Brownstone Energy Inc.
Management's Discussion and Analysis

For the quarter ended: December 31, 2015

Date of report: February 25, 2016

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Brownstone Energy Inc. ("Brownstone" or the "Company") should be read in conjunction with Brownstone's unaudited interim condensed consolidated financial statements ("interim consolidated statements") and notes thereto as at and for the three and six months ended December 31, 2015 and the annual consolidated financial statements as at and for the year ended June 30, 2015. The same accounting policies and methods of computation were followed in the preparation of the interim consolidated statements as were followed in the preparation and described in note 3 of the annual consolidated financial statements as at and for the year ended June 30, 2015.

Unless indicated otherwise, all financial data in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). 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 exploration and development activities, including expectations regarding the timing, costs and results of seismic acquisition, drilling and other activities, and future production volumes and sales, receipt of regulatory and governmental approvals, the Company's future working capital requirements, including its ability to satisfy such requirements, the exposure of its financial instruments to various risks and its ability to manage those risks, the Company's ability to use tax resource pools and loss carry-forwards 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: risks relating to oil and gas exploration activities generally, including the availability and cost of seismic, drilling and other equipment; our ability to complete our capital programs; geological, technical, drilling and processing problems, including the availability of equipment and access to properties; our ability to secure adequate transportation for our products; potential losses which would stem from any disruptions in production, including work stoppages or other labour difficulties, or disruptions in the transportation network on which we are reliant; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; our ability and the ability of our partners to attract and retain the necessary labour required to explore and develop our projects; potential conflicting interests with our joint venture partners; our failure or the failure of the holder(s) of licenses or leases to meet specific requirements of such licenses or leases; the failure by counterparties to make payments or perform their operational or other obligations in compliance with the terms of contractual arrangements between us and such counterparties; adverse claims made in respect of our properties or assets; operating hazards and other difficulties inherent in the exploration for and production and sale of crude oil and natural gas; political and economic conditions in the countries in which our property interests are located; 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, 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 continued under the Canada Business Corporations Act on December 1, 2011 and effective July 2, 2015, its common shares are publicly-traded on the Canadian Securities Exchange under the symbol "BWN". The Company is domiciled in the Province of Ontario and its head office is located at 69 Yonge St., Suite 1010, Toronto, Ontario, Canada. Brownstone is a publicly-traded Canadian-based venture capital firm focused on opportunistic investments in companies in the junior resources, technology and biotechnology markets.

Summary:

- On July 1, 2015, the Company delisted from the TSX Venture Exchange and listed its common shares on the Canadian Securities Exchange ("CSE") under the symbol "BWN". The Company's management believes that listing on the CSE will provide the Company with continued liquidity for its shareholders and lower operating costs as the Company focuses on becoming a diversified investment, financial advisory and venture capital firm with investments in companies in the junior resources, technology and biotechnology markets.

- In December 2015, the Company assigned its 25% interest in the Vaca Mahuida Block in the Province of Rio Negro, Argentina, for nil proceeds. The Company's remaining exploration and evaluation assets in the oil and gas industry consists of a 1.07% working interest in the Wiley Unit property (Colorado, USA) and a 50% interest in 4 exploration licenses in Quebec. The Company does not intend to invest any significant working capital towards these interests as it focuses on becoming an investment advisory company. See "Exploration and evaluation assets" section.

- As at December 31, 2015, the Company has working capital of $2,616,681 as compared to working capital of $8,461,640 as at June 30, 2015, a decrease of 69%, primarily due to the net investment losses of the Company's investment portfolio during the current period.

Investments:

The fair value and cost of investments are as follows:

	Fair Value	Cost
December 31, 2015	**$ 2,524,484**	**$ 8,772,366**
June 30, 2015	5,451,327	12,309,444

As at December 31, 2015, the fair value of the investments decreased by $2,926,843 to $2,524,484 as compared to $5,451,327 as at June 30, 2015. The decrease was primarily from the increase in realized losses on the disposition of investments and the write-down of investments to market offset by the reversal of previously recorded unrealized losses. As at December 31, 2015, the original cost of investments exceeded fair value by $6,247,882 as compared to $6,858,117 as at June 30, 2015. The decrease for the six months ended December 31, 2015 was primarily due to the net change in unrealized gains on investments of $653,541.

