Consolidated Financial Statements of

Brownstone Energy Inc.
(Formerly Brownstone Ventures Inc.)

For the years ended June 30, 2011 and 2010

Contents

AUDITORS' REPORT

To the Shareholders of
Brownstone Energy Inc.

We have audited the accompanying consolidated balance sheets of **Brownstone Energy Inc.** (formerly Brownstone Ventures Inc.) (the "Company") as at June 30, 2011 and 2010, and the consolidated statements of operations, deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

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

Auditors' Responsibility

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

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

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

Auditors' Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
September 28, 2011

Chartered Accountants
Licensed Public Accountants

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Balance Sheets
As at June 30,

	Notes	2011	2010
Assets			
Current			
Cash and cash equivalents	6	**$ 29,833,806**	$ 1,832,230
Restricted cash	8	**4,165,776**	-
Investments, at fair value	3, 4	**12,350,483**	17,174,119
Due from brokers		**228,868**	-
Prepaids and other receivables		**371,573**	102,893
Promissory note receivable	7, 9(c)	**-**	2,070,140
Income taxes receivable		**1,053,614**	1,328,276
		48,004,120	22,507,658
Oil and gas properties and related expenditures	5	**49,076,358**	36,167,168
Restricted cash	8	**534,222**	5,286,967
		$ 97,614,700	$ 63,961,793
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		**$ 1,497,064**	$ 2,113,363
		1,497,064	2,113,363
Shareholders' equity			
Share capital	10	**96,590,701**	65,017,344
Warrants and broker warrants	10(e)	**6,873,384**	4,028,875
Contributed surplus	10(f)	**14,158,415**	13,008,062
Deficit		**(21,504,864)**	(20,205,851)
		96,117,636	61,848,430
		$ 97,614,700	$ 63,961,793

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Steven Mintz" Director

"Michael Sweatman" Director

BROWNSTONE ENERGY INC.

(Formerly Brownstone Ventures Inc.)

Consolidated Statements of Operations
Years Ended June 30,

	Notes	2011	2010
Net investment gains			
Realized gains (losses) on disposal of investments, net		**$ (1,385,033)**	$ 647,190
Unrealized gains on investments, net		**5,050,138**	3,949,027
		3,665,105	4,596,217
Interest and other income	7, 9(c)	**260,513**	342,043
		3,925,618	4,938,260
Expenses			
Operating, general and administrative	9(a,b)	**5,302,782**	4,717,056
Foreign exchange loss		**409,592**	408,247
Write-off of oil and gas properties and related expenditures		**-**	20,500,805
Transaction costs		**39,766**	44,247
Interest expense		**202,350**	40,840
		5,954,490	25,711,195
Loss before income taxes		**(2,028,872)**	(20,772,935)
Provision for (recovery of) income taxes		**(729,859)**	1,296,069
Net and comprehensive loss for the year		**$ (1,299,013)**	$ (22,069,004)
Loss per common share			
Basic and diluted		**$ (0.01)**	$ (0.31)
Weighted average number of common shares outstanding			
Basic and diluted		**100,279,183**	70,981,926

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Statements of Deficit
Years Ended June 30,

		2011		2010
Retained earnings (deficit), beginning of year	**$**	**(20,205,851)**	$	1,863,153
Net loss for the year		**(1,299,013)**		(22,069,004)
Deficit, end of year	**$**	**(21,504,864)**	$	(20,205,851)

See accompanying notes to the consolidated financial statements.

BROWNSTONE ENERGY INC.
(Formerly Brownstone Ventures Inc.)
Consolidated Statements of Cash Flows
Years Ended June 30,

	2011	2010
Cash flows used in operating activities		
Net loss for the year	**$ (1,299,013)**	$ (22,069,004)
Items not affecting cash		
Realized losses (gains) on disposal of investments, net	**1,385,033**	(647,190)
Unrealized gains on investments, net	**(5,050,138)**	(3,949,027)
Write-off of oil and gas properties and related expenditures	**-**	20,500,805
Stock-based compensation expense	**1,240,147**	783,405
Future income tax provision	**-**	2,501,646
	(3,723,971)	(2,879,365)
Changes in non-cash working capital balances		
Prepaids and other receivables	**(268,680)**	441,056
Income taxes receivable	**274,662**	205,672
Accounts payable and accrued liabilities	**(1,016,714)**	80,142
	(4,734,703)	(2,152,495)
Cash flows from financing activities		
Proceeds pursuant to private placement financing, net	**26,549,415**	10,243,303
Proceeds pursuant to exercise of stock options	**266,845**	164,632
Proceeds pursuant to exercise of warrants, broker warrants and underlying warrants	**7,511,812**	12,000
Proceeds from promissory note payable	**3,000,000**	-
Repayment of promissory note payable	**(3,000,000)**	-
Increase in due from brokers	**(228,868)**	-
Decrease in due to brokers	**-**	(76,683)
	34,099,204	10,343,252
Cash flows used in investing activities		
Expenditures on oil and gas properties and related expenditures, net	**(12,772,103)**	(14,391,699)
Proceeds on sale of oil and gas property	**263,328**	-
Repayment of promissory note receivable	**2,070,140**	1,350,049
Decrease (increase) in restricted cash	**586,969**	(2,370,410)
Proceeds on disposal of investments	**8,752,741**	13,344,430
Purchases of investments	**(264,000)**	(6,578,672)
	(1,362,925)	(8,646,302)
Net increase (decrease) in cash and cash equivalents, during the year	**28,001,576**	(455,545)
Cash and cash equivalents, beginning of year	**1,832,230**	2,287,775
Cash and cash equivalents, end of year	**$ 29,833,806**	$ 1,832,230
Supplemental cash flow information		
Income tax refunds	**$ 1,004,520**	$ 1,380,329
Interest paid	**202,350**	40,840
Non-cash financing activities		
Issue of share capital pursuant to the acquisitions of interests in oil and gas properties	**-**	2,388,000

See accompanying notes to the consolidated financial statements.

