**BROWNSTONE ENERGY INC.**

# FORM 51-101F1
# STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

## Definitions

References in this statement of reserves data and other oil and gas information (the "Statement") to "Brownstone", the "Company", "we", "us" and "our" refer to Brownstone Energy Inc.

Certain terms in this Statement which first appear in italics (other than in headings) have the meanings ascribed to those terms in National Instrument 51-101 -- Standards of Disclosure for Oil and Gas Activities (and its companion policy) ("NI 51-101").

Unless otherwise indicated, all references to dollar amounts in this Statement are to U.S. dollars.

## Abbreviations

In this Statement, the abbreviations indicated below have the associated meanings:

| | |
|---|---|
| "bbl": | barrel |
| "bbls": | barrels |
| "boe": | barrels of oil equivalent |
| "Cdn$": | Canadian dollars |
| "Mcf": | thousand cubic feet |
| "Mbbl": | thousand barrels |
| "M$": | thousands of U.S. dollars |
| "MM$": | millions of U.S. dollars |
| "M$Cdn": | thousands of Canadian dollars |
| "NGL": | natural gas liquids |
| "U.S.": | United States of America |

## Units of Equivalency

The Statement includes information expressed in boe. Boe may be misleading, particularly if used in isolation. 6 Mcf of natural gas and 1 bbl of NGL each equal 1 bbl of crude oil. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## Date of Statement

The Statement contains information concerning our material *properties* for our financial year ended June 30, 2014. The Statement is dated October 10, 2014. The effective date of the Statement is June 30, 2014 and the preparation date of the Statement is October 10, 2014.

**Forward-Looking Information**

This Statement contains forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action 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”, “believe”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook.

Other forward-looking information in this Statement pertains to:

- expectations regarding future development costs and the ability to fund such costs;
- future exploration activities, including drilling activities, on our properties;
- future work commitments relating to our properties; and
- expectations regarding exploration and development activities.

Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors, many of which are beyond our control, could cause actual results to differ materially from the results discussed in the forward-looking information. Some of the risks that could affect our future results and could cause results to differ materially from those expressed in our forward-looking information include:

- the need to obtain required approvals and permits from regulatory authorities;
- the impact of competition;
- compliance with and liabilities under environmental laws and regulations;
- the volatility of oil and natural gas prices;
- general economic conditions in the countries in which we operate;
- changes to royalty regimes and government regulations regarding royalty payments;
- risks associated with exploring for, developing, producing, processing, storing and transporting oil and natural gas;
- geological, technical, drilling, testing and processing problems;
- our ability to hire and retain staff;
- imprecision in estimating capital expenditures and operating expenses;
- imprecision in estimating the timing, costs and levels of production and drilling;
- imprecision in estimates of future production capacity;
- potential delays or changes in plans with respect to exploration and development projects or capital expenditures;
- changes to regulations and legislation applicable to us and the interpretation thereof, including tax and environmental legislation and regulations in the countries in which we have operations;
- general economic and business conditions;
- unavailability of required equipment and services;
- the risks related to foreign operations and negotiating with third parties involved in international activities;
- potential conflicting interests with joint venture partners; and
- the other factors discussed under “Significant Factors” and elsewhere in this Statement.

With respect to forward-looking information contained in this Statement, we have made assumptions regarding, among other things:

- our ability to generate sufficient cash flow from operations and to access the capital markets to meet our future obligations;

- the regulatory framework representing royalties, taxes and environmental matters in the countries in which we conduct our business; and
- our ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet our demands.

Additional assumptions made relating to our reserves are discussed elsewhere in this Statement. Although the forward-looking information contained in this Statement is based upon assumptions which management of the Company believes to be reasonable, there can be no assurance that actual results will be consistent with this forward-looking information. The forward-looking information contained in this Statement is made as of its effective date or preparation date, as applicable, and we assume no obligation to update or revise it to reflect new events or circumstances, except as required by law. Because of the risks, uncertainties and assumptions inherent in forward-looking information, readers are cautioned to not place undue reliance on this forward-looking information.

**Disclosure of Reserves Data**

As at June 30, 2014, we did not have any *reserves* or, consequently, any *future net revenues*.

