to fund its existing priority projects for the remainder of 2011.

Investments:

As at March 31, 2011, the Company held investments with a fair value of $13,575,445 as compared to $17,174,119 at June 30, 2010. The cost base of the Company's portfolio was $23,495,039 as at March 31, 2011 as compared to $32,093,349 as at June 30, 2010. As such, as at March 31, 2011, the cost of investments exceeded fair value by $9,919,594 as compared to $14,919,230 as at June 30, 2010. The improvement arose from the unrealized gains for the nine months ended March 31, 2011 of $4,984,979 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.

Refer to note 3 of the notes to the interim consolidated financial statements as at and for the three and nine months ended March 31, 2011 for additional details of the Company's investments as at March 31, 2011.

Results of Operations

The following is a summary of quarterly results:

	Quarter ended (unaudited)			
	March 31, 2011	**December 31, 2010**	**September 30, 2010**	June 30, 2010
Net investment gains (losses)	**(145,552)**	**4,458,314**	**59,318**	(3,865,090)
Net and comprehensive income (loss) for the period	**(1,461,881)**	**3,117,392**	**(462,323)**	(24,171,292)
Earnings (loss) per share – basic	**(0.01)**	**0.04**	**(0.01)**	(0.28)
Earnings (loss) per share – diluted	**(0.01)**	**0.03**	**(0.01)**	(0.28)
	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009
Net investment gains (losses)	4,964,781	(268,671)	3,765,197	2,383,099
Net and comprehensive income (loss) for the period	3,512,888	(762,474)	(648,126)	1,186,214
Earnings (loss) per share – basic	0.05	(0.01)	(0.01)	0.02
Earnings (loss) per share – diluted	0.05	(0.01)	(0.01)	0.02

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

Three months ended March 31, 2011 and 2010:

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

Operating Results (unaudited)	**Three months ended March 31,**		**Nine months ended March 31,**	
	2011	2010	**2011**	2010
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
Net investment gains (losses)	**(145,552)**	4,964,781	**4,372,080**	8,461,307
Net and comprehensive income (loss) for the period	**(1,461,881)**	3,512,888	**619,312**	2,102,288
Basic earnings (loss) per share	**(0.01)**	0.05	**0.01**	0.03
Diluted earnings (loss) per share	**(0.01)**	0.05	**0.01**	0.03

For the three months ended March 31, 2011, the Company generated net realized gains on disposal of investments of $111,277 compared to net realized losses on disposal of investments of $206,693

for the three months ended March 31, 2010. For the three months ended March 31, 2011, the Company realized net gains primarily from the disposition of a portion of its holdings in Contact Exploration Inc. For the three months ended March 31, 2010, the Company generated realized loss primarily from the sale of a portion of its holdings in GeoGlobal Resources Inc., Altai Resources, Petrolia, and Petrolympic Ltd. totalling $332,580 offset by realizing gains of $125,888.

For the three months ended March 31, 2011, the Company recorded net unrealized losses on investments of $256,829 versus unrealized gains on investments of $5,171,474 in the three months ended March 31, 2010. Of the net unrealized losses in the three months ended March 31, 2011, $544,515 was due to the net write-down to market on the Company's investments offset by $287,686 from the reversal of net unrealized losses on the disposal of investments. The net unrealized gains in the three months ended March 31, 2010, were due to the net write-up to market on the Company's investments of $2,800,955 and $2,370,519 due to the reversal of net unrealized losses on the disposal of investments.

For the three months ended March 31, 2011, the Company recorded interest and other income of $40,560 as compared to $65,514 for the three months ended March 31, 2010. Interest income is primarily composed of interest income earned on investments in bank acceptance notes and cash deposits.