1. Nature of business:

On January 18, 2011, Brownstone Ventures Inc. changed its name to Brownstone Energy Inc. ("Brownstone" or the "Company"). Brownstone was incorporated in 1987 under the laws of the Province of British Columbia and its common shares are publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". Brownstone is a Canadian-based, energy-focused company with direct interests in oil and gas exploration projects, including varying interests in three offshore Israel concessions and four Colombian blocks in the Llanos basin, as well as other oil and gas interests worldwide.

2. Significant accounting policies:

Management has prepared these consolidated financial statements in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the presentation of the consolidated financial statements are as follows:

(a) Basis of preparation:

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

(b) Fair value of investments:

Investments which are designated, based on management's intentions, as held-for-trading are reported at fair value. The determination of fair value requires judgment and is based on market information where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements. The Company is also required to present its investments (and other financial assets and liabilities reported at fair value) into three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring the fair value, and to provide additional disclosure in connection therewith (see notes 3 and 4).

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

1. Securities, including shares, options, and warrants 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. These are included in Level 1 in note 4.

2. Significant accounting policies (continued):

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. These are included in Level 2 in note 4.

3. For warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants are valued at intrinsic value, which is equal to the higher of the closing bid price at the consolidated balance sheet date of the underlying security less the exercise price of the warrant, and zero. These are included in Level 2 in note 4.

(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. These are included in Level 3 in note 4. 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. Significant accounting policies (continued):

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 the Company believes 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.

2. Significant accounting policies (continued):

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.

(c) Oil and gas properties and related expenditures:

(i) Full cost method of accounting:

The Company follows the full cost method of accounting for its oil and gas operations whereby all costs incurred in connection with the acquisition, exploration for and development of oil and gas reserves, including certain overheads and dry-holes, are capitalized and accumulated by cost centres on a country-by-country basis.

Such amounts include land acquisition costs, geological and geophysical expenditures, cost of drilling both productive and non-productive wells, gathering production facilities and equipment, and overhead expenses directly related to exploration and development activities. The Company capitalizes carrying costs directly attributable to acquisition, exploration and development activities.

2. Significant accounting policies (continued):

For preproduction cost centres, capitalized oil and gas properties and related expenditures are assessed whether it is likely such net costs, in the aggregate, may be recovered in the future. Costs that are unlikely to be recovered are written down to their fair value.

For production cost centres, capitalized oil and gas properties and related expenditures are depleted using the unit-of-production method based on net proved reserves for each cost centre. Costs subject to depletion include both the estimated costs required to develop proved undeveloped reserves and the associated addition to the asset retirement obligations. Costs of acquiring and evaluating significant unproved oil and gas properties are initially excluded from the depletion base. When it is determined that proved oil and gas reserves are attributable to a property, or the property is considered to be impaired, the cost of the property and related expenditures or the impairment is added to the depletion base. The Company applies an impairment test to the net carrying value of oil and gas properties and related expenditures designed to ensure that such costs do not exceed the estimated amount ultimately recoverable. This amount is the aggregate of estimated undiscounted future net cash-flows from production of proved reserves and the cost of unproved oil and gas properties and related expenditures less impairments. Future cash-flows are estimated using future prices and costs without discounting. Should the net carrying value of oil and gas properties and related expenditures exceed the amount ultimately recoverable, the amount of the impairment is determined by deducting the discounted estimated future cash-flows from proved and probable reserves based on the future prices plus the cost of unproved properties, net of impairment allowances, from the carrying value of the related assets. Any reduction in the net carrying value, as a result of the impairment test, is included in depletion, depreciation and amortization expense.

(ii) Joint oil and gas activities:

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

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term investments with original maturities of less than three months.

(e) Restricted cash:

Restricted cash represents cash in the form of Guaranteed Investment Certificates deposited with the Company’s bank as collateral for letters of guarantee provided by the bank. The restricted cash related to the letters of guarantee is classified as current if the restricted cash is expected to be released within one year; otherwise the restricted cash is classified as non-current.

2. Significant accounting policies (continued):

(f) Revenue recognition:

Securities transactions are recorded on a settlement date 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 associated with the acquisition and disposition of investments are expensed to the consolidated statements of operations as incurred.

Interest income and other income are recorded on an accrual basis.

Revenues from the sale of oil and natural gas are reported as sales revenue when management has determined that the oil and gas property is commercially viable. Revenues from the sale of oil and natural gas prior to when an oil and gas property is commercially viable are netted against oil and gas properties and related expenditures. Revenues are recognized when the risks and rewards of ownership pass to the purchaser, including delivery of the product, the selling price is fixed or determinable and collectability is reasonably assured.

(g) Segment reporting:

Operating segments are reported in a manner consistent with the internal reporting used by management. The Company has the following reportable geographic segments: Colombia, Israel, Canada, United States, Argentina and Brazil.

(h) Foreign currency translation:

The Company’s subsidiaries are considered to be integrated operations. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical rates. All revenue and expenses denominated in foreign currencies are translated at rates of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the determination of net income (loss) for the year.

