For the year ended: June 30, 2011

Date of report: September 28, 2011

This management's discussion and analysis of the consolidated financial condition and results of operations ("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, 2011 and 2010. The annual audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting policies followed in the preparation of the annual consolidated financial statements are disclosed in note 2 of the Notes to the consolidated financial statements as at and for the years then ended June 30, 2011 and 2010. See "Significant Accounting Policies" elsewhere in this MD&A.

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, increases in future production volume on its Colombian property, 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, including the uncertainties

inherent in estimating production volumes, 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:

Brownstone Energy Inc. ("Brownstone" or the "Company") 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". The Company changed its name from Brownstone Ventures Inc. to Brownstone Energy Inc. effective January 18, 2011. Brownstone is a Canadian-based, energy focused company with direct interests in oil and gas exploration projects, including varying interests in three off-shore Israel concessions and four Colombian blocks in the Llanos basin.

Highlights:

- In November 2010, the Company announced an oil discovery in the Lower Mirador formation at the well Canaguary-1 in the Canaguaro block in Colombia. Brownstone has been advised by the operator of the Canaguaro block that the long-term production testing of Canaguay No. 1 is continuing with the well currently producing approximately 400 barrels of oil per day. The optimal production rate for the Mirador reservoir and facilities will be determined by the results of the long-term production test. As at June 30, 2011, the Company's share of net production revenue from the well totaled approximately $259,000.

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

- 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.

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

- As at June 30, 2011, the Company has working capital of $46,507,056 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of 128.0%, primarily due to the proceeds raised in an equity private placement completed in March 2011.

- As at June 30, 2011, oil and gas properties and related expenditures increased by 35.7% to $49,076,358 as compared to $36,167,168 as at June 30, 2010, primarily from exploration of the Company's Colombian and Israeli properties.

Oil and 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:

	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 (d)							
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 (e)							
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**

(a) The Company has participating interests in four blocks located in the Llanos Basin of Central Columbia, covering an aggregate of 66,646 gross hectares (15,226 net hectares to Brownstone).

As at June 30, 2011, the Company has spent $21,073,363 on its oil and gas properties and related expenditures in Colombia, primarily relating to the drilling of a well on the Canaguaro block and 3D seismic testing on Blocks 21, 27, and 36. Netted against oil and gas properties and related expenditures is $259,228 (US$265,385), accrued for the sale of petroleum produced during long- term production testing of the well on the Canaguaro block.

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%
Gross hectares	9,712	7,108	16,470	33,356
Brownstone's net hectares	2,428	2,487	5,641	4,670

(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.

If commercial production occurs on the block, the Company will be required to pay it's pro-rata share of 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").

On August 4, 2010, the Canaguay-1 well on the Canaguaro block was successfully drilled to a final total depth of 15,850 feet. The property's operator completed the initial testing on November 22, 2010. Following the installation of long term production facilities, the well was put on production testing during the first week of May 2011. A crude oil sales and trucking agreement was signed during the fourth quarter of 2011. 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 block.

Total production has averaged approximately 400 bopd and Brownstone has been advised that the water cut has gone from an average of 18% in May 2011 to 33% in August 2011. Initial reservoir pressure was registered at approximately 5,850 psi in May, and management has witnessed some decline in bottom hole flowing pressure since commencement of the long term test. Brownstone has been further advised that in late August, the acting operator had shut in the Canaguay 1 well for 6 days to conduct a pressure build up test. Over that short period, well pressure returned to within 100 psi of the May pressure indicating that reservoir pressure depletion is not significant. Given that the perforations are only 30 feet above the plug back depth, management believes that

sand production is likely causing a restriction in flow, and reduced bottom hole flowing pressure. The Company and its partners now plan to service the well by conducting a cleanout of the well, replacing the electrical submersible pump ("ESP"), and placing the new ESP at a deeper depth in the well closer to the producing zone. It is management's expectation that this will lead to increased fluid production and a resultant increase in oil production as well. This work is expected to be completed by November 1, 2011 and is budgeted at a net cost to Brownstone of US$250,000.

(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.

