

Interim Condensed Consolidated Financial Statements of

Brownstone Energy Inc.

September 30, 2014

(Unaudited - prepared in Canadian dollars)

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BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited - prepared in Canadian dollars)

Notice to reader pursuant to National Instrument 51-102 – Continuous Disclosure Obligations

Under National Instrument 51-102 – Continuous Disclosure Obligations, if an auditor has not performed a review of a reporting issuer's interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these interim condensed consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

BROWNSTONE ENERGY INC.
Consolidated Statements of Financial Position
As at September 30, 2014 and June 30, 2014
(Unaudited - prepared in Canadian dollars)

	<u>Notes</u>	<u>September 30,</u> <u>2014</u>	<u>June 30,</u> <u>2014</u>
Assets			
Current			
Cash and cash equivalents		\$ 4,585,356	\$ 5,377,283
Due from broker		130,285	-
Prepays and receivables		64,006	876,235
Investments, at fair value	5	4,172,900	3,707,817
Income taxes receivable		227,685	242,537
		<u>9,180,232</u>	<u>10,203,872</u>
Exploration and evaluation assets	4	3,032,361	4,911,743
		<u>\$ 12,212,593</u>	<u>\$ 15,115,615</u>
Liabilities and Equity			
Current			
Accounts payable and accrued liabilities		\$ 719,769	\$ 1,031,132
		<u>719,769</u>	<u>1,031,132</u>
Equity			
Share capital	6(a)	96,597,845	96,597,845
Contributed surplus	6(c)	24,547,428	24,537,211
Foreign currency translation reserve		453,197	287,820
Deficit		<u>(110,105,646)</u>	<u>(107,338,393)</u>
		<u>11,492,824</u>	<u>14,084,483</u>
		<u>\$ 12,212,593</u>	<u>\$ 15,115,615</u>

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.**Consolidated Statements of Comprehensive Loss****Three Months Ended September 30,****(Unaudited - prepared in Canadian dollars)**

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Net investment gains (losses)			
Net realized losses on disposal of investments		\$ (377,387)	\$ -
Net change in unrealized gains (losses) on investments		(190,642)	429,186
		<u>(568,029)</u>	429,186
Interest and other income		<u>73,267</u>	4,006
		<u>(494,762)</u>	433,192
Expenses			
Operating, general and administrative	6(b), 8	186,932	840,246
Impairment of exploration and evaluation assets		2,071,157	87,056
		<u>2,258,089</u>	927,302
Loss before income taxes		(2,752,851)	(494,110)
Income tax expense		<u>14,402</u>	23,814
Net loss for the period		(2,767,253)	(517,924)
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations		165,377	(325,985)
Total comprehensive loss for the period		<u>\$ (2,601,876)</u>	<u>\$ (843,909)</u>
Loss per common share based on net loss for the period	6(d)		
Basic and diluted		<u>\$ (0.02)</u>	<u>\$ (0.00)</u>
Weighted average number of common shares outstanding	6(d)		
Basic and diluted		129,794,289	129,794,289

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.**Consolidated Statements of Changes in Equity****Three Months Ended September 30, 2014 and 2013****(Unaudited - prepared in Canadian dollars)**

		Number of shares	Share capital	Warrants	Contributed surplus	Foreign currency translation reserve	Deficit	Total equity
Balance at June 30, 2013	Notes	129,794,289	\$ 96,597,845	\$ 2,559,317	\$ 21,806,275	\$ (79,081)	\$ (93,982,518)	\$ 26,901,838
Net loss for the period		-	-	-	-	-	(517,924)	(517,924)
Exchange differences on translation of foreign operations		-	-	-	-	(325,985)	-	(325,985)
Total comprehensive loss for the period		-	-	-	-	(325,985)	(517,924)	(843,909)
Stock-based compensation expense	6(b)	-	-	-	49,275	-	-	49,275
Balance at September 30, 2013		129,794,289	\$ 96,597,845	\$ 2,559,317	\$ 21,855,550	\$ (405,066)	\$ (94,500,442)	\$ 26,107,204
Balance at June 30, 2014		129,794,289	\$ 96,597,845	\$ -	\$ 24,537,211	\$ 287,820	\$ (107,338,393)	\$ 14,084,483
Net loss for the period		-	-	-	-	-	(2,767,253)	(2,767,253)
Exchange differences on translation of foreign operations		-	-	-	-	165,377	-	165,377
Total comprehensive loss for the period		-	-	-	-	165,377	(2,767,253)	(2,601,876)
Stock-based compensation expense	6(b)	-	-	-	10,217	-	-	10,217
Balance at September 30, 2014		129,794,289	\$ 96,597,845	\$ -	\$ 24,547,428	\$ 453,197	\$ (110,105,646)	\$ 11,492,824