(i) Non-monetary transactions:

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

2. Significant accounting policies (continued):

(j) 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 basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net future tax asset is recognized.

(k) Stock-based compensation:

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. The Company records compensation expense and credits contributed surplus for all stock options granted. On the exercise of stock options or sale of stock, consideration received is credited to share capital and any associated costs in contributed surplus are transferred to share capital.

(l) Interest expense:

Interest expense is recorded on an accrual basis.

(m) Earnings (loss) per common share:

Basic earnings (loss) per common share is determined by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per common share is calculated in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding. This method assumes that any proceeds received from in-the-money options and warrants would be used to buy common shares at the average market price for the year.

(n) Management's uncertainties and use of estimates:

The preparation of these 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 contingencies 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.

2. Significant accounting policies (continued):

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

(i) Going concern:

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(ii) Fair value of investment in securities not quoted in an active market or private company investments:

Where the fair values of financial assets and financial liabilities recorded on the balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values.

(iii) Fair value of financial derivatives:

Investments in options and warrants which are not traded on a recognized securities exchange do not have a readily available market value. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available, the warrants and options are valued at intrinsic value.

(iv) Future income tax assets:

Future income tax assets ("FTA") are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. A valuation allowance against the FTA is recorded to the extent that the Company considers it more likely than not that all or a portion of the FTA will not be realized in the foreseeable future.

(v) Stock-based compensation expense:

The Company uses the Black-Scholes option pricing model to fair value options in order to calculate stock-based compensation expense. The Black-Scholes model involves six key inputs to determine fair value of an option: risk-free interest rate, exercise price, market price at date of issue, expected dividend yield, expected life and expected volatility. Certain of the inputs are estimates which involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

2. Significant accounting policies (continued):

(o) Cost of private placement financings:

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

3. Investments:

The fair value and cost of investments are as follows, as at June 30:

	Fair Value	Cost
2011	**$ 12,350,483**	**$ 22,219,575**
2010	$ 17,174,119	$ 32,093,349

4. Financial instruments hierarchy:

The following table presents the Company's financial instruments, measured at fair value and categorized into levels of the fair value hierarchy on the consolidated balance sheets as at June 30, 2011 and 2010:

Investments, at fair value	Level 1 Quoted market price	Level 2 Valuation technique – observable market inputs	Level 3 Valuation technique – non-observable market inputs	Total
2011	**$ 8,200,483**	**$ -**	**$ 4,150,000**	**$ 12,350,483**
2010	$ 14,704,419	$ -	$ 2,469,700	$ 17,174,119

There were no significant transfers from Level 1 to 2 or Level 2 to 1 during the year ended June 30, 2011. During the year ended June 30, 2010, $2,056,721 of restricted investments in Level 2 were transferred to Level 1 as a result of these investments becoming freely tradable.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the years ended June 30, 2011 and 2010. These financial instruments are measured at fair value utilizing non-observable market inputs. The net unrealized gains are recognized in the consolidated statements of operations.

	Opening balance	Net purchases	Realized losses	Net unrealized gains	Net transfer out of Level 3	Ending balance
Investments, at fair value						
2011	**$ 2,469,700**	**$ -**	**$ -**	**$ 2,680,300**	**$ (1,000,000)**	**$ 4,150,000**
2010	$ 2,266,033	**$ -**	$ -	$ 203,667	$ -	$ 2,469,700

4. Financial instruments hierarchy (continued):

For the year ended June 30, 2011, the net transfer out of Level 3 consists of investments in private companies as at June 30, 2010 which became publicly-traded investments during the year ended June 30, 2011.

5. Oil and gas properties and related expenditures:

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

The Company's accounts reflect only the its proportionate interest in these activities. The following is a summary of the Company's oil and gas properties and related expenditures as at June 30:

	2009	2010			**2011**		
	Net Book Value	Net Expenditures	Write-off	Net Book Value	**Net Expenditures (Proceeds)**	**Write-off**	**Net Book Value**
Joint ventures in Colombia properties (a)							
Acquisition	$ -	$ 2,850,040	$ -	$ 2,850,040	**$ -**	**$ -**	**$ 2,850,040**
Exploration	-	7,997,964	-	7,997,964	**10,225,359**	**-**	**18,223,323**
	-	10,848,004	-	10,848,004	**10,225,359**	**-**	**21,073,363**
Joint ventures in USA properties (b)							
Acquisition	17,845,097	-	-	17,845,097	**(263,328)**	**-**	**17,581,769**
Exploration	1,789,777	552,677	-	2,342,454	**863,748**	**-**	**3,206,202**
	19,634,874	552,677	-	20,187,551	**600,420**	**-**	**20,787,971**
Joint ventures in Argentina properties (c)							
Acquisition	9,377,278	6,556,969	(11,805,916)	4,128,331	**-**	**-**	**4,128,331**
	9,377,278	6,556,969	(11,805,916)	4,128,331	**-**	**-**	**4,128,331**
Joint ventures in Canadian properties							
Acquisition	797,353	-	-	797,353	**-**	**-**	**797,353**
Exploration	123,509	82,420	-	205,929	**71,540**	**-**	**277,469**
	920,862	82,420	-	1,003,282	**71,540**	**-**	**1,074,822**
Joint ventures in India properties							
Acquisition	1,296,541	-	(1,296,541)	-	**-**	**-**	**-**
Exploration	3,581,414	482,687	(4,064,101)	-	**-**	**-**	**-**
	4,877,955	482,687	(5,360,642)	-	**-**	**-**	**-**
Joint ventures in Brazilian properties							
Acquisition	3,334,247	-	(3,334,247)	-	**-**	**-**	**-**
	3,334,247	-	(3,334,247)	-	**-**	**-**	**-**
Joint ventures in Israel (d)							
Exploration	-	-	-	-	**2,011,871**	**-**	**2,011,871**
	-	-	-	-	**2,011,871**	**-**	**2,011,871**
Total oil and gas properties	$ 38,145,216	$ 18,522,757	$ (20,500,805)	$ 36,167,168	**$ 12,909,190**	**$ -**	**$ 49,076,358**