An 95 square kilometre ("km") 3D seismic program has been completed on Block 21 and processing and interpretation of the 3D seismic data is near completion. Preliminary evaluation has identified 4 potential prospects of interest on Block 21 with further detailed analysis required. Under contractual commitments to the ANH, and by the terms of its farm-in agreement, Brownstone and its partners must drill two wells by September 12, 2012. Assuming environmental approval is received in a timely fashion, the Company expects to commence well site construction and drill two wells in the second half of fiscal 2012. Projected well depths at Block 21 are 8,000 feet.

(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.

An initial 220 square km 3D seismic survey and an additional 54 square km survey seismic acquisition program has been completed in the southeastern portion of the block. Brownstone has been advised that following analysis and interpretation, 4 drillable prospects have been identified on the block. On August 10, 2011, blanket environmental permits were received which allows drilling of its first well on Block 27. Construction of the location began on August 29, 2011, and Brownstone has been advised that the first well should spud by the second half of October 2011 and that well should take approximately 45 days to reach its target depth of 10,000 feet. Prospective targets include the oil bearing intervals in the Mirador and Une Formations, with the Carbonera formation representing a secondary target.

(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.

The operator of Block 36, has advised that the acquisition of the 109 km of 3D seismic has been completed and is being processed. Drilling of one, 15,000 foot well is now scheduled

for February 2012 and the operator continues to evaluate options to meet activity requirements of the ANH.

(b) As at June 30, 2011, Brownstone has the following interests in the Piceance/Uinta basin in the USA: (i) 28.57% of approximately 145,000 acres in the Piceance/Uinta basin, together with Dejour (72.13%); (ii) 10% of approximately 164,000 acres in the Piceance/Uinta basin, together with Dejour (25%) and Retamco (65%); and (iii) 10% of approximately 14,000 acres in the Piceance/Uinta basin, together with Dejour (25%) and MDU (65%). Retamco, Dejour and MDU, as operators of the respective acreages, are actively evaluating alternatives to advance the acreages, including developing parcels and selling/farming-out interests in parcels.

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. Subsequently, 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) On October 28, 2008, the Company acquired a 50% interest in exploration licenses from X-Terra Resources Corp. ("X-Terra"), a public company listed on the TSXV under the symbol "XT". The exploration licenses are for exploration for petroleum and natural gas on X-Terra's shale properties located in the Quebec lowlands (namely, Shawinigan, Rimouski and Rimouski North) ("Quebec Shale Licenses"). Pursuant to the acquisition, Brownstone issued to X-Terra 2,000,000 common shares valued at $737,353 and 2,000,000 common share purchase warrants. Each purchase warrant entitled X-Terra to purchase one common share of Brownstone at a price of $2.00 per share until October 28, 2010.

The 2,000,000 common share purchase warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 95.0%; dividend yield of 0%; risk-free interest rate of 2.5%; and an expected life of 1.5 years. The value assigned to the purchase warrants was $60,000. The warrants expired unexercised in October 2010. Pursuant to an operating agreement to be entered into by Brownstone and X-Terra, Brownstone will be the operator of an exploration program for the territory covered by the Quebec Shale Licenses.

X-Terra has informed the Company that the Province of Quebec has placed a moratorium on all Provincial lands while it conducts an environmental assessment of shale gas exploration in the Province.

(e) 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, the Company has completed the acquisition of 45 km2 of 3D seismic data over a portion of its Samuel Block. The seismic data is currently in the processing stage. Once the data has been processed and a preliminary interpretation has been made, the information will be sent to Gustavson Associates for completion of a resource assessment on the Samuel Block.

For fiscal 2012, 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 fiscal 2012.

Investments:

As at June 30, 2011, the Company held investments with a fair value of $12,350,483 as compared to $17,174,119 at June 30, 2010. The cost base of the Company's portfolio was $22,219,575 as at June 30, 2011 as compared to $32,093,349 as at June 30, 2010. As such, as at June 30, 2011, the cost of investments exceeded fair value by $9,869,092 as compared to $14,919,230 as at June 30, 2010. The improvement arose from the unrealized gains for the year ended June 30, 2011 of $5,050,138 primarily due to the reversal of previously recognized unrealized losses on the disposal of investments.

For details of the Company's accounting policies for investments, see (a) under "Significant Accounting Policies" elsewhere in this MD&A. The fair value of the Company's investments as reflected in its financial statements and calculated in accordance with GAAP and its accounting policies 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.

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 sheet 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 realized losses and 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

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.