For the three months ended March 31, 2011, operating, general and administrative expenses increased by $655,909 to $1,298,931 from $643,022 for the three months ended March 31, 2010. The following is the breakdown of the Company's operating, general and administrative expenses for the three months ended March 31. Details of the changes follow the table:

	Three months ended March 31,	
	2011	2010
Salaries, consulting and administrative fees (a)	**$ 521,929**	$ 345,303
Stock-based compensation expense (b)	**360,390**	112,988
Professional fees	**90,520**	40,941
Shareholder relations, transfer agent and filing fees	**54,551**	20,930
Travel and promotion (c)	**100,616**	18,836
Office and General (d)	**170,925**	104,024
	$ 1,298,931	$ 643,022

(a) Salaries, consulting and administrative fees increased by $176,626 for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The increase was primarily due to an increase in consultancy fees for the current period.

(b) Stock-based compensation expense increased by $247,402 for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The increase was due to an increase in stock options which were vested over the current period as compared to the prior year period. Stock options granted during the current and prior year vest at three-month intervals over 18 months and are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated at the date of grant using the Black-Scholes option pricing model, and expensed over the vesting periods. Unvested terminated stock options are not expensed during the period.

(c) Travel and promotion increased by $81,780 for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The increase was due to an increase in travelling related to the Company's oil & gas activities in Colombia.

(d) Office and general increased by $66,901 for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. The increase was primarily due costs associated with the Company's foreign subsidiaries, due to the increase in activity in Colombia.

For the three months ended March 31, 2011, the Company had a foreign exchange loss of $69,793 as compared to $174,701 for the three months ended March 31, 2010. 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 March 31, 2011, transaction costs decreased $13,432 to $3,349 from $16,781, 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 expensed on settlement in accordance with the Company's accounting policy for investments.

For the three months ended March 31, 2011, the Company recorded a recovery of income taxes of $133,610 as compared to a provision for income taxes of $435,413 for the three months ended March 31, 2010. 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 loss for the three months ended March 31, 2011 was $1,461,881 ($0.01 per share) as compared to net and comprehensive income of $3,512,888 ($0.05 per share) for the three months ended March 31, 2010.

Nine months ended March 31, 2011 and 2010:

For the nine months ended March 31, 2011, the Company generated net realized losses on disposal of investments of $612,899 compared to net realized gains on disposal of investments of $570,662 for the nine months ended March 31, 2010. For the nine months ended March 31, 2011, the Company realized net losses primarily from the disposition of a portion of several of its holdings, totalling $2,083,356 offset by net realized gains on the disposal of Lynden Ventures, Caza Oil & Gas Inc. and Contact Exploration Inc. For the nine months ended March 31, 2010, the Company generated realized gains primarily from the sale of its holdings in Vast Exploration Inc. and Alange Energy Corp. totalling $514,831 and $322,244, respectively, offset by realized losses totalling $402,211.

For the nine months ended March 31, 2011, the Company recorded net unrealized gains on investments of $4,984,979 as compared to $7,890,645 for the nine months ended March 31, 2010. Of the net unrealized gains in the nine months ended March 31, 2011, $3,114,914 was due to the net write-up to market on the Company's investments and $1,870,065 from the reversal of net unrealized losses on the disposal of investments. The net unrealized gains in the nine months ended March 31, 2010, was due to the net write-up to market on the Company's investments of $4,881,306 and $3,009,339 due to the reversal of net unrealized losses on the disposal of investments.

For the nine months ended March 31, 2011, the Company recorded interest and other income of $172,004 as compared to $254,073 for the nine months ended March 31, 2010. Interest income is primarily composed of interest income earned on a promissory note, which was repaid in full in December 2010.

For the nine months ended March 31, 2011, operating, general and administrative expenses increased by $1,410,415 to $3,335,832 from $1,925,417 for the nine months ended March 31, 2010.

The following is the breakdown of the Company's operating, general and administrative expenses for the nine months ended March 31. Details of the changes follow the table:

	Nine months ended March 31,	
	2011	2010
Salaries, consulting and administrative fees (a)	**$ 1,014,187**	$ 817,782
Professional fees (b)	**255,945**	89,770
Stock-based compensation expense (c)	**883,189**	586,361
Shareholder relations, transfer agent and filing fees	**125,513**	168,381
Travel and promotion (d)	**175,017**	73,544
Office and General (e)	**881,981**	189,579
	$ 3,335,832	$ 1,925,417

(a) Salaries, consulting and administrative fees increased by $196,405 for the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010. 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 $166,175 for the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010. The increase in professional fees was primarily from an increase in audit fee accruals and professional fees expensed in foreign subsidiaries. The increase in fees are directly related to increase in business activities in its oil & gas properties.