**Reconciliation of Changes in Reserves**

*Reconciliation of Company Gross Reserves by Principal Product Type Forecast Prices and Costs*

During our financial year ended June 30, 2014, we disposed of our remaining reserves, all of which were located in Colombia. The following table sets forth a reconciliation of the changes in our gross reserves of heavy oil in Colombia as at June 30, 2014, against such reserves as at June 30, 2013.

**Colombia**

| | **Heavy Oil[1]** | | |
|---|---|---|---|
| **Factors** | **Gross Proved (Mbbl)** | **Gross Probable (Mbbl)** | **Gross Proved Plus Probable (Mbbl)** |
| June 30, 2013 | 884 | 796 | 1,681 |
| Extensions and improved recovery | -- | -- | -- |
| Technical revisions | -- | -- | -- |
| Discoveries | -- | -- | -- |
| Acquisitions | -- | -- | -- |
| Dispositions | (860) | (796) | (1,656) |
| Economic factors | -- | -- | -- |
| Production | (24) | -- | (24) |
| June 30, 2014 | 0 | 0 | 0 |

[1]Numbers have been rounded.

**Other Oil and Gas Information**

*Oil and Gas Properties and Wells*

Our important properties are located in Israel, U.S. (Utah and Colorado) and Argentina, and are described below. Our properties are onshore, other than our Israeli properties which are located offshore. We do not have any properties to which reserves have been attributed and which are capable of producing but which are not producing.

During our 2014 financial year, we assigned our private participating interests in Blocks 27 and 36 in the Llanos Basin of Colombia to the operators of the blocks and had no remaining interests in Colombia at the year-end. Additionally, the Samuel License (offshore Israel) in which we had a 6.75% interest expired during the year and we and the other holders of the license relinquished our interests back to the Ministry of Energy and Water for the State of Israel (the "**Israeli Ministry**"). We also sold 13% of our 28.57% interests in the two oil and gas leases comprising the Kokopelli project in Colorado (with another 52% of our interests now subject to an earn-in by the purchaser) and 65% of the interest that we had in one well.

Israel

Our properties in Israel are comprised of a 15% private participating interest in the rights to each of the Gabriella license and the Yitzhak license, which covers a 392 $km^2$ area located 10 kilometres offshore between the City of Netanya in the North and the City of Ashdod in the South and a 127 $km^2$ area located 10 km offshore between the City of Hadera in the North and the City of Netanya in the South, respectively.

Utah/Colorado

Our properties in the U.S. are comprised of between 10% and 28% working interests, as applicable, in approximately 270 oil and gas leases, covering in excess of 300,000 acres located in the Piceance and Unita Basins in Colorado and Utah, respectively.

Argentina

Our material property in Argentia is comprised of a 25% working interest in the Vaca Mahuida Block in the Province of Rio Negro. During the 2014 financial year, we entered into an agreement with the operator of the block to sell our interest to the operator. The sale is conditional and was not yet completed as at the preparation date of this Statement. See "Properties With No Attributed Reserves".

*Oil and Gas Wells*

The following table sets forth the number of producing wells in which we have an interest as at June 30, 2014. We do not have any interests in non-producing wells.

| | Gas Wells | |
|---|---|---|
| | Gross[(1)] | Net[(2)] |
| U.S. | 2 | 0.2571 |
| Total | 2 | 0.2571 |

[(1)] Gross wells are the total number of wells in which the Company has an interest.
[(2)] Net wells are the total number of gross wells in which the Company has an interest multiplied by the Company's percentage interest in the wells.

*Properties With No Attributed Reserves*

The following table indicates the *gross* and *net* area of our *unproved* properties (properties to which no reserves have been specifically attributed) as at June 30, 2014.

| | Unproved Properties (acres) | |
|---|---|---|
| **Location** | **Gross[(1)]** | **Net[(2)]** |
| Israel | 128,060 | 19,209 |
| U.S. | 327,171 | 56,885 |
| Argentina | 232,798 | 58,200 |
| **Total** | **688,029** | **134,294** |

[(1)]Gross area is the total area in which we have an interest.
[(2)]Net area is the aggregate of the total area in which we have an interest multiplied by our percentage interest therein.

The Gabriella license representing our interest in 14,456 net acres in Israel expired in September 2014, with no further extension being granted by the Israeli Ministry, and the Yitzhak license representing our remaining 4,753 net acres in Israel was due to expire in October 2014. Unless the Yitzhak license and corresponding work program are extended by the Israeli Ministry, our interest in the block will terminate.