5. Oil and gas properties and related expenditures (continued):

(a) The Company has participating interests in four blocks located in the Llanos Basin of Central Colombia. A summary of the Company's interests in the four blocks in Colombia is as follows:

	Canaguaro (i)	Block 21 (ii)	Block 27 (iii)	Block 36 (iv)
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%

(i) Canaguaro: The Company can earn a 25% participating interest by paying 31.25% of the first US$10,000,000 in total costs incurred to drill one exploratory well (which has been paid), 25% of any remaining costs exceeding US$10,000,000, and US$1,250,000 in sunk costs of which US$375,000 was paid upon execution of the definitive agreement in 2010 and US$875,000 is to be paid from the Company's share of production (of which US$265,385 has been accrued as at June 30, 2011). If commercial production occurs on the block, the Company will be required to pay a 6% overriding royalty to Concorcio Canaguaro on its share of production (in addition to royalties payable to the ANH), and a one-time success fee to Concorcio Canaguaro of up to US$1 million, payable following the completion of the first 12 months of commercial production from the Canaguay-1 well and determined based upon the average daily production of the well during that first year in excess of 351 barrels of oil per day ("bopd").

(ii) Block 21: The Company has a 35% participating interest on the block and is required to pay 50% of the capital cost of the work program incurred during the exploration and production phases of the block, and will be entitled to receive 45.5% of all net production revenue, until all aggregate costs have been recouped, following which the Company will be obligated to fund 35% of any ongoing costs in order to be entitled to receive 35% of any further net production revenue.

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

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

5. Oil and gas properties and related expenditures (continued):

For the year ended June 30, 2011, the Company reduced its oil and gas properties and related expenditures by capitalizing crude oil sales revenue of $259,228 (US$265,385) (2010 – nil) from its long term production testing of the Canaguaro well.

(b) The Company has interests in the Piceance/Uinta basin in the USA. 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) In July 2007, the Company signed a participation agreement with Petrolifera Petroleum Limited ("Petrolifera"), whereby Brownstone can earn a 25% interest in Petrolifera's Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement, Brownstone is required to fund 50% of the costs to be incurred in the conduct of the work program on the property. During the year ended June 30, 2011, Petrolifera's interests and operatorship in the block have been acquired by Gran Tierra Energy Inc.

During the year ended June 30, 2010, the Company wrote-down the property by $11,805,916 to the estimated fair value of $4,128,331 (US$4,000,000). The operator and Brownstone have recently initiated plans to run production tests on three of the gas wells discovered on the block during the exploration drilling phase. These production tests will commence in the second quarter of fiscal 2012 and are intended to determine commerciality of the gas wells.

(d) In July 2009, the Company entered into a Letter of Intent with Adira Energy Corp. (formerly AMG Oil Ltd.) ("Adira"), an oil and gas exploration company listed on the TSXV under the symbol "ADL". Until July 2012, Brownstone has the option to farm into 15% of each interest acquired by Adira in any oil and gas blocks located offshore in Israel. Brownstone has acquired a 6.75% participating interest in the Samuel license and a 15% participating interest in each of the Gabriella and Yitzhak 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.

6. Cash and cash equivalents:

Cash and cash equivalents consist of the following as at June 30:

	2011	2010
Cash	**$ 447,721**	$ 1,279,961
Cash equivalents (a)	**29,386,085**	552,269
	$ 29,833,806	$ 1,832,230

(a) As at June 30, 2011, cash equivalents consisted of banker's acceptance notes with an average annual yield of 1.16% (2010 – 0.80%).

7. Promissory note:

As at June 30, 2010, the Company held a promissory note totaling $2,070,140 receivable from Dejour Enterprises Ltd., an oil and gas exploration company and reporting issuer listed on the Toronto Stock Exchange ("TSX") under the symbol "DEJ", ("Dejour"). The Dejour promissory note was secured by a general security agreement between the Company and Dejour, bear interest at 12% per annum, payable quarterly, and was due to mature on January 1, 2011. During the year ended June 30, 2011, the total amounts outstanding under the promissory note were repaid in full prior to maturity. Included in the consolidated statements of operations is $108,645 (2010 - $248,417) of interest income earned by Brownstone relating to the promissory note (note 9(c)).

8. Restricted cash:

In October 2009, the Company pledged US$4,866,000 of cash held in a Guaranteed 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, Export Development Canada ("EDC"), a federal government agency, issued three Performance Security Guarantees ("PSG") totaling US$4,984,883 to RBC for certain of the letters of guarantee issued by RBC to ANH. As a result, restricted cash in the amount of the PSGs was released. In June 2011, one PSG for US$2,700,000 expired but was subsequently extended by EDC in July 2011. As at June 30, 2011, the Company held restricted cash totaling $4,699,998 (US$4,874,000) of which $4,165,776 (US$4,320,000) is current, as collateral for the RBC letters of guarantee (2010 - $5,286,967 (US$4,984,883)). The restricted cash is held in GICs, which are renewed on a monthly basis at the prevailing interest rate (0.03% per annum as at June 30, 2011).