Results of Operations

Selected financial information for the Company for its three most recently completed financial years as at and for the years ending June 30, is as follows:

	2011	2010	2009
Total revenue	**$ 3,925,618**	$ 4,938,260	$ (43,106,286)
Net and comprehensive loss for the year	**(1,299,013)**	(22,069,004)	(36,010,843)
Loss per common share – basic and diluted	**(0.01)**	(0.31)	(0.68)
Total assets	**97,614,700**	63,961,793	70,638,276
Total liabilities	**1,497,064**	2,113,363	366,846
Shareholder's equity	**96,117,636**	61,848,430	70,271,430

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

Certain financial information for the Company for the three months and year ended June 30, is provided below:

Operating Results	**(Unaudited) Three months ended June 30,**		**Year ended June 30,**	
	2011	2010	**2011**	2010
Realized gains (losses) on disposal of investments, net	**$ (772,134)**	$ 76,528	**$ (1,385,033)**	$ 647,190
Unrealized gains on investments, net	**65,159**	(3,941,618)	**5,050,138**	3,949,027
Net investment gains (losses)	**(706,975)**	(3,865,090)	**3,665,105**	4,596,217
Net and comprehensive loss for the period	**(2,492,201)**	(24,171,292)	**(1,299,013)**	(22,069,004)
Basic and diluted loss per common share	**(0.02)**	(0.28)	**(0.01)**	(0.31)

Years ended June 30, 2011 and 2010:

The Company continues to dispose of its investments for working capital purposes while maintaining some core investment holdings. For the year ended June 30, 2011, the Company generated net realized losses on disposal of investments of $1,385,033 compared to net realized gains on disposal of investments of $647,190 for the year ended June 30, 2010.

For the year ended June 30, 2011, the Company recorded net unrealized gains on investments of $5,050,138 as compared to $3,949,027 for the year ended June 30, 2010. Of the net unrealized gains in the year ended June 30, 2011, $3,105,516 was due to the reversal of net unrealized losses on the disposal of investments and $1,944,622 from the net write-up to market on the Company's investments. The net unrealized gains in the year ended June 30, 2010, $3,030,210 was due to the reversal of net unrealized losses on the disposal of investments and $918,817 was due to the write up to market on the Company's investments.

For the year ended June 30, 2011, the Company recorded interest and other income of $260,513 as compared to $342,043 for the year ended June 30, 2010. Interest income is primarily composed of interest income earned on a promissory note, which was repaid in full in December 2010. Interest income was also earned on term deposits from the proceeds of private placement financings.

For the year ended June 30, 2011, operating, general and administrative expenses increased by $585,726 to $5,302,782 from $4,717,056 for the year ended June 30, 2010.

The following is the breakdown of the Company's operating, general and administrative expenses for the year ended June 30. Details of the changes follow the table:

	Year ended June 30,	
	2011	2010
Salaries, consulting and administrative fees (a)	**$ 1,768,954**	$ 1,119,839
Stock-based compensation expense (b)	**1,240,147**	783,405
Colombian equity tax (c)	**672,663**	-
Professional fees (d)	**329,435**	201,579
Travel and promotion (e)	**286,391**	199,578
Shareholder relations, transfer agent and filing fees	**176,273**	208,488
Office and General (f)	**828,919**	2,204,167
	$ 5,302,782	$ 4,717,056

(a) Salaries, consulting and administrative fees increased by $649,115 for the year ended June 30, 2011 as compared to the year ended June 30, 2010. The increase was primarily due to bonuses of $475,000 paid to officers of the Company and the appointment of a new President and Chief Operating Officer in March 2010.

(b) Stock-based compensation expense increased by $456,742 for the year ended June 30, 2011 as compared to the year ended June 30, 2010. The increase was due to an increase in stock options granted during the year which vested over the current period and had a greater fair value as compared to the prior year.

(c) The Colombian government implemented a new equity tax, whereby Brownstone is required to pay a tax based on the net equity of its Colombian branch office, subject to certain adjustments.

(d) Professional fees increased by $127,856 for the year ended June 30, 2011 as compared to the year ended June 30, 2010, primarily from professional fees expensed in foreign subsidiaries due to increased business activities for Brownstone's oil and gas properties.