Israel

Gabriella:

In accordance with the terms of our international operating agreement in respect of the Gabriella license, we have a 15% (private) participating interest in the rights to the licence and are required to fund 15% of all costs incurred in the conduct of the work programs undertaken in respect of the license.

The following table sets out the work program that must be completed in order to maintain the Gabriella License:

| **Gabriella Work Program** | **Milestone Dates** |
|---|---|
| Submit to the Ministry a request for approval of a new operator | February 28, 2014 |
| Execute a contract with a drilling contractor | April 30, 2104 |
| Complete an Antisotricpic PSDM and coherent sub surface model | July 31, 2014 |
| Spud the first well | August 31, 2014 |

The estimated gross cost of the work program is $80 million, representing an estimated cost of $12 million to Brownstone. Additionally, under new guidelines introduced by the Israeli Ministry applicable to all offshore licenses, we and the other holders of the Gabriella license are required to make an aggregate security guarantee payment of $2.5 million ($375,000 payable by Brownstone), in two installments by November 30, 2014 and March 31, 2015.

None of the work program milestones on the license were met and we and our partners suspended operations on Gabriella. The license was due to expire on September 1, 2014. An application to the Israeli Ministry for an extension of the license expiry and associated milestone dates under the work program was turned down by the Ministry in September. The license will be relinquished back to the Israeli Ministry unless its decision is otherwise reversed.

Yitzhak:

In accordance with the terms of our international operating agreement in respect of the Yitzhak license, we have a 15% (private) participating interest in the rights to the licence and are required to fund 15% of all costs incurred in the conduct of the work programs undertaken in respect of the license.

In October 2013, the Israeli Ministry granted an extension of the expiration of the Yitzhak License to October 15, 2014 and an extension of the associated milestone dates.

The following table sets out the current work program that must be completed in order to maintain the Yitzhak Block:

| **Yitzhak Work Program** | **Milestone Dates** |
|---|---|
| Execute a contract with a drilling contractor | September 30, 2014 |
| Spud the first well | September 30, 2014 |

The estimated gross cost of the work program is $80 million, representing an estimated cost of $12 million to Brownstone. Additionally, under new guidelines introduced by the Israeli Ministry applicable to all offshore licenses, we and the other holders of the Yitzhak license are required to make an aggregate security guarantee payment of $2.5 million ($375,000 payable by Brownstone), in two installments by November 30, 2014 and March 31, 2015.

The work program milestones on the license were not met. The license expires on October 15, 2014. Unless the expiry date is extended, along with the milestone dates under the work program, the license will be relinquished back to the Israeli Ministry.

U.S.

We presently have no material work commitments that are contemplated for the remainder of the 2014 calendar year or for 2015 on our unproved U.S. properties. Under the terms of an earning and development agreement which we entered into in June 2014, our 24.86% working interest in the Kokopelli project (which can be reduced to 10% under the earn-in) is being carried for a $16 million work program that commenced during the second half of 2014.

Argentina

Under the terms of a participation agreement with our partner, Petrolifera Petroleum Limited (“Petrolifera”), we are obligated to pay 50% of the costs incurred in the conduct of the work program on the Vaca Mahuida block, including drilling and other work costs. There are no outstanding work obligations on the block.

In November 2013, we entered into an agreement with Petrolifera, pursuant to which we agreed to sell our 25% working interest in the block to Petrolifera for $805,530. The sale is conditional upon Petrolifera being awarded the exploitation concession on the block. If the concession is so awarded, the sale of our interest will occur within 10 business days thereafter, following which we will have no further interests in Argentina.

*Significant Factors or Uncertainties Relevant to Properties With No Attributed Reserves*

The anticipated development or production activities on our properties with no attributed reserves could be affected by various significant economic factors or uncertainties, including those listed below.

Capital Requirements

To finance our future exploration, development and operating costs, we may require financing from external sources, including from the issuance of new shares, issuance of debt or execution of working interest farm-out agreements. There can be no assurance that this financing will be available to us or, if available, that it will be offered on terms acceptable to us. If we are unable to secure financing on acceptable terms, we may have to cancel or postpone certain of our planned exploration and development activities.