The fair value of the Company's investments as reflected in its consolidated financial statements and calculated in accordance with IFRS 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.

As at December 31, 2015, total investments included securities of private companies with a fair value totalling $500,000 (20% of total fair value of the Company's investments; cost of $1,800,000). As at June 30, 2015, total investments included securities of a private company with a fair value totalling $200,000 (4% of total fair value of the Company's investments; cost of $1,500,000). The fair value was determined in accordance with the Company's accounting policy for private company investments. The amounts at which the Company's private company investments could be disposed of currently may differ from their carrying values since there is no active market to dispose of these investments.

Exploration and evaluation assets:

All of the Company's exploration and evaluation activities are conducted jointly with others except for its uranium permits. The Company enters into exploration agreements with other parties, pursuant to which the Company 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 exploration and evaluation activities. The following is a summary of the Company's exploration and evaluation assets:

	Canada (a) $	USA $	Argentina (b) $	Total $
Balance at July 1, 2014	3	4,051,756	859,984	4,911,743
Net additions	-	49,924	-	49,924
Disposals	-	(2,485,868)	-	(2,485,868)
Impairment of exploration and evaluation assets	-	(2,039,846)	(934,495)	(2,974,341)
Foreign currency translation	-	424,034	74,511	498,545
Balance at June 30, 2015	3	-	-	3
Net additions	**11,000**	**-**	**-**	**11,000**
Balance at December 31, 2015	**11,003**	**-**	**-**	**11,003**

(a) Canada:

(i) As at December 31, 2015, the Company has a 50% interest in the exploration licenses of the Rimouski and Rimouski North properties in the St. Laurent Lowlands, Quebec. The Company is required to fund its share of the costs incurred on the properties.

During the six months ended December 31, 2015, the Company spent $3,841 (six months ended December 31, 2014 - $12,502) to maintain these properties in good standing which was expensed in the statements of loss and comprehensive loss.

(ii) In September 2015, the Company staked 6,000 hectares in the Athabasca Basin, Saskatchewan (the "Brustad River Uranium Property") at a cost of $11,000. The Brustad River Uranium Property is an exploration stage project located 20 kms southeast of Cameco Corp's (TSX: "CCO") Centennial uranium deposit, as well as 120 kms east-southeast of Fission Uranium Corp's (TSX: "FCU") Patterson Lake deposit and 130 kms west-southwest of Cameco's McArthur River mine (the world's largest high-grade uranium mine).

(b) Argentina:

The Company had a 25% interest in the Vaca Mahuida Block in the Province of Rio Negro, Argentina. During the year ended June 30, 2014, the Company had agreed to relinquish its 25% working interest to Petrolifera Petroleum (Americas) Limited Sucursal Argentina ("Petrolifera"), the operator of the Block for net cash consideration of US$805,530 which would settle all outstanding liabilities. The relinquishment was conditional upon granting by the Province of Rio Negro of an exploitation concession on the Vaca Mahuida Block to Petrolifera. In November 2014, the Company was notified by Petrolifera that it intended to withdraw its application of the exploitation concession on the Block which has been outstanding for over five years and relinquished its interest in the Block or assigned its interest to the remaining partners in the Block. As at December 31, 2014, the Company recorded an impairment charge of $934,495 (US$805,530) to its estimated recoverable value of nil. The impairment was recognized upon a review of the Company's participating interest in Argentina.

In December 31, 2015, the Company relinquished its interests in Argentina for nil and was released of all present and future liabilities.