(e) Travel and promotion increased by $86,813 for the year ended June 30, 2011 as compared to the year ended June 30, 2010. The increase was due to increased travel related to the Company's oil & gas activities (mainly in Colombia) and an increase in marketing efforts.

(f) Office and general decreased by $1,375,248 for the year ended June 30, 2011 as compared to the year ended June 30, 2010. The decrease was primarily due to a write-off of a letter of guarantee in the prior year of $1,450,660 (US$1,395,000), which was called by the Government of India through the Directorate General of Hydrocarbons (the "DGH"). The write-off of the letter of guarantee was recorded in operating, and administrative expenses for the year ended June 30, 2010. In the current year, the Company paid a financing fee of $330,000 to a third party for a loan received by the Company, which was repaid in full prior to year-end.

For the year ended June 30, 2011, the Company had a foreign exchange loss of $409,592 as compared to $408,247 for the year ended June 30, 2010. The loss arose primarily due to the decrease in the value of the Canadian dollar versus the U.S. dollar during the year, which decreased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the year ended June 30, 2011, the Company did not write-off any oil and gas interests, as compared to a write-off of oil and gas interests of $20,500,805 in the year ended June 30, 2010. In fiscal 2010, the Company wrote-off some of its interests in Brazil and India, which had unsuccessful drill results, and wrote-down its interests in Argentina to fair value.

For the year ended June 30, 2011, transaction costs decreased to $39,766 from $44,247, 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 year ended June 30, 2011, the Company recorded a recovery of income taxes of $729,859 as compared to a provision for income taxes of $1,296,069 for the year ended June 30, 2010. The recovery of income taxes for the year ended June 30, 2011 is primarily due to the expected income tax recoverable from taxable losses in the current year, which will be carried back to prior years. The recovery of income taxes is offset by the recorded tax allowance on future income tax assets which the Company believes that it is more likely to not realize the tax benefits during the next several years. For the year ended June 30, 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 June 30, 2010.

Net and comprehensive loss for the year ended June 30, 2011 was $1,299,013 ($0.01 per share) as compared to $22,069,004 ($0.31 per share) for the year ended June 30, 2010.

The following is a summary of quarterly results:

	Quarter ended			
	June 30, 2011	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**
Net investment gains (losses)	**(706,975)**	**(145,552)**	**4,458,314**	**59,318**
Net and comprehensive income (loss) for the period	**(2,492,201)**	**(1,461,881)**	**3,117,392**	**(462,323)**
Earnings (loss) per share – basic	**(0.02)**	**(0.01)**	**0.04**	**(0.01)**
Earnings (loss) per share – diluted	**(0.02)**	**(0.01)**	**0.03**	**(0.01)**
	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009
Net investment gains (losses)	(3,865,090)	4,964,781	(268,671)	3,765,197
Net and comprehensive income (loss) for the period	(24,171,292)	3,512,888	(762,474)	(648,126)
Earnings (loss) per share – basic	(0.28)	0.05	(0.01)	(0.01)
Earnings (loss) per share – diluted	(0.28)	0.05	(0.01)	(0.01)

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

Three months ended June 30, 2011 and 2010:

For the three months ended June 30, 2011, the Company generated net realized losses on disposal of investments of $772,134 compared to net realized gains on disposal of investments of $76,528 for the three months ended June 30, 2010. For the three months ended June 30, 2011, the Company realized net losses from the disposition of a portion of its holdings in Dejour Energy Inc. For the three months ended June 30, 2010, the Company realized net gains primarily from the disposition of a portion of its holdings in Lynden Energy Corp., totaling $73,041.

For the three months ended June 30, 2011, the Company recorded net unrealized gains on investments of $65,159 versus net unrealized losses on investments of $3,941,618 in the three months ended June 30, 2010. Of the net unrealized losses in the three months ended June 30, 2011, $1,235,451 was due to the reversal of net unrealized losses on the disposal of investments offset by net write-down to market on the Company's investments of $1,170,292. The net unrealized losses in the three months ended June 30, 2010, were due to the net write-down to market on the Company's investments of $3,962,489 offset by $20,871 due to the reversal of net unrealized losses on the disposal of investments.

For the three months ended June 30, 2011, the Company recorded interest and other income of $88,509 as compared to $87,970 for the three months ended June 30, 2010. Interest income is primarily composed of interest income earned on investments in banker's acceptances and cash deposits.