(c) Stock-based compensation expense increased by $296,828 for the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010. The increase was due to an increase in stock options which vested over the current period as compared to the prior year period.

(d) Travel and promotion increased by $101,473 for the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010. The increase was due to an increase in travelling related to the Company's oil & gas activities, mainly in Colombia and an increase in marketing efforts.

(e) Office and general increased by $692,402 for the nine months ended March 31, 2011 as compared to the nine months ended March 31, 2010. 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) in services charges to Export Development Canada ("EDC") 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 nine months ended March 31, 2011, the Company had a foreign exchange loss of $423,868 as compared to $559,072 for the nine months ended March 31, 2010. 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 nine months ended March 31, 2011, the Company had no write-off of oil & gas interest as compared to a write-off of oil and gas interests of $3,569,750 in the nine months ended March 31, 2010. The Company wrote-off some of its interests in Brazil, which had unsuccessful drill results.

For the nine months ended March 31, 2011, transaction costs decreased to $38,175 from $41,490, 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 nine months ended March 31, 2011, the Company recorded a recovery of income taxes of $649,328 as compared to a provision for income taxes of $486,457 for the nine months ended March 31, 2010. 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. The recovery of income taxes is offset by the recorded tax allowance on FTA which the Company believes that it is more likely to not realize the tax benefits during the next several years. For the nine months ended March 31, 2010, 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 March 31, 2010.

Net and comprehensive income for the nine months ended March 31, 2011 was $1,193,188 ($0.01 per share) as compared to $2,102,288 ($0.03 per share) for the nine months ended March 31, 2010.

Cash Flows
Three months ended March 31 2011 and 2010:

During the three months ended March 31, 2011, the Company used cash of $239,107 in operating activities as compared to generating cash of $802,864 in the three months ended March 31, 2010.

During the three months ended March 31, 2011, the Company generated net cash in financing activities of $26,475,378 as compared to $1,885,257 during the three months ended March 31, 2010. The increase was primarily from was a result of a decrease in due from brokers (cash held in margin accounts) of $860,110, net proceeds of $26,551,241 from a private placement financing which closed during the current quarter and proceeds of $2,064,027 from the exercise of stock options and warrants offset by the repayment by the Company of a $3,000,000 loan. The cash generated in the three months ended March 31, 2010 was a result of a decrease in due from brokers (cash held in margin accounts) of $284,457 and proceeds from shares to be issued of $1,600,800 relating to a non-brokered private placement financing which closed subsequent to March 31, 2010.

During the three months ended March 31, 2011, net cash used in investing activities was $4,563,963 as compared to cash generated of $2,081,246 during the three months ended March 31, 2010. During the three months ended March 31, 2011, the Company had proceeds from its disposition of investments of $1,001,172 as compared to $4,224,705 during the three months March 31, 2010. During the three months ended March 31, 2011, the Company purchased investments totalling $264,000 as compared to $765,716 during the three months ended March 31, 2010. During the three months ended March 31, 2011, the Company had cash expenditures on oil & gas properties and related expenditures of $5,350,703 as compared to cash expenditures of $1,990,474 during the three

months ended March 31, 2010, an increase that reflects the Company's increased oil & gas activities, primarily in Colombia and Israel.

For the three months ended March 31, 2011, the Company had a net increase in cash and cash equivalents of $21,672,308 leaving a cash and cash equivalents balance of $30,372,364 as at March 31, 2011. For the three months ended March 31, 2010, the Company had a net increase in cash and cash equivalents of $4,769,367, leaving a cash and cash equivalents balance of $5,009,530 as at March 31, 2010.