9. Related party transactions:

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

Related party transactions during the years ended June 30, were as follows:

Type of service	Nature of relationship	2011	2010
Consulting fees	Director and officers (a)	**$ 886,958**	$ 607,552
Cost sharing arrangement	Affiliated company (b)	**144,000**	149,400
Interest income	Affiliated company (c)	**108,645**	248,417
Promissory note repayment	Affiliated company (c)	**2,070,140**	-

9. Related party transactions (continued):

(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.

(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 in the amount of $2,070,140 from Dejour, a company with a director who is also an officer of Brownstone. Included in the consolidated statements of operations is $108,645 (2010 - $248,417) of interest income earned by Brownstone on the promissory note (note 7).

(d) The Company has joint ventures with related parties which have a common director or a director who is also an officer of Brownstone. See note 5.

(e) During the year ended June 30, 2011, the Company granted options to directors and officers of the Company as follows:

Date Granted	Options Granted	Exercise Price	Expiry
September 21, 2010	1,000,000	$ 0.51	September 20, 2015
March 30, 2011	1,125,000	$ 1.20	March 29, 2016
Total granted	2,125,000		

During the year ended June 30, 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
April 15, 2010	600,000	0.65	April 14, 2015
May 26, 2010	125,000	0.43	May 25, 2015
Total granted	2,775,000		

10. Share capital:

Authorized: Unlimited number of common shares, no par value
Issued and outstanding:

	# of Shares		Amount
Balance, June 30, 2009	65,365,504	$	54,661,985
Issued pursuant to exercise of stock options	301,600		258,285
Issued pursuant to exercise of broker warrants	24,000		14,400
Issued pursuant to interests in oil and gas property acquisition	3,000,000		2,388,000
Issued pursuant to private placement financing, net	20,000,000		7,694,674
Balance, June 30, 2010	88,691,104	$	65,017,344
Issued pursuant to exercise of stock options (a)	**440,520**		**416,639**
Issued pursuant to exercise of warrants and broker warrants (b)	**10,399,507**		**9,358,419**
Issued pursuant to private placement financing, net (c)	**30,263,158**		**21,798,299**
Balance, June 30, 2011	**129,794,289**	**$**	**96,590,701**

(a) During the year ended June 30, 2011, 440,520 options were exercised at prices ranging from $0.50 to $0.65 per share for total proceeds of $266,845. Pursuant to the exercise of stock options, amounts of $149,794 in contributed surplus were reallocated to share capital.

(b) During the year ended June 30, 2011, 10,399,507 warrants, broker warrants, and underlying broker warrants were exercised at prices ranging from $0.50 and $0.75 per share for total proceeds of $7,511,812. Amounts of $1,874,549 in warrants were reallocated to share capital. Pursuant to the exercise of broker warrants, 590,245 purchase warrants were issued exercisable at $0.75 per share and expiring on April 13, 2012. The purchase warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 96.9%; dividend yield of 0%; risk-free interest rate of 3.00%; and an expected life of 1.5 year. The value assigned to the purchase warrants was $27,942.

(c) On March 11, 2011, the Company completed a brokered private placement financing raising gross proceeds of $28,750,000 through the issuance and sale of 30,263,158 units at a price of $0.95 per unit. Each unit was comprised of one common share of the Company and one-half common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at $1.25 per share on or before September 11, 2012. In connection with the private placement, the Company paid cash commissions and other expenses of $2,200,585, 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 until September 11, 2012.

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

10. Share capital (continued):

(d) Stock options granted:

The Company grants stock options to eligible directors, officers, key employees and consultants under its 2006 stock option plan to enable them to purchase common shares of the Company. Under the terms of the plan, the number of common shares which may be issued pursuant to the exercise of options granted under the plan may not exceed 10% of the number of common shares outstanding at the time of grant. The exercise price of an option granted under the plan cannot be less than the closing price of the common shares on the last day on which the common shares trade prior to the grant date of the option. An individual can receive grants of no more than 5% of the outstanding shares of the Company on a yearly basis and options are exercisable over a period not exceeding five years. Stock options granted during fiscal 2011 vest at the rate of 1/6 of the grant every three months over an 18-month period. Stock options granted to consultants for investor relations vest at the rate of ¼ of the grant every three months over a one year period.

Options granted are accounted for by the fair value method of accounting for stock-based compensation. The Company records compensation expense and credits contributed surplus for all options granted. The following options were granted during the year ended June 30, 2011:

Date granted	Options granted	Exercise price	Expiry
September 21, 2010	1,195,000	$ 0.51	September 20, 2015
December 17, 2010 (i)	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		

(i) On March 3, 2011, the 500,000 options granted on December 17, 2010 to a consultant were terminated.