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.
Consolidated Statements of Cash Flows
Three Months Ended September 30,
(Unaudited - prepared in Canadian dollars)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cash flows from (used in) operating activities			
Net loss for the period		\$ (2,767,253)	\$ (517,924)
Items not affecting cash			
Net realized losses on disposal of investments		377,387	-
Net change in unrealized losses (gains) on investments		190,642	(429,186)
Impairment of exploration and evaluation assets		2,071,157	87,056
Stock-based compensation expense	6(b)	10,217	49,275
		<u>(117,850)</u>	<u>(810,779)</u>
Changes in non-cash working capital balances			
Prepays and receivables		812,229	82,896
Income taxes receivable		14,852	59,839
Accounts payable and accrued liabilities		(89,590)	(149,540)
Income taxes payable		-	(72,642)
		<u>619,641</u>	<u>(890,226)</u>
Cash flows used in financing activities			
Increase in due from brokers		(130,285)	-
		<u>(130,285)</u>	<u>-</u>
Cash flows used in investing activities			
Expenditures on exploration and evaluation assets, net		(228,491)	(1,117,578)
Proceeds on sale of exploration and evaluation assets		-	19,391
Decrease in restricted cash		-	65,136
Proceeds on disposal of investments		423,744	-
Purchases of investments		(1,456,856)	-
		<u>(1,261,603)</u>	<u>(1,033,051)</u>
Net decrease in cash and cash equivalents during the period		(772,247)	(1,923,277)
Exchange rate changes on foreign currency cash balances		(19,680)	20,702
Cash and cash equivalents, beginning of period		5,377,283	9,595,064
Cash and cash equivalents, end of period		\$ 4,585,356	\$ 7,692,489
Supplemental cash flow information			
Income taxes paid		\$ 4,796	\$ 108,446
Finance expense paid		-	-

See accompanying notes to the interim condensed consolidated financial statements.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited - prepared in Canadian dollars)

1. Nature of business and going concern uncertainty:

Brownstone Energy Inc. ("Brownstone" or the "Company") was continued under the Canada Business Corporations Act on December 1, 2011 and its common shares are publicly-traded on the TSX Venture Exchange under the symbol "BWN" and on the OTCQX under the symbol "BWSOF". The Company is domiciled in the Province of Ontario and its head office is located at 130 King St. West, Suite 2500, Toronto, Ontario, Canada.

Brownstone is a Canadian-based, energy-focused company with direct and indirect interests in oil and gas exploration projects.

These interim condensed consolidated financial statements ("interim consolidated statements") were approved for issuance by the Company's board of directors on November 27, 2014.

These interim consolidated statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has incurred a loss in the three months ended September 30, 2014 of \$2,767,253 (three months ended September 30, 2013 - \$517,924) and has an accumulated deficit of \$110,105,646 (June 30, 2014 - \$107,338,393). The Company is in the exploration stage and is subject to risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration and the ability to secure adequate financing to meet the minimum capital required to successfully complete the projects, political risk relating to maintaining property licenses in good standing and continuing as a going concern. Management estimates that the funds available as at September 30, 2014 will not be sufficient to meet the Company's potential capital expenditures through September 30, 2015. The Company will have to raise additional funds to continue operations. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available on terms acceptable to the Company. Failure to meet its funding commitments with its partners may result in the loss of the Company's exploration and evaluation interests.