Nine months ended March 31, 2011 and 2010:

During the nine months ended March 31, 2011, the Company used cash of $4,174,066 in operating activities as compared to $189,561 in the nine months ended March 31, 2010.

During the nine months ended March 31, 2011, the Company generated net cash in financing activities of $28,817,185 as compared to $1,549,609 during the nine months ended March 31, 2010. The increase was primarily from net proceeds of $26,551,241 from a private placement financing and proceeds of $2,337,485 from the exercise of stock options and warrants offset by cash held at brokers of $71,541. The cash generated in the nine months ended March 31, 2010 included shares to be issued of $1,600,800 relating to a non-brokered private placement financing which closed subsequent to March 31, 2010. The increase in cash generated in the nine months ended March 31, 2010 was also a result of an increase in due from brokers (cash held in margin accounts) of $151,140 and repaying brokers $76,683, offset by proceeds from the exercise of stock options and broker warrants totalling $176,632.

During the nine months ended March 31, 2011, net cash generated in investing activities was $3,897,015 as compared to $1,361,707 during the nine months ended March 31, 2010. During the nine months ended March 31, 2011, the Company had proceeds from its disposition of investments of $8,234,754 as compared to $13,130,327 during the nine months March 31, 2010. During the nine months ended March 31, 2011, the Company purchased $264,000 of investments as compared to $6,310,231 during the nine months ended March 31, 2010. During the nine months ended March 31, 2011, the Company had cash expenditures on oil & gas properties and related expenditures of $9,581,481 as compared to cash expenditures of $3,366,323 during the nine months ended March 31, 2010, an increase that reflects the Company's increased oil & gas activities, primarily in Colombia and Israel. During the nine months ended March 31, 2011, the Company received the full repayment of the $2,070,140 promissory note due from Dejour Enterprises Ltd. ("Dejour"). The Company also had cash released from restricted cash in the amount of a guarantee provided by EDC (US$4,984,883) while during the nine months ended March 31, 2010, an additional $3,442,115 was placed in restricted cash (see Liquidity and Capital Resources section elsewhere in this MD&A).

For the nine months ended March 31, 2011, the Company had a net increase in cash and cash equivalents of $28,540,134 leaving a cash and cash equivalents balance of $30,372,364 as at March 31, 2011. For the nine months ended March 31, 2010, the Company had an increase in cash and cash equivalents of $2,721,755, leaving a cash and cash equivalents balance of $5,009,530 as at March 31, 2010.

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 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

Liquidity and capital resources:

Balance Sheet Highlights	March 31, 2011	June 30, 2010
Cash and cash equivalents	**$ 30,372,364**	$ 1,832,230
Investments, at fair value	**13,575,445**	17,174,119
Oil & gas properties and related expenditures	**45,485,321**	36,167,168
Total assets	**93,045,380**	63,961,793
Total liabilities	**231,847**	2,113,363
Share capital, shares to be issued warrants, and contributed surplus	**111,826,196**	82,054,281
Retained earnings (deficit)	**(19,012,663)**	(20,205,851)
Working Capital	**45,215,519**	20,394,295

Accounts payable and accrued liabilities decreased by $1,881,516 to $231,847 as at March 31, 2011 as compared to $2,113,363 as at June 30, 2010. As at March 31, 2011, 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's cash and cash equivalents, investments, and due from brokers as at March 31, 2011 would be sufficient to meet the Company's current financial obligations as they become due.

As at March 31, 2011, the Company has working capital of $45,215,519 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of $24,821,224. The increase in working capital was primarily due to the completion of 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.

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.

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 March 31, 2011, the Company held restricted cash totalling $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.

Investor relations:

During the three months ended March 31, 2011, Brownstone's management, Contact and Brisco Capital Partners Corp. ("Brisco") handled the Company's investor relations activities. Contact is a strategic marketing and communications firm located in Vancouver, British Columbia. Contact provides advice to Brownstone with respect to corporate development, producing and distributing effective marketing communication tools, and increasing investor awareness. Brisco is an investor relations consultancy firm located in Calgary, Alberta.