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 year ended June 30, 2011 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Black-Scholes assumptions used	
Expected volatility	**94.3% to 108.5%**
Expected dividend yield	**0%**
Risk-free interest rate	**3.0%**
Expected option life in years	**3.5 to 4.7 years**
Fair value per stock option granted on September 21, 2010	**$ 0.33**
Fair value per stock option granted on December 17, 2010	**$ 0.62**
Fair value per stock option granted on February 17, 2011	**$ 0.32**
Fair value per stock option granted on March 30, 2011	**$ 0.80**

10. Share capital (continued):

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

Black-Scholes assumptions used	
Expected volatility	**95.0% - 98.9%**
Expected dividend yield	**0%**
Risk-free interest rate	**2.25%**
Expected option life in years	**1.5 to 3.5**
Fair value per stock option granted on August 11, 2009	**$ 0.30**
Fair value per stock option granted on August 13, 2009	**$ 0.33**
Fair value per stock option granted on September 8, 2009	**$ 0.15**
Fair value per stock option granted on October 6, 2009	**$ 0.39**
Fair value per stock option granted on November 27, 2009	**$ 0.48**
Fair value per stock option granted on December 1, 2009	**$ 0.48**
Fair value per stock option granted on March 3, 2010	**$ 0.49**
Fair value per stock option granted on April 15, 2010	**$ 0.43**
Fair value per stock option granted on April 15, 2010 (consultant)	**$ 0.30**
Fair value per stock option granted on May 26, 2010	**$ 0.28**

For the year ended June 30, 2011, included in operating, general and administrative expenses was stock-based compensation expense of $1,240,147 (2010 - $783,405) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at their respective years and changes during the years then ended is shown below:

	2011		2010	
	# of options	**Weighted average exercise price**	# of Options	Weighted average exercise price
Outstanding, at beginning of year	**7,641,800**	**$ 1.35**	5,120,080	$ 1.83
Granted	**3,360,000**	**0.87**	3,745,000	0.59
Exercised	**(440,520)**	**0.61**	(301,600)	0.55
Forfeited/cancelled/expired	**(2,136,200)**	**1.30**	(921,680)	1.24
Outstanding, at end of year	**8,425,080**	**$ 1.21**	7,641,800	$ 1.35
Exercisable, at end of year	**6,100,657**	**$ 1.32**	5,006,993	$ 1.73

10. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2011:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
200,000	**200,000**	**$ 2.20**	July 9, 2011
1,255,000	**1,255,000**	**2.50**	September 13, 2011
50,000	**50,000**	**1.80**	February 4, 2012
400,000	**400,000**	**2.60**	April 1, 2012
10,000	**10,000**	**1.25**	February 21, 2013
40,000	**40,000**	**1.20**	March 19, 2013
840,000	**840,000**	**1.48**	June 25, 2013
100,000	**100,000**	**0.50**	August 10, 2014
1,133,400	**1,133,400**	**0.52**	August 12, 2014
35,000	**35,000**	**0.61**	October 5, 2014
50,000	**50,000**	**0.75**	November 26, 2014
200,000	**200,000**	**0.75**	November 30, 2014
500,000	**416,665**	**0.65**	March 2, 2015
630,000	**418,360**	**0.65**	April 4, 2015
130,000	**86,360**	**0.43**	May 25, 2015
1,186,680	**588,380**	**0.51**	September 20, 2015
300,000	**50,000**	**0.95**	February 17, 2013
1,365,000	**227,492**	**1.20**	March 29, 2016
8,425,080	**6,100,657**		

(e) A summary of the status of the Company's warrants and broker warrants as at June 30, 2011 and 2010 and the changes during the years then ended are presented below:

Warrants and broker warrants	**2011** **# of warrants and broker warrants**	**Weighted average exercise price**	**Amount**
Outstanding, at beginning of year	**21,155,078**	**$ 0.84**	**$ 4,028,875**
Exercised	**(10,399,507)**	**0.72**	**(1,874,548)**
Issued	**17,840,245**	**1.23**	**4,779,057**
Expired	**(2,000,000)**	**2.00**	**(60,000)**
Outstanding, at end of year	**26,595,816**	**$ 1.06**	**$ 6,873,384**

Warrants and Broker Warrants	2010 # of warrants and broker warrants	Weighted average exercise price	Amount
Outstanding, at beginning of year	9,673,400	$ 0.98	$ 6,672,939
Exercised	(24,000)	0.50	(6,678,459)
Issued	11,505,678	0.72	4,034,395
Outstanding, at end of year	21,155,078	$ 0.84	$ 4,028,875

10. Share capital (continued):

The following table summarizes information about warrants and broker warrants outstanding as at June 30, 2011:

Number of warrants and broker warrants		Exercise price	Expiry date	Warrants and broker warrants value
7,998,227		**$ 0.75**	April 13, 2012	**$ 1,758,419**
1,347,589	**(i)**	**0.55**	April 13, 2012	**363,849**
15,131,579		**1.25**	September 11, 2012	**4,167,645**
2,118,421	**(ii)**	**1.25**	September 11, 2012	**583,471**
26,595,816				**$ 6,873,384**

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

(ii) Each broker warrant is exercisable for one common share of the Company at $1.25 per share on or before September 11, 2012.

The following table summarizes information about warrants and broker warrants outstanding as at June 30, 2010:

Number of warrants and broker warrants		Exercise price	Expiry date	Warrants and broker warrants value
2,000,000		$ 2.00	October 28, 2010	$ 60,000
6,615,000		0.75	May 28, 2011	1,124,550
1,034,400	(i)	0.50	May 28, 2011	237,912
12,000		0.75	May 28, 2011	3,120
9,999,998		0.75	April 13, 2012	2,200,000
1,493,680	(ii)	0.55	April 13, 2012	403,293
21,155,078				$ 4,028,875

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

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

10. Share capital (continued):

(f) Contributed surplus transactions for the respective years are as follows:

		Amount
Balance, June 30, 2009	$	12,318,310
Stock-based compensation		783,405
Exercise of stock options		(93,653)
Balance, June 30, 2010		**13,008,062**
Stock-based compensation (note 10(d))		**1,240,147**
Exercise of stock options (note 10(a))		**(149,794)**
Expiration of warrants		**60,000**
Balance, June 30, 2011	**$**	**14,158,415**