For the three months ended June 30, 2011, operating, general and administrative expenses decreased by $824,689 to $1,966,950 from $2,791,639 for the three months ended June 30, 2010.

The following is the breakdown of the Company's operating, general and administrative expenses for the three months ended June 30. Details of the changes follow the table:

	Three months ended June 30,	
	2011	2010
Salaries, consulting and administrative fees (a)	**$ 754,767**	$ 302,057
Stock-based compensation expense (b)	**356,958**	197,044
Colombian equity tax (c)	**588,578**	-
Professional fees	**73,490**	111,809
Shareholder relations, transfer agent and filing fees	**50,760**	40,107
Travel and promotion	**111,374**	126,034
Office and General (d)	**31,023**	2,014,588
	$ 1,966,950	$ 2,791,639

(a) Salaries, consulting and administrative fees increased by $452,710 for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. The increase was due to bonuses of $475,000 paid to officers of the Company during the three months ended June 30, 2011, partially offset by a reduction in consultancy fees.

(b) Stock-based compensation expense increased by $159,914 for the three months ended June 30, 2011 as compared to the three months ended June 30, 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) The Colombian government implemented a new equity tax, whereby Brownstone is required to pay a tax based on the net equity of its Colombian branch office, subject to certain adjustments.

(d) Office and general decreased by $1,983,565 for the three months ended June 30, 2011 as compared to the three months ended June 30, 2010. The decrease was primarily due to the called letter of guarantee by the DGH in the prior year period as previously discussed and a decrease in bank charges in the current period consisting of bank fees charged for letter of credits guaranteed by the Company's bank and wire transfers sent to the Company's foreign subsidiaries.

For the three months ended June 30, 2011, the Company had a foreign exchange gain of $14,276 as compared to $150,825 for the three months ended June 30, 2010. The foreign exchange gain arose primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the quarter, which increased the Canadian dollar value of the Company's U.S. dollar denominated monetary assets.

For the three months ended June 30, 2010, the Company recorded a write-off of oil and gas properties and related expenditures of $16,931,055 as compared to nil for the three months ended June 30, 2011. In the prior year period, the Company wrote-off its interests in India and wrote-down its interests in Argentina.

For the three months ended June 30, 2011, the Company recorded a recovery of income taxes of $80,531 as compared to a provision for income taxes of $809,612 for the three months ended

June 30, 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 offset by a valuation allowance. In the prior year period, the provision for income taxes was primarily due to a valuation allowance offset by a recovery of income taxes from tax losses carried back to prior years.

Net and comprehensive loss for the three months ended June 30, 2011 was $2,492,201 ($0.02 per share) as compared to $24,171,292 ($0.28 per share) for the three months ended June 30, 2010.

Cash Flows
Years ended June 30 2011 and 2010:

During the year ended June 30, 2011, the Company used cash of $4,734,703 in operating activities as compared to $2,152,495 in the year ended June 30, 2010.

During the year ended June 30, 2011, the Company generated net cash in financing activities of $34,099,204 as compared to $10,343,252 during the year ended June 30, 2010. The increase was primarily from net proceeds of $26,549,415 from a private placement financing which closed in March 2011 and proceeds of $7,778,657 from the exercise of warrants, broker warrants, and options. The cash generated in the year ended June 30, 2010 was from the net proceeds of $10,243,303 raised in a non-brokered private placement financing and proceeds of $176,632 from the exercise of stock options and warrants. During the year ended June 30, 2011, the Company received gross proceeds of $3,000,000 in the form of a one-year loan from an arm's-length private company, which was repaid in full prior to year-end.

During the year ended June 30, 2011, net cash used in investing activities was $1,362,925 as compared to $8,646,302 during the year ended June 30, 2010. During the year ended June 30, 2011, the Company had cash expenditures on oil and gas properties and related expenditures of $12,772,103 as compared to cash expenditures of $14,391,699 during the year ended June 30, 2010. The expenditures were primarily on the Company's Colombian and Israeli properties. During the year ended June 30, 2011, the Company had proceeds from its disposition of investments of $8,752,741 as compared to $13,344,430 during the year June 30, 2010. During the year ended June 30, 2011, the Company purchased investments totalling $264,000 as compared to $6,578,672 during the year ended June 30, 2010. During the year ended June 30, 2011, the Company received the full repayment of the $2,070,140 promissory note due from Dejour. During the year ended June 30, 2011, the Company decreased its restricted cash by $586,969 as compared to increasing the restricted cash by $2,370,410 during the year ended June 30, 2010.