Results of Operations

The Company's selected quarterly results for the eight most recently completed interim financial periods are as follows:

	Quarter ended			
	December 31, 2015	**September 30, 2015**	June 30, 2015	March 31, 2015
Net investment gains (losses)	**$ (1,027,952)**	**$ (4,251,665)**	$ 561,044	$ (272,049)
Net profit (loss) for the period	**(1,253,771)**	**(4,572,870)**	161,143	(677,660)
Total comprehensive income (loss) for the period	**(1,254,328)**	**(4,578,200)**	74,040	(509,706)
Earnings (loss) per share based on loss for the period – basic and diluted	**(0.01)**	**(0.04)**	0.00	(0.01)
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014
Net investment gains (losses)	$ (1,328,016)	$ (568,029)	$ 290,489	$ 249,270
Net profit (loss) for the period	(2,670,510)	(2,767,253)	(10,943,929)	201,169
Total comprehensive income (loss) for the period	(2,584,450)	(2,601,876)	(11,296,308)	755,342
Earnings (loss) per share based on loss for the period – basic and diluted	(0.02)	(0.02)	(0.08)	0.00

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

Three months ended December 31, 2015 and 2014:

For the three months ended December 31, 2015, the Company generated net realized losses on disposal of investments of $2,616,791, as compared to nil for the three months ended December 31, 2014. The net realized losses in the current quarter was a result of the disposition of several of the Company's new and legacy investments.

For the three months ended December 31, 2015, the Company recorded a net change in unrealized gains on investments of $1,588,839 as compared to unrealized losses on investments of $1,328,016 for the three months ended December 31, 2014. The net change in unrealized gains on investments in the current period related to the net write-up to market on the Company's investments of $1,204,139 and the reversal of previously recognized net unrealized losses on disposal of investments of $384,700.

For the three months ended December 31, 2015, the Company recorded interest and other income of $12,029 as compared to $209 for the three months ended December 31, 2014. Interest income is primarily composed of interest income earned on cash held at brokers. In the current period, other income consisted of $12,000 in consultancy income.

For the three months ended December 31, 2015, operating, general and administrative expenses decreased by $165,762 to $228,319 from $394,081 for the three months ended December 31, 2014. The decrease was primarily due to a decrease in salaries, consulting and administrative fees offset by an increase in transaction costs and operating lease payments as discussed below.

The following is the breakdown of the Company's operating, general and administrative expenses for the indicated three month periods ended December 31. Details of the changes follow the table:

	2015	2014
Salaries, consulting and administrative fees (a)	**$ 163,588**	$ 236,809
Transaction costs (b)	**21,297**	7
Operating lease payments (c)	**20,719**	-
Other office and general	**20,280**	33,356
Shareholder relations, transfer agent and filing fees	**20,681**	41,212
Professional fees (d)	**16,369**	55,872
Other employment benefits	**6,156**	3,315
Travel and promotion	**1,971**	-
Exploration and evaluation expenses (e)	**(14,966)**	12,502
Stock-based compensation expense (f)	**-**	4,827
Foreign exchange loss (gain) (g)	**(26,227)**	6,181
	$ 229,868	$ 394,081

(a) Salaries, consulting and administrative fees decreased by $73,221 for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. The decrease was due to a reduction of consultants paid in the current quarter and the termination of administrative fees ($12,000/month) effective March 31, 2015.

(b) Transactions costs increased by $21,290 for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014, due to an increase in the volume of trading conducted by the Company during the current quarter. Transaction costs arise from the purchase and disposition of investments through brokers, which are expensed immediately in accordance with the Company's accounting policy.

(c) In April 2015, the Company signed a lease for new premises which started May 1, 2015 for annual payments of approximately $82,875 ($6,906 monthly) plus applicable taxes until April 30, 2018 and office equipment lease payments of $5,340 annually ($445 monthly) plus applicable taxes until April 30, 2019.

(d) Professional fees decreased by $39,503 for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014, primarily due to professional fees accrued in the prior period by the Company's branch in Colombia for the filing of tax refunds.

(e) Exploration and evaluation expenses decreased by $29,017 for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014, primarily due to the reversal of accrued net cash calls in the USA which were previously expensed.

(f) Stock-based compensation expense decreased by $4,827 for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014. During the current period, there were no options granted and the current options outstanding are fully vested and expensed.

(g) During the three months ended December 31, 2015, the Company had a foreign exchange gain of $26,227 as compared to foreign exchange loss of $6,181 for the three months ended December 31, 2014. The Company experienced a foreign exchange gain due to the decrease 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 December 31, 2014, the Company recorded an impairment of $934,495 on its Argentinean exploration and evaluation assets. See "Exploration and evaluation assets" section.