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

		2011		2010
Fair value of stock-based compensation	**$**	**7,399,212**	$	6,308,859
Fair value of expired warrants and broker warrants		**6,732,939**		6,672,939
Cancellation of common shares under normal course issuer bid		**20,639**		20,639
Value of cancelled escrowed shares		**5,625**		5,625
	$	**14,158,415**	$	13,008,062

11. Income taxes:

(a) Income tax expense (recovery) attributable to loss before income taxes differs from the amounts computed by applying the combined federal and provincial tax rate of 29.25% (2010 – 32.5%) of pre-tax income as a result of the following:

		2011		2010
Loss before income taxes	**$**	**(2,028,872)**	$	(20,772,935)
Computed "expected" income tax recovery	**$**	**(593,445)**	$	(6,751,204)
Non-taxable portion of capital losses (gains)		**202,561**		(105,168)
Non-taxable portion of unrealized gains		**(738,583)**		(641,717)
Net future income tax assets not recognized		**487,431**		2,501,646
Recognition of losses carried back		**(729,859)**		(1,205,577)
Write-off of oil and gas interests not tax benefited		**-**		6,662,762
Permanent and other differences		**642,036**		835,327
Provision for (recovery of) income taxes	**$**	**(729,859)**	$	1,296,069

11. Income taxes (continued):

(b) Significant components of the provision for (recovery of) income taxes for the years ended June 30, are as follows:

		2011		2010
Current income tax recovery	**$**	**(729,859)**	$	(1,205,577)
Future income tax expense		**-**		2,501,646
Provision for (recovery of) income taxes	**$**	**(729,859)**	$	1,296,069

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

		2011		2010
Future income tax assets				
Oil and gas properties and related expenditures	**$**	**4,475,361**	$	5,050,263
Non-capital losses		**945,230**		-
Investments – differences in accounting carrying value and tax cost		**1,159,496**		1,875,767
Share issuance costs and other differences		**1,398,721**		592,678
Total future income tax assets		**7,978,807**		7,518,708
Less: valuation allowance		**(7,978,807)**		(7,518,708)
Net future income tax assets	**$**	**-**	$	-

(d) As at June 30, 2011, the Company has approximately $961,600 (2010 - $1,001,000) of Canadian resource deductions and $22,586,500 (2010 - $23,076,000) of foreign resource deductions available that have an unlimited carry-forward period to reduce future years' income for tax purposes, the tax effect of which has not been fully recorded in the accounts.

As at June 30, 2011, the Company has approximately $2,400,900 (2010 - $73,100) of Canadian non-capital losses available to reduce future years' income for tax purposes, the tax effect of which has not been fully recorded in the accounts.

The non-capital losses will expire as follows:

2028	$	73.100
2031		2,327,800
	$	2,400,900

12. Segmented information:

(a) Industry information:

Operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by management in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the resource sector. The Company's significant segments include six distinct geographic areas: Colombia, Israel, Canada, United States, Argentina 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 net income 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 year ended June 30, 2011:

	Year ended June 30, 2011		As at June 30, 2011		
	Interest and other income	**Net income (loss)**	**Oil and gas properties and related expenditures**	**Other assets**	**Total assets**
Canada and other	**$ 231,815**	**$ (4,799.570)**	**$ 1,074,822**	**$ 47,982,817**	**$ 49,057,639**
Colombia	**28,698**	**(761,745)**	**21,073,363**	**352,860**	**21,426,223**
United States	**-**	**4,289,515**	**20,787,971**	**6,227**	**20,794,198**
Argentina	**-**	**-**	**4,128,331**	**20,931**	**4,149,262**
Israel	**-**	**(35,078)**	**2,011,871**	**1,652**	**2,013,523**
Brazil	**-**	**7,865**	**-**	**173,855**	**173,855**
	$ 260,513	**$ (1,299,013)**	**$ 49,076,358**	**$ 48,538,342**	**$ 97,614,700**

The following is segmented information as at and for the year ended June 30, 2010:

	Year ended June 30, 2010		As at June 30, 2010		
	Interest and other income	Net income (loss)	Oil and gas properties and related expenditures	Other assets	Total assets
Canada and other	$ 315,850	$ (8,340,966)	$ 1,003,282	$ 26,517,343	$ 27,520,625
United States	-	1,374,987	20,187,551	1,063,027	21,250,578
Colombia	23,644	-	10,848,004	18,108	10,866,112
Argentina	-	(11,805,916)	4,128,331	30,157	4,158,488
Brazil	2,549	(3,297,109)	-	165,990	165,990
	$ 342,043	$ (22,069,004)	$ 36,167,168	$ 27,794,625	$ 63,961,793

13. Management of capital:

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

		2011		2010
Shareholders' equity comprised of:				
Share capital	**$**	**96,590,701**	$	65,017,344
Warrants		**6,873,384**		4,028,875
Contributed surplus		**14,158,415**		13,008,062
Deficit		**(21,504,864)**		(20,205,851)
	$	**96,117,636**	$	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 cash calls for the exploration of properties and from operators in joint venture properties;

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

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

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

(b) raising capital through equity or debt financings.

The Company is not subject to any capital requirements imposed by a regulator, except to the extent that it has pledged cash as collateral for certain letters of guarantee issued to ANH (note 8). 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.

13. Management of capital (continued):

There were no changes in the Company's approach to capital management during the year. 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 June 30, 2011.