Subsequent to March 31, 2011, Brownstone's 12-month agreement with Brisco terminated.

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.

(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 common company with a 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.

(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.

(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		

Off-Balance sheet arrangements:

As at March 31, 2011, the Company holds restricted cash of $2,112,693 (US$2,174,000) (June 30, 2010 - $5,286,967 (US$4,984,883)) which is used as collateral for oil & gas exploration associated with the Company's interests in Colombia. See "Liquidity and capital resources" for additional information regarding this contingent liability.

In November 2010, the Company was granted credit approval from the EDC and the Company's bank whereby the EDC secured US$4,984,883 in letters of credit issued by the Company the ANH. The Company had acquired GICs that were held by its bank to secure these letters of credit. They were released to the Company and the funds, which were designated as "restricted cash", became available to the Company for general corporate use.

Management of capital:

The Company includes the following in its capital:

	March 31, 2011	June 30, 2010
Shareholders' equity comprised of		
Share capital	**$ 89,832,743**	$ 65,017,344
Warrants	**8,169,750**	4,028,875
Contributed surplus	**13,823,703**	13,008,062
Deficit	**(19,012,663)**	(20,205,851)
	$ 92,813,533	$ 61,848,430

The Company's objectives when managing capital are:

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

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

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

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

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

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

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

(b) utilizing leverage in the form of margin (due to brokers); and

(c) raising capital through equity financings.

The Company is not subject to any capital requirements imposed by a regulator, except to the extent that it has pledged cash as collateral for certain letters of guarantee issued to the ANH as previously discussed under "Liquidity and capital resources". When using margin for its investing activities, however, Brownstone is subject to the margin requirements applicable thereto, which can require, at any time and from time to time, that the Company provide additional funds to its brokers depending upon the then-value of its margined investments.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2011. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a

weekly basis. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at March 31, 2011.

Financial instruments:

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

(a) Market risk:

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Additionally, the Company adjusts its investments to fair value at the end of each reporting period. This process could result in significant write-downs of the Company's investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Brownstone's financial position. There were no changes to the way the Company manages market risk since December 31, 2010. The Company manages market risk by having a portfolio, which is not singularly exposed to any one issuer; however, its investment activities are currently concentrated primarily in the oil and gas resource industry.

The following table shows the estimated sensitivity of the Company's after-tax net income (loss) for the nine months ended March 31, 2011 from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2011:

Percentage of change in closing bid prices	Change in net after-tax income from % increase in closing bid price	Change in net after-tax loss from % decrease in closing bid price
2%	$ 236,077	$ (236,077)
4%	472,154	(472,154)
6%	708,231	(708,231)
8%	944,308	(944,308)
10%	1,180,385	(1,180,385)

The following table shows the estimated sensitivity of the Company's after-tax net income (loss) for the nine months ended March 31, 2010 from a change in the closing bid price of the Company's investments with all other variables held constant as at March 31, 2010:

Percentage of change in closing bid prices	Change in net after-tax income from % increase in closing bid price	Change in net after-tax loss from % decrease in closing bid price
2%	$ 363,248	$ (363,248)
4%	726,496	(726,496)
6%	1,089,744	(1,089,744)
8%	1,452,992	(1,452,992)
10%	1,816,241	(1,816,241)

(b) Credit risk:

Credit risk is the risk of loss associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money or securities (in connection with convertible or debt securities, for example) will not perform their underlying obligations. The Company may, from time to time, invest in debt obligations. As at March 31, 2011, the Company did not hold any debt obligations.

There were no changes to the way the Company manages credit risk since December 31, 2010. The Company is also exposed, in the normal course of business, to credit risk from the sale of its investments and advances to investee and joint venture companies. As at March 31, 2011 and June 30, 2010, the Company had two significant receivables:

(i) As at March 31, 2011, the Company had advanced $341,443 (US$351,351) on the Samuel License (Israel) for seismic testing which is included in prepaids and other receivables. The Company expects seismic testing to commence in its last fiscal quarter at which time the advances will be capitalized to oil & gas properties and related expenditures.