For the three months ended December 31, 2015, the Company had finance expenses of $9,529 as compared to nil for the three months ended December 31, 2014. The finance expenses relate to interest expense paid to brokers on margin borrowings.

Net loss for the three months ended December 31, 2015 was $1,253,771 ($0.01 per share) as compared to $2,670,510 ($0.02 per share) for the three months ended December 31, 2014.

For the three months ended December 31, 2015, the Company recorded a loss from the exchange differences on translation of foreign operations of $557 resulting in total comprehensive loss for the period of $1,254,328. The loss from the exchange differences on translation of foreign operations was primarily due to the decrease 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 net liabilities held by foreign subsidiaries. For the three months ended December 31, 2014, the Company recorded a gain from the exchange differences on translation of foreign operations of $86,060 resulting in total comprehensive loss for the period of $2,584,450.

Six months ended December 31, 2015 and 2014:

For the six months ended December 31, 2015, the Company generated net realized losses on disposal of investments of $5,933,158, as compared to $377,387 for the six months ended December 31, 2014. The net realized losses in the current period was a result of the disposition of a significant number of the Company's legacy investments and new investments.

For the six months ended December 31, 2015, the Company recorded a net change in unrealized gains on investments of $653,541 as compared to a net change in unrealized losses on investments of $1,518,658 for the six months ended December 31, 2014. Of the net change in unrealized gains on investments in the current period, $2,479,209 related to the reversal of previously recognized net unrealized losses on disposal of investments offset by the net write-down to market on the Company's investments of $1,825,668.

For the six months ended December 31, 2015, the Company recorded interest and other income of $24,134 as compared to $73,476 for the six months ended December 31, 2014. In the current period, other income consisted of $24,000 in consultancy income with the balance in interest income which is primarily composed of interest earned on deposits in broker accounts. In the prior year period, other income included $73,056 (US$66,342) from the settlement in full with the operator of Block 21 (Colombia) of a letter of credit that was called in October 2014 by the Agencia Nacional de Hidrocarburos ("ANH"), the oil and gas agency of the Colombian government.

For the six months ended December 31, 2015, operating, general and administrative expenses decreased by $38,578 to $542,435 from $581,013 for the six months ended December 31, 2014. The decrease was primarily due to a decrease in salaries, consulting and administrative fees and a decrease in professional fees offset by a decrease in foreign exchange gain, as discussed below.

The following is the breakdown of the Company's operating, general and administrative expenses for the indicated six month periods ended December 31. Details of the changes follow the table:

	2015	2014
Salaries, consulting and administrative fees (a)	**$ 326,697**	$ 474,466
Transaction costs (b)	**82,163**	8,124
Operating lease payments (c)	**41,724**	-
Other office and general	**41,318**	56,770
Shareholder relations, transfer agent and filing fees (d)	**23,914**	40,056
Professional fees (e)	**15,425**	129,970
Other employment benefits	**12,467**	7,972
Travel and promotion	**4,739**	7,465
Exploration and evaluation expenses (f)	**1,749**	12,502
Stock-based compensation expense (g)	**-**	15,044
Foreign exchange gain (h)	**(7,761)**	(171,356)
	$ 542,435	$ 581,013

(a) Salaries, consulting and administrative fees decreased by $147,769 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014. The decrease was due to a reduction of consultants and the termination of administrative fees ($12,000/month) effective March 31, 2015.

(b) Transactions costs increased by $74,039 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014, due to an increase in the volume of trading conducted by the Company during the current period. Transaction costs arise from the purchase and disposition of investments through brokers, which are expensed immediately in accordance with the Company's accounting policy.

(c) In April 2015, the Company signed a lease for new premises which started May 1, 2015 for annual payments of approximately $82,875 ($6,906 monthly) plus applicable taxes until April 30, 2018 and office equipment lease payments of $5,340 annually ($445 monthly) plus applicable taxes until April 30, 2019. Effective January 1, 2016, the monthly office premise lease payments increased to $7,090 per month due to an increase in the building operating costs.