The challenges of securing requisite funding beyond September 30, 2014 and the continued estimated operating losses cast significant doubt on the Company's ability to continue as a going concern. The consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

2. Basis of preparation:

(a) Statement of compliance:

These interim consolidated statements are unaudited and have been prepared on a condensed basis in accordance with International Accounting Standard 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee using accounting policies consistent with International Financial Reporting Standards ("IFRS").

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited - prepared in Canadian dollars)

2. Basis of preparation (continued):

Except as described in note 3, the same accounting policies and methods of computation were followed in the preparation of these interim consolidated statements as were followed in the preparation of and as described in note 3 of the annual consolidated financial statements as at and for the year ended June 30, 2014. Accordingly, these interim consolidated statements for the three months ended September 30, 2014 and 2013 should be read together with the annual consolidated financial statements as at and for the year ended June 30, 2014.

(b) Basis of presentation:

These interim consolidated statements have been prepared using the historical cost convention except for certain financial instruments which have been measured at fair value. All monetary references expressed in these notes are references to Canadian dollar amounts ("\$/").

(c) Basis of consolidation:

These interim consolidated statements include the financial statements of Brownstone and its wholly-owned subsidiaries: Brownstone Ventures (US) Inc., Brownstone Ventures (Barbados) Inc., Brownstone Comercializadora de Petroleo Ltda., and 2121197 Ontario Ltd.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-company account balances and transactions have been eliminated upon consolidation.

3. Changes in accounting polices:

Effective July 1, 2014, the Company has adopted the following new and revised standard, along with any consequential amendments. These changes were made in accordance with the applicable transitional provisions.

- (a) *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27) - These amendments are effective for annual periods beginning on or after January 1, 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

The Company has assessed and determined that the amendments to IFRS 10, IFRS 12 and IAS 27 will not result in any change in the accounting or disclosures for its subsidiaries.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

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4. Exploration and evaluation assets:

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

The Company's accounts reflect only its interests in its oil and gas activities. The following is a summary of the Company's exploration and evaluation assets:

	Colombia	Israel (a)	USA (b)	Canada	Argentina (c)	Total
	\$	\$	\$	\$	\$	\$
Balance at July 1, 2013	1,051,200	9,664,918	4,376,697	1,130,468	1,051,200	17,274,483
Net additions ¹	306,317	(706,143)	(126,018)	12,689	(112,956)	(626,111)
Disposals	-	-	(270,170)	-	-	(270,170)
Impairment of exploration and evaluation assets	(1,372,310)	(9,236,915)	-	(1,143,154)	(87,056)	(11,839,435)
Foreign currency translation	14,793	278,140	71,247	-	8,796	372,976
Balance at June 30, 2014	-	-	4,051,756	3	859,984	4,911,743
Net additions ¹	-	-	6,718	-	-	6,718
Impairment of exploration and evaluation assets	-	-	(2,071,157)	-	-	(2,071,157)
Foreign currency translation	-	-	142,203	-	42,854	185,057
Balance at September 30, 2014	-	-	2,129,520	3	902,838	3,032,361

¹ Net additions reflects expenditures on exploration and evaluation assets less revenue received from sales of natural gas, natural gas liquids, and oil generated during long-term production testing (if any) and reversals of outstanding cash calls previously capitalized.

(a) Israel:

As at June 30, 2014, the Company had the following participating interests in Israel and is required to fund its share of the participating interests:

	Gabriella Block	Yitzhak Block
Participating Interest	15%	15%

The Gabriella license expired on September 1, 2014 without further extension being granted by the Ministry of Energy and Water of the State of Israel ("Ministry"), due to the milestones in the work program not being achieved. The Company has been notified by the operator of the Block that they are appealing to the Ministry the decision to rescind the Gabriella license.

The Yitzhak license expired on October 15, 2014. The Company and its joint operating partners of the Yitzhak Block are awaiting formal notice from the Ministry and evaluating the options available to them, including the filing of an extension with the Ministry. The Yitzhak Block was the Company's remaining oil and gas project in Israel.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

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(Unaudited - prepared in Canadian dollars)

4. Exploration and evaluation assets (continued):

(b) USA:

The Company has participating interests of between 10% to 28.57% in various acreages in the Piceance/Uinta basin in the USA and is required to fund its share of the participating interests.