(ii) As at March 31, 2011, the Company had income tax receivable of $976,858 (June 30, 2010 - $1,328,276) relating to tax losses carried back to prior years and losses expected to be carried back as a result of the taxable loss for the nine months ended March 31, 2011. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government. During the nine months ended March 31, 2011, the Company has received $1,000,745 in tax refunds.

As at June 30, 2010, the Company held a promissory note for $2,070,140 from Dejour, a company with a 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.

(c) Liquidity risk:

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

There were no changes to the way the Company manages liquidity risk since December 31, 2010. The Company manages liquidity risk by reviewing the amount of margin available on a daily basis, and managing its cash flow. The Company holds investments which can be converted into cash when required. As at March 31, 2011, the Company was not using any margin but had approximately $71,541 due from its broker.

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at March 31, 2011 :

		Payments due by period			
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 year**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 231,847**	**$ 231,847**	**$ -**	**$ -**	**$ -**
	$ 231,847	**$ 231,847**	**$ -**	**$ -**	**$ -**

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2010:

		Payments due by period			
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 year**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 2,113,363**	**$ 2,113,363**	**$ -**	**$ -**	**$ -**
	$ 2,113,363	**$ 2,113,363**	**$ -**	**$ -**	**$ -**

(d) Interest risk:

Interest risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. As at March 31, 2011, the Company did not have any interest rate risk liabilities. The Company holds a significant portion of cash equivalents in interest-bearing instruments and is exposed to the risk of changing interest rates.

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

(e) Currency risk:

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

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

The following assets and liabilities were denominated in foreign currencies as at March 31, 2011 and June 30, 2010:

	March 31, 2011	June 30, 2010
Denominated in U.S. dollars:		
Investments	**$ -**	$ 890,313
Cash and cash equivalents	**32,785**	1,063,028
Restricted cash	**2,112,693**	5,286,967
Prepaids and other receivables	**348,625**	3,202
Accounts payable and accrued liabilities	**(26,227)**	(85,629)
Net assets denominated in U.S. dollars	**2,467,806**	7,157,881
Denominated in Brazilian reals:		
Cash and cash equivalents	**167,791**	165,990
Prepaids and other receivables	**-**	-
Accounts payable and accrued liabilities	**-**	-
Net assets denominated in Brazilian reals	**167,791**	165,990
Denominated in Argentinean pesos:		
Cash and cash equivalents	**1,765**	9,363
Prepaids and other receivables	**19,517**	20,794
Net assets denominated in Argentinean pesos	**21,282**	30,157
Denominated in Colombian pesos:		
Cash and cash equivalents	**238,968**	17,736
Prepaids and other receivables	**-**	372
Net assets denominated in Colombian pesos	**238,968**	18,108

The following table shows the estimated sensitivity of the Company's after-tax net income (loss) for the nine months ended March 31, 2011 from a change in the U.S. dollar exchange rate in which the Company has exposure with all other variables held constant as at March 31, 2011:

Percentage change in U.S. dollar	**Change in net after-tax income (loss) from an increase in % in the U.S. dollar exchange rate**	**Change in net after-tax income (loss) from an decrease in % in the U.S. dollar exchange rate**
2%	$ 34,919	$ (34,919)
4%	69,839	(69,839)
6%	104,758	(104,758)
8%	139,678	(139,678)
10%	174,597	(174,597)

The following table shows the estimated sensitivity of the Company's after-tax net income (loss) for the nine months ended March 31, 2010 from a change in the U.S. dollar exchange rate in which the Company has exposure with all other variables held constant as at March 31, 2010:

Percentage change in U.S. dollar	Change in net after-tax income (loss) from an increase in % in the U.S. dollar exchange rate	Change in net after-tax income (loss) from an decrease in % in the U.S. dollar exchange rate
2%	$ 98,878	$ (98,878)
4%	197,756	(197,756)
6%	296,633	(296,633)
8%	395,511	(395,511)
10%	494,389	(494,389)

(f) Fair value:

The Company has determined the fair value of its financial instruments as follows:

(i) The carrying values of cash and cash equivalents, due from brokers, other receivables, promissory notes, restricted cash, and accounts payable and accrued liabilities, approximate their fair values due to the short term to maturity for these instruments.