Shared Ownership and Dependency on Partners

Our operations are conducted together with one or more partners through contractual arrangements. As a result, we are dependent on, and may be affected by, the due performance of our partners. If a partner fails to perform, we, among other things, risk losing rights or revenues or may incur additional obligations or costs in order to for us to perform in place of our partners. If a dispute were to arise with one or more partners relating to a project, the dispute may have significant negative effects on our operations relating to the project.

Risks Inherent in Oil and Gas Exploration and Development

Oil and gas operations involve many risks which, even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our long-term commercial success depends on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that expenditures made on future exploration by us will result in discoveries of oil or natural gas in commercial quantities or that commercial quantities of oil and natural gas will be discovered or acquired by us. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees. Our business is subject to all of the risks and hazards inherent in businesses involved in the exploration for, and the acquisition, development, production and marketing of, oil and natural gas, many of which cannot be overcome even with a combination of experience and knowledge and careful evaluation. The risks and hazards typically associated with oil and gas operations include fire, explosion, blowouts, sour gas releases, pipeline ruptures and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment or personal injury.

Risks Relating to Concessions, Licenses and Contracts

Our operations are based on a relatively limited number of concession agreements, licenses and contracts. The rights and obligations under the concessions, licenses and contracts may be subject to interpretation and could also be affected by, among other things, matters outside of our control. In case of a dispute, it cannot be certain that our view would prevail or that we otherwise could effectively enforce our rights which, in turn, could have significantly negative effects on us. Also, if we or any of our partners were deemed not to have complied with their duties or obligations under a concession, license or contract, our rights under such concessions, licenses or contracts may be relinquished in whole or in part.

Availability of Equipment and Staff

Our oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment and qualified staff in the particular areas where such activities are or will be conducted. We depend on our operating partners to provide drilling rigs and equipment for our exploration and development activities. Shortages of such equipment or staff may affect the availability of such equipment to us and may delay our exploration and development activities and result in lower production.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could have an adverse effect on our business and prospect.

Uncertainty of Title

Although we generally conduct title review prior to acquiring an interest in a concession/license, the reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise that may call into question our interest in the property. Any uncertainty with respect to one or more of our property interests could have a material adverse effect on our business, prospects and results of operations.

*Additional Information Concerning Abandonment Costs and Reclamation Costs*

We follow the Canadian Institute of Chartered Accountants' standard on decommissioning liabilities to account for and report future asset requirement expenditures. This standard requires liability recognition for retirement obligations associated with long-lived assets, which would include abandonment of oil and natural gas wells, related facilities, compressors and gas plants, removal of equipment from leased acreage and returning such land to its original condition. Under the standard, the estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset utilizing a risk-free interest rate. The obligation is reviewed regularly by management of the Corporation based upon current regulations, costs, technologies and industry standards. The discounted obligation is recognized as a liability and is accreted against income until it is settled or the property is sold and is included as a component of financing expense. Actual restoration expenditures are charged to the accumulated obligation as incurred.

As of June 30, 2014, we have not accounted for any asset retirement obligations associated with our oil and gas activities.

*Tax Horizon*

We do not expect to pay income taxes at the parent level for the foreseeable future. Our U.S. subsidiary and Colombian branch have incurred income taxes.

*Cost Incurred*

The following table summarizes our *property acquisition costs*, *exploration costs* and *development costs* for the financial year ended June 30, 2014 in respect of our properties:

| | **Property Acquisition Costs (M$Cdn)** | | | |
|---|---|---|---|---|
| **Country** | **Proved Properties** | **Unproved Properties** | **Exploration Costs (M$Cdn)** | **Development Costs (M$Cdn)** |
| Columbia | -- | -- | -- | 2,228 |
| Israel | -- | -- | -- | -- |
| U.S. | -- | -- | -- | 27 |
| Argentina | -- | -- | -- | -- |

*Exploration and Development Activities*

Exploratory and Development Wells:

No wells were completed during our financial year ended June 30, 2014.

Exploration & Development Activities:

Development activities on the Kokopelli project (U.S.) consist of a $16 million work program that includes the drilling of 8 production wells.