During the three months ended September 30, 2014, included in net additions was \$17,946 (year ended June 30, 2014 - \$260,493) in gross revenue (net of royalties) from the sale of natural gas, natural gas liquids, and oil generated during long-term production testing.

In June 2014, the Company closed the sale of 13% of its 28.57% interests in two oil and gas leases comprising the Kokopelli project in Colorado (and 65% of its 28.57% working interest in the initial well drilled in 2013) with a further 52% of the Company's 28.57% interests subject to an earn-in by the purchaser. The Company now has a 24.85% carried working interest in a US\$16,000,000 drilling and completion program planned for 2014-2015 to be funded 100% by the purchaser of the assets. If the earn-in conditions are satisfied, the Company will have a 10% working interest in the Kokopelli project. The Company believes the earn-in conditions will be satisfied by December 31, 2014. During the three months ended September 30, 2014, the Company recorded an impairment charge on its USA properties of \$2,071,157 to its estimated recoverable amount of \$2,129,520 (US\$1,900,000). The Company has impaired the USA properties by 50% for which management believes the assets could be sold in a comparable arm's length transaction, less estimated costs to sell. The impairment was recognized upon a review of the Company's participating interests in the USA properties.

(c) Argentina:

The Company has a 25% interest in the Vaca Mahuida Block in the Province of Rio Negro, Argentina. Under the terms of the participation agreement governing Brownstone's interest, the Company is required to fund 50% of the costs to be incurred in the conduct of the work program on the property.

During the year ended June 30, 2014, the Company agreed to relinquish its 25% working interest to Petrolifera Petroleum (Americas) Limited Sucursal Argentina, the operator of the Block for net cash consideration of US\$805,530. The net cash consideration settled all outstanding liabilities and no further liabilities will occur in respect of the Block. As at September 30, 2014, the value of the 25% working interest in Argentina was \$902,838 (June 30, 2014 - \$859,984). The relinquishment is conditional upon granting by the Province of Rio Negro of an exploitation concession on the Vaca Mahuida Block to Petrolifera. As at the filing date of these consolidated financial statements, the concession has not been awarded by the Province and there is no certainty that it will be awarded.

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

September 30, 2014

(Unaudited - prepared in Canadian dollars)

5. Investments at fair value and financial instruments hierarchy:

(a) Determination of investments' fair values:

The determination of fair value requires judgment and is based on market information, where available and appropriate. At the end of each financial reporting period, the Company's management estimates the fair value of investments based on the criteria below and reflects such valuations in the consolidated financial statements.

The Company is also required to disclose details of its investments (and other financial assets and liabilities for which fair value is measured or disclosed in the financial statements) within three hierarchy levels (Level 1, 2, or 3) based on the transparency of inputs used in measuring or disclosing the fair value, and to provide additional disclosure in connection therewith.

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

- a. Securities including shares, options and warrants which are traded in an active market, such as on a recognized securities exchange and for which no sales restrictions apply, are presented at fair value based on quoted closing trade prices at the consolidated statement of financial position date or the closing trade price on the last day the security traded if there were no trades at the consolidated statement of financial position date. These are included in Level 1.
- b. Securities which are traded on a recognized securities exchange but which are escrowed or otherwise restricted as to sale or transfer are recorded at amounts discounted from market value to a maximum of 10%. In determining the discount for such investments, the Company considers the nature and length of the restriction. These are included in Level 2.
- c. For options and warrants which are not traded on a recognized securities exchange, no market value is readily available. When there are sufficient and reliable observable market inputs, a valuation technique is used; if no such market inputs are available or reliable, the warrants and options are valued at intrinsic value, which is equal to the higher of the closing trade price at the consolidated statement of financial position date of the underlying security less the exercise price of the warrant or option, and zero. These are included in Level 2.