(ii) Investments are carried at fair value in accordance with the Company's accounting policies. See "Significant Accounting Policies".

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 21 – Foreign exchange

IAS 21 requires the Company to record all translation adjustments of its subsidiaries to other comprehensive income in shareholder's equity.

(vi) 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.	Underway. Will be completed by end of Q4 2011.
	Development of financial statement format and related disclosure.	Underway. Will be completed by end of Q4 2011.
ICFR	For all changes made to the Company's accounting policies, review the design and effectiveness implications on ICFR.	Underway. 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 the Company's accounting policies, review the design and effectiveness implications on DC&P.	Underway. 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.	Review completed and no significant impacts expected.
	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 starting July 1, 2011.

Significant Accounting Policies:

There were no changes to the Company's significant accounting policies during the nine months ended March 31, 2011. Some of the Company's significant accounting policies are as follows:

(a) Investments:

At the end of each financial reporting period, the Company's management estimates the fair value of investments which are held-for-trading, based on the criteria below, and reflects such valuations in the consolidated financial statements. The resulting values for securities determined in accordance with the following methods, may not be reflective of the proceeds that could be realized by Brownstone upon their disposition.

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

1. Securities and debt securities (corporate bonds) which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing bid prices on the last day of the financial reporting period or the closing bid price on the last day the security traded if there were no trades on the last day of the financial reporting period.

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

3. For warrants which are not traded on a recognized securities exchange (and, accordingly, which do not have a market value that is readily available), a valuation technique is used when there are sufficient and reliable observable market inputs. If no such market inputs are available, the warrants are valued at intrinsic value, which is equal to the higher of the closing bid price of the underlying stock on the last day of the financial reporting period less the exercise price of the warrant, and zero.

(ii) Privately-held (securities of issuers that are not public companies):

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

The determinations of fair value of the Company's privately-held investments at other than initial cost are subject to certain limitations. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable. Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

The following circumstances are used to determine if the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period.

In addition to the events described below which may affect a specific investment, the Company will take into account general market conditions when valuing the privately-held investments in its portfolio. Absent the occurrence of any of these events or any significant change in general market conditions, the fair value of the investment is left unchanged.

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

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

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

   Such events include, without limitation:

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

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

   iii. filing by the investee company of a National Instrument 43-101 technical report in respect of a previously non-compliant resource;

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

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

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

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

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

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

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

   Such events include, without limitation:

   i. Political changes in a country in which the investee company operates which increases the tax burden on companies, which prohibit exploration or production where it was previously allowed, which increases the need for permitting or approvals, etc.

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

   iii. the investee company releases negative exploration results; and

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

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

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

(b) Oil & gas properties and related expenditures:

(i) Full cost method of accounting:

The Company follows the full cost method of accounting for its oil & gas operations.

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. When a property is subsequently abandoned or sold, its cost is written off against income in the year of abandonment. Oil & gas properties which the Company and its partners have no intention to develop, and which management believes have little or no value, are written down to their estimated fair value.

The costs of drilling and equipping wells, both exploratory and development, and other exploration costs, including geological and geophysical costs, are capitalized as incurred. Costs include any cash consideration and the fair market value of any shares and/or options issued for the acquisition of oil & gas interests. Oil & gas interests acquired

under option or participation agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

In applying the full cost method, the Company applies a ceiling test to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves at year end market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated net realizable value of unproved properties.

(ii) Joint oil and gas activities:

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

(c) Revenue recognition:

Security transactions are recorded on a settlement basis. Realized gains and losses on disposal of investments and unrealized gains and losses in the value of investments are reflected in the consolidated statements of operations and are calculated on an average cost basis. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. All transaction costs are expensed as incurred. Dividend income is recorded on the ex-dividend date. Interest income and other income are recorded on an accrual basis.