(d) Shareholder relations, transfer agent and filing fees decreased by $16,142 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014, due a decrease in the number of filings and press releases issued from a decrease in business activities.

(e) Professional fees decreased by $114,545 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014, primarily due to professional fees accrued in the prior period by the Company's branch in Colombia for the filing of tax refunds.

(f) Exploration and evaluation expenses decreased by $10,753 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014, primarily due to the reversal of accrued net cash calls in the USA which were previously expensed. The Company also didn't renew 9 of 13 licenses in Quebec reducing the cost by 8,211.

(g) Stock-based compensation expense decreased by $15,044 for the six months ended December 31, 2015 as compared to the six months ended December 31, 2014. During the current period, there were no options granted and the current options outstanding are fully vested and expensed.

(h) During the six months ended December 31, 2015, the Company had a foreign exchange gain of $7,761 as compared to $171,356 for the six months ended December 31, 2014. The Company experienced a foreign exchange gain due to the decrease 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 six months ended December 31, 2014, the Company recorded an impairment on exploration and evaluation assets of $3,005,652 (nil in the current period). In the prior year period, the Company recorded an impairment on its properties in the USA and Argentina.

For the six months ended December 31, 2015, the Company recorded an income tax expense of $28,529 (nil in the current period). The income tax expense was due to the recording of an accrual of minimum income tax payable due in Colombia.

Net loss for the six months ended December 31, 2015 was $5,826,641 ($0.04 per share) as compared to $5,437,763 ($0.04 per share) for the six months ended December 31, 2014.

For the six months ended December 31, 2015, the Company recorded a loss from the exchange differences on translation of foreign operations of $5,887 resulting in total comprehensive loss for the period of $5,832,528. The loss from the exchange differences on translation of foreign operations was primarily due to the increase in the value of the Canadian dollar versus the U.S. dollar during the period, which increased the Canadian dollar value of the Company's U.S. dollar denominated net liabilities held by foreign subsidiaries. For the six months ended December 31, 2014, the Company recorded a gain from the exchange differences on translation of foreign operations of $251,437 resulting in total comprehensive loss for the period of $5,186,326.

Cash Flows
Six months ended December 31, 2015 and 2014:

During the six months ended December 31, 2015, the Company used cash of $2,494,784 in operating activities as compared to $806,381 during the six months ended December 31, 2014. During the six months ended December 31, 2015, the Company had proceeds from disposition of investments of $8,515,849 as compared to $423,744 during the six months ended December 31, 2014. During the six months ended December 31, 2015, the Company purchased $10,868,623 of investments, an increase of $9,409,505, when compared to $1,459,118 of investments purchased during the six months ended December 31, 2014, reflecting an increase in investing activities..

During the six months ended December 31, 2015, net cash used in investing activities was $14,381 as compared to $217,726 during the six months ended December 31, 2014. During the six months ended December 31, 2015, the Company spent cash on expenditures on exploration and evaluation assets of $11,000 as compared to $217,726 during the six months ended December 31, 2014, a decrease that continues to reflect the Company's decreased exploration and evaluation activities.

For the six months ended December 31, 2015, the Company had a net decrease in cash of $2,509,165 as compared to $1,024,107 for the six months ended December 31, 2014. For the six months ended December 31, 2015, the Company also had a loss from the exchange rate changes on its foreign operations' cash balances of $5,887, leaving a cash balance of $64,087 as at December 31, 2015 as compared to an exchange loss of $39,994, leaving a cash balance of $4,313,182 as at December 31, 2014.

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. In prior periods, all of the Company's operations related to direct and indirect investments in the oil and gas sector and the Company's significant segments consisted of six distinct geographic areas: Canada, United States, Argentina, Colombia, Israel and Brazil.

During the current period, the Company's operations primarily relate to investing. The Company's management is responsible for the Company's entire investment portfolio and considers the business to have a single operating segment. The management's investment decisions are based on a single, integrated investment strategy and the performance is evaluated on an overall basis.