2. Private company investments (securities of issuers that are not public companies):

All privately-held investments (other than options and warrants) are initially recorded at the transaction price, being the fair value at the time of acquisition. Thereafter, at each reporting period, the fair value of an investment may (depending upon the circumstances) be adjusted using one or more valuation indicators. These are included in Level 3. Options and warrants of private companies are carried at their intrinsic value.

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

5. Investments at fair value and financial instruments hierarchy (continued):

(b) The fair value and cost of investments are as follows:

	Fair Value	Cost
September 30, 2014	\$ 4,172,900	\$ 10,403,180
June 30, 2014	3,707,817	9,746,424

(c) Financial instruments hierarchy:

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For financial instruments that are recognized at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 statements of financial position as at September 30, 2014 and June 30, 2014:

Investments, at fair value	Level 1	Level 2	Level 3	Total
	Quoted market price	Valuation technique – observable market inputs	Valuation technique – non-observable market inputs	
September 30, 2014	\$ 3,672,900	\$ -	\$ 500,000	\$ 4,172,900
June 30, 2014	3,207,817	-	500,000	3,707,817

There were no transfers from Level 1 to 2 or Level 2 to 1 during the three months ended September 30, 2014 or for the year ended June 30, 2014.

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the three months ended September 30, 2014 and year ended June 30, 2014. These financial instruments are measured at fair value utilizing non-observable market inputs based on specific company information and general market conditions. The net change in unrealized losses are recognized in the consolidated statements of comprehensive loss.

	Opening balance at July 1,	Purchases	Net unrealized losses	Net transfer out of Level 3	Ending balance
September 30, 2014	\$ 500,000	\$ -	\$ -	\$ -	\$ 500,000
June 30, 2014	\$ 750,000	\$ -	\$ (250,000)	\$ -	\$ 500,000

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

5. Investments at fair value and financial instruments hierarchy (continued):

For this investment valued based on general market conditions and specific company information, the inputs used can be highly judgmental. A +/- 25% change on the fair value of this investment will result in a corresponding +/- \$125,000 (June 30, 2014 - \$125,000) change in the total fair value of the investments. While this illustrates the overall effect of changing the values of the unobservable inputs by a set percentage, the significance of the impact and the range of reasonably possible alternative assumptions may differ significantly between investments, given their different terms and circumstances. The sensitivity analysis is intended to reflect the uncertainty inherent in the valuation of these investments under current market conditions, and its results cannot be extrapolated due to non-linear effects that changes in valuation assumptions may have on the fair value of this investment. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent the Company's view of expected future changes in the fair value of this investment. Any management actions that may be taken to mitigate the inherent risks are not reflected in this analysis.

6. Equity:

(a) Authorized: unlimited number of common shares (no par value).

(b) Stock options:

There were no options granted during the three months ended September 30, 2014.

For the three months ended September 30, 2014, included in operating, general and administrative expenses was stock-based compensation expense of \$10,217 (three months ended September 30, 2013 - \$49,275) relating to the stock options granted to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock options as at September 30, 2014 and June 30, 2014 and changes during the periods then ended is presented below:

	September 30, 2014		June 30, 2014	
	# of options	Weighted average exercise price	# of options	Weighted average exercise price
Stock options				
Outstanding, at beginning of period	12,760,080	\$ 0.42	9,975,080	\$ 0.52
Granted	-	-	2,980,000	0.10
Forfeited	-	-	(16,668)	0.17
Expired	(1,128,400)	0.52	(178,332)	0.53
Outstanding, at end of period	11,631,680	\$ 0.41	12,760,080	\$ 0.42
Exercisable, at end of period	10,638,340	\$ 0.44	11,270,080	\$ 0.47

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

6. Equity (continued):

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2014:

Number of options outstanding	Number of options exercisable	Exercise price	Expiry date
10,000	10,000	\$ 0.61	October 5, 2014
50,000	50,000	0.75	November 26, 2014
200,000	200,000	0.75	November 30, 2014
500,000	500,000	0.65	March 2, 2015
630,000	630,000	0.65	April 14, 2015
130,000	130,000	0.43	May 25, 2015
1,111,680	1,111,680	0.51	September 20, 2015
1,325,000	1,325,000	1.20	March 29, 2016
2,105,000	2,105,000	0.40	October 10, 2016
225,000	225,000	0.56	February 7, 2017
2,365,000	2,365,000	0.17	November 28, 2017
2,980,000	1,986,660	0.10	September 9, 2018
11,631,680	10,638,340		