For the year ended June 30, 2011, the Company had a net increase in cash and cash equivalents of $28,001,576 leaving a cash and cash equivalents balance of $29,833,806 as at June 30, 2011. For the year ended June 30, 2010, the Company had a net decrease in cash and cash equivalents of $455,545, leaving a cash and cash equivalents balance of $1,832,230 as at June 30, 2010.

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

Three months ended June 30, 2011 and 2010:

During the three months ended June 30, 2011, the Company used cash of $560,637 in operating activities as compared to $1,962,934 in the three months ended June 30, 2010.

During the three months ended June 30, 2011, the Company generated net cash in financing activities of $5,282,019 as compared to $8,793,643 during the three months ended June 30, 2010. During the three months ended June 30, 2011, the net cash generated in financing activities was primarily from net proceeds of $5,441,172 from the exercise of stock options and warrants offset by cash held at brokers of $157,327. In the three months ended June 30, 2010, the Company completed a non-brokered private placement financing which raised net proceeds of $10,243,303 of which $1,600,800 was received prior to April 1, 2010.

During the three months ended June 30, 2011, net cash used in investing activities was $5,259,940 as compared to $10,008,009 during the three months ended June 30, 2010. During the three months ended June 30, 2011, the Company had cash expenditures on oil & gas properties and related expenditures of $3,190,622 as compared to cash expenditures of $11,025,376 during the three months ended June 30, 2010. During the three months ended June 30, 2011, the Company had proceeds from its disposition of investments of $517,987 as compared to $214,103 during the three months June 30, 2010.

For the three months ended June 30, 2011, the Company had a net decrease in cash and cash equivalents of $538,558 leaving a cash and cash equivalents balance of $29,833,806 as at June 30, 2011. For the three months ended June 30, 2010, the Company had a net decrease in cash and cash equivalents of $3,177,300, leaving a cash and cash equivalents balance of $1,832,230 as at June 30, 2010.

Segmented information:

(a) Operating segments:

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)	$ 1,003,281	$ 26,517,343	$ 27,520,624
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	4,158,489
Brazil	2,549	(3,297,109)	-	165,990	165,990
	$ 342,043	$ (22,069,004)	$ 36,167,168	$ 27,794,625	$ 63,961,793

Liquidity and capital resources:

Balance Sheet Highlights	**June 30, 2011**	June 30, 2010
Cash and cash equivalents	**$ 29,833,806**	$ 1,832,230
Investments, at fair value	**12,350,483**	17,174,119
Oil & gas properties and related expenditures	**49,076,358**	36,167,168
Total assets	**97,614,700**	63,961,793
Total liabilities	**1,497,064**	2,113,363
Share capital, shares to be issued warrants, and contributed surplus	**117,622,500**	82,054,281
Retained earnings (deficit)	**(21,504,864)**	(20,205,851)
Working Capital	**46,507,056**	20,394,295

Accounts payable and accrued liabilities decreased by $616,299 to $1,497,064 as at June 30, 2011 as compared to $2,113,363 as at June 30, 2010. As at June 30, 2011, the accounts payable and accrued liabilities included $255,911 in success fees due on the sale of petroleum (see Oil and gas

properties and related expenditures section) and $400,415 for cash calls for the Canaguaro property and $566,779 for Colombian equity tax (as previously discussed). As at June 30, 2010, the accounts payable and accrued liabilities included $1,855,495 of accrued liabilities for seismic work on Block 27 in Colombia.

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 and gas properties (see Oil and gas and related expenditures section). These oil and 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, current restricted cash, investments, and due from brokers as at June 30, 2011 would be sufficient to meet the Company's current financial obligations as they become due.

As at June 30, 2011, the Company has working capital of $46,507,056 as compared to working capital of $20,394,295 as at June 30, 2010, an increase of $26,112,761. 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 $2,200,585, 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 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.

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 financing fee of $330,000. Proceeds of the loan were used for working capital purposes. In March 2011, the loan was repaid in full from the proceeds raised in the private placement as previously mentioned.