14. Financial instruments:

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

(a) Market risk:

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

There were no changes to the way the Company manages market risk during the years ended June 30, 2011 or 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 loss for the year ended June 30, 2011 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 2011:

Percentage of change in closing bid prices	Decrease in net after-tax loss from % increase in closing bid price	Increase in net after-tax loss from % decrease in closing bid price
2%	$ 214,775	$ (214,775)
4%	429,550	(429,550)
6%	644,325	(644,325)
8%	859,100	(859,100)
10%	1,073,875	(1,073,875)

14. Financial instruments (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2010 from a change in the closing bid price of the Company's investments with all other variables held constant as at June 30, 2010:

Percentage of change in closing bid prices	Decrease in after-tax net loss from % increase in closing bid price	Increase in after-tax net loss from % decrease in closing bid price
2%	$ 297,284	$ (297,284)
4%	594,568	(594,568)
6%	891,852	(891,852)
8%	1,189,136	(1,189,136)
10%	1,486,420	(1,486,420)

(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 June 30, 2011 and 2010, the Company did not hold any debt obligations.

There were no changes to the way the Company manages credit risk during the year ended June 30, 2011. 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 June 30, 2011 and 2010, the Company had the following significant receivables:

(i) As at June 30, 2011, the Company had accrued income tax receivable of $1,053,614 (2010 - $1,328,276) relating to tax losses expected to be carried back as a result of the taxable loss for the year ended June 30, 2011. The Company believes it is not exposed to credit risk since the amount is fully collectible from the Canadian government. During the year ended June 30, 2011, the Company has received $1,004,520 (2010 - $1,380,329) in tax refunds.

(ii) 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 year ended June 30, 2011, the Company has received repayment of the promissory note in full from Dejour.

14. Financial instruments (continued):

(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 during the years ended June 30, 2011 and 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 June 30, 2011, the Company was not using any margin but had $228,868 due from its broker (cash held at a brokerage account).

The following table shows the Company's liabilities and potential due dates related to liquidity risk as at June 30, 2011:

	Payments due by period				
Liabilities and obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**4 – 5 years**	**After 5 years**
Accounts payable and accrued liabilities	**$ 1,497,064**	**$ 1,497,064**	**$ -**	**$ -**	**$ -**
	$ 1,497,064	**$ 1,497,064**	**$ -**	**$ -**	**$ -**

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 years**	**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 June 30, 2011 and 2010, 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.

14. Financial instruments (continued):

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, Argentinean pesos and Brazilian reals. 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 June 30:

	2011	2010
Denominated in U.S. dollars:		
Investments	**$ -**	$ 890,313
Cash and cash equivalents	**69,779**	1,063,028
Due from brokers	**157,095**	-
Restricted cash	**4,699,998**	5,286,967
Prepaids and other receivables	**260,309**	3,202
Accounts payable and accrued liabilities	**(1,397,055)**	(85,629)
Net assets denominated in U.S. dollars	**3,790,126**	7,157,881
Denominated in Brazilian reals:		
Cash and cash equivalents	**173,855**	165,990
Net assets denominated in Brazilian reals	**173,855**	165,990
Denominated in Argentinean pesos:		
Cash and cash equivalents	**1,538**	9,363
Prepaids and other receivables	**19,393**	20,794
Net assets denominated in Argentinean pesos	**20,931**	30,157
Denominated in Colombian pesos:		
Cash and cash equivalents	**96,949**	17,736
Prepaids and other receivables	**-**	372
Net assets denominated in Colombian pesos	**96,949**	18,108

14. Financial instruments (continued):

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2011 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at June 30, 2011:

Percentage change in U.S. dollar exchange rate	Decrease in after-tax net loss from an increase in % in the U.S. dollar exchange rate	Increase in after-tax net loss from a decrease in % in the U.S. dollar exchange rate
2%	$ 53,630	$ (53,630)
4%	107,261	(107,261)
6%	160,891	(160,891)
8%	214,521	(214,521)
10%	268,151	(268,151)

The following table shows the estimated sensitivity of the Company's after-tax net loss for the year ended June 30, 2010 from a change in the U.S. dollar exchange rate in which the Company has significant exposure with all other variables held constant as at June 30, 2010:

Percentage change in U.S. dollar exchange rate	Decrease in after-tax net loss from an increase in % in the U.S. dollar exchange rate	Increase in after-tax net loss from a decrease in % in the U.S. dollar exchange rate
2%	$ 96,631	$ (96,631)
4%	193,263	(193,263)
6%	289,894	(289,894)
8%	386,526	(386,526)
10%	483,157	(483,157)

(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, restricted cash, due from brokers, promissory note receivable, other receivables, 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.

15. Future accounting changes:

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 GAAP as the basis for preparation of financial statements. Brownstone will adopt IFRS commencing with consolidated financial statements for periods ending after July 1, 2011, with comparative information for the same periods in the prior year.

16. Comparative consolidated financial statements:

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the June 30, 2011 consolidated financial statements.

17. Subsequent events:

(a) Subsequent to June 30, 2011, the ANH returned a letter of guarantee to the Company in the amount of US$1,620,000. The amount was an additional pledge for Block 27 which was no longer required. As a result of the extension of the US$2,700,000 PSG by EDC and the returned letter of guarantee by the ANH, current restricted cash in the amount of $4,165,776 (US$4,320,000) was released subsequent to June 30, 2011 (note 8).

(b) Subsequent to June 30, 2011, 1,455,000 options exercisable at prices ranging from $2.20 to $2.50 per share expired unexercised.