All of the Company property, plant and equipment are located in Canada and no segmented information has been disclosed as at and for the six months ended December 31, 2015.

The following is segmented information for the six months ended December 31, 2014 and as at June 30, 2015:

	Six months ended December 31, 2014		As at June 30, 2015		
	Interest and other income	Net loss for the period	Exploration and evaluation assets	Other assets	Total assets
Canada and other	$ 73,476	$ 2,177,650	$ 3	$ 8,697,392	$ 8,697,395
Israel	-	20,658	-	-	-
United States	-	2,082,132	-	22,569	22,569
Colombia	-	217,837	-	-	-
Argentina	-	939,321	-	6,524	6,524
Brazil	-	165	-	42	42
	$ 73,476	$ 5,437,763	$ 3	$ 8,726,527	$ 8,726,530

Liquidity and capital resources:

Consolidated statements of financial position highlights	**December 31, 2015**	June 30, 2015
Cash	**$ 64,087**	$ 2,579,139
Investments, at fair value	**2,524,484**	5,451,327
Exploration and evaluation assets	**11,003**	3
Total assets	**2,709,740**	8,726,530
Total liabilities	**62,480**	246,742
Share capital and contributed surplus	**121,152,353**	121,152,353
Foreign currency translation reserve	**614,221**	620,108
Deficit	**(119,119,314)**	(113,292,673)
Working Capital	**2,616,681**	8,461,640

The Company has significantly reduced all of its liabilities as at December 31, 2015. As at December 31, 2015, due to brokers decreased to nil from $1,513,425 as at September 30, 2015. As at December 31, 2015, total liabilities include $18,566 accrued for the winding down of its subsidiaries in Barbados.

The Company's cash and investments as at December 31, 2015 would be sufficient to meet the Company's current liabilities. As at December 31, 2015, the Company had working capital of $2,616,681 as compared to working capital of $8,461,640 as at June 30, 2015. The decrease in working capital since June 30, 2015 was primarily due to the net investment loss of $5,279,617 on the Company's investment portfolio during the six months ended December 31, 2015.

The Company continues to have no long-term debt.

Effective March 31, 2015, the Company terminated its administrative fees contract for office rent and services of $12,000 monthly. In April 2015, the Company signed a lease for new premises which started May 1, 2015 for annual payments of approximately $82,875 ($6,906 monthly, increased to $7,090 effective January 1, 2016) plus applicable taxes until April 30, 2018 and office equipment lease payments of $5,340 annually ($445 monthly) plus applicable taxes until April 30, 2019. The Company also has consulting agreements with officers aggregating $35,750 per month and effective in January 2016, these fees will be accrued but not paid to conserve the Company's cash position.

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.

Compensation to key management personnel and directors during the three and six months ended December 31 were as follows:

	Three months ended December 31,		Six months ended December 31,	
Type of expense	**2015**	2014	**2015**	2014
Salaries and consulting fees	**$ 107,250**	$ 144,187	**$ 214,500**	$ 288,375
Other short-term benefits	**3,342**	3,316	**6,524**	7,290
Stock-based compensation expense	**-**	3,628	**-**	12,028
	$ 110,592	$ 151,131	**$ 221,024**	$ 307,693

Key management personnel are the Chairman/Chief Executive Officer and Chief Financial Officer/Corporate Secretary. In the prior year period, key management personnel also included the Company's Vice President, Corporate & Legal Affairs, who resigned on March 1, 2015.

Off-Balance sheet arrangements:

As at December 31, 2015, the Company does not have any off-balance sheet arrangements that have, or are reasonable likely to have, a current or future effect on the results of operations or financials condition of Brownstone.

Management of capital:

There were no changes in the Company's approach to capital management during the six months ended December 31, 2015. 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 liabilities as at December 31, 2015.

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 and currency risks. The Company's risks are described in its annual MD&A for the year ended June 30, 2015 which can be found on SEDAR (www.sedar.com). Additional risks not currently known to the Company or that are currently believed to be immaterial, may also affect and negatively impact the Company's business. 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 six months ended December 31, 2015.