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, Export Development Canada ("EDC") a federal government agency, issued three Performance Security Guarantees ("PSG") totaling US$4,984,883 to secure certain letters of credit issued by RBC to the ANH. The GICs held by RBC were then released to the Company and the funds, which were designated as "restricted cash", became available to Brownstone for general corporate use. The Company has indemnified EDC for the full amount of its guarantees. In June 2011, one PSG for US$2,700,000 expired and the Company had to pledge that amount to RBC. The PSG was subsequently extended by EDC in July 2011 and therefore the Company categorized the US$2,700,000 as current restricted cash as at June 30, 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).

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.

Investor relations:

During the three months ended June 30, 2011, Brownstone's management and Contact Financial Corp. ("Contact") 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.

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**	-

(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.

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

(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
Sept 21, 2010	1,000,000	$ 0.51	Sept 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		

Off-Balance sheet arrangements:

As at June 30, 2011, the Company holds restricted cash totaling $4,699,998 (US$4,874,000) (June 30, 2010 - $5,286,967 (US$4,984,883)) which is used as collateral for oil and gas exploration associated with the Company's interests in Colombia. The Company has also indemnified EDC for the full amount of the guarantees provided by the EDC. See "Liquidity and capital resources" for additional information regarding this contingent liability.

Management of capital:

The Company includes the following in its capital:

	June 30, 2011	June 30, 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 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; and

(b) 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 ANH. 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 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.

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 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)

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 receivable 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.

(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 or 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	**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	**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.

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

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. 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 Argentina, Colombia, Israel 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.

(e) Fluctuations in Crude Oil Prices:

The price of the Company's common shares, and consolidated financial results and exploration, development and other oil and gas activities may in the future be significantly and adversely affected by declines in the price of crude oil. The price of oil fluctuates widely and is affected by numerous factors beyond the Company's control, such as interest rates, exchange rates, inflation or deflation, fluctuation in the value of the US dollar and foreign currencies, global and regional supply and demand, the political and economic conditions and production costs of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future material price declines could cause continued development of and commercial production from the properties in which the Company holds an interest to be impracticable. Depending on the price of oil, cash flow from the Company's operations may not be sufficient and the Company could be forced to discontinue production and may lose the Company's interest in, or may be forced to sell, some of the Company's properties. Future production from the Company's properties is dependent upon the price of oil being adequate to make these properties economic.

Adoption of IFRS:

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, 2011. Since June 30, 2010, there have been no changes to the Company's accounting policies.

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 is in the process to transitioning from GAAP to IFRS. The initial analysis of IFRS in comparison with GAAP has identified a number of differences. Management expects that most adjustments required will be made retrospectively against opening deficit which will be shown on the first comparative consolidated statement of financial position.

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

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 all 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.

Upon transition (July 1, 2010), the Company has estimated a potential adjustment to be an increase in contributed surplus of approximately $400,000 and a corresponding increase in deficit of the same amount. As at June 30, 2011, the Company has estimated the net adjustment to be an increase in contributed surplus of approximately $705,000 as reported under GAAP and a corresponding increase in deficit of the same amount. As a result of the exercise of options, as at June 30, 2011, the Company has estimated the net adjustment to be an increase in share capital of approximately $7,000 and a corresponding decrease in contributed surplus of the same amount.

For the year ended June 30, 2011, the net loss would be increased by approximately $306,000 as compared to the net loss reported under GAAP, relating to stock-based compensation expense.

(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.

The Company is continuing to evaluate the impact of IFRS 6 on its reported results and has not determined the adjustment to the exploration and evaluation assets.

(iii) IAS 12 – Income tax:

The Company does not expect any 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.

The Company currently does not expect any impact of IAS 16 on its reported results for 2011.

(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.

Under IAS 21, the foreign exchange differences from translating a foreign operation will be a component of shareholder's equity rather than net profits. The temporal method of translating foreign operations for consolidation purposes is not permitted under IFRS and will result in the translation of the Company's foreign operations as follows:

- Assets and liabilities whether monetary or non-monetary at the closing exchange rate at the reporting period date;
- Net and other comprehensive income at the average exchange rate;
- Exchange differences are reflected in shareholder's equity under foreign currency translation reserve instead of net profits.