(c) Contributed surplus comprised the following as at September 30, 2014 and June 30, 2014:

	September 30, 2014	June 30, 2014
Stock-based compensation	\$ 10,104,844	\$ 10,094,627
Expired warrants and broker warrants	14,416,320	14,416,320
Cancellation of common shares under normal course issuer bid	20,639	20,639
Value of cancelled escrowed shares	5,625	5,625
	\$ 24,547,428	\$ 24,537,211

(d) Basic and diluted loss per common share based on loss for the three months ended September 30:

Numerator:	2014	2013
Net loss for the period	\$ (2,767,253)	\$ (517,924)
Denominator:	2014	2013
Weighted average number of common shares outstanding – basic	129,794,289	129,794,289
Weighted average effect of diluted stock options and warrants (i)	-	-
Weighted average number of common shares outstanding – diluted	129,794,289	129,794,289
Loss per common share based on net loss for the period:	2014	2013
Basic and diluted	\$ (0.02)	\$ (0.00)

BROWNSTONE ENERGY INC.

Notes to the Interim Condensed Consolidated Financial Statements

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(Unaudited - prepared in Canadian dollars)

6. Equity (continued):

- (i) The determination of the weighted average number of common shares outstanding – diluted excludes 11,631,680 shares related to stock options that were anti-dilutive for the three months ended September 30, 2014 (three months ended September 30, 2013 - 20,711,534 shares).

- (e) Maximum share dilution:

The following table presents the maximum number of shares that would be outstanding if all outstanding stock options, warrants and broker warrants were exercised as at September 30, 2014 and June 30, 2014:

	September 30, 2014	June 30, 2014
Common shares outstanding	129,794,289	129,794,289
Stock options to purchase common shares	11,631,680	12,760,080
Fully diluted common shares outstanding	141,425,969	142,554,369

7. Segmented information:

Reportable segments are defined as components of an enterprise about which separate financial information is available, that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. All of the Company's operations relate to direct and indirect investments in the oil and gas sector. The Company's significant segments consist of six distinct geographic areas: Colombia, Israel, Canada, United States, Argentina and Brazil. There were no changes in the reportable segments since June 30, 2014.

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 income or loss, but are attributed to the Canadian operations where the corporate head office is located.

The following is segmented information as at and for the three months ended September 30, 2014:

	Three months ended September 30, 2014		As at September 30, 2014		
	Interest and other income	Net loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	\$ 73,267	\$ 586,742	\$ 3	\$ 8,724,284	\$ 8,724,287
Israel	-	8,558	-	12,401	12,401
United States	-	2,082,132	2,129,520	14,115	2,143,635
Colombia	-	87,719	-	292,625	292,625
Argentina	-	1,932	902,838	8,231	911,069
Brazil	-	170	-	128,576	128,576
	\$ 73,267	\$ 2,767,253	\$ 3,032,361	\$ 9,180,232	\$ 12,212,593

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

7. Segmented information (continued):

The following is segmented information for the three months ended September 30, 2013 and as at June 30, 2014:

	Three months ended September 30, 2013		As at June 30, 2014		
	Interest and other income	Net loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	\$ 1,644	\$ 287,621	\$ 3	\$ 9,570,543	\$ 9,570,546
Israel	1,478	14,961	-	17,458	17,458
United States	-	-	4,051,756	66,235	4,117,991
Colombia	884	102,591	-	407,888	407,888
Argentina	-	112,751	859,984	5,471	865,455
Brazil	-	-	-	136,277	136,277
	\$ 4,006	\$ 517,924	\$ 4,911,743	\$ 10,203,872	\$ 15,115,615

8. Expenses by nature:

Included in operating, general, and administrative expenses for the three months ended September 30 are the following expenses:

	2014	2013
Salaries, consulting and administrative fees	\$ 237,657	\$ 432,955
Professional fees	74,098	54,596
Other office and general	23,414	66,390
Stock-based compensation expense	10,217	49,275
Transaction costs	8,117	-
Travel and promotion	7,465	16,074
Other employment benefits	4,657	6,536
Shareholder relations, transfer agent and filing fees	(1,156)	4,616
Foreign exchange loss (gain)	(177,537)	209,804
	\$ 186,932	\$ 840,246

9. Management of capital:

There were no changes in the Company's approach to capital management during the three months ended September 30, 2014. The Company's capital includes equity comprised of share capital, contributed surplus, foreign currency translation reserve, and deficit. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's current capital resources are sufficient to discharge its current liabilities as at September 30, 2014.

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

10. Risk management:

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

(a) Market risk:

There were no changes in the way the Company manages market risk during the three months ended September 30, 2014. 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 three months ended September 30, 2014 from a change in the closing trade price of the Company's investments with all other variables held constant as at September 30, 2014:

Percentage of change in closing trade price	Decrease in net after-tax loss from % increase in closing trade price	Increase in net after-tax loss from % decrease in closing trade price
2%	\$ 72,400	\$ (72,400)
4%	144,800	(144,800)
6%	217,199	(217,199)
8%	289,599	(289,599)
10%	361,999	(361,999)

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three ended September 30, 2013 from a change in the closing bid price of the Company's investments with all other variables held constant as at September 30, 2013:

Percentage of change in closing bid price	Decrease in net after-tax loss from % increase in closing trade price	Increase in net after-tax loss from % decrease in closing trade price
2%	\$ 36,372	\$ (36,372)
4%	72,745	(72,745)
6%	109,117	(109,117)
8%	145,490	(145,490)
10%	181,862	(181,862)

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

10. Risk management (continued):

(b) Currency risk:

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

The following assets and liabilities were denominated in foreign currencies:

	September 30, 2014	June 30, 2014
Denominated in U.S. dollars:		
Cash and cash equivalents	\$ 4,394,831	\$ 5,163,293
Prepays and receivables	33,827	221,862
Income tax receivable	227,685	242,537
Exploration and evaluation assets	3,032,358	4,911,740
Accounts payable and accrued liabilities	(658,500)	(966,052)
Net assets denominated in U.S. dollars	<u>7,030,201</u>	<u>9,573,380</u>
Denominated in Brazilian reals:		
Cash and cash equivalents	128,576	136,277
Net assets denominated in Brazilian reals	<u>128,576</u>	<u>136,277</u>
Denominated in Argentinean pesos:		
Cash and cash equivalents	8,231	5,471
Net assets denominated in Argentinean pesos	<u>8,231</u>	<u>5,471</u>
Denominated in Colombian pesos:		
Cash and cash equivalents	38,336	6,407
Net assets denominated in Colombian pesos	<u>38,336</u>	<u>6,407</u>

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the three months ended September 30, 2014 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 September 30, 2014:

Percentage change in U.S. dollar exchange rate	Decrease in total comprehensive loss from an increase in % in the U.S. dollar exchange rate	Increase in total comprehensive loss from a decrease in % in the U.S. dollar exchange rate
2%	\$ 103,344	\$ (103,344)
4%	206,688	(206,688)
6%	310,032	(310,032)
8%	413,376	(413,376)
10%	516,720	(516,720)

BROWNSTONE ENERGY INC.**Notes to the Interim Condensed Consolidated Financial Statements****September 30, 2014****(Unaudited - prepared in Canadian dollars)**

10. Risk management (continued):

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 2014 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, 2014:

Percentage change in U.S. dollar exchange rate	Decrease in total comprehensive loss from an increase in % in the U.S. dollar exchange rate	Increase in total comprehensive loss from a decrease in % in the U.S. dollar exchange rate
2%	\$ 140,729	\$ (140,729)
4%	281,457	(281,457)
6%	422,186	(422,186)
8%	562,915	(562,915)
10%	703,643	(703,643)

11. Subsequent events:

- (a) Subsequent to September 30, 2014, 60,000 options at a weighted average exercise price of \$0.73 per share expired unexercised.