*Production History*

Colombia

During the financial year ended June 30, 214, long-term production testing continued on the Flami 1 exploratory well located on Block 27. Our share of average gross daily production of heavy oil and the average of the prices received, royalties paid, production costs, and resulting netback to us during the first three quarters of fiscal 2014 are indicated below. We sold our interest in Block 27 during the third quarter ended March 31, 2014.

| | **2013 Quarter Ended** | | **2014 Quarter Ended** |
|---|---|---|---|
| | **Sept. 30** | **Dec. 31** | **Mar. 31** |
| Average Daily Production[1] | | | |
| Heavy Oil (bbls) | 108 | 93 | 89 |
| Net Prices Received | | | |
| Heavy Oil ($/bbl) | 93.44 | 80.07 | 74.21 |
| Royalties Paid | | | |
| Heavy Oil ($/bbl) | -- | -- | -- |
| Production Costs[1] | | | |
| Heavy Oil ($/bbl) | 63.57 | 70.07 | 71.64 |
| Netback Received[2] | | | |
| Heavy Oil ($/bbl) | 29.87 | 10 | 2.57 |

(1) Our share of production is net of oil royalties payable in kind to ANH, which are taken by ANH at the wellhead.
(2) Royalties paid in addition to those paid in kind to ANH and referenced in note (1) above.
(3) Netbacks are calculated by subtracting royalties and operating costs from revenues.

U.S.

The following table summarizes our share of average gross daily production of heavy oil, natural gas and NGLs from our South Rangley and Kokopelli wells and the average of the prices received, royalties paid, production costs, and resulting netback to us for each quarter of fiscal 2014.

| | **2013 Quarter Ended** | | **2014 Quarter Ended** | |
|---|---|---|---|---|
| | **Sept. 30** | **Dec. 31** | **Mar. 31** | **June 30** |
| Average Daily Production | | | | |
| Heavy Oil (bbbls) | 1 | 1 | 1 | 1 |
| Natural Gas (Mcf) | 167 | 187 | 136 | 89 |
| NGL (bbls) | 1 | 1 | 1 | 4 |
| Combined (boe) | 29 | 33 | 24 | 19 |
| Net Prices Received | | | | |
| Heavy Oil ($/bbl) | 95.00 | 86.59 | 87.81 | 91.66 |
| Natural Gas ($/Mcf) | 3.82 | 4.21 | 5.97 | 5.10 |
| NGL ($/bbl) | 71.80 | 72.26 | 72.38 | 45.50 |
| Combined ($/boe) | 24.04 | 26.97 | 37.06 | 32.90 |
| Royalties Paid | | | | |
| Heavy Oil ($/bbl) | 19.00 | 17.32 | 17.56 | 18.33 |
| Natural Gas ($/Mcf) | 0.74 | 0.82 | 1.16 | 0.99 |
| NGL ($/bbl) | 14.36 | 14.45 | 14.48 | 9.10 |
| Combined ($/boe) | 4.66 | 5.23 | 7.18 | 6.37 |
| Production Costs(1) | | | | |
| Heavy Oil ($/bbl) | 1.09 | 3.67 | 7.32 | 18.72 |
| Natural Gas ($/Mcf) | 1.19 | 1.24 | 2.09 | 2.46 |
| NGL ($/bbl) | 3.95 | 7.63 | 13.39 | 24.95 |
| Combined ($/boe) | 7.08 | 7.28 | 12.45 | 14.83 |
| Netback Received(2) | | | | |
| Heavy Oil ($/bbl) | 74.91 | 65.60 | 62.93 | 54.61 |
| Natural Gas ($/Mcf) | 1.89 | 2.15 | 2.72 | 1.65 |
| NGL ($/bbl) | 53.49 | 50.18 | 44.51 | 11.45 |
| Combined ($/boe) | 12.30 | 14.46 | 17.43 | 11.70 |

(1) We do not record production costs on the basis of product type. Information in respect of production costs for heavy oil, natural gas and NGLs has been estimated on a well-by-well basis based upon the relative volume of production of each product.
(2) Netbacks are calculated by subtracting royalties and production costs (estimated as described in note (1)) from revenues.

Annual Production by Product Type

The following table sets forth our annual production volumes for the year ended June 30, 2014 by product type.

| | **2014 Production Volumes** | | | |
|---|---|---|---|---|
| | **Heavy Oil (bbls)** | **Natural Gas (Mcf)** | **NGLs (bbls)** | **Oil Equivalent (boe)** |
| Block 27 | 24,409 | - | - | 24,409 |
| Kokopelli | 249 | 45,386 | 22,052 | 8,339 |
| South Rangley | - | 7,495 | - | 1,249 |
| Total | 24,658 | 52,881 | 22,052 | 33,997 |