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three and six months ended December 31, 2015 from a change in the closing trade price of the Company's investments with all other variables held constant as at December 31, 2015:

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%	**$ 43,800**	**$ (43,800)**
4%	**87,600**	**(87,600)**
6%	**131,399**	**(131,399)**
8%	**175,199**	**(175,199)**
10%	**219,000**	**(219,000)**

The following table shows the estimated sensitivity of the Company's after-tax net loss for the three and six months ended December 31, 2014 from a change in the closing trade price of the Company's investments with all other variables held constant as at December 31, 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%	$ 49,398	$ (49,398)
4%	98,796	(98,796)
6%	148,194	(148,194)
8%	197,592	(197,592)
10%	246,990	(246,990)

(b) Currency risk:

The Company presently holds funds in Canadian dollars but a significant amount of its costs are denominated in U.S. dollars 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:

	December 31, 2015	June 30, 2015
Denominated in U.S. dollars:		
Cash	**$ 9,885**	$ 1,042,586
Due from brokers	**16**	363,757
Prepaids and receivables	**-**	6,550
Accounts payable and accrued liabilities	**(33,859)**	(130,364)
Net assets denominated in U.S. dollars	**(23,958)**	1,282,529
Denominated in Brazilian reals:		
Cash	**39**	42
Net assets denominated in Brazilian reals	**39**	42
Denominated in Argentinean pesos:		
Cash	**3,568**	6,524
Net assets denominated in Argentinean pesos	**3,568**	6,524

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the three and six months ended December 31, 2015 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 December 31, 2015:

Percentage change in U.S. dollar exchange rate	**Increase in total comprehensive loss from an increase in % in the U.S. dollar exchange rate**	**Decrease in total comprehensive loss from a decrease in % in the U.S. dollar exchange rate**
2%	**$ (352)**	**$ 352**
4%	**(704)**	**704**
6%	**(1,057)**	**1,057**
8%	**(1,409)**	**1,409**
10%	**(1,761)**	**1,761**

The following table shows the estimated sensitivity of the Company's total comprehensive loss for the year ended June 30, 2015 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, 2015:

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%	$ 18,853	$ (18,853)
4%	37,706	(37,706)
6%	56,560	(56,560)
8%	75,413	(75,413)
10%	94,266	(94,266)

Critical accounting estimates:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Critical accounting estimates used in the preparation of the Company's interim financial statements include the Company's valuation of its privately-held investments, estimate of recoverable fair value on exploration assets, the valuation related to the Company's deferred tax assets ("DTA") and deferred tax liabilities ("DTL"), 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.

<u>Valuation of privately-held investments:</u>

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 six months ended December 31, 2015 and 2014, the Company had no change in unrealized gains or losses on investments relating to its private company investments.

Estimate of recoverable fair value on exploration and evaluation assets:

The costs of acquiring interests in exploration and evaluation assets 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 and gas reserves. The Company's recorded value of exploration assets 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 exploration assets.

At each reporting period, the Company's management reviews the status of all of its exploration properties, 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 six months ended December 31, 2014, the Company recorded an impairment of $3,005,652 (nil for the current period) on its exploration and evaluation assets to its net realizable value.

Deferred tax assets:

Deferred tax is provided using the statement of financial position method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

DTL are recognized for all taxable temporary differences and DTA are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. The Company does not record DTA to the extent that it considers it is not more likely than not that deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized.

Management determined, based upon expectations for future taxable income, that it believes that it is not more likely than not it will realize the tax benefits of the DTA during the next several years.

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. The Company is also required to estimate the future forfeiture rate of options based on historical information in its calculation of 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.

During the six months ended December 31, 2015, there were no stock options granted by the Company.

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 six 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. As at December 31, 2015 and June 30, 2015, 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:

As at February 25, 2016, 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	**6,280,000**
Total diluted common shares	**136,074,289**

Refer to note 7 of the notes to the interim condensed consolidated financial statements as at and for the three and six months ended December 31, 2015 for details of the Company's share capital as at December 31, 2015.

Additional Information:

Additional information relating to Brownstone maybe found on the Company's website at www.brownstoneenergy.com or under the Company's profile on SEDAR at www.sedar.com.