As permitted under IFRS 1, the cumulative translation difference balance will be recorded in opening deficit upon transition to IFRS. For the year ended June 30, 2011, the Company has estimated the net adjustment to be an increase in net loss by approximately $4,361,000 as reported under GAAP and the corresponding entry to be to other comprehensive loss under exchange differences on translation of foreign operations.

Further, under IAS 21, the Company is permitted to present foreign exchange differences under other comprehensive income in the consolidated financial statements for long-term monetary items which are part of the net investments in a foreign operation. For example, Brownstone has no plans to settle in the near future the advances to its wholly owned subsidiaries. The advances are eliminated upon consolidation. The impact of this on the consolidated financial statements is to reclassify exchange differences from net income into other comprehensive income under exchange differences on translation of foreign operations. For the year ended June 30, 2011, the Company has estimated the net adjustment to be an increase in net profits by approximately $4,385,000 as reported under GAAP and the corresponding entry to be to other comprehensive income under exchange differences on translation of foreign operations.

Also, non-monetary assets such as exploration and evaluation assets held by foreign subsidiaries are translated at the closing exchange rate. Upon transition, the Company has estimated the net adjustment to be to decrease exploration and evaluation assets by $307,797 and the corresponding entry will be to other comprehensive income under foreign currency translation reserve. For the year ended June 30, 2011, the Company has estimated the net adjustment to be a decrease in exploration and evaluation assets by approximately $3,142,000 as reported under GAAP and the corresponding entry to be to other comprehensive income under exchange differences on translation of foreign operations.

(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.

The Company currently does not expect any impact of IAS 36 on its reported results for 2011.

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.	Substantially completed.
	Quantification of impact of the differences identified.	Substantially completed.
	Completion of Company's IFRS 1 decisions and quantification of the impacts of those decisions.	Substantially completed.
	Development of financial statement format and related disclosure.	Substantially completed.
ICFR	For all changes made to the Company's accounting policies, review the design and effectiveness implications on ICFR.	Substantially completed.
DC&P	For all changes made to the Company's accounting policies, review the design and effectiveness implications on DC&P.	Substantially completed.
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. Completed review and determined that there will be no significant impact.
IT Infrastructure	Development of new systems or changes to existing systems required for the transition and post implementation	No significant impact on the current IT infrastructure.

	timeframes.	
Financial Reporting Expertise	Development of internal IFRS expertise.	The Company has use outside training resources to develop the necessary expertise within the finance department and audit committee as needed.

Significant Accounting Policies:

There were no changes to the Company's significant accounting policies during the year ended June 30, 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 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.

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

(c) 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.

(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:

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.

Refer to Note 2 to the consolidated financial statements as at and for the year ended June 30, 2011 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 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 year ending June 30, 2011, the Company had net unrealized gains of $2,680,300 (2010 - $203,667) on 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 year ended June 30, 2011, the Company had no wrote-down on its oil and gas properties and related expenditures (2010 - $20,500,805).

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 June 30, 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 $7,978,807 (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 $7,978,807 as at June 30, 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 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	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% - 108.5%**
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)	**0.62**
Fair value per stock option granted on February 17, 2011 (consultant)	**0.32**
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	**95.0% - 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**

During the year ended June 30, 2011, 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.

During the year ended June 30, 2011, 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 year ended June 30, 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	**95.0%**
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**

During the year ended June 30, 2010, the Company issued 9,999,998 share purchase warrants and 1,493,680 broker warrants pursuant to a non-brokered private placement financing. The purchase warrants and broker warrants were valued using the Black-Scholes option pricing model with the following assumptions: expected volatility of 97.9%; dividend yield of 0%; risk-free interest rate of 2.25%; and an expected life of 1.5 years. The value assigned to the purchase warrants and broker warrants was $2,200,000 and $403,293, respectively.

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 years ended June 30, 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 June 30, 2011, 1,455,000 options exercisable at prices ranging from $2.20 to $2.50 per share expired unexercised.

As at September 28, 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	**129,794,289**
Issuable under options	**6,970,080**
Issuable under warrants	**23,129,806**
Issuable under broker warrants (a)	**3,466,010**
Total diluted common shares	**163,360,185**

(a) Of the 3,466,010 broker warrants, 1,347,589 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 3,466,010 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 consolidated financial statements as at and for the year ended June 30, 2011 for details of the Company's share capital as at June 30, 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.brownstoneenergy.com or under the Company's profile on SEDAR at www.sedar.com.