(d) Income taxes:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income (loss) in the year in which those temporary differences are expected to be recovered or settled.

(e) Stock-based compensation plans:

The Company has stock-based compensation plans which are described in the Outstanding Share Data section. Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value for these options is estimated at the date of grant using the Black-Scholes option pricing model.

Refer to Note 2 to the consolidated financial statements as at and for the year ended June 30, 2010 for additional details of the Company’s accounting policies.

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 interim 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 nine months ending March 31, 2011, the Company had net unrealized gains of $530,300 to 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 nine months ended March 31, 2011, the Company had no wrote-down oil and gas properties and related expenditures. During the nine months ended March 31, 2010, the Company wrote-down oil and gas interests totalling $3,569,750. 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 March 31, 2011, 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 $7,712,805 (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 $7,712,805 as at March 31, 2011 (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 six key inputs: exercise price, market price at date of issue, risk free interest rate, expected dividend yield, expected life and expected volatility. The first two inputs are facts rather than estimates, while the risk free interest rate, expected life, expected volatility and expected dividend yield (estimated at 0% based on the Company's history of not paying any dividends) are based on the Company's estimates. A shorter expected life of the option, lower volatility number or higher dividend yield used would result in a decrease in stock-based compensation expense. A longer expected life of the option or a higher volatility number used would result in an increase in stock-based compensation expense. 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
February 17, 2011	300,000	0.95	February 17, 2013
March 30, 2011	1,365,000	1.20	March 29, 2016
	3,360,000		

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 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**

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**

During the nine months ended March 31, 2010, the Company issued 12,545 purchase warrants pursuant to the exercise of 25,090 broker warrants. The purchase warrants were issued with an exercisable price of $0.75 per share and expiring on April 13, 2012. The fair value of the purchase warrants were estimated at the date of issue using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used for stock-based compensation expense	
Expected volatility	**96.9%**
Expected dividend yield	**0.0%**
Risk-free interest rate	**3.0%**
Expected warrant life in years	**1.5**
Fair value per warrant issued	**$ 0.36**

During the nine months ended March 31, 2010, the Company closed a brokered private placement financing and issued 15,131,579 purchase warrants and 2,118,421 broker warrants. The purchase warrants and broker warrants are exercisable at $1.25 per share and expire on September 11, 2012. The fair value of the purchase warrants were estimated at the date of issue using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used for stock-based compensation expense	
Expected volatility	**83.3%**
Expected dividend yield	**0.0%**
Risk-free interest rate	**3.0%**
Expected warrant life in years	**1.5**
Fair value per warrant issued	**$ 0.275**

During the nine months ended March 31, 2010, the Company issued 12,000 purchase warrants pursuant to the exercise of 24,000 broker warrants. The purchase warrants were issued with an exercisable price of $0.75 per share and expiring on May 28, 2011. The fair value of the purchase warrants were estimated at the date of issue using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used for stock-based compensation expense	
Expected volatility	**95%**
Expected dividend yield	**0.0%**
Risk-free interest rate	**2.25%**
Expected warrant life in years	**1.0**
Fair value per warrant issued on October 20, 2009	**$ 0.26**

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 nine months ended March 31, 2011 and 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 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.

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.

Subsequent to March 31, 2011, 100,000 options exercisable at $2.08 per share expired unexercised.

As at May 26, 2011, 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	**128,428,289**
Issuable under options	**8,705,080**
Issuable under warrants	**24,332,306**
Issuable under broker warrants (a)	**3,571,010**
Total diluted common shares	**165,036,685**

(a) Of the 3,571,010 broker warrants, 1,452,589 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.

Of the 3,571,010 broker warrants, 2,118,421 broker warrants are each exercisable for one common share of the Company at $1.25 per share on or before September 11, 2012.

Refer to note 10 of the notes to the interim consolidated financial statements as at and for the three and nine months ended March 31, 2011 for details of the Company's share capital as at March 31, 2011.

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.